



# MFDA Investor Protection Corporation

## Financial Statements

Auditors' Report	1
Balance Sheets	2
Statements of Revenues and Expenses and Changes in Fund Balance	3
Statements of Cash Flows	4
Notes to the Financial Statements	5

## Auditors' Report

### **To the Members of the Board of Directors MFDA Investor Protection Corporation**

We have audited the balance sheets of the MFDA Investor Protection Corporation ("MFDA IPC") as at June 30, 2007 and 2006 and the statements of revenues and expenses and changes in fund balance and of cash flows for the years then ended. These financial statements are the responsibility of MFDA IPC'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 IPC as at June 30, 2007 and 2006 and the revenue and expenses and changes in fund balance and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Deloitte & Touche LLP*

**Chartered Accountants  
Licensed Public Accountants**  
Toronto, Ontario  
August 17, 2007

# MFDA Investor Protection Corporation

## Financial Statements

## Balance Sheets

As at June 30

	2007	2006
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 111,076	\$ 455,116
Investments (Note 3)	12,558,052	7,257,518
MFDA Investor Protection Corporation assessments receivable from the MFDA (Note 4)	8,727	42,992
Interest receivable	152	3,261
	<b>\$ 12,678,007</b>	<b>\$ 7,758,887</b>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 44,733	\$ 98,405
Support costs due to the MFDA (Note 5)	15,500	14,917
	<b>60,233</b>	<b>113,322</b>
<b>FUND BALANCE</b>		
Operating Fund		
Unrestricted net assets	12,617,774	7,645,565
	<b>12,617,774</b>	<b>7,645,565</b>
	<b>\$ 12,678,007</b>	<b>\$ 7,758,887</b>

Approved on behalf of the board

*"Lawrence A. Wright"*

Director

*"Donald H. Page"*

Director

# MFDA Investor Protection Corporation

## Financial Statements

### Statements of Revenues and Expenses and Changes in Fund Balance

For the years ended June 30

	2007	2006 (Note 2)
<b>OPERATING FUND</b>		
<b>REVENUE</b>		
Assessments of MFDA Members	\$ 5,047,619	\$ 5,172,367
Investment income	412,450	130,278
Contribution from MFDA fine revenue	–	2,500,000
Contribution from OSC settlement revenue	–	1,434,112
<b>TOTAL REVENUE</b>	<b>5,460,069</b>	<b>9,236,757</b>
<b>EXPENSES</b>		
Consultants	156,766	148,691
Legal	80,534	197,641
MFDA Support Charges (Note 5)	63,600	64,200
Insurance	55,890	55,333
Bank charges (Note 6)	54,610	204,304
Board of Directors – fees	44,030	59,352
Board of Directors – expenses	2,018	3,278
Audit Fees	17,697	16,854
OSC application fee	5,000	–
Investment management fees	3,168	656
Communications and annual report	2,052	–
Office and general	1,193	669
Travel and Transportation	1,069	–
Telecommunications	233	1,607
Repayment of expenses to the MFDA for Start-up Costs	–	837,672
Training and education	–	935
<b>TOTAL EXPENSES</b>	<b>487,860</b>	<b>1,591,192</b>
<b>EXCESS OF REVENUE OVER EXPENSES</b>	<b>4,972,209</b>	<b>7,645,565</b>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<b>7,645,565</b>	<b>–</b>
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 12,617,774</b>	<b>\$ 7,645,565</b>

## Statements of Cash Flows

For the years ended June 30

	2007	2006 (Note 2)
<b>CASH PROVIDED BY (USED IN)</b>		
<b>OPERATING ACTIVITIES</b>		
Excess of revenue over expenses – Operating Fund	\$ 4,972,209	\$ 7,645,565
Changes in non-cash working capital		
Assessments receivable from the MFDA	34,265	(42,992)
Interest receivable	3,109	(3,261)
Accounts payable and accrued liabilities	(53,672)	98,405
Support costs due to the MFDA	583	14,917
	4,956,494	7,712,634
<b>INVESTING ACTIVITY</b>		
Purchase of investments	(5,300,534)	(7,257,518)
<b>INCREASE IN CASH DURING THE YEAR</b>	(344,040)	455,116
<b>CASH, BEGINNING OF YEAR</b>	455,116	–
<b>CASH, END OF YEAR</b>	\$ 111,076	\$ 455,116

## Notes to the Financial Statements

### 1. NATURE OF THE ORGANIZATION

The MFDA Investor Protection Corporation (“MFDA IPC”) was incorporated on November 14, 2002 under Part II of the Canada Corporations Act. The purpose of MFDA IPC is to act as a compensation fund or protection plan for customers of mutual fund dealers that are Members of the Mutual Fund Dealers Association of Canada (“MFDA”) in the event of insolvency of a MFDA Member. The securities commissions approved the creation of MFDA IPC in May 2005, and the MFDA IPC began offering coverage on July 1, 2005.

### 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 is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates and approximations that 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.

#### *Period covered by the financial statements*

These financial statements were prepared for the year ended June 30, 2007 and for the 13 month period from the inception of the MFDA IPC to June 30, 2006.

#### *Fund accounting*

The MFDA IPC uses the deferral method of accounting for not-for-profit organizations in the preparation of its financial statements. At this time there is one fund, namely the Operating Fund.

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

#### *Member assessments*

MFDA Members are assessed annually, invoiced on a quarterly basis and assessment revenues are recorded monthly. The assessments are invoiced and collected by the MFDA due to its direct jurisdiction over its Members. The assessments are calculated annually using a defined formula based on each Members’ assets under administration.

#### *Provision for income taxes*

MFDA IPC 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.

#### *Investments*

Investments represent short-term investments and are carried at market.

#### *Financial instruments*

The assets and liabilities of the MFDA IPC are carried at cost which approximates their fair value due to their short-term nature.

# MFDA Investor Protection Corporation

## Financial Statements

### *Provision for claims and related expenses*

Provision for claims from customers of MFDA insolvent Members and related expenses are made when the MFDA IPC is notified of potential claims and expects to incur expenses related to the claim. No amounts have been set aside in the current period. No amounts are set aside as a contingency to cover possible losses and customer claims for claims not yet reported.

### 3. INVESTMENT

The investment consists of a single holding in the CIBC TAL Imperial Money Market Pooled Fund (the "Fund"). The focus of this Fund is to preserve capital and maintain liquidity by investing primarily in treasury bills, notes, bonds, and other debt obligation securities of Canadian issuers.

### 4. ASSESSMENTS RECEIVABLE FROM THE MFDA

The assessments to MFDA Members billed by the MFDA are due to the MFDA IPC upon collection by the MFDA. The amount of \$8,727 (2006–\$42,992) represents outstanding amounts from the MFDA on billings due at the end of June. All monies collected by the MFDA had been transferred to the MFDA IPC at the end of June 2007.

### 5. SUPPORT COSTS DUE TO THE MFDA

The MFDA provides the MFDA IPC administrative, corporate secretarial and other support to allow the MFDA IPC to operate without its own staff. The MFDA IPC and the MFDA have entered into a support agreement to define these areas of assistance. The amount of support costs for the period amounted to \$63,600 (2006–\$64,200) and was recorded at the agreed upon amount. The amount outstanding is paid on a quarterly basis according to the support agreement. At the end of June, the MFDA IPC owed the MFDA \$15,500 (2006–\$14,917).

### 6. CREDIT FACILITIES

The MFDA IPC has been granted a credit facility limited to a maximum of \$30 million. The credit facility is to be used by the MFDA IPC together with the investments to be accumulated by the MFDA IPC through assessments, to provide protection to customers of Members of the MFDA in the event of loss resulting from an insolvency of an MFDA Member. The interest rate is prime less 100 basis points per annum. No drawdown has occurred during the current period. The MFDA has provided a guarantee of the \$30 million line of credit granted to the MFDA IPC by the Canadian Imperial Bank of Commerce.

Bank charges include the standby fee on the credit line of \$54,000. A set-up fee for the credit line of \$150,000 was incurred in the prior fiscal period.