

**OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS**  
**FINANCIAL STATEMENTS**  
**OCTOBER 31, 2018**

# **OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS**

## **FINANCIAL STATEMENTS**

**OCTOBER 31, 2018**

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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, 2018, 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, 2018, 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, 2019

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

**At October 31**

**2018**

**2017**

**ASSETS**

**Current**

Cash and cash equivalents	\$ 2,898,043	\$ 6,620,934
Term deposits	5,059,079	-
Amounts due from members	29,562	10,373
Prepaid expenses and sundry	96,541	149,833

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**8,083,225**      6,781,140

**Equipment and leasehold improvements (Note 3)** 227,981      336,519

**Software (Note 4)** 727,747      638,367

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**\$ 9,038,953**      \$ 7,756,026

**LIABILITIES**

**Current**

Accounts payable and accrued charges	\$ 1,140,950	\$ 961,390
Straight-line rent payable and deferred tenant inducements (Note 5)	42,525	74,481

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**1,183,475**      1,035,871

**Net benefit obligation (Note 6)** 1,100,778      299,769

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**2,284,253**      1,335,640

**Commitments (Note 9)**

**NET ASSETS**

**Invested in capital assets** 955,728      974,886

**Unrestricted** 5,798,972      5,445,500

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**6,754,700**      6,420,386

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**\$ 9,038,953**      \$ 7,756,026

*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	Unrestricted	<b>Total 2018</b>	Total 2017
Net assets, beginning of year	\$ 974,886	\$ 5,445,500	<b>\$ 6,420,386</b>	\$ 5,611,575
Excess (deficiency) of revenues over expenses	(210,085)	544,399	<b>334,314</b>	808,811
Investment in capital assets	190,927	(190,927)	-	-
Net assets, end of year	\$ 955,728	\$ 5,798,972	<b>\$ 6,754,700</b>	\$ 6,420,386

*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>2018</b>	<b>2017</b>
<b>Revenue</b>		
Membership fees	\$ 8,615,607	\$ 8,961,098
Interest income	92,273	68,934
Resignation fees	59,738	-
	<b>8,767,618</b>	<b>9,030,032</b>
<b>Expenses</b>		
Personnel	6,071,469	6,229,002
Information technology and support	507,790	396,647
Governance	439,863	395,022
Rent and operating costs	412,009	423,689
Consultant fees	219,291	9,065
Corporate administration	130,478	151,838
Marketing and membership	130,087	130,913
Supplies and services	107,310	88,734
Legal fees	56,196	36,236
Telephone	55,198	46,941
Audit fees	40,392	38,420
Insurance	25,611	13,873
IT infrastructure risk review	22,858	58,893
Bad debts	4,667	-
Amortization	210,085	201,948
	<b>8,433,304</b>	<b>8,221,221</b>
<b>Excess of revenue over expenses</b>	<b>\$ 334,314</b>	<b>\$ 808,811</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**

**2018**

**2017**

**SOURCES (USES) OF CASH**

**Operating activities**

Excess of revenues over expenses \$ 334,314 \$ 808,811

*Items not involving cash*

Amortization - equipment and leasehold improvements 132,208 129,946

Amortization - software 77,877 72,002

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

Net benefit obligation (Note 6) (53,977) 134,206

458,466 1,113,009

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

Amounts due from members (19,189) 26,039

Prepaid expenses and sundry 53,292 (66,375)

Accounts payable and accrued charges 179,560 (112,077)

Straight-line rent payable and deferred tenant inducements - (404,307)

**Cash provided by operating activities** 672,129 556,289

**Investing activities**

Investment in term deposits (5,059,079) -

Acquisition of equipment and leasehold improvements (23,670) (99,167)

Acquisition of software (167,257) (24,642)

Prepayment of benefit obligations recovered 854,986 -

**Cash used in investing activities** (4,395,020) (123,809)

**Net increase (decrease) in cash** (3,722,891) 432,480

**Cash and cash equivalents, beginning of year** 6,620,934 6,188,454

**Cash and cash equivalents, end of year** \$ 2,898,043 \$ 6,620,934

**Represented by:**

Cash \$ 2,898,043 \$ 895,731

High interest savings account - 5,725,203

**\$ 2,898,043 \$ 6,620,934**

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

**OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**OCTOBER 31, 2018**

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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, 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**  
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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 the statement of operations 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

**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
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Portal software in development is not available for use, therefore no amortization has been recorded.

**Leases and deferred tenant inducements**

Rental payments under operating leases 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**  
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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.

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**

			<b>2018</b>		2017
			<b>Net</b>		<b>Net</b>
	Cost	Accumulated Amortization	<b>Carrying Amount</b>		Carrying Amount
Furniture and fixtures	\$ 274,087	\$ 216,498	<b>\$ 57,589</b>	\$	74,835
Computer equipment	395,374	324,865	<b>70,509</b>	\$	86,585
Leasehold improvements	427,553	327,670	<b>99,883</b>	\$	175,099
	<b>\$ 1,097,014</b>	<b>\$ 869,033</b>	<b>\$ 227,981</b>	<b>\$</b>	<b>336,519</b>

Amortization expense for the year amounted to \$132,208 (2017 - \$129,946).

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**4. Software**

	Cost	Accumulated Amortization	2018 Net Carrying Amount	2017 Net Carrying Amount
Database software	\$ 840,596	\$ 179,694	\$ 660,902	\$ 638,367
Portal software in development	66,845	-	66,845	-
	\$ 907,441	\$ 179,694	\$ 727,747	\$ 638,367

Amortization expense for the year amounted to \$77,877 (2017 - \$72,002).

**5. Straight-line rent payable and deferred tenant inducements**

	Tenant inducements	Reduced rent benefits	2018 Net	2017 Net
Balance, beginning of year	\$ 37,693	\$ 36,788	\$ 74,481	\$ 106,437
Amortization	(16,155)	(15,801)	(31,956)	(31,956)
	\$ 21,538	\$ 20,987	\$ 42,525	\$ 74,481

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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 \$57,100 (2017 - \$52,400). 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 \$315,516 (2017 - \$310,776). OBSI's employer contributions to the defined contribution plan of \$157,407 (2017 - \$156,952) 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 (gains) recognized during the year are \$(41,798) (2017 - \$146,747), which are included in personnel costs in the statement of operations.

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 October 31 2018.

	<b>2018</b>	2017
Accrued benefit obligation	<b>\$ (1,100,778)</b>	\$ (1,163,764)
Prepayment to other participating organization	-	863,995
<b>Plan deficit, end of year</b>	<b>\$ (1,100,778)</b>	<b>\$ (299,769)</b>

During the year, the prepayment of funds to the other participating organization was returned to OBSI.

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

OBSI's banking facility provides for a maximum operating line of credit of \$230,000 (2017 - \$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. 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.

**OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS**  
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**9. Commitments**

OBSI is committed under a long-term lease for premises and various equipment leases which expire at various times from April 2019 to December 2023. 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, 2019	\$ 279,800
2020	100,500
2021	1,000
2022	1,000
2023	1,000
Thereafter	200
	<hr/>
	\$ 383,500

OBSI is committed under a long-term management software license and services agreement, an agreement for information technology services, and an agreement for telecommunications services for each of the next three years which expire at various times from October 2019 to October 2021. Amounts for each of the next three years are as follows:

Year ending October 31, 2019	\$ 182,200
2020	140,100
2021	33,200
	<hr/>
	\$ 355,500