

MOTOR VEHICLE DEALERS COMPENSATION FUND

FINANCIAL STATEMENTS

OCTOBER 31, 2023

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Motor Vehicle Dealers Compensation Fund (the "Fund"), which comprise the statement of financial position as at October 31, 2023, the statements of operations and changes in unrestricted net assets 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 Fund as at October 31, 2023, 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 Motor Vehicle Dealers Compensation Fund 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 these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT (Continued)

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 to 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 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.

INDEPENDENT AUDITOR'S REPORT (Continued)

- 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.

KRIENS~LAROSE, LLP

KRIENS~LAROSE, LLP



**Chartered Professional Accountants
Licensed Public Accountants**

Toronto, Ontario
January 30, 2024

MOTOR VEHICLE DEALERS COMPENSATION FUND
STATEMENT OF FINANCIAL POSITION
AS AT OCTOBER 31, 2023

| | 2023 | 2022 |
|--|------------------|------------------|
| | \$ | \$ |
| ASSETS | | |
| CURRENT | | |
| Cash and cash equivalents (Note 2) | 1,336,526 | 1,066,602 |
| Accounts receivable (Note 5) | 16,200 | 14,916 |
| Accrued interest receivable | 2,558 | 2,416 |
| Prepaid expenses | 565 | 565 |
| | <u>1,355,849</u> | <u>1,084,499</u> |
| INVESTMENTS (Note 3) | 7,425,258 | 8,225,210 |
| | <u>8,781,107</u> | <u>9,309,709</u> |
| LIABILITIES | | |
| CURRENT | | |
| Accounts payable and accrued liabilities | 124,369 | 197,027 |
| Government remittances payable | 2,576 | 1,345 |
| | <u>126,945</u> | <u>198,372</u> |
| NET ASSETS | | |
| UNRESTRICTED (Note 4) | 8,654,162 | 9,111,337 |
| | <u>8,781,107</u> | <u>9,309,709</u> |

APPROVED ON BEHALF OF THE BOARD OF TRUSTEES:


, Director

, Director
Paul Stock
Secretary/Treasurer

**STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS
FOR THE YEAR ENDED OCTOBER 31, 2023**

| | 2023 | 2022 |
|--|------------------|--------------------|
| | \$ | \$ |
| REVENUES | | |
| Contributions (Note 5) | 413,139 | 477,665 |
| Investment and other income | 255,789 | 431,551 |
| Participation fees | 153,900 | 134,400 |
| Recoveries | 115,640 | 9,676 |
| Investment unrealized (losses)/gains | (118,104) | (1,335,749) |
| | 820,364 | (282,457) |
| EXPENSES | | |
| Claims | 843,120 | 413,469 |
| Salaries and benefits (Note 5) | 266,455 | 298,194 |
| Governance (Note 5) | 89,027 | 110,334 |
| Investment management fees (Note 5) | 26,416 | 31,742 |
| Professional fees (Note 5) | 14,176 | 12,142 |
| Occupancy (Note 5) | 13,322 | 14,400 |
| Statutory trustee fees | 12,569 | 13,666 |
| Insurance (Note 5) | 6,678 | 6,771 |
| Office and general (Note 5) | 5,776 | 3,772 |
| | 1,277,539 | 904,490 |
| (DEFICIENCY) OF REVENUES OVER EXPENSES FOR THE YEAR | (457,175) | (1,186,947) |
| NET ASSETS, BEGINNING OF YEAR | 9,111,337 | 10,298,284 |
| NET ASSETS, END OF YEAR | 8,654,162 | 9,111,337 |

See accompanying notes to the financial statements

MOTOR VEHICLE DEALERS COMPENSATION FUND
STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED OCTOBER 31, 2023

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| | 2023 | 2022 |
|--|-----------|-------------|
| | \$ | \$ |
| CASH PROVIDED BY (USED IN): | | |
| OPERATING ACTIVITIES | | |
| (Deficiency) of revenues over expenses | (457,175) | (1,186,947) |
| Charges to income not involving cash: | | |
| Change in unrealized gains/(losses) on investments | (77,790) | 948,655 |
| | (534,965) | (238,292) |
| Changes in non-cash working capital balances: | | |
| Accounts receivable | (1,284) | 18,743 |
| Accrued interest receivable | (142) | 1,816 |
| Accounts payable and accrued liabilities | (72,658) | 160,771 |
| Government remittances payable | 1,231 | 1,187 |
| | (72,853) | 182,517 |
| | (607,818) | (55,775) |
| INVESTING ACTIVITIES | | |
| Net change in investments | 877,742 | 85,755 |
| Change in cash and cash equivalents | 269,924 | 29,980 |
| Cash and cash equivalents, beginning of year | 1,066,602 | 1,036,622 |
| Cash and cash equivalents, end of year | 1,336,526 | 1,066,602 |

See accompanying notes to the financial statements

PURPOSE OF THE ORGANIZATION

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 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.

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. SIGNIFICANT ACCOUNTING POLICIES

These financial statements were 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:

Financial Instruments

The Fund initially measures its financial assets and liabilities at fair value, except for certain non-arm's length transactions. The Fund subsequently measures all its financial assets and financial liabilities at cost or amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in the statement of operations.

Financial assets measured at cost or amortized cost include cash and cash equivalents, accounts receivable, accrued interest receivable and prepaid expenses. Financial liabilities measured at cost or amortized cost include accounts payable and accrued liabilities.

Financial instruments measured at amortized cost are adjusted by financing fees and transaction costs. All other transaction costs are recognized in excess of revenues over expenses in the period incurred.

Continued...

1. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Use of Estimates

The preparation of financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from these estimates.

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 6). These estimates are reviewed regularly, and adjustments are made, as appropriate, in the statement of operations in the year they become known.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and fixed income investments with maturities of less than 90 days.

Revenue Recognition

The Fund follows the deferral method of accounting for contributions. Restricted contributions, if any, are recognized 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 assured.

Contributions represent the estimated 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 or is to be reimbursed for such expenses. Fair value has been determined based on an allocation of cost as incurred by the related entity. Refer to Note 5.

Investment income is recognized on an accrual basis.

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

Donated Property and Services

On an annual basis, the Fund may receive additional incidental donated services from the Council in addition to those described in Note 5. As similar services are not normally purchased by the Fund, and due to the difficulty in determining their fair value, donated services not described in Note 5 are not recognized in these statements

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following:

| | 2023 | 2022 |
|-------------------|------------------|------------------|
| | \$ | \$ |
| Cash - Operating | 1,158,458 | 888,446 |
| Cash - Investment | 178,068 | 178,156 |
| Total | 1,336,526 | 1,066,602 |

As at October 31, 2023, the Fund did not hold any cash equivalents.

3. INVESTMENTS

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

| | 2023 | | 2022 | |
|--------------|------------------|-------------------------|------------------|-------------------------|
| | Cost | Estimated Fair value | Cost | Estimated Fair value |
| | \$ | \$ | \$ | \$ |
| Mutual Funds | 3,088,439 | 4,165,613 | 3,577,314 | 4,752,150 |
| Fixed Income | 3,449,678 | 3,259,644 | 3,642,652 | 3,473,060 |
| | 6,538,117 | 7,425,257 | 7,219,966 | 8,225,210 |

The cumulative unrealized gain on investments at October 31, 2023 is \$887,140 (2022 - \$1,005,244).

Fixed income investments bear interest at rates ranging from 1.5% to 7.35% (2022-0.25% to 7.35%)

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.

Continued...

4. 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.

5. 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.

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 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.

On December 4, 2019, The Board of Trustees 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, and are included as "Contributions" within revenue.

During 2023, contributions with an estimated fair value of \$413,139 (2022 - \$477,665) have been included in the Fund's revenue and the shared expenses with an estimated fair value of \$421,850 (2022 - \$477,355) have been included in the Fund's expenses. The breakdown of the contributions and expenses are as follows

| | 2023 | | 2022 | |
|----------------------------|----------------------|-----------------|----------------------|-----------------|
| | Contributions | Expenses | Contributions | Expenses |
| Salaries and benefits | 266,455 | 266,455 | 298,194 | 298,194 |
| Governance | 78,892 | 89,027 | 119,930 | 110,334 |
| Investment management fees | 28,219 | 26,416 | 23,342 | 31,742 |
| Occupancy | 13,322 | 13,322 | 14,400 | 14,400 |
| Professional fees | 13,950 | 14,175 | 11,462 | 12,142 |
| Insurance | 6,677 | 6,677 | 6,771 | 6,771 |
| Office and general | 5,624 | 5,778 | 3,566 | 3,772 |
| Total | 413,139 | 421,850 | 477,665 | 477,355 |

Continued...

5. RELATED PARTY TRANSACTIONS (continued)

Included in accounts receivable at October 31, 2023 is \$16,200 (2022 - \$14,916) owing from the Council. This amount relates to registration fees owing to the Fund as at October 31, 2023.

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.

6. 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

7. FINANCIAL INSTRUMENTS

The Fund is exposed to various risks through its financial instruments. The following presents the Fund's risk exposure and concentration at October 31, 2023.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Fund's credit risk would occur with their accounts receivable and to the financial institutions to which it transacts. Actual exposure to credit losses has been minimal in prior years. The allowance for doubtful accounts is \$nil (2022: \$nil).

Liquidity Risk

Liquidity risk is the risk the Fund will encounter difficulties in meeting obligations associated with financial liabilities. The Fund is exposed to this risk mainly in respect of its accounts payable and accrued liabilities. 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 from that of the prior year.

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

Continued...

7. **FINANCIAL INSTRUMENTS (Continued)**

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund does not have a significant foreign currency risk.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. 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 1.5% to 7.35% with maturity dates ranging from 2024 to 2050. The Fund has minimal interest rate risk with respect to its cash equivalents as they are held in fixed rate of interest guaranteed investment certificated that are cashable at any time.

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 interest rate risk or currency risk), 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 Fund manages other 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 Trustees and designed to adequately diversify the Fund's investments to reduce exposure to other 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. Refer to Note 3. The Fund's investments are subject to fair value fluctuations. As at October 31, 2023, 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, 2023 would have been approximately \$742,526 lower/higher. Similarly, as at October 31, 2023, reported unrestricted net assets would have been approximately \$742,526 lower/higher as a result of a 10% decrease/increase in the fair value of investments