

OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS
FINANCIAL STATEMENTS
OCTOBER 31, 2013

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INDEPENDENT AUDITORS' REPORT

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, 2013, 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, 2013, 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 11, 2014

OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS
STATEMENT OF FINANCIAL POSITION

At October 31

2013

2012

ASSETS

Current

Cash	\$ 2,071,783	\$ 1,419,686
Amounts due from members	92,509	24,153
Prepaid expenses and sundry	37,669	36,916
Accounts receivable	-	21,499

2,201,961 1,502,254

Equipment and leasehold improvements (Note 3)

371,024 321,959

\$ 2,572,985 \$ 1,824,213

LIABILITIES

Current

Accounts payable and accrued charges	\$ 793,533	\$ 1,137,395
Straight-line rent payable and deferred tenant inducements (Note 5)	202,305	234,261

995,838 1,371,656

Net benefit obligation (Note 6)

199,086 67,546

1,194,924 1,439,202

Commitments (Note 9)

NET ASSETS

Invested in equipment and leasehold improvements	371,024	321,959
Internally restricted (Note 7)	57,141	-
Unrestricted	949,896	63,052

1,378,061 385,011

\$ 2,572,985 \$ 1,824,213

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 equipment and leasehold improvements	Internally restricted net assets	Unrestricted	Total 2013	Total 2012
Net assets, beginning of year	\$ 321,959	\$ -	\$ 63,052	\$ 385,011	\$ 384,963
Excess (deficiency) of revenues over expenses	(114,987)	-	1,108,037	993,050	48
Investment in equipment and leasehold improvements	164,052	-	(164,052)	-	-
Interfund transfer (<i>Note 7</i>)	-	57,141	(57,141)	-	-
Net assets, end of year	\$ 371,024	\$ 57,141	\$ 949,896	\$ 1,378,061	\$ 385,011

The accompanying notes are an integral part of the financial statements

OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS
STATEMENT OF OPERATIONS

Year ended October 31	2013	2012
Revenue		
Membership fees	\$ 7,965,906	\$ 7,800,221
Interest income	23,481	11,797
	7,989,387	7,812,018
Expenses		
Personnel	5,446,554	5,792,229
Governance	298,875	844,271
Rent and operating costs	298,202	313,372
Information technology and support	142,613	117,727
Legal fees	126,872	155,059
Consultant fees	120,469	23,424
Corporate administration	111,381	115,806
Supplies and services	106,644	119,828
Marketing and membership	102,137	136,940
Telephone	74,588	85,004
Audit fees	46,387	26,725
Insurance	12,847	11,891
Recovery of other expenses	(3,105)	(10,273)
Amortization	111,873	79,967
	6,996,337	7,811,970
Excess of revenue over expenses	\$ 993,050	\$ 48

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 **2013** **2012**

SOURCES (USES) OF CASH

Operating activities

Excess of revenues over expenses \$ **993,050** \$ 48

Items not involving cash

Amortization - equipment and leasehold improvements **111,873** 79,967

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

Net benefit obligation **131,540** 13,924

Loss on disposal of equipment and leasehold improvements **3,114** -

1,207,621 61,983

Changes in non-cash working capital items

Amounts due from members **(68,356)** 96,093

Prepaid expenses and sundry **(753)** 6,232

Accounts receivable **21,499** (18,004)

Accounts payable and accrued charges **(343,862)** (307,540)

Cash provided by (used in) operating activities **816,149** (161,236)

Investing activity

Acquisition of equipment and leasehold improvements **(164,052)** (28,200)

Cash used in investing activity **(164,052)** (28,200)

Net increase (decrease) in cash **652,097** (189,436)

Cash, beginning of year **1,419,686** 1,609,122

Cash, end of year **\$ 2,071,783** \$ 1,419,686

The accompanying notes are an integral part of the financial statements

OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2013

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.

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

The internally restricted fund accounts for the funds restricted by the Board for future restructuring costs of the Organization.

Revenue recognition

Ombudsman for Banking Services and Investments follows the deferral method of accounting for contributions.

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

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 assets and financial liabilities at amortized cost using the effective interest rate method.

Financial assets measured at amortized cost include cash and amounts due from members.

Financial liabilities measured at amortized cost include accounts payable.

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 deferred tenant inducements

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

OBSI recognizes rental expenses using the straightline 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 inducement.

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. The actuarial determination of the accrued benefit obligations 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 November 15, 2013.

3. Equipment and leasehold improvements

			2013 Net Carrying Amount	2012 Net Carrying Amount
	Cost	Accumulated Amortization		
Furniture and fixtures	\$ 204,428	\$ 129,788	\$ 74,640	\$ 80,924
Computer equipment	216,602	87,496	129,106	46,747
Leasehold improvements	268,684	101,406	167,278	194,288
	\$ 689,714	\$ 318,690	\$ 371,024	\$ 321,959

Amortization expense for the year amounted to \$111,873 (2012 - \$79,967).

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4. Credit facility

OBSI's banking facility provides for a maximum operating line of credit of \$230,000 (2012 - \$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.

5. Straight-line rent payable and deferred tenant inducements

	Tenant Inducements	Reduced Rent Benefits	2013 Net	2012 Net
Balance, beginning of year	\$ 118,468	\$ 115,793	\$ 234,261	\$ 266,217
Amortization	(16,155)	(15,801)	(31,956)	(31,956)
	\$ 102,313	\$ 99,992	\$ 202,305	\$ 234,261

OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS
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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 \$90,700 (2012 - \$92,000). 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.

Contributions made to the defined contribution plan amounted to \$313,884 (2012 - \$253,519). 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 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 \$131,540 (2012 - \$197,182).

	2013	2012
Accrued benefit obligation	\$ (845,524)	\$ (724,897)
Fair value of plan assets	-	-
Prepayment to other participating organization	646,438	657,351
Net plan deficit, end of year	\$ (199,086)	\$ (67,546)

7. Interfund transfers and internally restricted fund balances

For the year 2013, the Board of Directors of the Organization approved a transfer of \$57,141 from the unrestricted funds to the internally restricted funds. These internally restricted funds have been designated for future restructuring costs.

OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS
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8. 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 at the statement of financial position date. 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. OBSI is exposed to this risk mainly in respect of its accounts payable. Accounts payable are generally paid 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.

9. Commitments

OBSI is committed under a long-term lease for premises and various equipment leases which expire at various times from July 2014 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, 2014	\$ 257,000
	2015	240,000
	2016	218,000
	2017	215,000
	2018	217,000
	Thereafter	277,000
		<hr/>
		\$ 1,424,000
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10. Comparative figures

Certain reclassifications for the year ended October 31, 2012 have been made for the purpose of comparability.