Motor Dealer Council of British Columbia
(Operating as Motor Vehicle Sales Authority of B.C.)
Financial Statements
March 31, 2012

Motor Dealer Council of British Columbia
(Operating as Motor Vehicle Sales Authority of B.C.)
Contents
For the year ended March 31, 2012

Page

Independent Auditors' Report

To the Members of Motor Dealer Council of British Columbia:

We have audited the accompanying financial statements of Motor Dealer Council of British Columbia , which comprise the statement of financial position as at March 31, 2012, and the statements of operations, changes in fund balances and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Motor Dealer Council of British Columbia as at March 31, 2012 and the results of its operations, changes in fund balances and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Society Act (British Columbia), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Other Matter

The financial statements of Motor Dealer Council of British Columbia as at March 31, 2011 and for the year then ended, prior to adjustment for errors as described in Note 2, were audited by another auditor who expressed an unmodified opinion on those statements in their report dated December 2, 2011. As part of our audit of the 2012 financial statements, we also audited the adjustments described in Note 2 that were applied to amend the 2011 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2011 financial statements of the Society other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2011 financial statements taken as a whole.

Surrey, British Columbia

August 9, 2012

MNP LLP

Chartered Accountants

Motor Dealer Council of British Columbia
(Operating as Motor Vehicle Sales Authority of B.C.)
Statement of Financial Position
As at March 31, 2012

	Operating fund	Capital asset fund	Reserve for future training costs	Reserve for consumer awareness	2012	2011 (Restated)
Assets						
Current						
Cash	**759,703**	**-**	**-**	**-**	**759,703**	1,190,450
Money market funds	**250,485**	**-**	**-**	**-**	**250,485**	100,000
Term deposits *(Note 5)*	**400,000**	**-**	**-**	**-**	**400,000**	400,000
Accounts receivable	**67,609**	**-**	**-**	**-**	**67,609**	15,727
Prepaid expenses and deposits	**76,053**	**-**	**-**	**-**	**76,053**	79,065
Interfund balances	**(282,389)**	**-**	**45,133**	**237,256**	**-**	-
	1,271,461	**-**	**45,133**	**237,256**	**1,553,850**	1,785,242
Capital assets *(Note 6)*	**-**	**250,820**	**-**	**-**	**250,820**	294,053
Term deposits *(Note 5)*	**1,400,000**	**-**	**-**	**-**	**1,400,000**	1,400,000
	2,671,461	**250,820**	**45,133**	**237,256**	**3,204,670**	3,479,295

Continued on next page

The accompanying notes are an integral part of these financial statements

Motor Dealer Council of British Columbia
(Operating as Motor Vehicle Sales Authority of B.C.)
Statement of Financial Position
As at March 31, 2012

	Operating fund	*Capital asset fund*	*Reserve for future training costs*	*Reserve for consumer awareness*	*2012*	*2011* (Restated)
Liabilities						
Current						
Accounts payable and accruals	209,202	-	-	-	209,202	401,157
Unearned revenue	1,583,627	-	-	-	1,583,627	1,745,996
	1,792,829	-	-	-	1,792,829	2,147,153
Commitments *(Note 7)*						
Contingencies *(Note 8)*						
Fund Balances						
Unrestricted	878,632	-	-	-	878,632	670,742
Invested in Capital Assets	-	250,820	-	-	250,820	294,052
Internally restricted *(Note 9)*	-	-	45,133	237,256	282,389	367,348
	878,632	250,820	45,133	237,256	1,411,841	1,332,142
	2,671,461	250,820	45,133	237,256	3,204,670	3,479,295

Approved on behalf of the Board

Director **Director**

The accompanying notes are an integral part of these financial statements

Motor Dealer Council of British Columbia
(Operating as Motor Vehicle Sales Authority of B.C.)
Statement of Operations
For the year ended March 31, 2012

	Operating fund	*Capital asset fund*	*Reserve for future training costs*	*Reserve for consumer awareness*	***2012***	*2011 (Restated)*
Revenue						
Licensing fees	**3,469,867**	**-**	**-**	**-**	**3,469,867**	3,470,792
Course fees	**903,112**	**-**	**-**	**-**	**903,112**	867,698
Administration fees and other	**213,382**	**-**	**-**	**-**	**213,382**	272,445
Interest	**76,773**	**-**	**-**	**-**	**76,773**	35,969
Training fund	**-**	**-**	**37,988**	**-**	**37,988**	36,028
Registrar's hearings	**5,080**	**-**	**-**	**-**	**5,080**	16,000
Consumer awareness fund	**-**	**-**	**-**	**768**	**768**	71,155
	4,668,214	**-**	**37,988**	**768**	**4,706,970**	4,770,087
Expenses						
Advertising and promotion	**53,550**	**-**	**-**	**61,919**	**115,469**	120,883
Amortization	**-**	**128,888**	**-**	**-**	**128,888**	163,996
Automotive	**74,943**	**-**	**-**	**-**	**74,943**	87,738
Consulting	**309,186**	**-**	**-**	**-**	**309,186**	272,214
Course costs, travel and meals	**153,873**	**-**	**-**	**-**	**153,873**	143,458
Governance	**180,219**	**-**	**-**	**-**	**180,219**	140,673
Office and general	**527,245**	**-**	**-**	**-**	**527,245**	490,925
Professional fees	**176,366**	**-**	**-**	**-**	**176,366**	121,305
Project development	**7,983**	**-**	**-**	**-**	**7,983**	5,324
Registrar's hearings	**8,918**	**-**	**-**	**-**	**8,918**	32,917
Rent and parking	**282,798**	**-**	**-**	**-**	**282,798**	245,044
Salaries and benefits	**2,580,629**	**-**	**34,762**	**27,034**	**2,642,425**	2,517,966
Training	**18,958**	**-**	**-**	**-**	**18,958**	58,350
	4,374,668	**128,888**	**34,762**	**88,953**	**4,627,271**	4,400,793
Excess (deficiency) of revenues over expenses	**293,546**	**(128,888)**	**3,226**	**(88,185)**	**79,699**	369,294

The accompanying notes are an integral part of these financial statements

Motor Dealer Council of British Columbia
(Operating as Motor Vehicle Sales Authority of B.C.)
Statement of Changes in Fund Balances
For the year ended March 31, 2012

	Operating fund	*Capital asset fund*	*Reserve for future training costs*	*Reserve for consumer awareness*	***2012***	*2011 (Restated)*
Fund Balances, beginning of year, as previously stated	**825,736**	**294,052**	**41,907**	**325,441**	**1,487,136**	1,117,842
Prior period adjustment *(Note 2)*	**(154,994)**	**-**	**-**	**-**	**(154,994)**	(154,994)
Fund Balances, beginning of year, as restated	**670,742**	**294,052**	**41,907**	**325,441**	**1,332,142**	962,848
Excess (deficiency) of revenues over expenses *(Note 2)*	**293,546**	**(128,888)**	**3,226**	**(88,185)**	**79,699**	369,294
Purchase of capital assets	**(85,656)**	**85,656**	**-**	**-**	**-**	-
Fund Balances, end of year	**878,632**	**250,820**	**45,133**	**237,256**	**1,411,841**	1,332,142

The accompanying notes are an integral part of these financial statements

Motor Dealer Council of British Columbia
(Operating as Motor Vehicle Sales Authority of B.C.)
Statement of Cash Flows
For the year ended March 31, 2012

	2012	2011 (Restated)
Cash provided by (used for) the following activities		
Operating activities		
Excess of revenues over expenses	**79,699**	369,294
Amortization	**128,888**	163,996
	208,587	533,290
Changes in working capital accounts		
Accounts receivable	**(51,882)**	2,819
Prepaid expenses and deposits	**3,012**	(1,032)
Accounts payable and accruals	**(191,954)**	24,331
Unearned revenue	**(162,369)**	30,973
	(194,606)	590,381
Investing activities		
Purchase of money market funds	**(150,485)**	(800,000)
Purchase of capital assets	**(85,656)**	(161,968)
	(236,141)	(961,968)
Decrease in cash resources	**(430,747)**	(371,587)
Cash resources, beginning of year	**1,190,450**	1,562,037
Cash resources, end of year	**759,703**	1,190,450

The accompanying notes are an integral part of these financial statements

1. Purpose of Society, incorporation and income tax status

The Motor Dealer Council of British Columbia ("the Society") was incorporated under the Society Act of British Columbia on July 31, 2003 as a not-for-profit society. The Society was created to exercise the authorities delegated to it by the provincial government of British Columbia for the administration and enforcement of the Motor Dealer Act and related regulations.

On April 1, 2004, the Government of British Columbia granted to the Society the authority to administer and enforce the Motor Dealer Act. On March 30, 2007, subject to amendment to the Motor Dealer Act, the Society has become known as the Motor Vehicle Sales Authority of B.C. (VSA), better reflecting both the public and industry service roles of the independent regulatory agency.

The Society is registered as a not-for profit organization under the Income Tax Act (the “Act”) and as such is exempt from income taxes. In order to maintain its status as a registered not-for-profit organization under the Act, the Society must meet certain requirements within the Act. In the opinion of management, these requirements have been met.

The Society's mission statement is to regulate a fair motor vehicle sales marketplace through education and compliance.

2. Prior period adjustments

During the year, the Society identified an understatement of unearned revenue of $154,944 for the year ended March 31, 2008, requiring an adjustment to the financial statements as previously reported. The result of the adjustment was to increase unearned revenue by $154,944 for the year ended March 31, 2011 and to decrease the unrestricted fund balance by the same amount.

The nature of the required adjustment relates to the recognition of $154,944 as revenue during the year ended March 31, 2008 that was not yet earned.

Additionally, during the year the Society identified that the revenues and expenses of the internally restricted reserves for future training costs and consumer awareness were historically reported as adjustments to reserve balances in the statement of changes in fund balances rather than as revenues and expenses on the statement of operations. The statement of operations for the year ended March 31, 2011 has been restated to include these revenues and expenses, increasing revenues by $107,182 from $4,662,905 as previously stated to $4,770,087 and expenses by $55,054 from $4,345,739 as previously stated to $4,400,793. The excess of revenues over expenses for the year increased by $52,128 from $317,166 as previously stated to $369,294.

3. Change in accounting policies

Fund accounting

Effective April 1, 2011, the Society elected to present their financial statements on a fund accounting basis as described in note 4. The change in policy affects the presentation by fund of the assets and liabilities on the statement of financial position and the revenues and expenses on the statement of operations, however, does not result in changes to the presentation of the comparative figures.

4. Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles as issued by the Accounting Standards Board in Canada and include the following significant accounting policies:

Fund accounting

In order to ensure observance of limitations and restrictions placed on the use of resources available to the Society, the accounts are maintained on a fund accounting basis. Accordingly, resources are classified for accounting and reporting purposes into funds. These funds are held in accordance with the objectives specified by the contributors or in accordance with the directives issued by the Board of Directors.

Four funds are maintained: Operating fund, Capital asset fund, Reserve for future training costs and Reserve for consumer awareness.

The Operating fund is used to account for all revenues and expenses related to the general and ancilliary operations of the Society.

The Capital asset fund is used to account for all capital assets of the Society and to present the flow of funds related to their acquisition and disposal, unexpended capital resources and debt commitments.

The Reserve for future training costs reports the assets, liabilities, revenue and expenses related to course development activities.

The Reserve for consumer awareness reports the assets, liabilities, revenues and expenses associated with increasing consumers' awareness regarding the services provided by the Society.

Term deposits

Term deposits that mature before March 31, 2013 are presented as current. Term deposits with maturity dates subsequent to March 31, 2013 are presented as long term assets.

Capital assets

Capital assets are initially recorded at cost. Amortization is provided using the following methods and rates intended to amortize the cost of assets over their estimated useful lives.

	Method	***Rate***
Automotive	declining balance	30 %
Computer equipment	straight-line	3 years
Computer software	straight-line	2 years
Office equipment	straight-line	5 years
Leasehold improvements	straight-line	5 years
OASIS Project	straight-line	3 years

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

Long-lived assets

Long-lived assets consist of capital assets. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The Society performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying value of an asset, or group of assets, may not be recoverable. Impairment losses are recognized when undiscounted future cash flows from its use and disposal are less than the assets' carrying amount. Impairment is measured as the amount by which the assets' carrying value exceeds its fair value. Any impairment is included in earnings for the year. Prices for similar items are also used to measure fair value of long lived assets.

Leases

A lease that transfers substantially all of the benefits and risks of ownership is classified as a capital lease. At the inception of a capital lease, an asset and a payment obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair market value. Assets under capital leases are amortized on a straight line basis, over their estimated useful lives. All other leases are accounted for as operating leases and rental payments are expensed as incurred.

Revenue recognition

The Society uses the deferral method of accounting for contributions and reports on a fund accounting basis.

The Society records annual licensing fees from dealerships and sales representatives rateably over the period of licensing, which varies from twelve to twenty-four months. Course fees are recorded as revenue in the period the service is provided. Revenues from registrar's hearings are recognized upon receipt. Revenues from administration and other fees are recognized in the period that services are provided and collection is reasonably assured.

Employee future benefits

The Society's employee future benefit program consists of a defined contribution pension plan, with the Society's contributions expensed as incurred.

Financial instruments

Held for trading:

The Society has classified the following financial assets as held for trading: cash, money market funds and term deposits.

These instruments are initially recognized at their fair value, determined by the instrument's initial cost in a transaction between unrelated parties.

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

Held for trading financial instruments are subsequently measured at their fair value, without any deduction for transaction costs incurred on sale or other disposal. Gains and losses arising from changes in fair value are recognized immediately in the statement of operations.

Loans and receivables:

The Society has classified the following financial assets as loans and receivables: accounts receivable. These assets are initially recognized at their fair value. Fair value is approximated by the instrument’s initial cost in a transaction between unrelated parties.

Loans and receivables are subsequently recorded at amortized cost, using the effective interest method. Under this method, estimated future cash receipts are discounted over the asset's expected life to its net carrying value. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and less any reduction for impairment or uncollectibility. Gains or losses arising from changes in fair value are recognized in statement of operations upon derecognition or impairment.

Other financial liabilities:

The Society has classified the following financial liabilities as other financial liabilities: accounts payable and accruals. These liabilities are initially recognized at their fair value. Fair value is approximated by the instrument’s initial cost in a transaction between unrelated parties.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Under this method, estimated future cash receipts are discounted over the asset's expected life to its net carrying value. Amortized cost is the amount at which the financial liability is measured at initial recognition less principal repayments, and plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount. Gains or losses arising from changes in fair value are recognized in the statement of operations upon derecognition or impairment.

Measurement uncertainty

The preparation of financial statements in conformity 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 assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Amortization is based on the estimated useful lives of capital assets.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in excess of revenues and expenses in the periods in which they become known.

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

Recent Accounting Pronouncements

Canadian accounting standards for not-for-profit organizations

In October 2010, the Accounting Standards Board (AcSB) approved the accounting standards for private sector not-for-profit organizations (NFPOs) to be included in Part III of the CICA Handbook-Accounting ("Handbook"). Part III will comprise:

- The existing "4400 series" of standards dealing with the unique circumstances of NFPOs, currently in Part V of the Handbook; and
- The new accounting standards for private enterprises in Part II of the Handbook, to the extent that they would apply to NFPOs.

Effective for fiscal years beginning on or after January 1, 2012, private sector NFPOs will have the option to adopt either Part III of the Handbook or International Financial Reporting Standards (IFRS). Earlier adoption is permitted. The Society expects to adopt Part III of the Handbook as its new financial reporting standards. The Society has not yet determined the impact of the adoption of Part III of the Handbook on its financial statements.

5. Term Deposits

Term deposits are recorded at cost plus accrued interest and have maturity dates ranging from February 2013 to March 2017 and bear interest at fixed rates between 2.00% and 3.70% per annum.

6. Capital assets

	Cost	***Accumulated amortization***	***2012 Net book value***	*2011 Net book value*
Automotive	**137,416**	**71,663**	**65,753**	94,610
Computer equipment	**148,238**	**107,430**	**40,808**	24,249
Computer software	**186,844**	**154,809**	**32,035**	5,078
Office equipment	**199,748**	**186,817**	**12,931**	11,495
Leasehold improvements	**315,918**	**216,625**	**99,293**	158,621
OASIS Project	**674,441**	**674,441**	**-**	-
	1,662,605	**1,411,785**	**250,820**	294,053

7. Commitments

The Society has entered into various lease agreements for equipment and premises with estimated minimum annual payments as follows:

2013	171,110
2014	161,707
2015	168,221
2016	179,858
2017	178,754
	859,650

At March 31, 2012, the Society had committed $90,133 to various contractors for office and server room improvements and feasibility studies for a new database.

8. Contingencies

The Society is currently in discussions with Canada Revenue Agency ("CRA") to determine whether the course fees, administration fees and registrar hearing penalties of the Society are exempt from Goods and Services Tax ("GST") and Harmonized Sales Tax ("HST"). As a result of previous CRA rulings, it has been determined that licensing fees are exempt from GST and HST. Historically, the Society has not collected GST or HST on any of its revenue sources and it is the Society's position that all revenues are GST and HST exempt.

While the outcome of this matter is presently not determinable, the Society has been advised by their professional counsel that there are substantial arguments to support their position. Should the Society be unsuccessful in defending their position, the CRA could assess the Society for GST and HST on non-licensing fee revenues collected since inception, resulting in a significant liability to the Society.

9. Restrictions on fund balances

The Society's board of directors has internally restricted $45,133 (2011 - $41,907) to fund future training costs and $237,256 (2011 - $325,441) for consumer awareness. These internally restricted amounts are not available for other purposes without the approval of the board of directors.

10. Related party transactions

During the year, the Society paid $113,836 (2011 - $110,106) in governance costs to directors for directors' fees and expense reimbursements. For the year ended March 31, 2012, this amount is made up of directors' fees of $92,100 and expense reimbursements of $21,736.

These transactions were conducted in the normal course of operations and were measured at their exchange amount, which is the amount of consideration established and agreed to by the related parties.

11. Financial instruments

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

Fair value of financial instruments

The carrying amount of cash, money market funds, accounts receivable and accounts payable and accruals is approximated by their fair value due to their short-term nature.

The fair value of term deposits are based on quoted market prices.

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. In seeking to minimize the risks from interest rate fluctuations, the Society manages exposure through its normal operating and financing activities.

The Society is exposed to interest rate risk through its term deposits with interest rates ranging from 2.00% and 3.70% annually, as described in Note 5.

12. Capital management

The Society's objectives when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can continue to advance the goals of the stakeholders of the Society.

The Society sets the amount of capital in proportion to risk and manages the capital structure and makes adjustments to it in light of changes to economic conditions and the risk characteristics of the underlying assets.

13. Controlled entity

The Society exercises control over the Motor Dealer Customer Compensation Fund ("the Fund") through its ability to appoint the Fund's board of directors.

The Fund provides compensation to consumers who have incurred losses because a motor dealer has either discontinued its operations or has failed to meet certain legal obligations.

During the year ended March 31, 2012, certain Fund expenditures were paid by the Society, then subsequently reimbursed by the Fund, totalling $103,367 (2011 - $100,549).

13. Controlled entity *(Continued from previous page)*

The Fund has not been consolidated in the Society's financial statements. Financial summaries of this unconsolidated entity as at March 31 and for the years then ended are as follows:

	2012	*2011*
Total assets	**1,036,331**	783,340
Net assets	**1,036,331**	783,340
Total revenues	**471,809**	453,418
Total expenses	**(218,818)**	(319,635)
Excess of revenue over expenses	**252,991**	133,783
Cash flow from operations	**244,485**	127,358
Cash flow from investing activity	**8,506**	6,425
Increase in cash reserves	**252,991**	133,783

14. Comparative figures

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