

Motor Dealer Customer Compensation Fund
Financial Statements
For the year ended March 31, 2022

Motor Dealer Customer Compensation Fund Contents

For the year ended March 31, 2022

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Independent Auditor's Report

To the Trustees and Participants in the Motor Dealer Customer Compensation Fund:

Opinion

We have audited the financial statements of Motor Dealer Customer Compensation Fund (the "Fund"), which comprise the statement of financial position as at March 31, 2022, and the statements of operations and changes in net assets 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 March 31, 2022, 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 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.

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 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.
- 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.

Surrey, British Columbia

May 25, 2022

MNP LLP

Chartered Professional Accountants

Motor Dealer Customer Compensation Fund Statement of Financial Position

As at March 31, 2022

	2022	2021
Assets		
Current		
Cash	137,274	180,856
Term deposit (Note 4)	1,024,680	1,016,044
	1,161,954	1,196,900
Liabilities		
Current		
Accounts payable and accruals	4,650	14,001
Contingencies (Note 5)		
Net Assets		
Unrestricted (Note 6)	1,157,304	1,182,899
	1,161,954	1,196,900

Approved on behalf of the Board

e-Signed by Mark Bakken
2022-05-25 21:03:19:19 GMT

Director

e-Signed by Bill Kwok
2022-05-27 22:23:43:43 GMT

Director

The accompanying notes are an integral part of these financial statements

Motor Dealer Customer Compensation Fund Statement of Operations and Changes in Net Assets

For the year ended March 31, 2022

	2022	2021
Revenue		
Contributions from members	96,058	95,400
Compensation fund recoveries	-	4,000
Interest income	8,636	16,044
	104,694	115,444
Expenses		
Claims expense	28,367	24,905
Consulting	8,865	9,798
Salaries and benefits	81,881	90,683
Professional fees	11,176	4,000
	130,289	129,386
Deficiency of revenue over expenses	(25,595)	(13,942)
Net assets, beginning of year	1,182,899	1,196,841
Net assets, end of year	1,157,304	1,182,899

The accompanying notes are an integral part of these financial statements

Motor Dealer Customer Compensation Fund
Statement of Cash Flows
For the year ended March 31, 2022

	2022	2021
Cash provided by (used for) the following activities		
Operating		
Deficiency of revenue over expenses	(25,595)	(13,942)
Interest income reinvested in term deposit	(8,636)	(16,044)
	(34,231)	(29,986)
Changes in working capital accounts		
Accounts payable and accruals	(9,351)	4,001
	(43,582)	(25,985)
Decrease in cash resources	(43,582)	(25,985)
Cash resources, beginning of year	180,856	206,841
Cash resources, end of year	137,274	180,856

The accompanying notes are an integral part of these financial statements

Motor Dealer Customer Compensation Fund

Notes to the Financial Statements

For the year ended March 31, 2022

1. Incorporation and nature of the organization

The Motor Dealer Customer Compensation Fund (the "Fund") was established by the Government of BC on June 1, 1995, with the introduction of the Motor Dealer Customer Compensation Fund Regulation and related amendments to the Motor Dealer Act ("MDA").

The purpose of the Compensation Fund is to reimburse consumers for eligible financial losses related to:

- the purchase or lease of a motor vehicle;
- the purchase of an extended warranty or service plan, or;
- the consignment of a motor vehicle for sale by a motor dealer

in a transaction with a registered motor dealer, particularly in circumstances where the dealer is no longer in business.

Claims are submitted by consumers and approved by the Motor Dealer Customer Compensation Fund board of directors. The Fund pays claims to consumers to a maximum of \$20,000 per claim. In accordance with the MDA, it is compulsory for motor vehicle dealers to pay contributions in their first 3 years of participation in the Fund in order to obtain registration in British Columbia.

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.

Impact on operations of COVID-19 (coronavirus)

Since March 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally, resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. Management has performed cashflow projections and has determined that it has sufficient liquid financial assets to sustain its operations at, or near to previous fiscal periods in the year subsequent to March 31, 2022.

2. Adoption of revised Accounting Standard

Financial instruments

Financial instruments in a related party transaction, risk disclosures and other amendments

Effective April 1, 2021 (hereafter referred to as the "initial date of application"), the Fund adopted the Accounting Standards Board's revised recommendations for the measurement and disclosure of financial instruments in a related party transaction, as well as revisions to risk disclosures, in Section 3856 *Financial Instruments*. The revised standard provides additional guidance and requirements for the measurement of financial instruments originated/acquired or issued/assumed in a related party transaction ("related party financial instruments").

Revised Section 3856 clarifies that an entity must provide relevant entity-specific information to enable users to evaluate the nature and extent of each type of risk arising from financial instruments. The amendments remove the requirement to separately disclose the risks arising from derivatives from the risks arising from other financial instruments.

Revised Section 3856 requires the following related party financial instruments to be initially measured at fair value:

- Investments in equity instruments quoted in an active market
- Debt instruments quoted in an active market
- Debt instruments when the inputs significant to the determination of its fair value are observable (directly or indirectly)
- Derivative contracts.

Motor Dealer Customer Compensation Fund

Notes to the Financial Statements

For the year ended March 31, 2022

2. Adoption of revised Accounting Standard *(Continued from previous page)*

All other related party financial instruments are measured at cost on initial recognition. When the financial instrument has repayment terms, cost is determined using the undiscounted cash flows, excluding interest and dividend payments, less any impairment losses previously recognized by the transferor. When the financial instrument does not have repayment terms, but the consideration transferred has repayment terms, cost is determined based on the repayment terms of the consideration transferred. When the financial instrument and the consideration transferred both do not have repayment terms, the cost is equal to the carrying or exchange amount of the consideration transferred or received.

Subsequently investments in equity instruments quoted in an active market and derivatives instruments, except those designated in a qualifying hedging relationship or that are linked to, and must be settled by delivery of, unquoted equity instruments of another entity, are measured at fair value. All financial instruments arising in a related party transaction are subsequently measured using the cost method.

Previously, the Fund initially measured related party financial instruments at either the carrying amount or exchange amount in accordance with Section 3840 *Related Party Transactions*. Subsequent to initial recognition, related party financial instruments were measured in accordance with extant Section 3856.

Transition

The Fund applied the changes in accounting policies resulting from the adoption of revised Section 3856 retrospectively.

The adoption of this accounting policy did not result in restatement of the comparative financial statements.

Motor Dealer Customer Compensation Fund

Notes to the Financial Statements

For the year ended March 31, 2022

3. Significant accounting policies

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations ("ASNPO") set out in Part III of the CPA Canada Handbook - Accounting, as issued by the Accounting Standards Board in Canada, and include the following significant accounting policies:

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. Interest income is recognized on an accrual basis. Contributions from members are recognized as revenue when received.

Contingencies

The preparation of financial statements in conformity with ASNPO 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 date of the financial statements, and the reported amounts 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 its' contingent liabilities (Note 5).

Claims

Claims are recognized in the accounts at the time of approval by the Motor Dealer Customer Compensation Fund Board. Compensation fund recoveries to offset claims paid are recorded when received.

Financial instruments

The Fund recognizes financial instruments when the Fund becomes party to the contractual provisions of the financial instrument.

Arm's length financial instruments

Financial instruments originated/acquired or issued/assumed in an arm's length transaction ("arm's length financial instruments") are initially recorded at their fair value.

At initial recognition, the Fund may irrevocably elect to subsequently measure any arm's length financial instrument at fair value. The Fund has not made such an election during the year.

The Fund subsequently measures its financial assets and liabilities at amortized cost, with transaction costs and financing fees added to the carrying amount of the Fund's financial statements.

Related party financial instruments

Related party financial instruments are measured at cost on initial recognition, equal to the carrying or exchange amount of the consideration transferred or received (refer to Note 7).

At initial recognition, the Fund may elect to subsequently measure related party debt instruments that are quoted in active market, or that have observable inputs significant to the determination of fair value, at fair value.

Financial asset impairment

The Fund assesses the carrying amount of its financial assets measured at cost or amortized cost. Management considers whether the issuer is having significant financial difficulty; whether there has been a breach in contract, such as a default or delinquency in interest or principal payments in determining whether objective evidence of impairment exists. When there is an indication of impairment, the Fund determines whether it has resulted in a significant adverse change in the expected timing or amount of future cash flows during the year.

The Fund reduces the carrying amount of any impaired financial assets to the highest of: the present value of cash flows expected to be generated by holding the assets; the amount that could be realized by selling the assets at the statement of financial position date; and the amount expected to be realized by exercising any rights to collateral held against those assets.

Any impairment, which is not considered temporary, is included in current year deficiency of revenue over expenses.

Motor Dealer Customer Compensation Fund

Notes to the Financial Statements

For the year ended March 31, 2022

3. Significant accounting policies *(Continued from previous page)*

The Fund reverses impairment losses on financial assets when there is a decrease in impairment and the decrease can be objectively related to an event occurring after the impairment loss was recognized. The amount of the reversal is recognized in deficiency of revenue over expenses in the year the reversal occurs.

4. Term deposit

The Fund's term deposit matures in February 2023, and bears interest at 1% per annum.

5. Contingencies

Motor vehicle dealers in British Columbia 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.

6. Unrestricted net assets

The net assets of the Fund are comprised of contributions by Participants and income earned on investments. The Motor Dealer Customer Compensation Fund Board may require every motor dealer carrying on business in British Columbia to make contributions, as deemed necessary to ensure the sufficiency of the Fund.

7. Related party transactions

The Fund shares office space and administrative services with the Motor Dealer Council of British Columbia (the "Council") as the Council is deemed to control the Fund by virtue of being the Trustee of the Fund, and having the right to appoint the Fund's Board of Directors. During the year, the Fund incurred \$81,881 in Board, staff and administrative expenses (2021 - \$90,683) and \$8,865 in direct expenses (2021 - \$9,798) through utilization of the Board members, employees and resources of the Society.

8. Financial instruments

The Fund as part of its operations, carries a number of financial instruments. It is management's opinion that the Fund is not exposed to significant interest and liquidity risks arising from these financial instruments except as otherwise disclosed.

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 interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk.

The Fund is exposed to interest rate risk with respect to its' term deposit.

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. The Fund enters into transactions to purchase goods and services on credit, for which repayment is required at various maturity dates.

9. Comparative figures

Certain comparative figures have been reclassified to conform with current year presentation.