

**OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS**  
**FINANCIAL STATEMENTS**  
**OCTOBER 31, 2017**

# **OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS**

## **FINANCIAL STATEMENTS**

**OCTOBER 31, 2017**

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## INDEPENDENT AUDITORS' REPORT

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To the Members of  
Ombudsman for Banking Services and Investments

We have audited the accompanying financial statements of Ombudsman for Banking Services and Investments, which comprise the statement of financial position as at October 31, 2017, and the statement of operations, changes in net assets 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 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.

### *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 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 Ombudsman for Banking Services and Investments as at October 31, 2017, 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.

*Crowe Soberman LLP*

Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Canada  
February 20, 2018

**OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS**  
**STATEMENT OF FINANCIAL POSITION**

**At October 31**

**2017**

**2016**

**ASSETS**

**Current**

Cash and cash equivalents	<b>\$ 6,620,934</b>	\$ 6,188,454
Amounts due from members	<b>10,373</b>	36,412
Prepaid expenses and sundry	<b>149,833</b>	83,458

**6,781,140**      6,308,324

**Equipment and leasehold improvements (Note 3)**

**336,519**      367,298

**Database software (Note 4)**

**638,367**      685,727

**\$ 7,756,026**      \$ 7,361,349

**LIABILITIES**

**Current**

Accounts payable and accrued charges	<b>\$ 961,390</b>	\$ 1,073,467
Straight-line rent payable and deferred tenant inducements (Note 5)	<b>74,481</b>	106,437
Deferred revenue	<b>-</b>	404,307

**1,035,871**      1,584,211

**Net benefit obligation (Note 6)**

**299,769**      165,563

**1,335,640**      1,749,774

**Commitments (Note 10)**

**NET ASSETS**

<b>Invested in capital assets</b>	<b>974,886</b>	1,053,025
<b>Unrestricted</b>	<b>5,445,500</b>	4,499,909
<b>Internally restricted</b>	<b>-</b>	58,641

**6,420,386**      5,611,575

**\$ 7,756,026**      \$ 7,361,349

*The accompanying notes are an integral part of the financial statements*

On behalf of the Board

Chair of Audit Committee

Date

Ombudsman and CEO

Date

**OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**Year ended October 31**

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	Invested in capital assets	Internally restricted in net assets	Unrestricted	<b>Total 2017</b>	Total 2016
Net assets, beginning of year	\$ 1,053,025	\$ 58,641	\$ 4,499,909	<b>\$ 5,611,575</b>	\$ 3,603,676
Excess (deficiency) of revenues over expenses	(201,948)	-	1,010,759	<b>808,811</b>	2,007,899
Investment in capital assets	123,809	-	(123,809)	-	-
Interfund transfers ( <i>Note 8</i> )	-	(58,641)	58,641	-	-
Net assets, end of year	\$ 974,886	\$ -	\$ 5,445,500	<b>\$ 6,420,386</b>	\$ 5,611,575

*The accompanying notes are an integral part of the financial statements*

**OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS**  
**STATEMENT OF OPERATIONS**

<b>Year ended October 31</b>	<b>2017</b>	<b>2016</b>
<b>Revenue</b>		
Membership fees	\$ 8,961,098	\$ 9,414,561
Interest income	68,934	59,369
	<b>9,030,032</b>	<b>9,473,930</b>
<b>Expenses</b>		
Personnel	6,229,002	5,636,731
Rent and operating costs	423,689	313,504
Information technology and support	396,647	244,095
Governance	395,022	336,086
Corporate administration	151,838	136,948
Marketing and membership	130,913	131,363
Supplies and services	88,734	105,347
IT infrastructure risk review	58,893	62,863
Telephone	46,941	50,337
Audit fees	38,420	36,160
Legal fees	36,236	50,707
Insurance	13,873	12,948
Consultant fees	9,065	99,248
External review consulting	-	107,946
Miscellaneous expense	-	2,730
Amortization	201,948	139,018
	<b>8,221,221</b>	<b>7,466,031</b>
<b>Excess of revenue over expenses</b>	<b>\$ 808,811</b>	<b>\$ 2,007,899</b>

*The accompanying notes are an integral part of the financial statements*

**OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS**  
**STATEMENT OF CASH FLOWS**

Year ended October 31

2017

2016

**SOURCES (USES) OF CASH**

**Operating activities**

Excess of revenues over expenses \$ 808,811 \$ 2,007,899

*Items not involving cash*

Amortization - equipment and leasehold improvements 129,946 109,204

Amortization - database software 72,002 29,814

Amortization - straight-line rent and tenant inducements (31,956) (31,956)

Net benefit asset/obligation (Note 6) 134,206 177,937

**1,113,009 2,292,898**

**Changes in non-cash working capital items**

Amounts due from members 26,039 74,668

Prepaid expenses and sundry (66,375) (20,677)

Accounts payable and accrued charges (112,077) 46,999

Deferred revenue (404,307) (250,286)

**Cash provided by operating activities 556,289 2,143,602**

**Investing activities**

Acquisition of equipment and leasehold improvements (99,167) (248,032)

Acquisition of database software (24,642) (328,598)

**Cash used in investing activities (123,809) (576,630)**

**Net increase in cash and cash equivalents 432,480 1,566,972**

**Cash and cash equivalents, beginning of year 6,188,454 4,621,482**

**Cash and cash equivalents, end of year \$ 6,620,934 \$ 6,188,454**

**Represented by:**

High interest savings account \$ 5,725,203 \$ 5,268,387

Cash 895,731 920,067

**\$ 6,620,934 \$ 6,188,454**

*The accompanying notes are an integral part of the financial statements*

**OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**OCTOBER 31, 2017**

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**1. Purpose of the organization and income tax status**

Ombudsman for Banking Services and Investments ("OBSI") is incorporated under the Canada Not-For-Profit Corporations Act as a non-profit organization whose objectives are to receive, investigate and make recommendations concerning complaints made by persons, particularly retail consumers and small businesses, having requested or received products or services from financial service providers that are members of the OBSI, which have not been dealt with in a fashion satisfactory to such persons through the internal complaint handling procedures of the financial service providers.

OBSI is exempt from income tax under Section 149(1)(l) of the Income Tax Act.

**2. Significant accounting policies**

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations.

**Use of estimates**

The preparation of financial statements in accordance with Canadian accounting standards for not-for-profit organizations 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 statement of financial position date and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Fund accounting**

Revenues and expenses related to ombudsman services provided and administration activities are reported in the unrestricted fund.

The investment in capital assets represents the assets, liabilities, revenues and expenses related to OBSI's equipment and leasehold improvements and database software.

The internally restricted fund accounts for the funds restricted by the Board for all costs, expenses and liabilities arising from or relating to the resignation of an OBSI industry member or future restructuring costs of OBSI.

**Revenue recognition**

OBSI follows the deferral method of accounting for contributions.

Membership fees are recognized as revenue in the fiscal year to which they relate. Membership fees received in advance of the membership year to which they relate are recorded as deferred revenue.

Resignation fees are recognized as revenue in the internally restricted fund, in the fiscal year they are received.



**OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS**  
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**2. Significant accounting policies (continued)**

**Financial instruments**

OBSI initially measures its financial assets and liabilities at fair value.

OBSI subsequently measures all its financial instruments at amortized cost using the straight line method.

Transaction costs are recognized in net earnings in the period incurred.

**Cash and cash equivalents**

Investments in highly liquid securities with original maturities of 90 days or less are included in cash and cash equivalents.

**Equipment and leasehold improvements**

Equipment and leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided annually on bases designed to amortize the assets over their estimated useful lives, as follows:

Furniture and fixtures	-	10 year straight line
Computer equipment	-	4 year straight line
Leasehold improvements	-	straight-line over the term of the lease

**Database software**

Database software is recorded at cost less accumulated amortization. Amortization is provided annually on a base designed to amortize the asset over its estimated useful life, as follows:

Database software	-	10 year straight line
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**Leases and deferred tenant inducements**

Deferred tenant inducements includes reduced rent benefits and tenant inducements received in cash.

OBSI recognizes rental expenses using the straight line method whereby any contractual rents over the term of a lease are recognized into operations evenly over that term. The difference between the rental expense recognized and rental payments made is shown as deferred tenant inducements.

**OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS**  
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**2. Significant accounting policies (continued)**

**Pension costs and obligations**

OBSI provides three employee future benefit plans to its employees based on certain eligibility criteria: defined contribution plan, defined benefit plan and post-retirement medical plan.

The defined benefit plan is accounted for as a defined contribution plan because it is a multi-employer plan. The costs of pension benefits for this plan are charged to operations as incurred and included in personnel costs.

The costs of pension benefits for defined contribution plans are charged to operations as incurred and included in personnel costs.

OBSI accounts for its post-retirement medical plan using the immediate recognition approach whereby OBSI recognizes the cost of the plan for the period plus the change in the accrued benefit obligation net of the change in the fair value of the plan assets.

OBSI accrues its obligations under the post-retirement medical plan as the employees render the services necessary to earn the benefits.

**3. Equipment and leasehold improvements**

	Cost	Accumulated Amortization	2017 Net Carrying Amount	2016 Net Carrying Amount
Furniture and fixtures	\$ 274,087	\$ 199,252	\$ 74,835	\$ 66,682
Computer equipment	371,704	285,119	86,585	55,428
Leasehold improvements	427,553	252,454	175,099	245,188
	\$ 1,073,344	\$ 736,825	\$ 336,519	\$ 367,298

Amortization expense for the year amounted to \$129,946 (2016 - \$109,204).

**4. Database software**

	Cost	Accumulated Amortization	2017 Net Carrying Amount	2016 Net Carrying Amount
Database software	\$ 740,184	\$ 101,817	\$ 638,367	\$ 685,727

Amortization expense for the year amounted to \$72,002 (2016 - \$29,814).

**OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS**  
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**5. Straight-line rent payable and deferred tenant inducements**

	<b>Tenant inducements</b>	<b>Reduced rent benefits</b>	<b>2017 Net</b>	<b>2016 Net</b>
Balance, beginning of year	\$ 53,848	\$ 52,589	<b>\$ 106,437</b>	\$ 138,393
Amortization	(16,155)	(15,801)	<b>(31,956)</b>	(31,956)
	<b>\$ 37,693</b>	<b>\$ 36,788</b>	<b>\$ 74,481</b>	<b>\$ 106,437</b>

**6. Pension plans**

OBSI's eligible employees participate in the multi-employer defined benefit pension plan of another organization. As of January 1, 2006 employees can no longer opt into this plan. Employees who selected this option before that date can continue to use this plan. OBSI is assessed and pays an annual charge related to this plan which amounted to \$52,400 (2016 - \$86,000). This amount, which is based on the other organization's estimate of the pension expense attributable to OBSI's employees, has been included in personnel costs in the statement of operations.

Total contributions to the defined contribution plan amounted to \$310,776 (2016 - \$275,927). OBSI's employer contributions to the defined contribution plan of \$156,952 (2016 - \$135,291) have been included in personnel costs in the statement of operations.

In addition, OBSI's eligible employees participate in the non-pension post-employment medical plan of another organization that provides extended healthcare, dental and life insurance benefits. OBSI is assessed and pays an amount equal to the expense calculated in accordance with the projected benefit method, and bases its accounting for plan assets on its proportionate interest in the assets of the multiple employer plan. The plan costs depend on several factors, including the amounts of benefits paid, the number of employees in the plan, and health care trend rates. Costs recognized during the year are \$146,747 (2016 - \$192,094), which are included in personnel costs in the statement of operations.

The actuarial determination of the accrued benefit obligation for the plan is based on the funding valuation. The measurement date of the plan assets and accrued benefit obligation coincides with OBSI's fiscal year. The most recent actuarial valuation of the pension plans for funding purposes was as of June 1, 2015.

	<b>2017</b>	<b>2016</b>
Accrued benefit obligation	<b>\$ (1,163,764)</b>	\$ (1,038,571)
Fair value of plan assets	-	-
Prepayment to other participating organization	<b>863,995</b>	873,008
Plan deficit, end of year	<b>\$ (299,769)</b>	\$ (165,563)

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**7. Credit facility**

OBSI's banking facility provides for a maximum operating line of credit of \$230,000 (2016 - \$230,000).

Borrowings under the line of credit bear interest at the bank's prime rate plus 2.25%, payable monthly.

As security, OBSI has provided a general security agreement consisting of a first charge over all present and future property.

**8. Interfund transfers**

OBSI transferred the balance in the internally restricted net assets to the unrestricted net assets, in accordance with OBSI's By-laws, as costs and expenses were incurred relating to the resignation of an OBSI industry member.

**9. Financial instruments**

OBSI regularly evaluates and manages the principal risks assumed with its financial instruments. The risks that arise from transacting in financial instruments include liquidity risk, credit risk, market risk, interest rate risk, and foreign currency risk. The following analysis provides a measure of OBSI's risk exposure and concentrations. There are no significant changes in the risk exposures from the prior period.

**Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities as they come due. OBSI is exposed to this risk mainly in respect of its accounts payable. Accounts payable are generally repaid within the credit terms.

**Credit risk**

OBSI is exposed to credit risk with respect to amounts due from members.

OBSI assesses, on a continuous basis, amounts due from members on the basis of amounts for which ultimate collection is reasonably assured based on their estimated realizable value.

OBSI is not exposed to any significant market risk, foreign currency risk, and interest rate risk at the statement of financial position date.

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**10. Commitments**

OBSI is committed under a long-term lease for premises and various equipment leases which expire at various times from July 2018 to March 2020. Minimum annual rentals (exclusive of requirement to pay taxes, insurance and maintenance costs) for each of the next three years are approximately as follows:

Year ending	October 31, 2018	\$ 295,000
	2019	259,000
	2020	83,000
		<hr/>
		\$ 637,000
		<hr/>

OBSI is committed under a long-term management software license and services agreement, an agreement for information technology services, and an agreement for human resources and financial services for each of the next three years which expire at various times from October 2018 to September 2020. Amounts for each of the next three years are as follows:

Year ending	October 31, 2018	\$ 181,000
	2019	149,000
	2020	80,000
		<hr/>
		\$ 410,000
		<hr/>