

Financials

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Auditors' Report

To the Members of Mutual Fund Dealers Association of Canada

We have audited the statements of financial position of Mutual Fund Dealers Association of Canada ("MFDA") as at June 30, 2008 and 2007 and the statements of revenues and expenses, changes in fund balances and of cash flows for the years then ended. These financial statements are the responsibility of MFDA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of MFDA as at June 30, 2008 and 2007 and the revenues and expenses, changes in fund balances and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
August 19, 2008

Statements of financial position

as at June 30

	2008	2007
	\$	\$
ASSETS		
CURRENT		
Cash (Note 3)	1,520,938	842,188
Investments (Note 3)	6,766,631	5,402,440
Membership fees billed in advance (Note 4)	5,166,705	6,013,016
MFDA Investor Protection Corporation assessments (Note 5)	15,042	8,727
Costs recoverable from MFDA Investor Protection Corporation (Note 7)	15,561	15,500
Other membership receivables	16,228	51,566
Prepaid expenses and other assets	257,328	316,607
	13,758,433	12,650,044
Capital assets (Note 6)	2,414,868	2,802,362
Employee benefit plan asset (Note 8)	1,073,700	559,000
	17,247,001	16,011,406
LIABILITIES AND FUND BALANCE		
CURRENT		
Accounts payable and accrued liabilities	1,126,069	1,181,022
Unearned membership fees (Note 4)	6,122,499	6,013,016
Membership application deposits	15,549	23,000
Due to MFDA Investor Protection Corporation (Note 5)	15,042	8,727
Obligations under capital lease (Note 10)	81,573	80,754
	7,360,732	7,306,519
Accrued employee benefit plans liability (Note 8)	1,940,600	997,400
Obligations under capital lease (Note 10)	136,462	192,140
	9,437,794	8,496,059
FUND BALANCES		
Operating Fund		
Invested in capital assets	2,196,833	2,529,468
Unrestricted net assets	4,733,539	4,659,318
	6,930,372	7,188,786
Discretionary Fund (Note 2)	878,835	326,561
	7,809,207	7,515,347
	17,247,001	16,011,406

Approved by the Board



Robert J. Wright, C.M., Q.C.
Director



Larry M. Waite
Director

Statements of revenues and expenses

for the years ended June 30

	2008	2007
	\$	\$
OPERATING FUND		
REVENUES		
Membership fees	24,043,796	22,672,576
Investment income (Note 11)	385,853	376,093
Administration recoveries (Note 7)	60,000	60,000
Enforcement recoveries	51,415	11,320
Late filing fees	30,050	16,950
Total revenues	24,571,114	23,136,939
EXPENSES		
Salaries and benefits (Note 8)	18,069,186	15,431,663
Rent and utilities	2,334,699	1,956,460
Travel	937,293	713,078
Amortization of capital assets	726,000	798,116
Office and general	525,217	495,215
Computer software and maintenance	421,868	406,954
Consultants	383,360	294,644
Education	280,886	299,861
Board of Directors - fees	256,000	305,500
Board of Directors - expenses	48,794	82,195
Legal	180,708	232,013
Meetings, seminars and communication	163,004	174,391
Hearing panels	154,519	232,895
Telecommunications	145,241	119,101
Insurance	122,261	123,670
Regional Councils	40,812	6,034
Bank charges and interest	32,547	36,417
Loss on disposal of capital assets	7,133	3,604
Total expenses	24,829,528	21,711,811
Excess (deficit) of revenues over expenses	(258,414)	1,425,128
DISCRETIONARY FUND (NOTE 2)		
REVENUES		
Fines	525,500	144,500
Investment income	26,979	7,801
Total revenues	552,479	152,301
EXPENSES		
Investment management fees	205	74
Total expenses	205	74
Excess of revenues over expenses	552,274	152,227

Statements of changes in fund balances

for the years ended June 30

	2008				2007
	Operating Fund				
	Invested in Capital Assets	Unrestricted Net assets	Discretionary Fund	Total	Total
	\$	\$	\$	\$	\$
FUND BALANCES					
Balance, beginning of year	2,529,468	4,659,318	326,561	7,515,347	5,937,992
Excess (deficit) of revenues over expenses	-	(258,414)	552,274	293,860	1,577,355
Purchase of capital assets	318,856	(318,856)	-	-	-
Proceeds on disposal of capital assets	(3,000)	3,000	-	-	-
Loss on disposal of capital assets	(7,133)	7,133	-	-	-
Repayment of capital lease obligation	84,642	(84,642)	-	-	-
Amortization of capital assets	(726,000)	726,000	-	-	-
Balance, end of year	2,196,833	4,733,539	878,835	7,809,207	7,515,347

Statements of cash flows

for the years ended June 30

	2008	2007
	\$	\$
OPERATING ACTIVITIES		
Excess (deficit) of revenue over expenses – Operating Fund	(258,414)	1,425,128
Excess of revenue over expenses – Discretionary Fund	552,274	152,227
Items not involving cash		
Amortization of capital assets	726,000	798,116
Loss on disposal of capital assets	7,133	3,604
	1,026,993	2,379,075
Changes in non-cash working capital		
Membership fees billed in advance	846,311	(533,631)
Other membership receivables	35,338	(37,466)
MFDA Investor Protection Corporation assessments	(6,315)	26,555
Prepaid expenses and other assets	59,279	(99,587)
Accounts payable and accrued liabilities	(54,953)	53,240
Membership application deposits	(7,451)	11,000
Unearned membership fees	109,483	341,395
Due to MFDA Investor Protection Corporation	6,315	(34,265)
Costs recovered from MFDA Investor Protection Corporation	(61)	(583)
	2,014,939	2,105,733
Employee benefit plan asset	(514,700)	(199,000)
Accrued employee benefit plans liability	943,200	405,700
	2,443,439	2,312,433
INVESTING ACTIVITIES		
Purchase of investments	(1,364,191)	(1,191,332)
Purchase of capital assets	(318,856)	(1,946,893)
Principal payments on capital lease	(84,642)	(66,322)
Proceeds on disposal of capital assets	3,000	676
	(1,764,689)	(3,203,871)
Increase (decrease) in cash	678,750	(891,438)
Cash, beginning of year	842,188	1,733,626
Cash, end of year	1,520,938	842,188

Notes to the financial statements

June 30, 2008

1. Nature of the Organization

The Mutual Fund Dealers Association of Canada (MFDA) is the national self-regulatory organization for the distribution side of the Canadian mutual fund industry. The MFDA does not provide trade association activities for its Members. Its Members are firms that have been registered by provincial securities commissions to carry on business as mutual fund dealers. The MFDA regulates the activities of its Members and the approximately 75,000 Approved Persons sponsored by them. The MFDA's regulatory activities include developing rules and policies to govern the business conduct and operations of its Members and their Approved Persons, monitoring compliance with these requirements and applicable securities laws, and enforcing them through disciplinary proceedings conducted before impartial and independent MFDA hearing panels.

The MFDA was incorporated as a not-for-profit corporation on June 19, 1998 under Part II of the Canada Corporations Act and has been formally recognized as a self-regulatory organization by a number of provincial securities commissions in Canada.

As of June 30, 2008, the MFDA had 159 Members (2007 – 162 Members).

2. Significant Accounting Policies

The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Because the precise determination of many assets and liabilities such as accrued liabilities and accrued employee benefit plans liability is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates and approximations which have been made using careful judgment. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Change in accounting policies

On July 1, 2007, the MFDA adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855, "Financial Instruments – Recognition and Measurement" and Section 3861, "Financial Instruments – Disclosure and Presentation".

Upon the adoption of these new standards, the MFDA designated its investments as available-for-sale to be carried at fair value. Unrealized gains and losses between the fair value of investments and their amortized cost are included in the Operating Fund balance until realized on sale or maturity, at which time they are recorded with investment income. Accounts receivable were designated as loans and receivables and accounts payable and accrued liabilities were designated as other financial liabilities and carried at amortized cost using the effective interest method.

On July 1, 2007, no transitional adjustments were required to the opening balance of the Statement of Changes in Fund Balances as the investment was a money market fund, which was already carried at an amount that approximates fair value.

Fund accounting

The MFDA uses the deferral method of accounting for not-for-profit organizations in the preparation of its financial statements consisting of two funds, namely the Operating Fund and the Discretionary Fund.

The Operating Fund accounts for the regular business and activities of the MFDA.

The Discretionary Fund is an internally restricted fund established by the MFDA Board of Directors. The Discretionary Fund receives monies from the collection of enforcement fines and the disgorgement of profits imposed by order of a MFDA hearing panel. Disbursements from the Discretionary Fund are currently restricted to payments to the MFDA Investor Protection Corporation, the investor protection fund, and payments for special projects that are in the public interest and beneficial to the public and/or Canadian capital markets, as determined by the MFDA Board of Directors.

Membership application deposits

A non-refundable deposit is required on all membership applications. The deposit is applied to membership fees when the applicant is accepted for membership.

Membership fees

Membership fees are calculated annually using a defined formula based on each Members' assets under administration, invoiced to Members on a quarterly basis and recorded as revenue on a monthly prorated basis.

Membership fees billed in advance are reflected on the balance sheet as unearned membership fees.

Late filing fees

Members that do not submit the financial statements required by MFDA rules within the specified due dates are charged late filing fees. The late filing fees are billed and recorded as revenue on a monthly basis.

Capital Assets

Capital assets are recorded at cost and are amortized on the following basis:

Computers and software development	–	Straight-line method over 3 years
Office furniture and equipment	–	Straight-line method over 10 years
Leasehold improvements	–	Straight-line method over the term of the lease
Equipment under capital lease	–	Straight-line method over the term of the lease

Employee benefit plans

The MFDA accrues its obligations under employee benefit plans and the related costs, net of plan assets. The MFDA has adopted the following policies:

- The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.
- The discount rate used to determine the accrued benefit obligation is determined by reference to market interest rates at the measurement date on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments.
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.
- The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees is 26 years (2007–27 years) for the registered pension plan, 9 years (2006–9 years) for the supplementary executive retirement plan and 18 years (2007–19 years) for other post-retirement benefits.

Cash

Cash includes cash on hand and balances with banks, net of bank overdrafts.

Investments

The investments represent short-term investments in a pooled money market fund and are carried at fair value. Unrealized gains and losses resulting from the difference between market value and cost are recorded in the Operating Fund balance until realized or until the asset is other than temporarily impaired, at which time they are recorded in the statement of revenues and expenses.

Other assets and liabilities

Current assets other than cash and investments are classified as loans and receivables and are carried at amortized cost.

Accounts payable and accrued liabilities are classified as other liabilities and carried at amortized cost using the effective interest method.

Provision for income taxes

MFDA is a not-for-profit organization within the meaning of the Income Tax Act (Canada). Accordingly, there is no provision for income taxes in these financial statements.

Future accounting policies

In 2006, the CICA issued three new accounting standards: Handbook Section 1535, “Capital Disclosures”, Handbook Section 3862, “Financial Instruments – Disclosures” and Handbook Section 3863, “Financial Instruments – Presentation”. These standards will be effective July 1, 2008 for the MFDA.

Section 1535 specifies the disclosure of (i) MFDA’s objectives, policies and procedures for managing equity; (ii) quantitative data about what the MFDA regards as equity; (iii) whether MFDA has complied with any capital requirements; (iv) if it has not complied, the consequences of such non-compliance.

Section 3862 and 3863 replace CICA Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing disclosure requirements and carries forward the presentation requirements under the existing Section 3861. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from recognized and unrecognized financial instruments and how the MFDA manages those risks.

The impact of these new standards on the MFDA’s financial statements will primarily be additional disclosure.

3. Cash and Investments

Cash of \$1,520,938 (2007 – \$842,188) includes an amount of \$7,348 (2007 – \$1,754), which is restricted in use for the Discretionary Fund.

The MFDA has investments in the CIBC Imperial Money Market Pooled Fund (the “Fund”) in the amounts of \$5,895,013 (2007 – \$5,065,702) for the Operating Fund and \$871,618 (2007 – \$336,738) for the Discretionary Fund.

4. Membership Fees Billed In Advance

The membership fees billed in advance represent billings issued in June for the quarterly membership fees due July 15.

5. MFDA Investor Protection Corporation Assessments

The MFDA Investor Protection Corporation (“IPC”) commenced coverage of customer accounts on July 1, 2005. Member assessments are calculated annually on a defined formula based on each Members’ assets under administration, and are invoiced to Members on a quarterly basis. The MFDA invoices the Members on behalf of the IPC and is liable to the IPC for the total of these Member assessments.

6. Capital Assets

	2008		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Computers and software development	2,924,210	2,374,435	549,775
Office furniture and equipment	1,339,998	549,884	790,114
Leasehold improvements	2,096,620	1,235,036	861,584
Equipment under capital lease	476,940	263,545	213,395
	6,837,768	4,422,900	2,414,868

6. Capital Assets (continued)

	2007		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Computers and software development	2,678,575	1,989,482	689,093
Office furniture and equipment	1,313,789	427,010	886,779
Leasehold improvements	2,069,875	1,111,553	958,322
Equipment under capital lease	447,157	178,989	268,168
	6,509,396	3,707,034	2,802,362

During the year, depreciation of \$726,000 (2007 – \$798,116) was recorded.

7. Costs recoverable from MFDA Investor Protection Corporation

Pursuant to a support agreement, the MFDA provides the IPC administrative, corporate secretarial and other support during the year to allow the IPC to operate without its own staff. The support costs charged to the IPC for the year amounted to \$60,000 (2007 – \$60,000) and were recorded at the agreed upon amount. The outstanding amount of \$15,561 (2007 – \$15,500) is paid on a quarterly basis according to the support agreement.

8. Employee benefit plans

MFDA has two defined benefit pension plans for eligible employees, being a registered plan (“RPP”) and a supplementary executive retirement plan (“SERP”). The purpose of the SERP is to supplement the registered plan for designated executive employees. As well, the MFDA has post-retirement benefits (“PRB”) that include health care and dental coverage for retired employees; such post-retirement benefits terminate at the age of 75 (2007 – 75).

The funded status of the MFDA’s benefit plans reconciled to the amounts recorded in the financial statements at June 30 is as follows:

				2008	2007
	RPP	SERP	PRB	Total	Total
	\$	\$	\$	\$	\$
Fair value of assets	3,863,300	2,630,200	–	6,493,500	5,009,500
Accrued benefit obligation	6,317,100	2,422,300	1,285,800	10,025,200	6,549,700
Funded status (deficit)	(2,453,800)	207,900	(1,285,800)	(3,531,700)	(1,540,200)
Unamortized transitional (assets)/obligation	(4,800)	15,500	9,200	19,900	22,700
Unamortized net actuarial loss	1,422,800	850,300	371,800	2,644,900	1,079,100
Accrued benefit plan asset (liability)	(1,035,800)*	1,073,700	(904,800)*	(866,900)	(438,400)

* The total of \$(1,940,600) represents accrued employee benefit plans liability as of June 30, 2008 (2007 – \$(997,400)).

The RPP plan assets are invested in a balanced pool fund. RPP pension benefits transferred out during fiscal 2008 totalled \$9,785 (2007 – \$123,329).

The total SERP assets of \$2,630,200 (2007 – \$1,830,400) consists of \$1,384,681 (2007 – \$999,496) which are invested in a balanced portfolio and \$1,245,519 (2007 – \$830,904) that are being held in a non-interest bearing retirement compensation arrangement account at the Canada Revenue Agency, as required by law.

The most recent actuarial valuation was completed as of April 1, 2007. The next required actuarial valuation will be as of April 1, 2010.

8. Employee benefit plans (continued)

The net benefit expense, included in the salaries and benefit expense in the statements of revenues and expenses, and the annual contributions are as follows:

				2008	2007
	RPP	SERP	PRB	Total	Total
	\$	\$	\$	\$	\$
Net benefit expense	1,285,000	279,300	309,800	1,874,100	1,377,800
Contributions					
Employer	651,600	794,000	–	1,445,600	1,171,100
Employee	203,500	–	–	203,500	166,000

The significant actuarial assumptions adopted in measuring the MFDA's accrued benefit obligations are as follows:

	2008	2007
	%	%
Weighted average discount rate for pensions	5.25	5.75
Weighted average discount rate for post retirement benefits	5.25	5.50
Weighted expected rate of return on plan assets	7.00	7.00
Weighted average rate of compensation increase	4.5 to 5.0	4.5 to 5.0

The post-retirement benefits reflect a 10% to 15% annual rate of increase in the cost of medical benefits for 2009. These rates are assumed to decrease gradually to 5% by 2019 and remain at that level thereafter. The dental benefits are assumed to increase at an annual rate of 3.5%.

9. Credit Facility

The MFDA has a demand credit facility limited to a maximum of \$3,000,000 (2007 – \$3,000,000). The credit facility bears an interest rate of prime plus 0.5% per annum. The MFDA has granted a general security interest to the bank in connection with this facility. During the years ended June 30, 2008 and 2007 the credit facility was not utilized.

10. Commitments and Contingent Liability

(a) Lease obligations

The MFDA has entered into various operating leases for its office premises and six capital leases for office equipment. The capital leases have implicit interest rates of 7.1%, 4.9%, 5.4%, 0.0%, 6.2%, and 7.8% and expire in March 2009, March 2010, February 2010, October 2011, August 2012, and July 2013 respectively. The aggregate future minimum lease payments associated with these six leases is \$229,594 which includes interest charges of \$11,559.

Operating and capital lease obligations, excluding operating costs for future years and sales tax, are as follows:

	\$
2009	1,089,618
2010	1,067,718
2011	1,049,610
2012	1,011,731
2013	971,204
Thereafter	2,202,893
	7,392,774

10. Commitments and Contingent Liability (continued)

(b) Guarantee

The MFDA provided a guarantee of the \$30 million line of credit granted to the IPC by the bank.

11. Investment income

Investment income is comprised of the following:

	2008	2007
	\$	\$
Operating Fund		
Distribution from money market fund	264,757	227,843
Bank interest	121,096	148,250
	385,853	376,093
Discretionary Fund		
Distribution from money market fund	26,468	7,613
Bank interest	511	188
	26,979	7,801

12. Risk management

Risk management relates to the understanding and active management of risks associated with invested assets. Investments can be indirectly exposed to foreign currency, interest rate, market and credit risk. The MFDA manages financial risks through investing in pooled funds which are diversified across various debt instruments.

Currency risk

All investments of the MFDA are denominated in Canadian dollars and as such are not subject to currency risk.

Interest rate risk

Interest rate risk refers to the adverse consequences of interest rate changes on the MFDA's investments. The value of the MFDA's investments in a pooled money market fund is not significantly impacted by changes in both nominal and real interest rates as the maturities of the money market instruments are short-term in nature.

Market risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market conditions, whether these changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. The MFDA minimizes its exposure to market risk due to its policy of investing in a pooled money market fund.

Credit risk

Credit risk refers to the risk of financial loss due to a counterparty failing to meet its contractual obligations. The MFDA is exposed to credit risk indirectly through its investment in a pooled money market fund. Credit risk is managed by the MFDA through dealing with reputable financial institutions.