

**OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS**  
**FINANCIAL STATEMENTS**  
**OCTOBER 31, 2012**

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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 statements of financial position as at October 31, 2012, October 31, 2011 and November 1, 2010 and the statements of operations, changes in net assets and cash flows for the years ended October 31, 2012 and October 31, 2011, 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 audits. We conducted our audits 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 in our audits 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, 2012, October 31, 2011 and November 1, 2010, and the results of its operations and its cash flows for the years ended October 31, 2012 and October 31, 2011 in accordance with Canadian accounting standards for not-for-profit organizations..

*Crowe Soberman LLP*

Chartered Accountants  
Licensed Public Accountants

Toronto, Canada  
February 6, 2013

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

<b>At</b>	<b>October 31, 2012</b>	October 31, 2011	November 1, 2010
<b>ASSETS</b>			
<b>Current</b>			
Cash	\$ 1,419,686	\$ 1,609,122	\$ 931,684
Due from members	24,153	120,246	59,035
Accounts receivable	21,499	3,495	2,618
Prepaid expenses and sundry	36,916	43,148	39,258
	<b>1,502,254</b>	1,776,011	1,032,595
<b>Equipment and leasehold improvements (Note 3)</b>	<b>321,959</b>	373,726	432,616
	<b>\$ 1,824,213</b>	\$ 2,149,737	\$ 1,465,211
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued charges	\$ 1,137,395	\$ 1,444,935	\$ 925,911
Straight-line rent payable and deferred tenant inducements	234,261	266,217	298,173
	<b>1,371,656</b>	1,711,152	1,224,084
<b>Net benefit obligation (Note 5)</b>	<b>67,546</b>	53,622	75,737
	<b>1,439,202</b>	1,764,774	1,299,821
<b>Commitments (Note 7)</b>			
<b>NET ASSETS</b>			
<b>Invested in equipment and leasehold improvements</b>	<b>321,959</b>	373,726	432,616
<b>Unrestricted</b>	<b>63,052</b>	11,237	(267,226)
	<b>385,011</b>	384,963	165,390
	<b>\$ 1,824,213</b>	\$ 2,149,737	\$ 1,465,211

*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 equipment and leasehold improvements	Unrestricted	<b>Total 2012</b>	Total 2011
Net assets, beginning of year	\$ 373,726	\$ 11,237	<b>\$ 384,963</b>	\$ 165,390
Deficiency of revenues over expenses	(79,967)	80,015	<b>48</b>	219,573
Investment in equipment and leasehold improvements	28,200	(28,200)	-	-
Net assets, end of year	\$ 321,959	\$ 63,052	<b>\$ 385,011</b>	\$ 384,963

*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>2012</b>	<b>2011</b>
<b>Revenue</b>		
Membership fees	\$ 7,800,221	\$ 8,599,862
Interest income	11,797	12,787
	<b>7,812,018</b>	<b>8,612,649</b>
<b>Expenses</b>		
Personnel	5,792,229	5,808,611
Directors' fees and expenses	844,271	384,734
Rent and operating costs	313,372	305,169
Legal fees	155,059	175,486
Marketing and membership	136,940	171,414
Supplies and services	119,828	128,442
Information technology and support	117,727	122,830
Corporate administrative	115,806	88,064
Telephone	85,004	88,555
Audit fees	26,725	25,425
Consultant fees	23,424	29,115
Insurance	11,891	11,896
Investment backlog project	-	795,673
External review consulting	-	136,639
Other (recovery)	(10,273)	33,006
Amortization	79,967	88,017
	<b>7,811,970</b>	<b>8,393,076</b>
<b>Excess of revenue over expenses</b>	<b>\$ 48</b>	<b>\$ 219,573</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** **2012** **2011**

**SOURCES (USES) OF CASH**

**Operating activities**

Excess (deficiency) of revenues over expenses \$ **48** \$ 219,573

*Items not involving cash*

Amortization - equipment and leasehold improvements **79,967** 88,017

Amortization - straight-line rent and tenant inducements **(31,957)** (31,956)

**48,058** 275,634

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

Due from members **96,093** (61,211)

Accounts receivable **(18,004)** (877)

Prepaid expenses and sundry **6,232** (3,890)

Accounts payable and accrued charges **(307,539)** 519,024

**Cash provided by (used in) operating activities** **(175,160)** 728,680

**Investing activity**

Acquisition of equipment and leasehold improvements **(28,200)** (29,127)

**Cash used in investing activity** **(28,200)** (29,127)

**Financing activities**

Net benefit obligation **13,924** (22,115)

**Cash provided by (used in) financing activities** **13,924** (22,115)

**Net increase (decrease) in cash** **(189,436)** 677,438

**Cash, beginning of year** **1,609,122** 931,684

**Cash, end of year** **\$ 1,419,686** \$ 1,609,122

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

**OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**OCTOBER 31, 2012**

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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)(1) of the Income Tax Act.

**2. Summary of accounting policies**

**Adoption of accounting standards for not-for-profit organizations**

Effective November 1, 2011, OBSI adopted the requirements of the Canadian Institute of Chartered Accountants (CICA) Handbook - Accounting, electing to adopt the new accounting framework: Canadian accounting standards for not-for-profit organizations (ASNFPO). These are OBSI's first financial statements prepared in accordance with ASNFPO and the transitional provisions of Section 1501, First-time Adoption for Not-for-Profit Organizations have been applied. Section 1501 requires retrospective application of the accounting standards with certain elective exemptions and limited retrospective exceptions. The accounting policies set out below have been applied in preparing the financial statements for the year ended October 31, 2012, the comparative information presented in these financial statements for the year ended October 31, 2011 and in the preparation of an opening ASNFPO statement of financial position at November 1, 2010 (OBSI's date of transition).

The October 31, 2011 financial statements were issued using the pre-changeover generally accepted accounting principles. As permitted by Section 1501, OBSI has elected the following exemptions under ASNFPO:

Employee future benefits: to recognize all accumulated actuarial gains and losses and past service costs in opening net assets at the date of transition.



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**2. Summary of accounting policies (continued)**

The adoption of ASNFPPO results in adjustments to the previously reported assets, liabilities, fund balances and earnings of OBSI. Accordingly, the effect of adopting ASNFPPO retrospectively are as follows:

	October 31, 2011	November 1, 2010
Net assets, as reported in accordance with the pre-changeover generally accepted accounting principles	\$ 438,585	\$ 241,127
Adjustments for post-retirement medical plan accounted for using the immediate recognition method rather than deferral and amortize method; recognize \$128,608 additional post-retirement medical costs for the year, representing the change in the plan obligation and the fair value of the plan assets, net of plan contributions during the year	(535,631)	(407,023)
Prior period adjustments (A)	482,009	331,286
<b>Net assets, as reported in accordance with ASNFPPO</b>	<b>\$ 384,963</b>	<b>\$ 165,390</b>

Excess of revenues over expenses reconciliation:	October 31, 2011	
Excess of revenues over expenses as reported under the pre-changeover generally accepted accounting principles	\$	197,458
Adjustments for post-retirement medical plan		(128,608)
Prior period adjustments (A)		150,723
<b>Excess of revenues over expenses, as reported in accordance with ASNFPPO</b>	<b>\$</b>	<b>219,573</b>

As the result of these changes, OBSI's previously reported cash flows were affected as follows:

	October 31, 2011	
Operating activities	\$	(128,608)
Financing activities		128,608

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**2. Summary of accounting policies** *(continued)*

**(A) Prior period adjustments**

In 2010 and 2011, contributions towards future pension obligations were understated by \$331,286 and \$482,009 respectively as the financial statements did not reflect prepayments made to the other organization participating in the plan for future pension obligations. The opening net asset balances as of November 1, 2010 and October 31, 2011 have been adjusted by \$331,286 and \$482,009 respectively and excess revenues over expenses for 2011 has been adjusted by \$150,723.

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 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**

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

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

**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, due from members, and accounts receivable.

Financial liabilities measured at amortized cost include accounts payable and accrued charges and benefit obligation.

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**2. Summary of accounting policies (continued)**

**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. Unamortized amounts are included in straight-line rent payable and deferred tenant inducements.

**Pension costs and obligations**

OBSI provides three employee future benefit plans to its employees: 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 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.

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 January 23, 2013.

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**3. Equipment and leasehold improvements**

			<b>2012</b>		2011
		Accumulated	Net		Net
	Cost	Amortization	Carrying	Carrying	Carrying
			Amount		Amount
Furniture and fixtures	\$ 192,139	\$ 111,215	\$ <b>80,924</b>	\$	98,420
Computer equipment	294,903	248,156	<b>46,747</b>		58,992
Leasehold improvements	268,684	74,396	<b>194,288</b>		216,314
	<b>\$ 755,726</b>	<b>\$ 433,767</b>	<b>\$ 321,959</b>	<b>\$</b>	<b>373,726</b>

Amortization expense for the year amounted to \$79,967 (2011 - \$88,017).

**4. Credit facility**

OBSI's banking facility provides for a maximum operating line of credit of \$250,000 (2011 - \$250,000).

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.

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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 \$92,000 (2011 - \$86,600). 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 \$253,519 (2011 - \$238,712). 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 \$197,182 (2011 - \$136,701).

	<b>2012</b>	2011
Accrued benefit obligation	\$ (724,897)	\$ (535,631)
Fair value of plan assets	-	-
Prepayment to other participating organization	<b>657,351</b>	482,009
Net plan deficit, end of year	<b>\$ (67,546)</b>	\$ (53,622)

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**6. 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 repaid within the credit terms.

**Credit risk**

OBSI is exposed to credit risk with respect to due from members and accounts receivable.

OBSI assesses, on a continuous basis, due from members and accounts receivable 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.

**7. Commitments**

OBSI is committed under a long-term lease for premises and various equipment leases which expire at various times from May 2013 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, 2013	\$ 232,000
	2014	221,000
	2015	227,000
	2016	218,000
	2017	215,000
	Thereafter	494,000
		<hr/>
		\$ 1,607,000
		<hr/>

**8. Comparative figures**

Certain reclassifications for the year ended October 31, 2011 have been made for the purpose of comparability.