

OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS
FINANCIAL STATEMENTS
OCTOBER 31, 2016

OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS

FINANCIAL STATEMENTS

OCTOBER 31, 2016

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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, 2016, 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, 2016, 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 21, 2017

OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS
STATEMENT OF FINANCIAL POSITION

At October 31

2016

2015

ASSETS

Current

Cash and cash equivalents	\$ 6,188,454	\$ 4,621,482
Amounts due from members	36,412	111,080
Prepaid expenses and sundry	83,458	62,781

6,308,324 4,795,343

Equipment and leasehold improvements (Note 3)	367,298	228,471
Database software (Note 4)	685,727	-
Database software under development (Note 4)	-	386,943
Net benefit asset (Note 5)	-	12,374

\$ 7,361,349 \$ 5,423,131

LIABILITIES

Current

Accounts payable and accrued charges	\$ 1,073,467	\$ 1,026,469
Deferred revenue	404,307	654,593
Straight-line rent payable and deferred tenant inducements (Note 6)	106,437	138,393

1,584,211 1,819,455

Net benefit obligation (Note 5)	165,563	-
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1,749,774 1,819,455

Commitments (Note 9)

NET ASSETS

Invested in capital assets	1,053,025	615,414
Internally restricted	58,641	58,641
Unrestricted	4,499,909	2,929,621

5,611,575 3,603,676

\$ 7,361,349 \$ 5,423,131

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 net assets	Unrestricted	Total 2016	Total 2015
Net assets, beginning of year	\$ 615,414	\$ 58,641	\$ 2,929,621	\$ 3,603,676	\$ 1,524,046
Excess (deficiency) of revenues over expenses	(139,019)	-	2,146,918	2,007,899	2,079,630
Investment in capital assets	576,630	-	(576,630)	-	-
Net assets, end of year	\$ 1,053,025	\$ 58,641	\$ 4,499,909	\$ 5,611,575	\$ 3,603,676

The accompanying notes are an integral part of the financial statements

OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS
STATEMENT OF OPERATIONS

Year ended October 31	2016	2015
Revenue		
Membership fees	\$ 9,414,561	\$ 9,499,729
Interest income	59,369	48,653
	9,473,930	9,548,382
Expenses		
Personnel	5,636,731	5,873,981
Governance	336,086	390,574
Rent and operating costs	313,504	317,046
Information technology and support	244,095	194,941
Corporate administration	136,948	139,241
Marketing and membership	131,363	136,833
External review consulting	107,946	-
Supplies and services	105,347	110,318
Consultant fees	99,248	4,441
IT infrastructure risk review	62,863	-
Legal fees	50,707	70,279
Telephone	50,337	67,911
Audit fees	36,160	36,160
Insurance	12,948	13,419
Miscellaneous expense	2,730	15,633
Process innovation	-	452
Amortization	139,018	97,523
	7,466,031	7,468,752
Excess of revenue over expenses	\$ 2,007,899	\$ 2,079,630

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

2016

2015

SOURCES (USES) OF CASH

Operating activities

Excess of revenues over expenses **\$ 2,007,899** \$ 2,079,630

Items not involving cash

Amortization - equipment and leasehold improvements **109,204** 97,523

Amortization - database software **29,814** -

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

Net benefit asset/obligation (Note 5) **177,937** (217,605)

Loss on disposal of equipment and leasehold improvements - 1,236

2,292,898 1,928,828

Changes in non-cash working capital items

Amounts due from members **74,668** (83,957)

Prepaid expenses and sundry **(20,677)** 1,201

Accounts payable and accrued charges **46,999** (64,836)

Deferred revenue **(250,286)** (299,626)

Cash provided by operating activities **2,143,602** 1,481,610

Investing activities

Acquisition of equipment and leasehold improvements **(248,032)** (35,776)

Acquisition of database software **(328,598)** (386,943)

Proceeds on sale of short-term investments - 1,750,000

Cash provided by (used in) investing activities **(576,630)** 1,327,281

Net increase in cash and cash equivalents **1,566,972** 2,808,891

Cash and cash equivalents, beginning of year **4,621,482** 1,812,591

Cash and cash equivalents, end of year **\$ 6,188,454** \$ 4,621,482

Represented by:

High interest savings account **\$ 5,268,387** \$ 3,274,297

Cash **920,067** 1,347,185

\$ 6,188,454 \$ 4,621,482

The accompanying notes are an integral part of the financial statements

OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2016

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 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
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2016

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
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2016

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 June 1, 2015.

3. Equipment and leasehold improvements

	Cost	Accumulated Amortization	2016 Net Carrying Amount	2015 Net Carrying Amount
Furniture and fixtures	\$ 248,148	\$ 181,466	\$ 66,682	\$ 42,248
Computer equipment	298,477	243,049	55,428	70,455
Leasehold improvements	427,553	182,365	245,188	115,768
	\$ 974,178	\$ 606,880	\$ 367,298	\$ 228,471

Amortization expense for the year amounted to \$109,204 (2015 - \$97,523).

4. Database software

	Cost	Accumulated Amortization	2016 Net Carrying Amount	2015 Net Carrying Amount
Database software	\$ 715,541	\$ 29,814	\$ 685,727	\$ 386,943

The software was under development in fiscal 2015 and was available for use in fiscal 2016.

Amortization expense for the year amounted to \$29,814 (2015 - \$Nil).

OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS
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5. 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 \$86,000 (2015 - \$67,400). 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 \$275,927 (2015 - \$252,348). OBSI's employer contributions to the defined contribution plan of \$135,291 (2015 - \$136,148) 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 (recoveries) recognized during the year are \$192,094 (2015 - (\$202,723)), which are included in personnel costs in the statement of operations.

	2016	2015
Accrued benefit obligation	\$ (1,038,571)	\$ (868,156)
Fair value of plan assets	-	-
Prepayment to other participating organization	873,008	880,530
Plan surplus (deficit), end of year	\$ (165,563)	\$ 12,374

6. Straight-line rent payable and deferred tenant inducements

	Tenant Inducements	Reduced Rent Benefits	2016 Net	2015 Net
Balance, beginning of year	\$ 70,003	\$ 68,390	\$ 138,393	\$ 170,349
Amortization	(16,155)	(15,801)	(31,956)	(31,956)
	\$ 53,848	\$ 52,589	\$ 106,437	\$ 138,393

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7. Credit facility

OBSI's banking facility provides for a maximum operating line of credit of \$230,000 (2015 - \$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.

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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 2017 to March 2020. Minimum annual rentals (exclusive of requirement to pay taxes, insurance and maintenance costs) for each of the next four years are approximately as follows:

Year ending	October 31, 2017	\$ 331,000
	2018	309,000
	2019	288,000
	2020	83,000
		<hr/>
		\$ 1,011,000
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OBSI is committed under a services agreement for an independent review of its information technology and infrastructure security of which \$29,000 has yet to be incurred. This project is expected to be completed within the next fiscal year.

OBSI is committed under an agreement for human resources and financial services in the amount of \$34,000 for the next fiscal year.