

ONTARIO MOTOR VEHICLE INDUSTRY COUNCIL

Financial Statements

December 31, 2019

ONTARIO MOTOR VEHICLE INDUSTRY COUNCIL

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Year Ended December 31, 2019**

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INDEPENDENT AUDITOR'S REPORT

To the Members of Ontario Motor Vehicle Industry Council

Opinion

We have audited the financial statements of Ontario Motor Vehicle Industry Council (the "Council"), which comprise the statement of financial position as at December 31, 2019, and the statements of changes in net assets, operations and 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 Council as at December 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

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 Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those financial statements on April 23, 2019.

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 Canadian accounting standards for not-for-profit organizations, 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 Council's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Council or to cease operations, or has no realistic alternative but to do so.

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

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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 the 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 judgment 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 risk 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 entity'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 entity'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 entity 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.

Hogg, Shain & Scheck PC

Toronto, Ontario
April 15, 2020

Authorized to practise public accounting by the
Chartered Professional Accountants of Ontario

ONTARIO MOTOR VEHICLE INDUSTRY COUNCIL

Statement of Financial Position

As at December 31, 2019

	2019	2018
ASSETS		
Current		
Cash	\$ 8,496,787	\$ 14,218,258
Accounts receivable	16,075	18,910
Prepaid expenses	131,286	198,725
	8,644,148	14,435,893
Investments (Note 3)	14,421,612	8,810,542
Capital assets (Note 4)	1,246,033	941,875
	\$ 24,311,793	\$ 24,188,310
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 1,152,073	\$ 1,246,503
Registration fees received in advance	1,741,949	1,716,275
	2,894,022	2,962,778
Deferred contributions - capital assets (Note 5)	422,548	501,775
Deferred lease inducement	290,500	290,500
	3,607,070	3,755,053
NET ASSETS		
Invested in capital assets (Note 6)	823,485	440,100
Internally restricted reserves (Note 7)	15,000,000	7,500,000
Unrestricted	4,881,238	12,493,157
	20,704,723	20,433,257
	\$ 24,311,793	\$ 24,188,310

APPROVED ON BEHALF OF THE BOARD

_____ Director

_____ Director

See the accompanying notes to these financial statements

ONTARIO MOTOR VEHICLE INDUSTRY COUNCIL

Statement of Changes in Net Assets

Year Ended December 31, 2019

	Invested in capital assets	Internally restricted operating reserve	Internally restricted reserve for capital projects	Internally restricted reserve for contingencies	Unrestricted	2019	2018
NET ASSETS - BEGINNING OF YEAR	\$ 440,100	\$ 7,500,000	\$ -	\$ -	\$ 12,493,157	\$ 20,433,257	\$ 15,241,270
Excess of revenues over expenses	-	-	-	-	271,466	271,466	5,191,987
Amortization of deferred contributions	79,227	-	-	-	(79,227)	-	-
Amortization of capital assets	(284,058)	-	-	-	284,058	-	-
Purchase of capital assets	588,216	-	-	-	(588,216)	-	-
Transfers from unrestricted net assets	-	1,500,000	3,000,000	3,000,000	(7,500,000)	-	-
NET ASSETS - END OF YEAR	\$ 823,485	\$ 9,000,000	\$ 3,000,000	\$ 3,000,000	\$ 4,881,238	\$ 20,704,723	\$ 20,433,257

See the accompanying notes to these financial statements

ONTARIO MOTOR VEHICLE INDUSTRY COUNCIL

Statement of Operations

Year Ended December 31, 2019

	2019	2018
REVENUES		
Registration fees	\$ 19,687,406	\$ 19,777,633
Transfer fees	679,875	551,700
Certification course fees	361,405	374,960
Disciplinary fines	75,150	67,850
Amortization of deferred contributions	79,227	79,227
Investment and other income <i>(Note 8)</i>	818,000	321,307
	<u>21,701,063</u>	<u>21,172,677</u>
EXPENSES		
Salaries and benefits <i>(Note 9)</i>	11,313,609	9,615,010
Public awareness	1,962,086	1,929,187
Professional fees	1,137,694	950,811
Occupancy <i>(Note 9)</i>	821,542	832,918
General and administrative <i>(Note 9)</i>	777,742	694,587
Travel	572,182	574,872
Per diem allowances	500,772	477,233
Amortization of capital assets	284,058	258,763
Telecommunications	267,386	277,780
Industry awareness	244,118	170,822
Government oversight fees	198,707	198,707
	<u>18,079,896</u>	<u>15,980,690</u>
EXCESS OF REVENUES OVER EXPENSES FROM OPERATIONS	3,621,167	5,191,987
Reimbursement to the Motor Vehicle Dealers' Compensation Fund <i>(Note 9)</i>	<u>(3,349,701)</u>	-
EXCESS OF REVENUES OVER EXPENSES	\$ 271,466	\$ 5,191,987

See the accompanying notes to these financial statements

ONTARIO MOTOR VEHICLE INDUSTRY COUNCIL**Statement of Cash Flows
Year Ended December 31, 2019**

	2019	2018
OPERATING ACTIVITIES		
Excess of revenues over expenses	\$ 271,466	\$ 5,191,987
Items not affecting cash:		
Unrealized gains on investments	(468,787)	(109,412)
Realized losses (gains) on investments	(76,564)	27,819
Amortization of capital assets	284,058	258,763
Amortization of deferred contributions	(79,227)	(79,227)
	<u>(69,054)</u>	<u>5,289,930</u>
Changes in non-cash working capital:		
Accounts receivable	2,835	(1,090)
Prepaid expenses	67,439	(78,950)
Accounts payable and accrued liabilities	(94,430)	5,595
Registration fees received in advance	25,674	97,187
	<u>1,518</u>	<u>22,742</u>
Cash flows from (used by) operating activities	<u>(67,536)</u>	<u>5,312,672</u>
INVESTING ACTIVITIES		
Change in investments (net)	(5,065,719)	(90,717)
Purchase of capital assets	(588,216)	(214,546)
Cash flows used by investing activities	<u>(5,653,935)</u>	<u>(305,263)</u>
NET INCREASE (DECREASE) IN CASH	(5,721,471)	5,007,409
CASH - BEGINNING OF YEAR	14,218,258	9,210,849
CASH - END OF YEAR	<u>\$ 8,496,787</u>	<u>\$ 14,218,258</u>

See the accompanying notes to these financial statements

ONTARIO MOTOR VEHICLE INDUSTRY COUNCIL

Notes to Financial Statements

Year Ended December 31, 2019

1. NATURE AND PURPOSE OF THE ORGANIZATION

Ontario Motor Vehicle Industry Council (the "Council") is Ontario's first administrative authority created pursuant to the Safety and Consumer Statutes Administration Act ("SCSAA"), with the mandate to administer the Ontario Motor Vehicle Dealers Act (the "MVDA"). This authority was delegated to the Council by the Minister of Consumer and Commercial Relations (the "Minister") on January 7, 1997 through an Administrative Agreement (the "Agreement") with the Minister. The Council is a not-for-profit organization incorporated without share capital under the laws of the Province of Ontario by letters patent dated October 8, 1996.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are the representation of management and have been prepared in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the CPA Canada Handbook and include the following significant accounting policies.

Revenue recognition

Registration fees

Fees charged for registration as a salesperson are for a two-year period and are recognized evenly over two years. Unearned fees are recorded as registration fees received in advance.

Fees charged for registration as a dealer are paid annually and are recognized on a monthly basis as received. Dealers are also required to remit \$10 for every sale (excluding wholesale transactions), lease, fleet, or "as is" transactions for the prior twelve month period as a component of their registration renewal fee. Dealers are responsible for reporting sales accurately to the Council and to remit the amount due when renewing their registration. Transaction fees are included in registration fees and recorded as revenue when received.

Transfer fees

A transfer fee is charged when a registered salesperson moves from one dealership to another. Transfer fees are recognized upon written notice and when the Council receives payment.

Certification course fees

New applicants for registration must pass a certification course run by the Automotive Business School of Canada on behalf of the Council through Georgian College. Certification course fees are recognized when a new applicant registers for the course.

Disciplinary fines

Disciplinary fines are imposed on registrants through an internal Council disciplinary process. These fines are recognized as revenue when the Council receives payment.

Investment and other income

Investment and other income, which is recorded on an accrual basis, includes interest income, dividends, net realized gains (losses) on sale of investments, and net unrealized gains (losses).

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ONTARIO MOTOR VEHICLE INDUSTRY COUNCIL

Notes to Financial Statements

Year Ended December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

The Council's financial instruments consist of cash, accounts receivable, investments, and accounts payable.

Financial instruments are initially measured at fair value, and subsequently, at amortized cost, except for investments that are quoted in an active market, which are subsequently measured at fair value. Changes in fair value are recognized in the statement of operations and transactions costs are expensed as incurred.

Investments

Investments in publicly-traded securities are valued based on the latest bid prices, and pooled funds are valued based on unit values reported by the investment managers. Transactions are recorded on a trade date basis and transaction costs, including investment management fees, are expensed as incurred.

Capital assets

Capital assets are stated at cost less accumulated amortization. Amortization is provided on a straight-line basis over their estimated useful lives as follows:

Leasehold improvements	Term of lease
Computer software	3 years
Computer hardware	3 years
Furniture and fixtures	5 years
Office equipment	5 years

When a capital asset no longer contributes to the Council's ability to provide services, its carrying amount is written down to its fair value.

Deferred lease inducement

The Council moved into a new office in 2014 and the lease agreement included a free rent period from May 1, 2014 to April 30, 2015. The benefit of this rent inducement is recognized on a straight-line basis over the term of the lease. Total rent expense is based on the entire cash cost over the term of the lease amortized evenly over the term of the lease.

Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Such estimates are reviewed periodically and any adjustments are reported in the year in which they become known. Actual results could differ from these estimates.

ONTARIO MOTOR VEHICLE INDUSTRY COUNCIL

**Notes to Financial Statements
Year Ended December 31, 2019**

3. INVESTMENTS

	<u>2019</u>	<u>2018</u>
Equities	\$ 6,961,990	\$ 4,122,542
Fixed income	5,246,018	2,681,436
Alternative asset classes	1,699,387	1,700,792
Cash and cash equivalents	514,217	305,772
	<u>\$ 14,421,612</u>	<u>\$ 8,810,542</u>

Fixed income investments yield interest between 0.75% and 7.1% (2018 - 0.75% and 7.1%) and have maturities ranging from October 2020 to December 2048 (2018 - October 2020 to December 2048). Alternative asset classes consist of investments in private placements in long-term health care funds.

4. CAPITAL ASSETS

	Cost	Accumulated amortization	2019 Net book value	2018 Net book value
Leasehold improvements	\$ 1,572,931	\$ 703,200	\$ 869,731	\$ 769,969
Computer software	226,497	15,820	210,677	5,859
Computer hardware	364,415	240,026	124,389	129,130
Furniture and fixtures	210,707	172,899	37,808	34,733
Office equipment	62,634	59,206	3,428	2,184
	<u>\$ 2,437,184</u>	<u>\$ 1,191,151</u>	<u>\$ 1,246,033</u>	<u>\$ 941,875</u>

Computer software includes \$210,677 of software under development which was not in use at year-end, and was not amortized.

5. DEFERRED CONTRIBUTIONS - CAPITAL ASSETS

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 501,775	\$ 581,002
Amortization of deferred contributions	<u>(79,227)</u>	<u>(79,227)</u>
Balance, end of year	<u>\$ 422,548</u>	<u>\$ 501,775</u>

In 2014, the Council received contributions under the terms of the lease of the new premises to pay for leasehold improvements. The contributions are amortized into revenues on the same basis as the related leasehold improvements, which is the term of the lease.

ONTARIO MOTOR VEHICLE INDUSTRY COUNCIL

Notes to Financial Statements

Year Ended December 31, 2019

6. INVESTED IN CAPITAL ASSETS

Net assets invested in capital assets, which represents internally financed capital assets, are calculated as follows:

	<u>2019</u>	<u>2018</u>
Capital assets, net	\$ 1,246,033	\$ 941,875
Less: Unamortized deferred contributions - capital assets	<u>(422,548)</u>	<u>(501,775)</u>
	<u>\$ 823,485</u>	<u>\$ 440,100</u>

7. INTERNALLY RESTRICTED RESERVES

Internally restricted reserves have been established by the Council's Board of Directors (the "Board") for specific purposes, as follows:

	<u>2019</u>	<u>2018</u>
Operating reserve (a)	\$ 9,000,000	\$ 7,500,000
Capital projects (b)	3,000,000	-
Contingencies (c)	<u>3,000,000</u>	<u>-</u>
	<u>\$ 15,000,000</u>	<u>\$ 7,500,000</u>

(a) During fiscal 2010, the Council created an operating reserve equivalent to six months of annual operating expenses, excluding amortization of capital assets, for the purposes of maintaining funds for winding down operations in the event the Council's designation as a Delegated Administrative Authority under the SCSAA is revoked, and for accumulating funds that are available when needed due to unforeseen operating shortfalls.

During 2019, the Board approved the reserve to be increased to \$9,000,000 from \$7,500,000 in recognition of Council's expanded budget.

(b) During 2019, the Council established an internally restricted reserve for capital projects which is comprised of funds restricted for information technology capital improvements expected to take place within the next three years. The Board approved a contribution of \$3,000,000 into the reserve out of unrestricted net assets.

(c) During 2019, the Council established an internally restricted reserve for contingencies or other specific purposes as designated by the Board. The Board approved a contribution of \$3,000,000 into the reserve out of unrestricted net assets.

8. INVESTMENT AND OTHER INCOME

	<u>2019</u>	<u>2018</u>
Unrealized gains	\$ 468,787	\$ 109,412
Interest income	249,567	228,940
Realized capital gains (losses)	76,564	(27,819)
Dividend income	32,874	34,697
Other	<u>(9,792)</u>	<u>(23,923)</u>
	<u>\$ 818,000</u>	<u>\$ 321,307</u>

ONTARIO MOTOR VEHICLE INDUSTRY COUNCIL

Notes to Financial Statements

Year Ended December 31, 2019

9. MOTOR VEHICLE DEALERS COMPENSATION FUND

The Motor Vehicle Dealers Compensation Fund (the "Fund") was established on July 1, 1986 under the MVDA, to stand in place of registered motor vehicle dealers (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 Fund pays claims to consumers up to a maximum of \$45,000 per claim. In accordance with the MVDA, it is compulsory for motor vehicle dealers to pay an initial payment to the Fund in order to obtain registration in Ontario.

The Council has the ability to appoint six of the nine seats on the Board of Trustees of the Fund, and the Council provides office space and administrative services to it. The financial statements of the Fund have not been consolidated in these financial statements.

Summary financial information for the Fund's fiscal year ended October 31, 2019 are as follows:

	<u>2019</u>	<u>2018</u>
Financial position:		
Assets	\$ 6,216,276	\$ 6,169,168
Liabilities	<u>(19,292)</u>	<u>(26,681)</u>
Unrestricted net assets	<u>\$ 6,196,984</u>	<u>\$ 6,142,487</u>
Results of operations:		
Revenues	\$ 757,256	\$ 615,098
Expenses	<u>(702,759)</u>	<u>(801,973)</u>
Excess (deficiency) of revenues over expenses	<u>\$ 54,497</u>	<u>\$ (186,875)</u>
Cash flows:		
Cash flows used in operating activities	\$ (206,577)	\$ (306,305)
Cash flows from investing activities	<u>252,786</u>	<u>405,693</u>
Net increase (decrease) in cash	<u>\$ 46,209</u>	<u>\$ 99,388</u>

In December 2019, a one-time reimbursement in the amount of \$3,349,701 was made by the Council to the Fund, for the Fund's share of salaries and benefits, occupancy, and general and administrative expenses that were invoiced by the Council from 1998 to September 2017.

As of September 2019, the Council committed to pay all operating expenses of the Fund until August 31, 2024, with the exception of claims and trustee fees which the Fund continues to pay as per sections 71 and 72 of the MVDA. Included in the Council's statement of operations are \$237,956 (2018 - \$Nil) related to salaries and benefits allocated to the Fund based on an estimate of the Council's staff time to administer the Fund, and \$15,317 (2018 - \$Nil) related to general and administrative expenses.

Transactions with the Fund are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to between the parties.

ONTARIO MOTOR VEHICLE INDUSTRY COUNCIL

Notes to Financial Statements Year Ended December 31, 2019

10. COMMITMENTS

The Council is committed under premises and equipment lease agreements until April 2025. Future minimum lease payments for the next five fiscal years are as follows:

2020	\$	888,033
2021		918,790
2022		935,263
2023		952,230
2024		965,068

11. CONTINGENCIES

Claims have been made against the Council in the normal course of operations. The Council believes these claims are without merit. The outcome of these actions is not presently determinable and, accordingly, no provision for these claims has been made in these financial statements.

12. FINANCIAL RISKS

The Council is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate, and manage these risks. The following analysis provides information about the Council's risk exposure and concentration as of December 31, 2019, which is consistent with the prior year.

Credit risk

Credit risk arises from the potential that a counter-party will fail to perform its obligations. The Council is exposed to credit risk on its investments in alternative asset classes.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Council is subject to market risk on its investments.

The Council manages its investment portfolio to earn investment income and invests according to a Statement of Investment Policy approved by the Board. The Council is not involved in any hedging relationships through its operations and does not hold or use any derivative financial instruments for trading purposes.

Market risk comprises three types of risk: currency risk, interest rate risk, and other price risk.

Currency risk

Currency risk is the risk to the Council that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Council is exposed to foreign currency exchange risk on a portion of its investments in global equities and fixed-income investments.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the market interest rates. The Council is exposed to interest rate risk on its fixed-income investments.

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ONTARIO MOTOR VEHICLE INDUSTRY COUNCIL

Notes to Financial Statements

Year Ended December 31, 2019

12. FINANCIAL RISKS (continued)

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from currency and interest rate risks), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Council is exposed to other price risk on its investment in equities.

It is management's opinion that the Council is not exposed to significant liquidity risk.

13. COMPARATIVE FIGURES

Some of the comparative figures have been reclassified to conform to the current year's presentation.
