

OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS
FINANCIAL STATEMENTS
OCTOBER 31, 2019

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Crowe Soberman | Canada

Crowe Soberman LLP

Member Crowe Global

2 St. Clair Avenue East, Suite 1100
Toronto, ON M4T 2T5

Main 416 964 7633

Fax 416 964 6454

www.crowesoberman.com

INDEPENDENT AUDITORS' REPORT

To the Members of Ombudsman for Banking Services and Investments

Opinion

We have audited the financial statements of Ombudsman for Banking Services and Investments (Organization), which comprise the statement of financial position as at October 31, 2019, and the statement of operations, changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at October 31, 2019, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Crowe Soberman LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
February 12, 2020

OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS
STATEMENT OF FINANCIAL POSITION

At October 31

2019

2018

ASSETS

Current

Cash	\$ 2,130,386	\$ 2,898,043
Term deposits	5,015,725	5,059,079
Amounts due from members	37,499	29,562
Prepaid expenses and sundry	209,771	96,541

7,393,381 8,083,225

Equipment and leasehold improvements (Note 3) **146,069** 227,981

Software (Note 4) **743,714** 727,747

Restricted term deposit (Note 5) **615,780** -

\$ 8,898,944 \$ 9,038,953

LIABILITIES

Current

Accounts payable and accrued charges	\$ 1,062,290	\$ 1,140,950
Straight-line rent payable and deferred tenant inducements (Note 6)	10,569	42,525

1,072,859 1,183,475

Net benefit obligation (Note 7) **615,780** 1,100,778

1,688,639 2,284,253

Commitments (Note 10)

NET ASSETS

Invested in capital assets **889,783** 955,728

Internally restricted (Note 5) - -

Unrestricted **6,320,522** 5,798,972

7,210,305 6,754,700

\$ 8,898,944 \$ 9,038,953

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

	Invested in capital assets	Internally restricted	Unrestricted	Total 2019	Total 2018
Net assets, beginning of year	\$ 955,728	\$ -	\$ 5,798,972	\$ 6,754,700	\$ 6,420,386
Excess (deficiency) of revenue over expenses	(211,969)	(164,030)	254,366	(121,633)	334,314
Investment in capital assets	146,024	-	(146,024)	-	-
Internally restricted fund - initial transfer of funds in <i>(Note 5)</i>	-	1,094,370	(1,094,370)	-	-
Net benefit obligation liability - initial transfer of liability in <i>(Note 5)</i>	-	(1,100,778)	1,100,778	-	-
Net benefit obligation - remeasurement <i>(Note 5)</i>	-	577,238	-	577,238	-
Interfund transfers <i>(Note 5)</i>	-	23,987	(23,987)	-	-
Rebalancing of restricted amounts for net benefit obligation <i>(Note 5)</i>	-	(430,787)	430,787	-	-
Net assets, end of year	\$ 889,783	\$ -	\$ 6,320,522	\$ 7,210,305	\$ 6,754,700

The accompanying notes are an integral part of the financial statements

OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS
STATEMENT OF OPERATIONS

Year ended October 31

2019

2018

Revenue

Membership fees	\$ 8,325,559	\$ 8,615,607
Resignation fees	257,590	59,738
Interest income	149,491	92,273
	8,732,640	8,767,618

Expenses

Personnel	6,424,971	6,071,469
Information technology and support	544,956	507,790
Rent and operating costs	426,096	412,009
Governance	417,262	439,863
Consultant fees	240,603	219,291
Corporate administration	129,722	130,478
Marketing and membership	121,472	130,087
Supplies and services	99,157	107,310
IT infrastructure risk review	79,793	22,858
Legal fees	73,053	56,196
Insurance	45,503	25,611
Audit fees	30,075	40,392
Telephone	9,641	55,198
Bad debts	-	4,667
Amortization	211,969	210,085
	8,854,273	8,433,304

Excess (deficiency) of revenue over expenses **\$ (121,633)** **\$ 334,314**

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

2019

2018

SOURCES (USES) OF CASH

Operating activities

Excess (deficiency) of revenue over expenses \$ (121,633) \$ 334,314

Items not involving cash

Amortization - equipment and leasehold improvements 123,006 132,208

Amortization - software 88,963 77,877

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

Non-cash personnel costs (Note 7) 135,664 (32,789)

194,044 479,654

Changes in non-cash working capital items

Amounts due from members (7,937) (19,189)

Prepaid expenses and sundry (113,230) 53,292

Accounts payable and accrued charges (78,660) 179,560

Cash provided by (used in) operating activities (5,783) 693,317

Investing activities

Investment in term deposits (572,426) (5,059,079)

Acquisition of equipment and leasehold improvements (41,094) (23,670)

Acquisition of software (104,930) (167,257)

Payment to benefit obligation plan (43,424) (21,188)

Prepayment of benefit obligations recovered - 854,986

Cash used in investing activities (761,874) (4,416,208)

Net decrease in cash (767,657) (3,722,891)

Cash, beginning of year 2,898,043 6,620,934

Cash, end of year \$ 2,130,386 \$ 2,898,043

The accompanying notes are an integral part of the financial statements

OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2019

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. The more subjective of such estimates is net benefit obligation. Management believes its estimates to be appropriate; however, 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, unless internally restricted. Net assets to be used for the purpose of funding the non-pension post-retirement medical plan are internally restricted by board resolution.

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

Revenue recognition

OBSI follows the deferral method of accounting for contributions.

Membership fees are recognized as revenue proportionately over 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 fiscal year they are received.

OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2019

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 the statement of operations in the period incurred.

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

Software

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
Portal software	-	5 year straight-line

Leases and deferred tenant inducements

Rental payments under operating leases and deferred tenant inducements are included in the determination of excess of revenue over expenses over the lease term on a straight-line basis.

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

OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2019

2. Significant accounting policies (continued)

Employee future benefits

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.

Since OBSI does not control the defined benefit plan, it is not possible to estimate the potential contributions that could be required to fund OBSI's proportionate share of the defined benefit plan's unfunded vested benefits. Thus, OBSI is unable to account for this plan as a defined benefit plan and uses defined contribution plan accounting instead. 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

			2019	2018
			Net	Net
	Cost	Accumulated Amortization	Carrying Amount	Carrying Amount
Furniture and fixtures	\$ 274,087	\$ 225,295	\$ 48,792	\$ 57,589
Computer equipment	410,383	363,849	46,534	70,509
Leasehold improvements	453,638	402,895	50,743	99,883
	\$ 1,138,108	\$ 992,039	\$ 146,069	\$ 227,981

Amortization expense for the year amounted to \$123,006 (2018 - \$132,208).

OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2019

4. Software

	Cost	Accumulated Amortization	2019 Net Carrying Amount	2018 Net Carrying Amount
Database software	\$ 855,003	\$ 265,455	\$ 589,548	\$ 660,902
Portal software	157,368	3,202	154,166	66,845
	\$ 1,012,371	\$ 268,657	\$ 743,714	\$ 727,747

Amortization expense for the year amounted to \$88,963 (2018 - \$77,877). Portal software was in development in the prior year and no amortization was taken until available for use in the current year.

5. Interfund transfers

On January 31, 2019, the Board of Directors passed a resolution to create an internally restricted fund for purposes of funding the post-retirement medical plan. The Board restricted \$1,094,370 of term deposits and interest earned on these funds. The internally restricted balance is adjusted at the end of each fiscal year to agree to the balance of the net benefit obligation.

During the year, the following occurred:

- \$23,987 was transferred from the unrestricted fund to pay for benefit obligation amounts;
- The net benefit obligation was remeasured in the year, resulting in a reduction to the net benefit obligation of \$577,238 (refer to Note 7); and
- The internally restricted fund was reduced by \$430,787 at the end of the fiscal year to agree to the net benefit obligation balance at year end of \$615,780.

6. Straight-line rent payable and deferred tenant inducements

	Tenant inducements	Reduced rent benefits	2019 Net	2018 Net
Balance, beginning of year	\$ 21,538	\$ 20,987	\$ 42,525	\$ 74,481
Amortization	(16,155)	(15,801)	(31,956)	(31,956)
	\$ 5,383	\$ 5,186	\$ 10,569	\$ 42,525

OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS
NOTES TO FINANCIAL STATEMENTS
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7. 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 \$60,800 (2018 - \$57,100). 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 \$306,069 (2018 - \$315,516). OBSI's employer contributions to the defined contribution plan of \$157,113 (2018 - \$157,407) have been included in personnel costs in the statement of operations.

In addition, OBSI's eligible employees participate in the non-pension post-retirement 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. Net costs recognized during the year are \$179,088 (2018 - \$164,733), which are included in personnel costs in the statement of operations. This includes direct payments by OBSI of \$43,424 (2018 - \$21,188).

The actuarial determination of the accrued benefit obligation for the post-retirement medical 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 plan for funding purposes was as of June 1, 2018. During the year, plan eligibility for OBSI was modified to curtail benefits for anyone not reaching age 55 with 10 years of service by October 31, 2021. The net benefit obligation remeasurement of \$577,238 in the statement of changes in net assets reflects the impact of the curtailment.

8. Credit facility

OBSI's banking facility provides for a maximum operating line of credit of \$500,000 (2018 - \$230,000). Borrowings under the line of credit bear interest at the bank's prime rate (3.95%), payable monthly. As security, OBSI has provided a general security agreement consisting of a first charge over all present and future property.

OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2019

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 and accrued charges. Accounts payable and accrued charges are generally repaid within the credit terms. OBSI considers that it has sufficient funds available to meet its obligations as they come do.

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

10. Commitments

OBSI is committed under a long-term lease for premises and various equipment leases which expire at various times from February 2020 to February 2030. Minimum annual rentals (exclusive of requirement to pay taxes, insurance and maintenance costs) for each of the next five years, and thereafter, are approximately as follows:

Year ending October 31, 2020	\$ 329,000
2021	373,700
2022	373,700
2023	384,600
2024	389,000
Thereafter	2,097,300
	<hr/>
	\$ 3,947,300

OBSI is committed under an agreement for information technology services, and an agreement for telecommunications services for each of the next two years which expire at various times from October 2020 to October 2021. Amounts for each of the next two years are as follows:

Year ending October 31, 2020	\$ 140,100
2021	33,200
	<hr/>
	\$ 173,300