

2018 ANNUAL TRUST
ACCOUNT REPORT



WHEN IT COMES TO ELECTRONIC PAYMENTS
TRUST THE NUMBERS

A message from the President and Chairman

We are pleased to provide our Auditor's Report of our Telpay Incorporated Trust Account as at April 30, 2018. We continue to follow the same procedures that have enabled us to provide 33 years of payment services to our customers. We also continue to offer innovative, cost-effective services to individuals, businesses, and financial institutions throughout Canada.

We thank you for your patronage and the confidence you place in Telpay.

Sincerely,

TELPAY INCORPORATED



Howard W. Loewen, BASc, MMath
Chairman



W.H. Loewen, CM, OM, FCA
President, Founder & Hon. Director

Front Cover:

Cover photo shows an interior detail of the heritage building which Telpay occupies. The building was built for a trust company with security requirements that served them then and Telpay now.

EVOLUTION OF BILL PAYMENTS

In the not-so-distant past, the Post Office and the bank provided the system to get payments from the bill payer to the biller. A separate arrangement between the bill payer and the biller ensured that the biller could properly apply the payment to the accounts receivable items being paid. Often that just required the bill payer to include with the cheque a "turn around document", such as a portion of the monthly statement or copies of the invoices being paid.

Today, the expectation is that all payments can be made electronically, but doing so in a manner that is as efficient as the past systems is not always provided. Most systems will provide an account number but do not necessarily ensure its accuracy. Large volume billers will accept consolidated payment files in a form that can be easily fed into their accounts receivable system. They resist or refuse individual payments that have to be processed one by one and reconciled with their bank statements. Most systems do not provide for notifying which invoices are being paid, making it difficult to determine what invoices are still outstanding.

To meet these added demands, Telpay has expanded its system to provide the added features required by all billers, but particularly those requiring extra information, such as invoice numbers as well as account numbers.

In 2000, Telpay began the process of expanding its service offering to include all the requirements a biller might require. It involved a very large expansion of our biller list and the options that gave us the flexibility to meet the needs of each biller. Though we still have much to do to achieve the ultimate in efficiency and controls required by billers, we have a sound foundation on which to build the "ultimate bill payment service."

Small volume billers are not yet being serviced efficiently by electronic bill payment services. Soon we will introduce a system whereby billers can make it much easier to pay their bills. With that in place, we hope to deliver to the low volume billers the efficiencies we already deliver to high volume billers. Then we will truly have the "ultimate bill payment system."



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INDEPENDENT AUDITOR'S REPORT

To the Directors of Telpay Incorporated - Trust Account

We have audited the accompanying financial statements of Telpay Incorporated - Trust Account, which comprise the balance sheet as at April 30, 2018, 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 private enterprises, 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.

Auditor's 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 auditor's 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 Telpay Incorporated - Trust Account as at April 30, 2018 in accordance with Canadian accounting standards for private enterprises.

Winnipeg, Manitoba
July 20, 2018

BDO Canada LLP
Chartered Professional Accountants

Telpay Incorporated Trust Account

Balance Sheet April 30, 2018

	2018	2017
ASSETS		
CURRENT		
Cash and short term deposits	<u>\$35,701,513</u>	<u>\$29,787,871</u>
Liabilities and Directors' Equity		
CURRENT		
Client funds obligations	<u>\$35,701,513</u>	<u>\$29,787,871</u>

ON BEHALF OF THE BOARD



Director



Director

The accompanying notes are an integral part of these financial statements.

Telpay Incorporated Trust Account

Notes to Financial Statements for the Year Ending April 30, 2018

1. DESCRIPTION OF OPERATIONS

The company provides electronic bill payment and automated banking services to businesses, consumers and financial institutions. The company operates a trust account as an integral part of its service. In order to ensure that Telpay Incorporated is always in a position to ensure the trust account can meet its obligations, at every moment in time, the company maintains a strong cash and short term investment position, retains all trust funds in Canada Deposit Insurance Corporation insured institutions, and maintains a \$10,000,000 fidelity bond.

The balance of funds on hand fluctuates significantly on a day to day basis, depending on the volume of transactions, and can vary considerably from month end to month end.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements were prepared in accordance with Canadian accounting standards for private enterprises (ASPE).

Foreign Currency Translation

Accounts in foreign currencies have been translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities have been translated at the year end exchange rate.

Outstanding Cheques

Outstanding cheques are reported in the trust assets and the corresponding liability is recorded in the trust liabilities. Trust assets and liabilities are not reduced for disbursements made on behalf of customers until the cheque clears the bank account and the obligation on behalf of the customer is considered legally settled.

3. FUNDS HELD IN TRUST

The trust obligations are fully funded by demand deposit accounts in federally regulated financial institutions that are members of the Canada Deposit Insurance Corporation.

4. TRUST AUDIT

Throughout the year, the external auditors perform examinations of the trust operations and bank accounts, monitor the control environment and systems which collect, record and process data, and report their findings to the directors. The overall objective of auditing in this computerized environment is to aid the Board in determining the adequacy of these controls. Through testing, the auditors monitor the maintenance of adequate audit trails, the control of transactions and authorization.

5. FINANCIAL INSTRUMENTS

Credit Risk

The company is exposed to credit risk from customers. Where there is recognized risk, the corporation requires its customers to either deliver guaranteed funds in order to fulfil the obligations of the contract, or to allow funds to be held for a sufficient number of days to provide reasonable assurance that funds for the contracted transaction have cleared the payment system.

6. COMPARATIVE FIGURES

Certain of the comparative figures have been adjusted to conform with the accounting policies adopted for the current year. As disclosed in Note 2, trust assets and liabilities are not reduced for disbursements made on behalf of customers until the cheque clears the bank account. This was a new policy adopted in the current year. As a result of this change, the trust balances reported for 2017 were increased by \$3,309,453.

Telpay Incorporated Investment Policy for Customers' Funds Held in Trust

As you see from the financial statements, the Telpay Incorporated Trust Account holds all funds from our customers. Telpay has a rigid policy for ensuring customers' funds held in trust are available at all times for the purpose for which they were provided.

Policies, Procedures and Responsibilities

All funds remitted by our customers for forwarding to third parties are deposited directly to bank accounts in the name of Telpay Incorporated Trust Account. The bank accounts must be with a Canada Deposit Insurance Corporation insured institution or a provincial government guaranteed financial institution.

Telpay Incorporated is responsible for all service charges related to operation of the account. Interest on the balances is for the account of Telpay Incorporated.

Should it be determined that these funds can be invested in accounts other than in the above-noted interest-bearing account, the following criteria must be strictly applied:

- a) The funds must be invested in an instrument issued and guaranteed by a Canada Deposit Insurance Corporation insured institution or a provincial government guaranteed financial institution.
- b) The term of the investment must not be longer than one (1) year, but notwithstanding the term, the investment instrument must be immediately and fully redeemable.

PAYMENTS PROCESSED IN BILLIONS



About Telpay

Telpay is best known as a bill payment service. We accept payment instructions from individuals and businesses by a variety of means—telephone, internet, payment software systems, and other financial service providers; in fact from any source that can provide accurate information in electronic form.

The fact that we then take these instructions, group them by billers and forward them all in a convenient format to the recipient is a very important part of the value we bring to billers. Rather than receiving multiple individual payments by cheque or electronic credits to their bank accounts, they receive a file ready for posting to their accounts and a single credit to

their bank account.

By building this structure, which has been in operation since 1985, Telpay is able to enhance the services it offers continually. We are unique in that we can process payments to anyone. With this one system, we can handle transfers to bank accounts, federal and provincial government remittances, international payments, and other payment types at a much lower cost than any other method. Full payment details are provided with each payment and generally, in a form that can easily be imported into the recipients accounts receivable system.

Board Members

Directors and Officers

Howard W. Loewen BAsc, MMath
Chairman

Howard W. Loewen graduated from the University of Waterloo first with a BAsc in Electrical Engineering & Computer Science and then with a Master's Degree in Computer Science. He is the owner, founder and Chief Executive Officer of MicroPilot. MicroPilot is the world's leading manufacturer of miniature autopilots for unmanned aerial vehicles (UAV) and micro aerial vehicles (MAV).

W.H. Loewen CM, OM, FCA
President, Founder & Honorary Director

Mr. Loewen founded Comcheq Services Limited in 1968 and has been an innovator in providing payment services to Canadians ever since. His interests in good corporate governance and ensuring sound business practices are applied in all areas of the company.

Marilyn Benninger CPA, CGA
Director

Ms. Benninger is a Chartered Professional Accountant providing strategic advisory services to leading software companies whose products serve the needs of small businesses, accountants and bookkeepers. Previously, she held senior leadership roles at Telpay, MYOB and Sage.

Cora Jalonen CPA, CGA, CIA
Director

Ms. Jalonen is a Chartered Professional Accountant and Certified Internal Auditor. She has over 20 years of accounting, financial management and internal audit experience within the financial services, manufacturing, transportation and not-for-profit industries.

James A. Richardson BA
Director

Mr. Richardson retired as Vice President of James Richardson & Sons Limited and is currently the President & Director of Westmead Limited. He is also a director of several other private Canadian companies and volunteer organizations.

Alan Salmon ASc, FCPB, PHF
Director

Mr. Salmon is the founder of K2 Enterprises Canada, which provides CPD training for accountants across Canada. He has over 30 years of experience in business, education, software design, marketing and publishing.

Raymond C. Senez, Jr. PEng
Director

Mr. Senez is a Professional Engineer. Mr. Senez is currently the President of Telenium Inc. He has served as CEO and General Manager of CTI-ComTel Inc. Prior to joining CTI-ComTel, Mr. Senez held various positions at Comcheq Services Limited.

Gary M. Seveny MBA
Director

Mr. Seveny was the President and Chief Executive Officer of two financial institutions, headquartered in Ottawa. He has been an active spokesperson in the financial industry on vision and regulatory change, appearing before many Committees.

Kristen Wittman LLB
Director

Ms. Wittman is a commercial lawyer and practices in partnership with Taylor McCaffrey LLP in Winnipeg. She represents a range of clients in size and industry and has special knowledge in matters of corporate governance.

PAYMENTS SYSTEM REVIEW

The Canadian payments system is currently under extensive review by the Federal Department of Finance. Excellent changes are being considered. John Zajic of Telpay has participated on a committee that is exploring ways to improve the system for individuals and businesses.

Telpay's recommendations are listed below. We would welcome your endorsement of them as well as your suggestions.

CHANGES WE ARE URGING INCLUDE:

- 1) More frequent exchanges between banks so that, depending on the time of day, payments drawn from one bank can reach an account in another bank on the same day.
- 2) Faster notification of returned (eg. NSF) items so that funds debited today do not have to be held for as long as four days to ensure they have cleared. Payment Service Providers, such as Telpay can be holding back payments until funds clear before making the remittance. Reducing the hold time could free up millions of dollars of working capital for businesses.
- 3) A means of quickly identifying the owner of a bank account so that validating a user can be accomplished quickly.
- 4) A set of rules that unregulated Payment Service Providers must follow when handling users' funds. Users of these systems need confidence that their money will be safe and accurately accounted for. Telpay has had such a system based on Trust Account principles since its inception in 1985.
- 5) Direct participation in the clearing system governance by large volume Payment Service Providers so they can compete with the banks on even terms.
- 6) A recognition that the Payments System needs to accommodate the requirements of specialized Payment Service Providers that provide innovation and can serve smaller specialized markets.
- 7) Strengthen the independence of the Payments System so that users can have direct and effective input that reflects the needs of Users, not just those of banks.
- 8) Payment Service Providers need assurance that banks will not be allowed to withdraw their services to these organizations without sound reasons.

PLEASE FORWARD YOUR SUPPORT AND COMMENTS TO:

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