



MEPCO
MUNICIPAL EMPLOYER
PENSION CENTRE ONTARIO

Annual Report 2013

Table of Contents

Letter from the Chair and President	3
About MEPCO	4
Key Developments in 2013 and MEPCO's Work	5
2013 Specified Plan Change Proposals	7
MEPCO's Objectives and Priorities for 2014	8
MEPCO Board of Directors	9
Facts about OMERS	11
AMO Sponsors Corporation and Administration Corporation Representatives	13
Auditor's Report	15
Financial Statements	16

MEPCO

MUNICIPAL EMPLOYER PENSION CENTRE ONTARIO

Association of Municipalities of Ontario (AMO)

200 University Ave., Suite 801

Toronto, Ontario

M5H 3C6

Phone: 416-971-9856

Fax: 416-971-6191

Toll-free: 1-877-426-6527

www.mepco.ca

Letter from the MEPCO Chair and President

MEPCO's goal is to see improvements to the health and sustainability of the OMERS Pension Plan. The Plan should be affordable for municipal employers and employees today and be able to meet retirees' needs for the long term. However, OMERS has yet to meet these objectives. The Plan faces a large deficit at the same time that an increasing number of employees are headed for retirement.

OMERS contributions are required expenditures, and they affect every aspect of the municipal budget. Contribution rates that keep increasing can make it difficult for municipal councils to plan annual budgets, or invest in local infrastructure. If you're an OMERS member, perhaps your contribution is taking a big bite out of your own wages.

Provincial legislation states that employers, along with employees and retirees, get a say in how the Plan is governed. In reality, individual municipal employers have little ability to change Plan design or influence OMERS' investment strategy. It's the OMERS Sponsors and Administration Corporation Boards that have the ability to affect change.

AMO created the Municipal Employer Pension Centre of Ontario (MEPCO) in 2007 to serve Ontario municipal government employers. By pooling resources through MEPCO, municipal employers have a strong voice to represent their collective interests. The Centre works toward this goal by providing expert actuarial and legal advice to AMO's representatives on the Sponsors and Administration Corporation Boards. MEPCO also works hard to keep members informed of OMERS and other developments in the pension world by sharing updates, hosting education sessions and responding to your calls and emails.

In October 2013, MEPCO hosted a free special education session to explore some of the pressures that defined benefit pension plans face, including OMERS. Investment returns aren't as high as they once were and financial markets are more volatile. At the same time, people are living longer but they're entering the workforce later and retiring earlier. Many Canadian and Ontario public sector plans are making necessary changes to address rising costs and lower investment returns. Some plans are now focused on targeted affordable benefits, while others have introduced risk sharing or reduced the indexation rate in order to

return to full funding. Getting to full funding is a critical objective. OMERS must meet its pension promise.

In the absence of implementing comparable changes, OMERS continues to rely on investment returns to take care of the Plan's \$8.6 billion deficit and improve sustainability. 2013 investment results were somewhat disappointing, particularly when compared with returns from other public sector pension plans in Ontario. It's clear that OMERS is not immune to the global pressures affecting large public sector plans.

Consequently, MEPCO believes that employer and employee sponsors must prioritize a commitment to work together to make meaningful changes to the Plan's design that will reduce costs and improve Plan health. In 2013, AMO's Sponsors Corporation representatives proposed three practical changes to the Plan through the Specified Plan Change (SPC) proposal process. All three failed to gain enough support from employee sponsors, who continue to promote Plan changes that would increase OMERS costs even further.

In 2014, we once again proposed practical changes to the OMERS Plan to improve long-term health and sustainability. Increasing contribution rates to address the deficit is not an option and it's clear that OMERS' problems won't be solved by investment returns alone. Some temporary or prospective reductions to benefits are needed.

We will be sharing even more information with members in 2014. Look out for MEPCO on social media and attend our special session at the 2014 AMO Annual Conference in London.

Thank you for your voluntary support. It allows municipal employers to continue to work toward a healthy, sustainable OMERS Pension Plan.

Sincerely,



Doug Reycraft, *Chair*



Pat Vanini, *President*

The Municipal Employer Pension Centre of Ontario (MEPCO) is a non-profit corporation created by the Association of Municipalities of Ontario to provide pension expertise and resources to AMO's employer representative on the OMERS Sponsors Corporation (SC) and Administration Corporation (AC) Boards. The two boards were established through Bill 206, legislation that shifted responsibility for the OMERS Pension Plan from the Province to employee and employer sponsors. This shift in responsibility is referred to as devolution. AMO is the sponsor for municipal employers that are members of the OMERS Plan.

MEPCO's primary goal is to support municipal employers by advancing well thought out, actuarially sound perspectives on OMERS matters that reflect the interests of municipal employers in achieving Plan sustainability. The OMERS Plan faces challenges. Contribution rates have increased steadily over the past five years and the Plan is in deficit. MEPCO exists because municipal employers deserve support, advocacy and resources so that their voices are heard in critical OMERS matters.

Almost 50 per cent of active OMERS members (representing more than 90,000 employees) are municipal employers, making municipal governments the single largest employer in the Plan. Others look for our leadership. We look for their support.

What Does MEPCO Do?

MEPCO shares its pension, actuarial and legal expertise with municipal employer representatives on the OMERS Boards. Through AMO's SC and AC representatives, MEPCO brings the municipal employer perspective to OMERS-related decisions by:

- Providing advice on Plan design, funding, growth and other matters.
- Developing OMERS Specified Plan Change (SPC) proposals.
- Evaluating Plan changes that other Plan sponsors propose.
- Keeping MEPCO members informed of important OMERS developments by issuing updates and directly responding to inquiries.
- Participating in the selection process for AMO's SC and AC representatives.
- Recruiting a MEPCO Board of Directors that includes a mix of public and private sector experts and municipal officials.

Funding

MEPCO is funded entirely by voluntary contributions from Ontario municipal government employers and the Province's District Social Services Administration Boards. In 2013, 88 per cent of these groups contributed to MEPCO. These funds support all operations including retaining pension, actuarial and legal experts, undertaking research, developing plan design change proposals and sharing information and analysis in support of AMO's OMERS representatives.

Key Developments in 2013 and MEPCO's Work

Implementing Tony Dean's Recommendations

In 2012, Tony Dean reviewed the OMERS Act and in 2013, he released his recommendations to improve Plan governance. A common thread running through many of Mr. Dean's recommendations is the need to build sponsor and stakeholder consensus in order to resolve some of OMERS' issues.

MEPCO participated in the Dean Review in 2012 by making a submission to the formal consultation process. MEPCO representatives also met with Mr. Dean and discussed how Plan governance and policy affects the goal of Plan sustainability. The **2012 MEPCO Annual Report** includes more details about MEPCO's role in the consultation process and a full summary of Mr. Dean's recommendations to OMERS.

Throughout 2013, AMO's representatives to OMERS provided MEPCO with progress reports on several specific recommendations that fall under three general categories:

- Aligned and efficient decision-making processes with clear accountability structures.
- Fairness in representation on both the Sponsors Corporation (SC) and Administration Corporation (AC) Boards.
- High-level expertise and capacity on the Administration Corporation Board.

Important steps have been taken by both the SC and AC Boards to implement the recommendations:

In-progress:

- Develop one strategic vision for OMERS, rather than two separate visions for each Board.
- Implement protocols on plan growth, plan changes and actuarial valuations and assumptions.

Completed:

- Develop a method to improve the capacity of the AC Board members.
- Choose an independent Co-Chair for the AC Board.

The MEPCO Board paid close attention to Mr. Dean's recommended changes to the AC Board and expected that progress would be made throughout the year. AMO's SC and AC representatives reported on their work throughout 2013. Key developments in 2013 include the appointment of George Cooke as the new Administration Corporation Board Independent Chair in September 2013 and the MEPCO Board's participation in the new appointments process for AC Board members with defined competencies.

MEPCO expects to see continued progress on Mr. Dean's recommendations in 2014. The Board will continue to support AMO's OMERS representatives in their effort to create a common OMERS strategic vision and a more collaborative relationship between the Administration and Sponsors Corporation Boards and fully implement Mr. Dean's recommendations

2013 Specified Plan Change (SPC) Proposals

MEPCO was very disappointed in the failure of three 2013 SPC Proposals that would have improved the health and sustainability of the Plan. Municipal employer sponsors and others proposed, yet again, practical changes that would improve long-term sustainability and reduce the deficit sooner than the 2021 - 2025 target set by OMERS.

The proposed employer sponsor changes included, very generally, a reduction to indexing, changes to benefits earned related to early retirement and a reduction in the annual benefit accrual rate for earnings above the Year's Maximum Pensionable Earnings.

Employee sponsors proposed changes that would extend Normal Retirement Age (NRA) 60 benefits to police civilians and paramedics. These changes would add costs to municipal employers.

As of December 31, 2013, the OMERS actuarial deficit stood at \$8.6 billion. Contributions continue to climb and have increased 40 per cent over the past five years. The Plan faces clear sustainability challenges. There

is concern that relying on future years of investment returns to solve the problem is somewhat short sighted given global influences. MEPCO is adamant that both employer and employee sponsors must work together to make sure that OMERS can meet its needs. Given uncertainty of investment returns, the only way to address OMERS' sustainability challenges is to either reduce benefits or increase contribution rates. All employer sponsors have reached the limit of contribution rate increases. The Province of Ontario's approach to addressing its own deficit has already led to cuts in funding for municipalities. Some Plan benefit reductions must be considered in order to address the OMERS deficit. Approaches comparable to those implemented by other large Ontario public sector plans, including the Teachers' Plan, are reasonable and would work for OMERS.

MEPCO's Board is hopeful that employer and employee sponsors can start to work together and accept some meaningful, measured benefit reductions.

A detailed description of each 2013 SPC Proposal is available on page 7.

New Administration Corporation Board Members

MEPCO used a recruitment process to identify a new AMO representative to the Administration Corporation Board in 2013. Lloyd Komori joined the AC on January 1, 2014 and replaced outgoing AC Board member Fred Biro. Mr. Komori's full bio is available on Page 10.

AMO was in the first group to use the new appointment process put in place as a result of the Dean Review. AMO, MEPCO and others support the need for a higher capacity Board with particular areas of expertise. The staff at OMERS provided a helpful training session on the new appointment process.

Mr. Biro helped us fill the void quickly following the untimely death of Michael Power in 2012. Mr. Power served as the Mayor of Greenstone for more than 35 years and represented AMO on the OMERS Administration Corporation from 2008 to 2011.

Keeping Members Informed

Pension issues can be complicated. It's not necessary for every member of an OMERS employer council to understand the details of OMERS' investment strategy or how the accrual rate is determined. However, pension contributions affect municipal budgets and therefore property taxes. It's important that municipal leaders know how OMERS is governed and understand the Plan's opportunities and challenges.

In September 2013, MEPCO's Board adopted a communications strategy to strengthen our communication with municipal employers. As part of the strategy, MEPCO hosted a free information session at AMO's Counties, Regions and Single Tier Symposium in October 2013. Barry Gros, an actuary at Aon Hewitt and one of MEPCO's pension experts, led the session and posed the question "Can we trust in the OMERS Pension Plan?" More than 100 people attended the session and many asked questions. A follow up column in the AMO Watch File directed people to supporting material and an audio recording of the October 24 presentation.

MEPCO staff also replied to individual inquiries throughout the year and issued four online updates. MEPCO will continue to implement the communications strategy in 2014 and beyond.

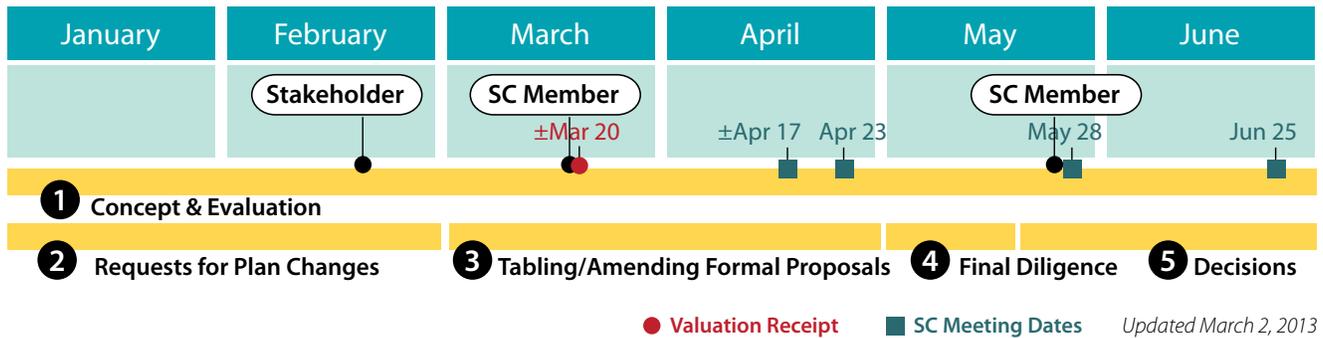
Working with OMERS to Update our Employee Database

MEPCO worked closely with OMERS staff throughout 2013 to solve the issue of accessing quality data on how many OMERS employees work for each municipality in Ontario. MEPCO needs this data to create accurate invoices since our invoicing is calculated based on the number of OMERS employees working for any given municipality. Right now, MEPCO has to contact staff in each municipality to get this information.

MEPCO met with the new OMERS CAO and new AC Board Chair and one of the early outcomes of the meeting was an agreement to share the municipal employee data count. This means that MEPCO staff no longer has to inconvenience municipal staff with calls about employee data counts.

2013 Specified Plan Change (SPC) Proposals

2013 Specified Plan Change Timeline



Employer and employee sponsors submitted five Specified Plan Change (SPC) Proposals in 2013. MEPCO evaluated each proposal presented to the Sponsors Corporation (SC) Board to assess how it could affect municipal employers and overall sustainability of the OMERS Plan.

MEPCO worked with other Plan sponsors to put forth three SPC Proposals that would improve Plan health and sustainability. Employer groups put forward two proposals. All five 2013 SPC Proposals failed. No SPC proposal met the 2/3 majority vote needed to pass. A summary of each proposal is available below:

1. NRA 60 Police Civilians (SPC#01-13)

The Police Association of Ontario proposed that Normal Retirement Age (NRA) 60 benefits be available to members of the Primary Plan who are police civilians.

This change would add costs for municipalities that have their own police services and also add new liabilities to the Plan.

Result: Failed to pass.

2. Reduce Indexing to 50 per cent (SPC#02-13)

AMO, the City of Toronto and the Ontario Association of Police Services Boards (OAPSB) proposed a 50 per cent reduction in benefit indexation for a set period of time. Benefits are currently indexed to 100 per cent of the Consumer Price Index increase each year.

This change would take effect in 2016, reducing the cost of pensions by \$3.8 billion and decreasing the blended contribution rate to approximately 19.7 per cent from 21.3 per cent.

Result: Failed to pass.

3. Delay Early Retirement (SPC#02-13)

AMO and the City of Toronto put forth a proposal to reduce the benefits paid to people that retire early, while the Plan is in deficit. The proposal would end the option of an unreduced early retirement before the age of 55 for NRA 60 members and before the age of 60 for NRA 65 members, effective January 1, 2016. The proposal would reduce the Plan's liabilities.

Result: Failed to pass.

4. Benefit Accrual Rate – 1.85% (SPC#04-13)

AMO, the City of Toronto and the Electricity Distributors Association put forth a proposal to slightly reduce the pension benefit for earnings above the Year's Maximum Pensionable Earnings (YMPE). Starting in 2015, a reduced multiplier of 1.85 per cent would be applied to earnings above the YMPE. The current multiplier is 2 per cent.

This proposal would reduce the Plan's liabilities.

Result: Failed to pass.

5. NRA 60 Paramedics (SPC#05-13)

The Canadian Union of Public Employees (CUPE) and the Ontario Public Service Employees Union (OPSEU) proposed a change to the Primary Plan to allow employers to provide NRA 60 benefits to paramedics, effective January 1, 2014.

This proposal would add costs for municipalities that have their own paramedics service and add new liabilities to the Plan.

Result: Failed to pass.

MEPCO's Objectives and Priorities for 2014

Improve Plan Sustainability Through Specified Plan Change Proposals

In 2014, MEPCO will once again support Specified Plan Change (SPC) Proposals that will improve the affordability and sustainability of the OMERS Pension Plan. A change to the current 100 per cent indexation is the simplest and most effective approach, even on a temporary basis.

OMERS has changed the way it shares information about the SPC Proposal process. Proposals are now explained in plainer language and more updates are provided throughout the process. A video and other material is available on the OMERS website to help you learn more about the SPC Proposal process. Visit http://www.omerssc.com/PlanChanges/Specified_Plan_Changes.aspx for more information about each proposed Specified Plan Change.

Ontario's Proposed Registered Pension Plan

In early 2014, the Ontario Government proposed the creation of a new Ontario Registered Pension Plan (ORPP) to supplement the Canada Pension Plan. The Government (as elected in June 2014) is pursuing this to help employees without any workplace pension coverage. MEPCO has asked its pension experts to report back to the Board on what the creation of an ORPP might mean for OMERS and the public sector pension environment in Ontario. Former OMERS CAO Michael Norbrega is the Province's lead on the ORPP.

Continue to Inform, Educate and Engage with Our Members

MEPCO will continue to share information and implement its communications strategy. In 2014, we plan to:

- Use social media to better communicate with municipalities and other stakeholders.
- Host a pension education session at the 2014 AMO Annual Conference.
- Continue to communicate with members by issuing updates in the AMO Watch File and on the MEPCO website.

As always, MEPCO will continue to keep members informed by issuing quarterly online updates, posting important information in the AMO Watch File and responding directly to members' questions.

AMO created MEPCO to give municipal employers a chance to speak with one strong voice on OMERS-related matters. It's important that municipal staff and officials understand why AMO and MEPCO are fighting for a healthier, more sustainable OMERS Pension Plan.

Visit www.mepco.ca for educational resources and to keep up to date on pension matters.

MEPCO Board of Directors

2013/2014 MEPCO Board of Directors



MEPCO Chair, Doug Reycraft served as AMO President from 2006-2008 and presently serves as an AMO and FCM Board member. A retired teacher, Reycraft is the Mayor of Southwest Middlesex and a Councillor for the County of Middlesex.



MEPCO Vice Chair, Peter Hume is a Councillor and current Chair of the Planning Committee for the City of Ottawa. He served as AMO President for most of the August 2008 – August 2011 term. Mr. Hume is a long serving member of AMO's Board of Directors and a member of the Hydro Ottawa Board. He is also a former Board Member of Waste Diversion Ontario (WDO) and former chair of the Municipal Property Assessment Corporation (MPAC).



Norm Gamble is the former Chair of the Southwest Local Health Integration Network (LHIN). He has more than 30 years of experience in municipal administration and is a former CAO. Previous past president of the Ontario Municipal Administrators Association and a former AMO Vice President, he continues to consult and act as a Meeting Investigator for a number of Ontario municipalities.



Manon Harvey (CPA, CA, ICD.D) is Vice President, Finance and Corporate Services, for the Canada Foundation for Innovation. She was previously Director of Finance for the Children's Hospital of Eastern Ontario. A Chartered Professional Accountant and Certified Director, Ms. Harvey served on the Retirement Plan Committee of the Association of Universities and Colleges of Canada (AUCC) until 2012 and retired from the Board of Directors for Hydro Ottawa in June 2014 after ten years of service.



Jacques Héту (FCGA, FCPA) served as the Mayor of the Town of Hawkesbury for six years. During that time he was also President of the Association of Francophone Municipalities of Ontario (AFMO) and a member of AMO's Board. A Certified General Accountant, he is the former National Treasurer of CGA Canada and a former Member of the Board of the Municipal Property Assessment Corporation (MPAC).



Barbara Hume-Wright (B.A., B.Ed., M. Sc., C. Dir.) is the former Executive Director of the Ontario Association of Police Services Boards and is a former AMO staff member with substantial experience in the municipal sector. She also served on the former Joint Employer Steering Committee on OMERS Governance.



Patrick Moyle has more than 30 years of experience serving municipalities. He is a former AMO Executive Director and has served as the CAO of several Ontario municipalities, including Halton Region. Mr. Moyle was the Chair of the former Joint Employer Steering Committee on OMERS governance. He is currently a Senior Advisor at StrategyCorp Inc.



Gretchen Van Riesen (B.Sc. Mathematics) has over 40 years of experience in the pensions and benefits industry. She is the Chair of the Board for Providence Healthcare and the Board of the Philip Aziz Centre for Hospice Care. After working as a consultant for over 20 years, she moved to CIBC where she retired in 2007 as Vice President, Global Pension and Benefits. At CIBC, Gretchen was responsible for policy and design, investment, and governance of CIBC's multi-billion dollar pension plan. Gretchen is past Chair of both the Pension Investment Association of Canada (PIAC) and the Association of Canadian Pension Management.



James C L Clark (CPA, CA, CFA) is the President of Dunhelm Consulting and has more than 25 years of broad pension experience in pension fund management, investment consulting, marketing, sales and client service. A former manager of a \$1 billion pension plan with the Bank of Montreal, he currently provides investment and communication consulting services to institutional investors and investment managers. Mr. Clark also serves on the University of Ottawa's Treasury Committee and on the Ontario Regional Council of the Association of Canadian Pension Management. He has lectured for York University's MBA program and contributed to numerous pension industry publications.



Janet G. Downing (LL.B.) has more than 25 years of experience providing legal consulting services to public and private sector clients about pension, benefit and human resource matters. Working for Towers Watson, she also provided Canadian support to the corporation's General Counsel's office. Ms. Downing is past Chair of the International Pension and Employment Benefits Lawyers Association Steering Committee and the Ontario Bar Association Institute Conference Committee. She contributes to many legal and industry publications and is an active speaker at numerous Canadian and international law-related courses and conferences.

AMO's Sponsors Corporation Representatives



Marianne Love (LLB) is Co-Chair of the OMERS Sponsors Corporation. She is a Senior Consultant for McDowall Associates, specializing in governance practice, job evaluation, pay equity, and compensation and performance management systems. Marianne was a Member of the OMERS Board from 1999 to 2006. She has a Law Degree from Osgoode Hall Law School, York University and a Bachelor of Arts Degree from the University of Windsor. She has over 25 years of experience working and consulting in municipal government.



Bruce Stewart (BComm., LLB, and QC) practiced labour law for 44 years, retiring as a partner of Hicks Morley in 2006. He has acted as employer counsel for many public sector organizations such as the Toronto District School Board, Toronto Police Services Board and the TTC. Mr. Stewart was Chair of the Labour Law Subsection of the Canadian Bar Association (Ontario) and the National Employer-Employee Relations Committee of the Canadian Chamber of Commerce.

AMO's Administration Corporation Representatives



Michael Fenn (MA, AMCT, C.Dir.) works as a consultant, through Fenn Advisory Services Inc. and StrategyCorp. He was an Ontario Deputy Minister for seven years, following which he served as CEO of several Crown agencies and national non-profit organizations. His municipal career included eleven years as City Manager of Burlington and CAO of the Regional Municipality of Hamilton-Wentworth. Along with Doug Reycraft, Michael was named to AMO's Honour Roll in 2010. He resigned from the MEPCO Board after being nominated by AMO and appointed in 2013 as a Director on the OMERS Administration Corporation Board. He also serves on the Boards of the Toronto District School Board's realty subsidiary, the Toronto Lands Corporation and McMaster University.



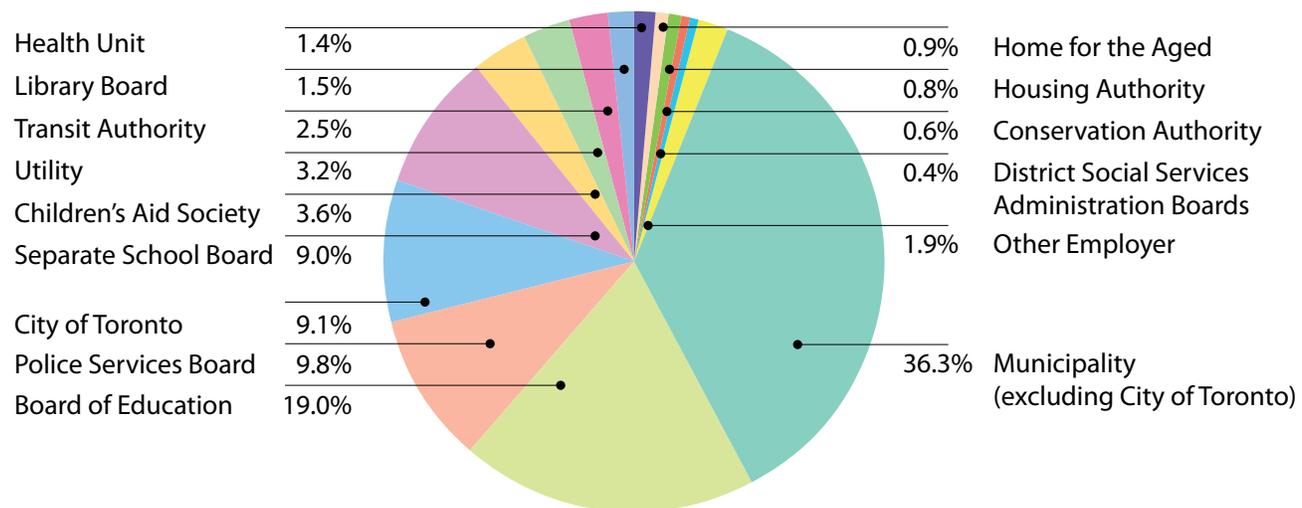
Lloyd Komori has worked almost exclusively in the risk management space for the past 30 years. His primary industry experience includes the financial services, institutional asset management, and energy industries. He has been actively involved since 2003 in elevating corporate governance standards through training and education as one of the founding faculty members of The Directors College. Lloyd holds the Chartered Director, Audit Committee and Human Resource & Compensation Committee Certifications awarded by McMaster University.

Lloyd is an active member of several industry associations that specialize in risk management, pension fund governance/advocacy and corporate governance and is a past member of the advisory board of the Strategic Risk Council and the Committee of Chief Risk Officers. He has been a board director of the Toronto Central Local Health Integration Network for two full terms in addition to sitting on a number of other health care and industry sector advisory boards.

Facts About OMERS

The Ontario Municipal Employees Retirement System (OMERS) was created in 1962 as the pension plan for municipal government employees in Ontario. It now has more than \$65 billion in net investment assets and serves 982 employers and 439,528 members, retirees and survivors.

Employers Affiliation (as of December 31, 2013 , OMERS Statistics)



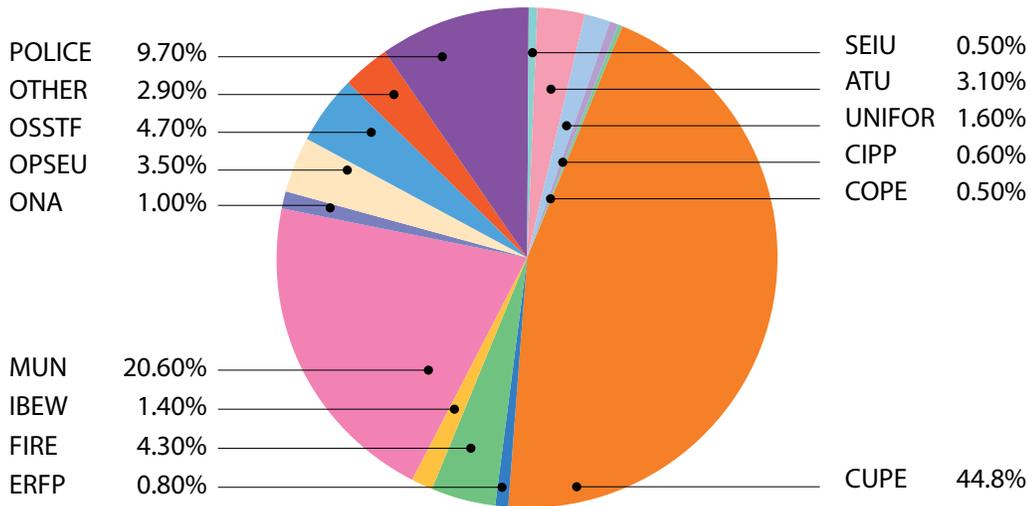
Number of Active Members in OMERS Employer Groups

EMPLOYER CATEGORY	Active Members	% of Active OMERS Members
Municipality (excluding City of Toronto)	95,780	36.3%
Board of Education	50,064	19.0%
Police Services Board	25,894	9.8%
City of Toronto	24,062	9.1%
Separate School Board	23,771	9.0%
Children's Aid Society	9,321	3.6%
Utility	8,389	3.2%
Transit Authority	6,674	2.5%
Library Board	3,985	1.5%
Health Unit	3,598	1.4%
Home for the Aged	2,336	0.9%
Housing Authority	2,162	0.8%
Conservation Authority	1,612	0.6%
District Social Services Administration Boards	1,081	0.4%
Other Employer†	5,079	1.9%
Total Active Members (excluding members on disability waiver)	263,808	100.00%

†These include, for example, local boards of municipalities, economic development corporations and associations representing OMERS members.

Source: www.OMERS.com

Members Affiliation (as of December 31, 2013 , OMERS Statistics)



Member Affiliation Breakdown

EMPLOYER CATEGORY	Active Members	% of Active OMERS Members
CUPE – Canadian Union of Public Employees	118,071	44.8%
MGMT/NON-UNION – Management/Union Exempt/Non-Union	54,307	20.6%
POLICE – Police Associations of Ontario	25,647	9.7%
OSSTF – Ontario Secondary School Teachers’ Federation	12,370	4.7%
FIRE – Ontario Professional Fire Fighters Association	11,245	4.3%
OPSEU – Ontario Public Service Employees Union	9,346	3.5%
ATU – Amalgamated Transit Union	8,128	3.1%
UNIFOR – Auto, Communications, Energy and Paper Workers Union	3,809	1.6%
IBEW – International Brotherhood of Electrical Workers	4,242	1.4%
ONA – Ontario Nurses Association	2,696	1.0%
ERFP – Educational Resource Facilitators of Peel	2,003	0.8%
CIPP – Civic Institute of Professional Personnel	1,714	0.6%
SEIU – Service Employees International Union	1,438	0.5%
COPE – Canadian Office and Professional Employees Union	1,196	0.5%
OTHER – Employee affiliations with fewer than 1,000 members each	7,596	2.9%
Total Active Members	263,808	100.00%

Source: www.OMERS.com

OMERS Plan Governance

In 2006, the Ontario Municipal Employees Retirement System Act, 2006 (the OMERS Act or Bill 206) came into effect. As a result, the Government of Ontario devolved itself from its central sponsorship role in OMERS. The OMERS Sponsors Corporation (SC) replaced the Government of Ontario as Plan sponsor. The SC is responsible for Plan design, including changes to benefits and contribution rates and setting compensation levels, and is made up of employee, employer and retiree representatives.

The OMERS Administration Corporation (OAC) assumed the role of the existing OMERS Corporation. The OAC is responsible for the Plan's day to day operations including determining investment strategy, Plan valuation and pension benefit administration.

AMO is represented on the Sponsors Corporation by Marianne Love (Co-Chair) and Bruce Stewart and on the Administration Corporation by Michael Fenn and Frederick Biro. MEPCO is the key resource and advisor to AMO's representatives.

The 2013 Sponsors Corporation Board of Directors

Employer Representatives	Employee Representatives
Marianne Love (Co-Chair) Association of Municipalities of Ontario (AMO)	Brian O'Keefe (Co-Chair) Canadian Union of Public Employees (CUPE) Ontario
John E. Fleming City of Toronto	Paul Bailey Police Pensioners Association of Ontario (PPAO)
Charlie Macaluso Electricity Distributors Association (EDA)	Diana Clarke Ontario Public Service Employees Union (OPSEU)
Mary McConville Ontario Association of Children's Aid Societies (OACAS)	Jack Jones Ontario Secondary School Teachers' Federation (OSSTF)
Wayne McNally Ontario Catholic School Trustees' Association (OCSTA)	Bruce Miller Police Association of Ontario (PAO)
Garth Pierce Ontario Association of Police Services Boards (OAPSB)	Frank Ramagnano Ontario Professional Fire Fighters Association (OPFFA)
Bruce Stewart Association of Municipalities of Ontario (AMO)	Mark Ferguson Canadian Union of Public Employees (CUPE) Local 79

The 2013 Administration Corporation Board of Directors

George Cooke (Chair)

Employer Representatives	Employee Representatives
Monty Baker Ontario Association of Police Services Boards (OAPSB)	Rick Miller (Vice Chair) Ontario Professional Fire Fighters Association (OPFFA)
David M. Beatty City of Toronto	David Carrington Canadian Union of Public Employees Ontario (CUPE)
Frederick Biro Association of Municipalities of Ontario (AMO)	Richard Faber Retired Member
William (Bill) Butt Electricity Distributors' Association (EDA)	Laurie Nancekivell Ontario Public Service Employees Union (OPSEU)
Michael Fenn Association of Municipalities of Ontario (AMO)	Eugene Swimmer Police Association of Ontario (PAO)
James Phillips Ontario Association of Children's Aid Societies (OACAS)	Sheila Vandenberg Ontario Secondary School Teachers' Federation (OSSTF)
John Sabo Ontario Catholic School Trustees' Association (OCSTA)	John Wetherup Canadian Union of Public Employees Ontario (CUPE)

Financial Statements

Municipal Employer Pension Centre of Ontario

December 31, 2013

Independent Auditor's Report	15
Statement of Operations	16
Statement of Changes in Net Assets	16
Statement of Financial Position	17
Statement of Cash Flows	18
Notes to the Financial Statements	19-21

Independent auditor's report

To the Members of Municipal Employer Pension Centre of Ontario

We have audited the accompanying financial statements of Municipal Employer Pension Centre of Ontario, which comprise the statement of financial position as at December 31, 2013 and the statements 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.

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 Municipal Employer Pension Centre of Ontario as at December 31, 2013 and its financial performance and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Toronto, Canada
May 12, 2014

Audit • Tax • Advisory
Grant Thornton LLP, A Canadian Member of Grant Thornton International Ltd

Grant Thornton LLP
Chartered Accountants
Licensed Public Accountants

Municipal Employer Pension Centre of Ontario Statement of Operations

Year ended December 31	2013	2012
Revenue		
Municipal contributions	\$ 605,705	\$ 607,172
Interest earned	<u>16,459</u>	<u>17,601</u>
	<u>622,164</u>	<u>624,773</u>
Expenses		
Administration (Note 4)	287,828	252,736
Consultants expense	102,340	110,555
Board expense	92,886	74,597
Communications expense	32,620	24,176
OMERS Sponsor Corporation Board Member Allowance	<u>83,751</u>	<u>96,644</u>
	<u>599,425</u>	<u>558,708</u>
Excess of revenue over expenses	<u>\$ 22,739</u>	<u>\$ 66,065</u>

Municipal Employer Pension Centre of Ontario Statement of Changes in Net Assets

Year ended December 31	Internally restricted			2013 Total	2012 Total
	Arbitration and Mediation Reserve	Wind-Up Reserve	Unrestricted		
Balance, beginning of year	\$ 622,025	\$ 253,879	\$ 224,561	\$ 1,100,465	\$ 1,034,400
Excess of revenue over Expenses	-	-	22,739	22,739	66,065
Inter-fund transfer (Note 6)	(126,477)	68,014	58,463	-	-
Balance, end of year	<u>\$ 495,548</u>	<u>\$ 321,893</u>	<u>\$ 305,763</u>	<u>\$ 1,123,204</u>	<u>\$ 1,100,465</u>

See accompanying notes to the financial statements.



Municipal Employer Pension Centre of Ontario Statement of Financial Position

As at December 31

2013

2012

Assets

Current

Cash	\$ 25,815	\$ 103,137
Investments (Note 3)	1,121,693	1,082,697
Accounts receivable (Note 8)	9,824	7,324
Prepaid expenses	<u>6,741</u>	<u>3,760</u>
	<u>\$ 1,164,073</u>	<u>\$ 1,196,918</u>

Liabilities

Current

Accounts payable and accrued liabilities	\$ 39,273	\$ 33,320
Due to AMO (Note 4)	<u>1,596</u>	<u>63,133</u>
	<u>40,869</u>	<u>96,453</u>

Net assets

Internally restricted (Note 7)		
Arbitration and Mediation Reserve	495,548	622,025
Wind-Up Reserve	321,893	253,879
Unrestricted	<u>305,763</u>	<u>224,561</u>
	<u>1,123,204</u>	<u>1,100,465</u>
	<u>\$ 1,164,073</u>	<u>\$ 1,196,918</u>

On behalf of the Board

Director

Director

See accompanying notes to the financial statements.

Municipal Employer Pension Centre of Ontario Statement of Cash Flows

Year ended December 31 2013 2012

Increase (decrease) in cash

Operating

Excess of revenue over expenses \$ **22,739** \$ 66,065

Change in non-cash working capital

Accounts receivable **(2,500)** (4,811)

Prepaid expenses **(2,981)** (1,416)

Accounts payable and accrued liabilities **5,953** (19,227)

Due to AMO **(61,537)** 51,969

(38,326) 92,580

Investing

Investments **(38,996)** (191,395)

Net change in cash **(77,322)** (98,815)

Cash, beginning of year **103,137** 201,952

Cash, end of year **\$ 25,815** \$ 103,137

See accompanying notes to the financial statements.

Municipal Employer Pension Centre of Ontario

Notes to the Financial Statements

Year ended December 31, 2013

1. Nature of operations and basis of presentation

Municipal Employer Pension Centre of Ontario (“MEPCO”) is a not-for-profit organization incorporated on August 1, 2007 under letters patent under provisions of Part II of the Canada Corporations Act. MEPCO became operational on January 1, 2008. The mandate of MEPCO is to fulfill the obligations of the Association of Municipalities of Ontario (“AMO”) and others under the Ontario Municipal Employees Retirement Systems Act, 2006.

2. Summary of significant accounting policies

These financial statements have been prepared in accordance with accounting standards for not-for-profit organizations. Accounting standards for not-for-profit organizations require entities to select policies appropriate for their circumstances from choices provided in the specific standards. The following are details of the choices selected by MEPCO and applied in these financial statements.

Use of estimates

In preparing MEPCO’s financial statements, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the year. Actual results could differ from these estimates.

Financial Instruments

MEPCO considers any contract creating a financial asset, liability or equity instrument as a financial instrument, except in certain limited circumstances.

MEPCO’s financial instruments comprise cash, investments, accounts receivable, accounts payable and due to AMO and are measured at amortized cost.

Revenue recognition

MEPCO follows the deferral method of accounting for externally restricted contributions whereby contributions are deferred and recognized as revenue in the period to which the fees relate or the expenses are incurred. All other contributions are recognized in the period received.

Investment income is recognized as revenue in the period it is earned.

Municipal Employer Pension Centre of Ontario

Notes to the Financial Statements

Year ended December 31, 2013

3. Investments	<u>2013</u>	<u>2012</u>
BMO Guaranteed Investment Certificate (GIC), bearing interest at 1.40%, due April 2014	\$ 353,383	\$ -
BMO GIC, bearing interest at 1.50%, due July 2014	497,369	-
BMO GIC, bearing interest at 1.20%, due September 2014	270,941	-
BMO GIC, bearing interest at 1.40%, due April 2013	-	465,104
BMO GIC, bearing interest at 1.20%, due July 2013	-	490,918
RBC GIC, bearing interest at 1.4%, due December 2013	-	126,675
	<u>\$ 1,121,693</u>	<u>\$ 1,082,697</u>

4. Related party transactions

Included in administration expense is \$238,008 (2012 - \$222,306) for administration and occupancy costs charged by AMO. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Amounts due to related parties are unsecured, repayable on demand and are non-interest bearing.

5. Capital management

The capital structure of MEPCO consists of internally restricted funds (Note 7) and unrestricted net assets. The primary objective of MEPCO's capital management is to provide adequate funding to fulfill the obligations of AMO and others under the Ontario Municipal Employees Retirement Systems Act, 2006.

The purpose of the internally restricted funds is to provide (a) arbitration and mediation services to support its members' interests should mediation / arbitration be required through the OMERS conflict resolution process; and (b) for the eventual wind-up of MEPCO.

Unrestricted net assets are funds available for future operations and preserved so MEPCO can have financial flexibility should opportunities arise in the future.

6. Transfer from Reserve

MEPCO makes transfers to/from the internally restricted funds to unrestricted funds and from one internally restricted fund to another on an as needed basis.

Municipal Employer Pension Centre of Ontario

Notes to the Financial Statements

Year ended December 31, 2013

7. Net assets internally restricted

Arbitration and Mediation Reserve

The Board of Directors has allocated certain amounts to be used specifically for arbitration and mediation. These funds are not available for general purposes and require the approval of the Board of Directors prior to use.

Wind-Up Reserve

The Board of Directors has set aside funds for the eventual wind-up of MEPCO. The Board approved that each year based on management's discretion an amount would be transferred to this reserve based on the surplus.

8. Financial instruments

Transactions in financial instruments may result in an entity assuming or transferring to another party one or more of the financial risks described below. The required disclosures provide information that assists users of financial statements in assessing the extent of risk related to financial instruments.

Interest rate risk

Interest rate risk is the risk that the fair value on, or future cash flows from, a financial instrument will fluctuate because of market changes in interest rates.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. MEPCO's main credit risks relate to its receivable from its members in the normal course of its operations. At December 31, 2013, the allowance for doubtful accounts is \$11,667 (2012 - \$Nil).

Liquidity risk

Liquidity risk is the risk that MEPCO will encounter difficulty in meeting the obligations associated with its financial liabilities. MEPCO is exposed to this risk mainly in respect of its accounts payable and the amount due to AMO. MEPCO reduces exposure to liquidity risk by ensuring that it maintains adequate cash reserves to pay creditors.

It is management's opinion that MEPCO is not exposed to significant interest rate, credit or liquidity risk arising from its financial instruments.

MEPCO
MUNICIPAL EMPLOYER
PENSION CENTRE ONTARIO

www.mepco.ca