

**MOTOR VEHICLE DEALERS
COMPENSATION FUND**

FINANCIAL STATEMENTS

OCTOBER 31, 2019

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Audit. Tax. Advisory.

Independent Auditor's Report

To the Board of Trustees and Participants in the
Motor Vehicle Dealers Compensation Fund

Opinion

We have audited the financial statements of the Motor Vehicle Dealers Compensation Fund (the "Fund"), which comprise the statement of financial position as at October 31, 2019 and the statement of changes in unrestricted net assets, statement of operations and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at October 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations ("ASNPO").

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with ASNPO, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

McGovern Hurley LLP

McGovern Hurley LLP

**Chartered Professional Accountants
Licensed Public Accountants**

Toronto, Ontario
April 2, 2020

MOTOR VEHICLE DEALERS COMPENSATION FUND
STATEMENT OF FINANCIAL POSITION
AS AT OCTOBER 31, 2019

	October 31, 2019 \$	October 31, 2018 \$
ASSETS		
CURRENT		
Cash - operating	351,518	292,780
- investment	517	13,046
Accounts receivable	16,496	9,979
Accrued interest receivable	5,109	5,655
Prepaid expenses	<u>6,019</u>	<u>6,397</u>
TOTAL CURRENT ASSETS	379,659	327,857
INVESTMENTS (Note 8)	<u>5,836,617</u>	<u>5,841,311</u>
TOTAL ASSETS	<u><u>6,216,276</u></u>	<u><u>6,169,168</u></u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	<u>19,292</u>	<u>26,681</u>
TOTAL LIABILITIES	<u>19,292</u>	<u>26,681</u>
NET ASSETS		
UNRESTRICTED NET ASSETS (Note 2)	<u>6,196,984</u>	<u>6,142,487</u>
TOTAL NET ASSETS AND LIABILITIES	<u><u>6,216,276</u></u>	<u><u>6,169,168</u></u>

Contingencies (Note 3)

APPROVED ON BEHALF OF THE BOARD OF TRUSTEES:

_____, Chair

_____, Vice Chair

MOTOR VEHICLE DEALERS COMPENSATION FUND
STATEMENT OF CHANGES IN UNRESTRICTED NET ASSETS
FOR THE YEAR ENDED OCTOBER 31, 2019

	2019	2018
	\$	\$
Balance, beginning of the year	6,142,487	6,329,362
Excess (deficiency) of revenues over expenses	<u>54,497</u>	<u>(186,875)</u>
Balance, end of the year	<u><u>6,196,984</u></u>	<u><u>6,142,487</u></u>

MOTOR VEHICLE DEALERS COMPENSATION FUND
STATEMENT OF OPERATIONS
 FOR THE YEAR ENDED OCTOBER 31, 2019

	2019 \$	2018 \$
REVENUES		
Participant fees	153,000	140,400
Recoveries	66,752	143,099
Other contributions (Note 4)	<u>243,835</u>	<u>175,466</u>
TOTAL REVENUES	<u>463,587</u>	<u>458,965</u>
EXPENSES		
Claims	258,152	401,746
Salaries and benefits (Note 4)	238,430	124,799
Governance	120,862	90,787
Investment management fees	33,201	34,402
Professional fees (Note 4)	23,048	51,276
Occupancy (Note 4)	12,251	10,722
Statutory trustee fees	9,453	10,185
Insurance	5,833	5,778
Office and general	1,529	2,421
Legal fees	-	67,145
Consumer awareness	<u>-</u>	<u>2,712</u>
TOTAL EXPENSES	<u>702,759</u>	<u>801,973</u>
(Deficiency) of revenues over expenses	<u>(239,172)</u>	<u>(343,008)</u>
OTHER INCOME		
Investment and other income	371,642	232,925
Fair value change in investments	<u>(77,973)</u>	<u>(76,792)</u>
TOTAL OTHER INCOME	<u>293,669</u>	<u>156,133</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	<u>54,497</u>	<u>(186,875)</u>

MOTOR VEHICLE DEALERS COMPENSATION FUND
STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED OCTOBER 31, 2019

	2019 \$	2018 \$
CASH PROVIDED BY:		
OPERATING ACTIVITIES		
Excess (deficiency) of revenues over expenses, for the year	54,497	(186,875)
Non-cash items		
Change in fair value of investments	(248,092)	(104,897)
Changes in non-cash working capital		
Accounts receivable	(6,517)	(9,979)
Accrued interest receivable	546	19
Prepaid expenses	378	(54)
Accounts payable and accrued liabilities	<u>(7,389)</u>	<u>(4,519)</u>
Cash used in operating activities	<u>(206,577)</u>	<u>(306,305)</u>
INVESTING ACTIVITIES		
Cash provided by investing activities (net)	<u>252,786</u>	<u>405,693</u>
CHANGE IN CASH DURING THE YEAR	46,209	99,388
CASH , beginning of year	<u>305,826</u>	<u>206,438</u>
CASH , end of year	<u><u>352,035</u></u>	<u><u>305,826</u></u>
CASH consists of:		
Operating	351,518	292,780
Investment	<u>517</u>	<u>13,046</u>
	<u><u>352,035</u></u>	<u><u>305,826</u></u>

The Motor Vehicle Dealers Compensation Fund (the "Fund") was established July 1, 1986 under the Motor Vehicle Dealers Act (the "Act"), which was replaced by the Motor Vehicle Dealers Act 2002. The Fund was established to stand in place of registered motor vehicle dealers in Ontario (the "Participants") where a Participant has refused, failed or been unable to pay a claim registered against that Participant. Claims are submitted by consumers and approved by the Board of Trustees (the "Board"). The Fund pays claims to consumers up to a maximum of \$45,000 per claim.

The affairs of the Fund are overseen by the Board and the Fund is managed by a trust corporation appointed by the Board to act as the Trustee (the "Trustee").

In accordance with the Act, it is compulsory for motor vehicle dealers to pay an initial payment to the Fund in order to obtain registration in Ontario.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation:

The financial statements have been prepared using Canadian accounting standards for not-for-profit organizations.

Outlined below are those accounting policies considered particularly significant.

Claims:

Claims are recognized in the accounts at the time of approval by the Board. Amounts recoverable to offset claims paid are recorded when received.

Revenue Recognition:

The Fund follows the deferral method of accounting for contributions. Restricted contributions, if any, are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Other Contributions represent the fair value of shared services and occupancy costs received from a related entity whereby the Fund has not been requested to pay for such services. Fair value has been determined based on an allocation of cost as incurred by the related entity. See Note 4.

Investment income is recognized on an accrual basis.

Use of Estimates:

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those reported. The Fund's estimates and judgments subject to the most uncertainty are related to the estimated fair value of certain pooled fund investments, and contingent liabilities (Note 3).

Financial Instruments:

The Fund has designated its cash and accrued interest receivable as loans and receivables recorded at amortized cost. Investments are classified as held-for-trading financial instruments and are measured at their estimated fair value, with changes in fair value recognized in excess (deficiency) of revenues over expenses for the year. Accounts payable and accrued liabilities and claims payable are classified as other financial liabilities and are recorded at amortized cost.

2. UNRESTRICTED NET ASSETS

The capital of the Fund is comprised of contributions by Participants and income earned on investments. Where at any time the net assets of the Fund are less, or are anticipated to be less than \$3,000,000 due to payments or proposed payments to claimants, the board may require each Participant to pay such additional amounts as is considered necessary to bring the net assets of the Fund up to at least \$3,000,000.

3. CONTINGENCIES

Several motor vehicle dealers declare bankruptcy, become insolvent, or otherwise end their operations each year. The Fund's liability related to such bankruptcies, if any, cannot be reasonably estimated and no related provision has been made in the financial statements.

Novel Coronavirus ("COVID-19")

The Fund's operations could be significantly adversely affected by the effects of a widespread global outbreak of a contagious disease, including the recent outbreak of a respiratory illness caused by COVID-19. The Fund cannot accurately predict the impact COVID-19 will have on its operations and the ability of others to meet their obligations with the Fund, including uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected countries. In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Fund's operations and ability to finance its operations.

4. RELATED PARTY TRANSACTIONS

The Fund shares office space and administrative services with the Ontario Motor Vehicle Industry Council (the "Council"). The Fund and the Council are related parties as the Council has representation on the Fund's Board. Included in the Fund's expenses are shared expenses with the Council of \$238,430 (2018 – \$124,799) relating to salaries and benefits and \$12,251 (2018 - \$10,722) relating to occupancy expenses.

Effective September 1, 2017, the Council suspended billings of shared expenses to the Fund. The suspension of billings to the Fund will remain effective until further notice from the Council. Effective September 1, 2019 the Council has agreed to pay all operating expenses (including administrative, board and public awareness costs) of the Fund for a five year period ending August 31, 2024.

During 2019, shared expenses with an estimated fair value of \$243,835 (2018 - \$175,466), \$231,585 relating to salaries and benefits (2018 - \$124,799), \$nil (2018 - \$39,945) relating to professional fees and \$12,250 (2018 - \$10,722) relating to occupancy have been included in the Fund's expenses at their estimated fair values and recorded as "Other contributions" within revenue.

All transactions with related parties have occurred in the normal course of operations and were measured at the exchange amount, unless otherwise noted, which was the amount of consideration established and agreed to by the related parties.

See Note 9.

5. DONATED PROPERTY AND SERVICES

On an annual basis, the Fund receives donated services. As similar services are not normally purchased by the Fund and due to the difficulty in determining their fair value, donated services are not recognized in these statements.

6. INCOME TAXES

The Fund is a trust within the meaning of Section 149(1)(w) of the Income Tax Act (Canada) and as such, is exempt from income taxes.

7. FINANCIAL INSTRUMENTS

Financial Risk Factors

The Fund is exposed to various risks through its financial instruments.

(a) Interest rate risk

The Fund has cash balances, investments and non interest-bearing debt. The Fund's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its financial institutions in accordance with its policy. The Fund periodically monitors the investments it makes and is satisfied with the credit-worthiness of its financial institutions. Included in investments are fixed income securities with interest rates ranging from 0.75% to 7.35% with maturity dates ranging from 2021 to 2048.

(b) Price risk

Market price risk arises as a result of investing in equity securities and fixed income securities. Fluctuations in market prices expose the Fund to a risk of loss. The Fund manages market price risk by substantially investing in equities and fixed income pooled mutual funds that meet specific investment criteria established and approved by the Board of Directors and designed to adequately diversify the Fund's investments to reduce exposure to market price risk. Professional investment managers invest and manage the investment portfolio in accordance with the Fund's investment policy statement. Investments are recorded at estimated fair value or quoted market value, as applicable. Fair value estimates are made at a specific point in time and may not be reflective of future value. See Note 8.

The Fund's investments are subject to fair value fluctuations. As at October 31, 2019, if the fair value of the investments had decreased/increased by 10% with all other variables held constant, excess of revenue over expenses for the year ended October 31, 2019 would have been approximately \$583,662 higher/lower. Similarly, as at October 31, 2019, reported unrestricted net assets would have been approximately \$583,662 lower/higher as a result of a 10% decrease /increase in the fair value of investments.

(c) Liquidity risk

Liquidity risk is the risk of being unable to meet cash requirements or fund obligations as they become due. The Fund manages its liquidity risk by monitoring forecasted and actual cash flows and by holding financial assets that can be readily converted into cash. All the Funds' investments are expected to be readily realizable as they can be quickly liquidated at amounts close to their fair value. There has been no significant change to risk exposure during 2019 and 2018.

(d) Credit risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Fund is exposed to credit risk with respect to the financial institutions with which it transacts. The Fund believes its credit risk is minimal.

MOTOR VEHICLE DEALERS COMPENSATION FUND
NOTES TO THE FINANCIAL STATEMENTS
 OCTOBER 31, 2019

8. INVESTMENTS

Investments, recorded at their estimated fair value, are comprised of the following:

	2019		2018	
	Cost \$	Estimated Fair Value \$	Cost \$	Estimated Fair Value \$
Mutual Funds	3,648,737	5,195,803	3,084,876	4,579,736
Other Funds	-	-	434,867	615,044
Fixed Income	519,313	541,007	531,086	502,809
Other	<u>99,640</u>	<u>99,807</u>	<u>143,578</u>	<u>143,722</u>
Total	<u><u>4,267,690</u></u>	<u><u>5,836,617</u></u>	<u><u>4,194,407</u></u>	<u><u>5,841,311</u></u>

Fixed income investments bear interest at rates ranging from 0.75% to 7.35%.

The cumulative unrealized gain on investments at October 31, 2019 is \$1,568,931 (2018 - \$1,646,904).

Other funds represent amounts invested in the Yorkville Long Term Healthcare fund (the Fund). The Fund invests in Southbridge Healthcare LP which focuses on the operation, acquisition and re-development of long-term care facilities in Ontario. This is a private pooled investment (not publicly traded) and the fair market value of the Fund is estimated by the fund's management (Southbridge Group). Since the Fund trades on a monthly basis there is a timeline for the redemption of units; a 30-day notice period for redemption is required, the trade is submitted in the following month, and funds are remitted within 4-6 weeks of the trade date. The Fund has disposed of its investments in other funds during 2019.

Mutual funds represent public mutual funds which are traded on a daily basis. The fair market value of these funds are estimated based on their book value per share.

9. SUBSEQUENT EVENTS

On December 4, 2019, The Board of Trustees has agreed to accept the Council's voluntary offer to reimburse the Fund in the amount of \$3,349,701, representing amounts which the Council billed to the Fund from 1998 to 2017. These amounts relate to the Fund's share of salaries and benefits, occupancy and general office expenses. As this transaction took place subsequent to October 31, 2019, it has not been recorded in the financial statements, and will be recorded during the year ending October 31, 2020.