

**OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS**  
**FINANCIAL STATEMENTS**  
**OCTOBER 31, 2011**

# **OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS**

## **FINANCIAL STATEMENTS**

**OCTOBER 31, 2011**

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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 ("OBSI"), which comprise the statement of financial position as at October 31, 2011 and the statements 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 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 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 OBSI as at October 31, 2011, and results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Soberman LLP*

Chartered Accountants  
Licensed Public Accountants

Toronto, Canada  
February 8, 2012

[www.soberman.com](http://www.soberman.com)

2 St. Clair Avenue East, Suite 1100, Toronto, ON M4T 2T5  
T 416 964 7633 F 416 964 6454 Toll Free 1 866 964 7633  
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**OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS**  
**STATEMENT OF FINANCIAL POSITION**

**At October 31**

**2011**

**2010**

**ASSETS**

**Current**

Cash	\$ 1,609,122	\$ 931,684
Due from members	120,246	59,035
Accounts receivable	3,495	2,618
Prepaid expenses and sundry	43,148	39,258

**1,776,011**      1,032,595

**Equipment and leasehold improvements (Note 3)**      **373,726**      432,616

**\$ 2,149,737**      \$ 1,465,211

**LIABILITIES**

**Current**

Accounts payable and accrued charges	\$ 1,444,935	\$ 925,911
Straight-line rent payable and deferred tenant inducements	266,217	298,173

**1,711,152**      1,224,084

**Commitments (Note 5)**

**NET ASSETS**

<b>Invested in equipment and leasehold improvements</b>	<b>373,726</b>	432,616
<b>Unrestricted</b>	<b>64,859</b>	(191,489)

**438,585**      241,127

**\$ 2,149,737**      \$ 1,465,211

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

On behalf of the Board

Chair

Ombudsman and CEO

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

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	Invested in equipment and leasehold improvements	Unrestricted	<b>Total 2011</b>	Total 2010
Net assets, beginning of year	\$ 432,616	\$ (191,489)	\$ <b>241,127</b>	\$ (97,544)
Excess (deficiency) of revenues over expenses	(88,017)	285,475	<b>197,458</b>	338,671
Investment in equipment and leasehold improvements	29,127	(29,127)	-	-
Net assets, end of year	\$ 373,726	\$ 64,859	\$ <b>438,585</b>	\$ 241,127

*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>2011</b>	<b>2010</b>
<b>Revenue</b>		
Membership fees	\$ 8,599,862	\$ 7,668,402
Interest income	12,787	6,015
	<b>8,612,649</b>	<b>7,674,417</b>
<b>Expenses</b>		
Personnel ( <i>Note 6</i> )	5,830,726	5,357,004
Investment backlog project	795,673	282,851
Directors' fees and expenses	384,734	306,806
Rent and operating costs	305,169	301,364
Legal fees	175,486	137,155
Marketing and membership	171,414	111,448
External review consulting	136,639	-
Supplies and services	128,442	126,422
Information technology and support	122,830	112,197
Telephone	88,555	108,413
Corporate administrative	88,064	83,361
Other	33,006	50,569
Consultant fees	29,115	28,844
Audit fees	25,425	22,600
Insurance	11,896	18,479
Process re-engineering consulting	-	66,225
VoIP conversion	-	54,341
Website relocation	-	42,793
Enhancement to case management	-	35,000
Publication design and production	-	6,662
Amortization	88,017	83,212
	<b>8,415,191</b>	<b>7,335,746</b>
<b>Excess of revenue over expenses</b>	<b>\$ 197,458</b>	<b>\$ 338,671</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** **2011** **2010**

**SOURCES (USES) OF CASH**

**Operating activities**

Excess (deficiency) of revenues over expenses \$ **197,458** \$ 338,671

*Items not involving cash*

Amortization - capital assets **88,017** 83,212

Amortization - straight-line rent and tenant inducements **(31,956)** (32,082)

**253,519** 389,801

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

Due from members **(61,211)** (1,342)

Accounts receivable **(877)** 125,395

Prepaid expenses and sundry **(3,890)** 20,995

Accounts payable and accrued charges **519,024** (105,468)

Straight-line rent payable and deferred tenant inducements **-** 113,373

**Cash provided by operating activities** **706,565** 542,754

**Investing activity**

Acquisition of equipment and leasehold improvements **(29,127)** (76,756)

**Cash used in investing activity** **(29,127)** (76,756)

**Net increase in cash** **677,438** 465,998

**Cash, beginning of year** **931,684** 465,686

**Cash, end of year** **\$ 1,609,122** \$ 931,684

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

**OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**OCTOBER 31, 2011**

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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 Corporations Act as a non-profit organization whose objectives are to investigate unresolved complaints from customers about banks and other deposit-taking institutions, investment dealers, mutual fund dealers and mutual fund companies.

The organization is incorporated under the Canada Corporations Act as a non-profit organization and is exempt from income tax under Section 149(1)(l) of the Income Tax Act.

**2. Significant accounting policies**

**Use of estimates**

The preparation of financial statements in accordance with 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 balance sheet 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 administrative activities are reported in the unrestricted fund.

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

**Revenue recognition**

OBSI follows the deferral method of accounting for contributions.

Membership fees are recognized as revenue in the year to which the billings relate.

**Equipment and leasehold improvements**

Purchased 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% straight line
Computer equipment	-	25% straight line
Leasehold improvements	-	straight line over the term of the lease

**Leases and tenant inducements**

Rental payments under the operating lease are included in rent and operating costs in the statement of operations on a straight-line basis over the lease term. Tenant inducements are also amortized on a straight-line basis over the lease term. Unamortized amounts are included in straight-line rent payable and deferred tenant inducements.



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

**Employee future benefits**

OBSI provides three employee future benefits plans to its employees; defined contribution plan, defined benefit plan and post-retirement medical plan.

The defined benefit plan is a multi-employer plan and is accounted for following the standards on defined contribution plans. The costs of pension benefits for this plan are charged to income as incurred and included in personnel costs.

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

Current service costs under OBSI's post-retirement medical plan are charged to operations as services are rendered, based on actuarial valuations determined using the projected benefit method prorated on services and management's best estimate assumptions of the rate of return on pension plan assets, rate of salary increases and other factors including mortality rates, terminations and retirement ages.

**Future changes in accounting policies**

Accounting Standards for Not-for-Profit Organizations

In November 2010, the Accounting Standards Board (AcSB) issued a set of standards for Not-for-Profit Organizations (Part III). The framework retains the current approach of the private enterprise standards (Part II of the CICA Handbook issued December 2009) supplemented with specific standards for areas of concern to not-for-profit organizations and closely resembles the current standards with few changes. The standard is effective for fiscal years commencing on or after January 1, 2012, with early adoption permitted. Not-for-Profit organizations have the option of adopting International Financial Reporting Standards.

The OBSI plans to adopt the new Not-for-profit standards effective November 1, 2012.

**3. Equipment and leasehold improvements**

			<b>2011</b>		2010
			<b>Net</b>		Net
	Cost	Accumulated Amortization	<b>Carrying Amount</b>		Carrying Amount
Furniture and fixtures	\$ 190,646	\$ 92,226	\$ <b>98,420</b>	\$	113,254
Computer equipment	270,669	211,677	<b>58,992</b>	\$	77,599
Leasehold improvements	266,211	49,897	<b>216,314</b>	\$	241,763
	<b>\$ 727,526</b>	<b>\$ 353,800</b>	<b>\$ 373,726</b>	<b>\$</b>	<b>432,616</b>

**OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS**  
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**4. Credit facility**

OBSI's banking facility provides for a maximum operating line of credit of \$250,000 (2010 - \$250,000). Borrowings under the line of credit bear interest at the bank's prime rate plus 2.25%, payable monthly.

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

**5. Commitments**

OBSI is committed under a long-term lease for premises and various equipment leases expiring at various times from July 2012 to February 2020. Minimum annual rentals (exclusive of requirement to pay taxes, insurance and maintenance costs) for each of the next five years are approximately as follows:

Year ending October 31, 2012	\$ 254,000
2013	224,000
2014	212,000
2015	214,000
2016	211,000

**6. Employee future benefits**

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 \$86,600 (2010 - \$78,500). 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.

Effective January 1, 2009, OBSI established a new defined contribution plan. Contributions made to the defined contribution plan amounted to \$238,712 (2010 - \$185,136). Contributions for the defined contribution plan have been included in personnel costs in the statement of operations.

In addition, OBSI's eligible employees participate in the non-pension post-employment 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 projected benefit method, and bases its accounting for plan assets on its proportionate interest in the assets of the multiple employer plan. Information about OBSI's non-pension post-employment benefits is as follows:

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**6. Employee future benefits (continued)**

	2011	2010
<b>Change in benefit obligation</b>		
Benefit obligation - end of prior period	\$ 595,913	\$ 393,048
Current service cost - employer	105,914	84,521
Interest cost	40,103	31,961
Plan amendments	-	22,768
Benefits paid	(8,768)	(8,144)
Actuarial loss	68,054	71,759
	<b>\$ 801,216</b>	<b>\$ 595,915</b>
<b>Change in plan assets</b>		
Employer contributions	\$ 8,768	\$ 8,144
Benefits paid	(8,768)	(8,144)
	<b>\$ -</b>	<b>\$ -</b>
<b>Reconciliation of funded status</b>		
Funded status - deficit	\$ (801,216)	\$ (595,913)
Employer contributions after measurement date	2,192	2,036
Unamortized past service costs	20,947	22,768
Unamortized transitional obligation	19,977	23,306
Unamortized net actuarial loss	278,303	218,573
	<b>\$ (479,797)</b>	<b>\$ (329,230)</b>
<b>Components of expense</b>		
Current service cost (including provision for plan expenses)	\$ 105,914	\$ 84,521
Interest cost	40,103	31,961
Amortization of transitional obligation	3,329	3,329
Amortization of net actuarial loss	8,324	5,940
Amortization of past service costs	1,821	-
	<b>\$ 159,491</b>	<b>\$ 125,751</b>

Management's best estimate of the significant actuarial assumptions adopted in measuring OBSI's various benefit plans is noted below (weighted-average assumptions as of October 31):

	2011	2010
Discount rate	5.75%	6.75%
Expected long-term rate of return on plan assets	6.50%	6.75%
Health care trend rates	6.70% to 4.50% over 18 years	6.70% to 4.50% over 19 years
Rate of compensation increase	4%	3.75%

The most recent actuarial valuation of the pension plan for funding and accounting purposes was made as of March 31, 2009 extrapolated to July 31, 2011. The next required actuarial valuation will be as of January 1, 2012.

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**7. Capital management**

OBSI defines capital as its net assets. OBSI's objective when managing its capital is to hold sufficient unrestricted net assets to enable it to fund its major activities while maintaining a solid financial position.

**8. Financial instruments**

**Fair value**

The carrying amounts of OBSI's financial instruments, consisting of cash, due from members, accounts receivable and accounts payable and accrued charges, approximate their fair values due to their short-term nature.

**9. Comparative figures**

Certain reclassifications for the year ended October 31, 2010 have been made for the purpose of comparability.