



MFDA Investor Protection Corporation

FINANCIAL STATEMENTS

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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, 2008 and 2007 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, 2008 and 2007 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
August 19, 2008



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Balance Sheets

as at June 30

	2008	2007
	\$	\$

ASSETS

CURRENT

Cash	89,537	111,076
Investments (Note 3)	17,743,310	12,558,052
Assessments receivable from the MFDA (Note 4)	15,042	8,727
Interest receivable	52,859	152
	17,900,748	12,678,007

LIABILITIES AND FUND BALANCE

CURRENT

Accounts payable and accrued liabilities	64,716	44,733
Support costs due to the MFDA (Note 5)	15,561	15,500
	80,277	60,233

FUND BALANCE

Operating Fund		
Unrestricted net assets	17,820,471	12,617,774
	17,820,471	12,617,774
	17,900,748	12,678,007

Approved by the Board

“Lawrence A. Wright”

Director

“Donald H. Page”

Director



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Statements of revenues and expenses and changes in fund balance

for the years ended June 30

	2008	2007
	\$	\$
OPERATING FUND		
REVENUES		
Assessments of MFDA Members	5,044,415	5,047,619
Investment Income (Note 7)	643,203	412,450
TOTAL REVENUES	5,687,618	5,460,069
EXPENSES		
Consultants	118,303	156,766
Legal	75,018	80,534
MFDA support charges (Note 5)	63,300	63,600
Board of Directors – fees and expenses	57,589	46,048
Bank charges (Note 6)	54,579	54,610
Insurance	53,164	55,890
Investment management fees	34,483	3,168
Audit fees	20,034	17,697
Communications and annual report	5,187	2,052
Office and general	3,264	2,495
OSC application fee	–	5,000
TOTAL EXPENSES	484,921	487,860
EXCESS OF REVENUES OVER EXPENSES	5,202,697	4,972,209
FUND BALANCE, BEGINNING OF YEAR	12,617,774	7,645,565
FUND BALANCE, END OF YEAR	17,820,471	12,617,774



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Statements of cash flows

for the years ended June 30

	2008	2007
	\$	\$
OPERATING ACTIVITIES		
Excess of revenues over expenses—Operating Fund	5,202,697	4,972,209
Changes in non-cash working capital		
Assessments receivable from the MFDA	(6,315)	34,265
Interest receivable	(52,707)	3,109
Accounts payable and accrued liabilities	19,983	(53,672)
Support costs due to the MFDA	61	583
	5,163,719	4,956,494
INVESTING ACTIVITIES		
Proceeds on sale of investments	5,000,000	—
Purchase of investments	(10,185,258)	(5,300,534)
	(5,185,258)	(5,300,534)
Decrease in cash during the year	(21,539)	(344,040)
Cash, beginning of year	111,076	455,116
CASH, END OF YEAR	89,537	111,076



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Notes to the financial statements

1. Nature of the organization

The MFDA Investor Protection Corporation (“MFDA IPC”) was incorporated as a not-for-profit corporation on November 14, 2002 under Part II of the Canada Corporations Act. The purpose of the MFDA IPC is to administer an investor protection fund for the benefit of clients of mutual fund dealers that are members of the Mutual Fund Dealers Association (“MFDA”). The MFDA IPC protects client assets held by a MFDA member firm in the event that the member firm becomes bankrupt. 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 such as accrued 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.

Change in accounting policies

On July 1, 2007, the MFDA IPC 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 IPC designated certain investments such as the money market fund as available-for-sale to be carried at fair value. Unrealized gains and losses between the market value of investments and their amortized cost are recorded in the Operating Fund balance until realized on sale or maturity, at which time they are recorded with investment income. The MFDA IPC also invests in bonds and intends to hold them to maturity and as a result, bonds are designated as held to maturity and carried at amortized cost. Any gains and losses from the sale of the bonds is recognized under investment income in the Statement of Revenues and Expenses. 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.



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

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

Member assessments

The MFDA Members are assessed annually, invoiced on a quarterly basis and assessment revenues are recorded monthly. The assessments are calculated annually using a defined formula based on each Members' assets under administration. The assessments are invoiced and collected by the MFDA and transferred to the MFDA IPC.

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.

Cash

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

Investments

The MFDA invests in a money market fund and in bonds with short-term to medium term maturities.

Investments in the money market fund are classified as available for sale ("AFS"). Unrealized gains and losses on AFS assets are recorded in Operating Fund balance. Gains and losses realized on disposal of AFS assets are reclassified from Statement of Changes in Fund Balance to Statement of Revenues and Expenses. AFS assets are subject to periodic impairment review with any impairment that is other than ordinary recognized in the Statement of Revenues and Expenses. Income from these assets is recorded under investment income in the Statement of Revenues and Expenses.

Investments in bonds are classified as Held to Maturity ("HTM") and are recorded at amortized cost. Any gains and losses are recognized in the Statement of Revenues and Expenses in the period that the asset is sold or becomes permanently impaired. Interest income from the bonds are accrued daily and recorded under investment income in the Statement of Revenues and Expenses. Interest income includes the amortization of bond premiums or the accretion of bond discounts, calculated using the effective interest rate method.

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.



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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 IPC.

Section 1535 specifies the disclosure of (i) MFDA IPC’s objectives, policies and procedures for managing equity; (ii) quantitative data about what the MFDA IPC regards as equity; (iii) whether MFDA IPC 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 IPC manages those risks.

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

3. Investments

The following table lists the holdings and their carrying and fair values as at June 30, 2008:

Investment	Par value (\$)/ number of units	Designation	Credit rating	Carrying value \$	Fair value \$
Money Market					
CIBC Imperial					
Money Market Pooled Fund	789,770	Available For Sale	N/A	7,899,726	7,899,726
Bonds					
Canada Housing Trust, 3.75%, Mat. Mar 15 2010	1,670,000	Hold To Maturity	AAA	1,643,670	1,676,897
Canada Housing Trust, 4.60%, Mat. Sep 15 2011	1,640,000	Hold To Maturity	AAA	1,635,296	1,679,557
Financement Quebec, 4.75%, Mat. Dec 01 2009	1,640,000	Hold To Maturity	Ah	1,639,222	1,667,568
New Brunswick Provincial, 5.875%, Mat. Dec 06 2012	1,600,000	Hold To Maturity	Ah	1,698,267	1,718,960
Sub-Total Bonds	6,550,000			6,616,455	6,742,982
Cash on hand for bond investment	N/A	N/A	N/A	3,227,129	3,227,129
Total Investments				17,743,310	17,869,837

At June 30, 2007, the entire \$12,558,052 was invested in the CIBC Imperial Money Market Pooled Fund and was carried at market value.



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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 \$15,042 (2007 – \$8,727) 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 2008.

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 \$63,300 (2007 – \$63,600) 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 \$15,561 (2007 – \$15,500).

6. Credit facilities

The MFDA IPC has been granted a credit facility limited to a maximum of \$30 million (2007 – \$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 (2007 – \$54,000).

7. Investment income

Investment income is comprised of the following:

	2008	2007
	\$	\$
Distribution from money market fund	344,458	403,247
Income from bonds		
Coupon interest	250,397	–
Accretion of the bond discount/premium	2,617	–
Bank interest on cash held for bond investment	43,241	–
	296,255	–
Bank interest	2,490	9,203
Total investment income	643,203	412,450



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8. 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 IPC manages financial risks through investing in pooled funds which are diversified across various debt instruments. In addition, the MFDA IPC's investment policy sets out high rated government and crown corporation bonds as the allowable bonds for the MFDA IPC bond portfolio. The MFDA IPC's investment policy sets limits on the exposure to individual investments.

Currency risk

All investments of the MFDA IPC 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 IPC's investments. The value of the MFDA IPC's investments is affected by changes in both nominal and real interest rates as they have a direct impact on the value of fixed income securities.

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. This risk is mitigated by the Plan's policy of diversification of the investment portfolio through investment in a pooled fund as well as the narrow field of acceptable high grade investments.

Credit risk

Credit risk refers to the risk of financial loss due to a counterparty failing to meet its contractual obligations. The MFDA IPC is exposed to credit risk indirectly through its investment in a money market fund and bonds. Credit risk is managed by these funds by limiting exposure to any single counterparty to a small percentage of net assets. In addition, the narrow field of investments in Federal & Provincial government bonds and Federal & Provincial Crown Corporation bonds helps to mitigate the credit risk by investment in high grade investments.