

The logo consists of a vertical line on the left and several horizontal bars of varying lengths extending to the right, creating a stylized 'E' shape.

MEPCO

**MUNICIPAL EMPLOYER
PENSION CENTRE ONTARIO**

Annual Report 2016

Table of Contents

Letter from the Chair and President	3
About MEPCO	4
Key Developments in 2016 and MEPCO's Work	5
Strengthening Plan Health through Modified Indexation	7
MEPCO's Objectives and Priorities for 2017	8
MEPCO Board of Directors	9
AMO's Representatives on the OMERS Sponsors Corporation	10
Facts about OMERS	12
OMERS Plan Governance	14
Auditor's Report	16
Financial Statements	17

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

OMERS is structured so that employers and employees are equally represented on the two Boards that guide the Plan's design and manage its investments. Municipal employees make up more than 36% of the Plan's active members, yet individual municipal governments have virtually no say in important pension decisions. This is why your membership in MEPCO is so critical.

MEPCO presents a broader perspective and gives municipal interests a voice by providing expert advice and resources to AMO's representatives on the two OMERS Boards. This work acts as a counter-balance to the perspectives and actions of public sector trade union sponsors of the OMERS Plan and provides a form of low cost insurance to all municipal employers. MEPCO's continued effectiveness relies on ongoing contributions and support from municipal governments. Over the last decade, MEPCO's work has helped achieve a more sustainable OMERS Pension Plan, including the 2014 implementation of a Funding Management Strategy that set out a cap on contribution rates and provided for the establishment of a reserve fund. We are now working toward better risk management strategies that will help the Plan weather future economic instability.

The SC Board is currently considering a proposal that, very simply, would allow changes to Plan indexation. If approved, it would provide a safety valve that could be used in the event of a major market downturn. More detailed information is available on Page 7. This is an opportunity to improve long-term Plan sustainability and we need your support to continue our work toward ensuring that proposals like these are implemented.

We understand that pension matters are complex, but they can have a major impact on your budget. OMERS contributions account for about 9% of your payroll.¹ It's important to stay informed and we hope to engage more effectively with our members in 2017.

With your support, municipal employers can speak with one strong, well-informed voice and continue to work toward a more sustainable and affordable OMERS Pension Plan.

Sincerely,



Doug Reycraft, *MEPCO Chair*



Pat Vanini, *MEPCO President*

¹The 2017 OMERS Primary Plan contribution rate for Normal Retirement Age (NRA 65) members on earning up to the Canada Pension Plan (CPP) earnings limit is 9%.

About MEPCO

The Municipal Employer Pension Centre of Ontario (MEPCO) is a non-profit corporation created by the Association of Municipalities of Ontario (AMO) to provide expert advice and resources to AMO's representatives on the OMERS Sponsors Corporation (SC) and Administration Corporation (AC) Boards. The SC determines Plan design and contribution rate changes and the AC manages the Plan's day-to-day operations, including investment strategy, plan valuation and pension benefit administration. AMO created MEPCO to provide municipal employers with support, advocacy and resources on OMERS matters that is equivalent to the level of support provided by other OMERS sponsor organizations.

MEPCO enables all municipal employers to consolidate and strengthen efforts in working together. Individual municipal governments have virtually no opportunity to directly influence decisions made by OMERS. Yet, an OMERS contribution rate change can have a major impact on local budgets. MEPCO provides the opportunity for municipal employers to pool resources and speak with one strong, well-informed voice.

MEPCO shares OMERS' goal of a sustainable, affordable and resilient pension plan that meets the needs of municipal employers and employees.

What Does MEPCO Do?

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

- Providing advice, tools, professional actuarial and legal advice on plan design, funding, growth, investment strategy and other matters.
- Analyzing the impact of pension issues on municipal employers.
- Developing OMERS Specified Plan Change (SPC) proposals.
- Evaluating every SPC proposal proposed by other Plan sponsors.
- 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 relies entirely on voluntary contributions from municipal government employers and the Province's district social services administration boards (DSSABs) to complete its work. In 2016, almost 95% of these organizations contributed to MEPCO.

Key Developments in 2016 and MEPCO's Work

Changes to the Canada Pension Plan mark the end of the proposed Ontario Retirement Pension Plan

The Ontario Government worked throughout 2015 to develop a new Ontario Retirement Pension Plan (ORPP). MEPCO took part in the government-led consultation process and met with Ministry of Finance staff to make our position clear: the ORPP should not be funded at the expense of OMERS members and the OMERS Plan should be exempted.

In June 2016, federal and provincial ministers of finance announced that they had reached an agreement to enhance and strengthen the Canada Pension Plan (CPP). Ontario's support for enhancements to the CPP meant that the ORPP was no longer needed to meet the Government's objectives on improving retirement security in Ontario.

MEPCO supported the Ontario Government's broad goal of strengthening the Province's retirement system. However, there was concern that OMERS members would end up having to make additional pension contributions to the ORPP, increasing costs for both employers and employees.

MEPCO continues to analyze how CPP enhancements will impact the OMERS Plan. In November 2016, MEPCO's Board agreed on an official position that will guide AMO's OMERS representatives on this matter: 1) the OMERS Plan should be fully integrated with the CPP; and 2) the OMERS Plan formula be amended so as to minimize the costs of integration to employers and Plan members. If the two plans are not fully integrated, CPP enhancements could lead to higher costs for OMERS employers and employees.

Regular dialogue supports a positive relationship with OMERS

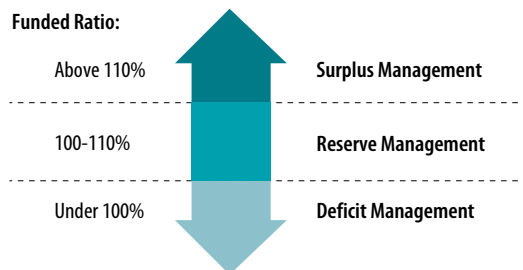
MEPCO continued its positive working relationship with OMERS throughout 2016. Representatives from OMERS, including the President and CEO, the Administration Corporation Board Chair and the Vice President of Pension Services delivered presentations to the MEPCO Board at three out of four Board meetings held in 2016. This engagement is important to help senior OMERS officials gain a better understanding of municipal employer perspectives on OMERS initiatives as we work toward the shared goal of a healthy, fully-funded OMERS Pension Plan.

Monitoring key OMERS initiatives

Part of MEPCO's regular work is to monitor and analyze key OMERS initiatives that could impact Plan health and municipal costs. In 2016 these initiatives included:

- **Implementation of the Funding Management Strategy (FMS).** The FMS was adopted in 2015 and describes what will happen to benefits and contributions as the Plan moves through periods of funding deficit and surplus, and importantly, includes a cap on contribution rates and the establishment of a reserve fund. The FMS is a major step forward for employers and employees in managing budgets, because it provides greater certainty on the cost of contributing to OMERS.

Funding Management Strategy



- **Specified Plan Changes.** The Sponsors Corporation (SC) did not consider any Plan changes for 2016.
- **Implementation of the OMERS Investment Strategy.** OMERS reported a very positive 10.3% investment return for 2016. The Plan is reliant on continuing to meet annual investment return targets to bring it back to full funding by 2025.

- **Membership growth strategy.** OMERS explored the possibility of improving Plan sustainability by making it mandatory for non full-time employees to contribute to the Plan. MEPCO maintains that this initiative would increase employer costs with no positive impact on Plan health. Other sustainability approaches, such as temporary changes to the indexation rate, would have a much bigger impact.

Keeping you informed

Pension-related matters are complex, yet a small contribution rate change could have a major financial impact on a municipality's budget. MEPCO continues to work hard to make sure that municipal employers have the information that they need to understand the complicated world of public sector pensions. In 2016, MEPCO kept members informed by:

- Regularly answering individual inquiries from members.
- Providing regular updates and analysis on OMERS developments and on developments in the public sector pension environment.
- Hosting an education session at the 2016 AMO Conference in Windsor.
- Maintaining our website, www.mepco.ca, that includes key information and resources for municipal employers.
- Posting the MEPCO Annual Report on the website.
- Sharing updates and news through Twitter: [@theMEPCO](https://twitter.com/theMEPCO).

Strengthening Plan Health through Modified Inflation Indexing

In early 2017, the Sponsors Corporation (SC) began considering a proposal for Modified Inflation Indexing (MI²).

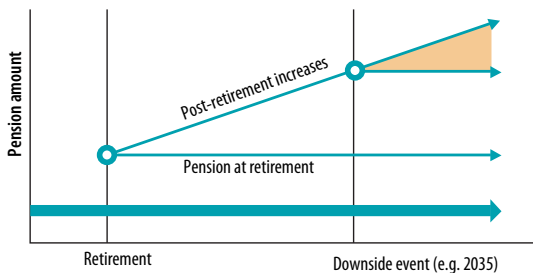
What is MI²?

Modified Inflation Indexing would give the SC Board the option to change future indexation levels, retroactively, if necessary. It would operate as a safety valve that could be used in the event of a major market downturn. If approved, MI² would apply only to benefits earned after the Plan is amended. Any benefits already accrued would not be impacted.

How MI² would work for Plan members?

Currently, benefits are indexed at 100% of the rate of inflation. Modified Indexation will not decrease pensions. It simply means that, if implemented, pensions would increase at a slower rate for a period of time, until full indexation is restored. Other comparable Ontario public sector pension plans have similar measures in place.

Considering the Impact – Post-amendment Pension



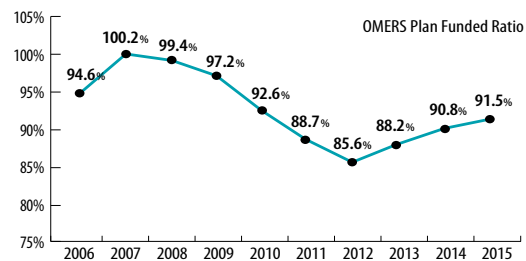
Why is MI² needed?

Simply put, MI² would improve Plan sustainability without decreasing benefits. It will help ensure that the Plan can live up to its promise and weather the next economic storm without massive contribution rate increases. MEPCO has been concerned with the 100% rate of indexation for some time. It's been in

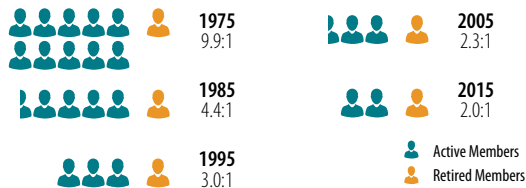
effect since the pension contribution rate holiday in the 1990s and was held in place even through the 2008 economic downturn. Other public sector plans have had similar indexation measures in place for several years. ***This isn't a radical proposal, it's a common sense approach to dealing with long-term sustainability, which is in the interest of both OMERS employers and employees.***

The Plan is currently in a deficit position and OMERS projects a return to full funding by 2025, provided that investment returns stay on target and benefits or assumptions do not change. However, it's difficult to project global economic performance over the next decade. It is risky to rely only on investment returns alone with no safety valve in the case of an economic downturn.

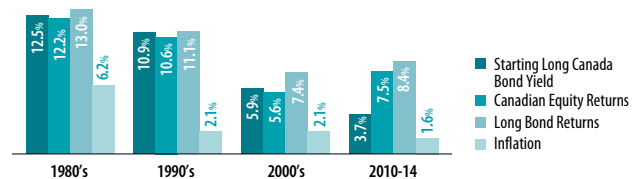
OMERS Funded Status Now Trending Upwards



Aging Population – Decline in Ratio of Actives Members



Stresses – Lower Rates and Lower Returns



Source: Canadian Institute of Actuaries, Report on Canadian Economic Statistics

MEPCO's Objectives and Priorities for 2017

Monitor OMERS Developments

As part of its regular work, MEPCO tracks OMERS-related developments and analyzes any possible impact on municipal employers. For 2017, MEPCO is monitoring the following OMERS initiatives and will report back to members with analysis, as appropriate:

- Progress in implementing the OMERS 2020 Strategy, a five-year plan that sets out how the Plan will reach full funding by 2025 and manage costs.
- Progress in implementing the Funding Management Strategy (FMS), approved in 2014. The FMS describes what will happen to benefits and contributions as the Plan moves through periods of deficit and surplus. It establishes a cap on contribution rates and is a major step toward a more sustainable OMERS Plan.
- The performance of the OMERS Investment Strategy and the focus on risk management. The Investment Strategy is a key component of achieving a fully funded Plan by 2025.
- Strategies to improve Plan sustainability through membership growth. This includes assessing the non full-time employee trend review and its impact on Plan sustainability.
- Integration of Canada Pension Plan (CPP) enhancements with the OMERS Plan.
- The OMERS Plan modernization study to assess trends impacting future municipal service delivery and organizational structure.
- Specified Plan Change (SPC) proposals, such as moving paramedics from Normal Retirement Age (NRA) 65 to NRA 60.

Continue to Engage Directly with OMERS Senior Staff

As part of its 2017 Work Plan, MEPCO will continue to engage directly with the Administration Corporation (AC) Board Chair, senior Sponsors Corporation (SC) staff, the OMERS President and CEO and other senior staff. This open dialogue has created a positive working relationship as both groups work toward achieving the shared goal of a healthy, fully funded, OMERS Pension Plan.

Monitor Public Sector Pension Developments

Changes in the public sector pension environment, including any new legislation or changes to the CPP can impact the OMERS Plan. MEPCO will continue to monitor and analyze these developments and report back to members.

Proposal to Introduce Modified Inflation Indexing

In early 2017, the SC Board began considering a proposal for Modified Inflation Indexing (MI²). MEPCO has been calling for a review of the indexation rate for some time, so this new proposal is welcome news. MEPCO will monitor the proposed MI² and report back to members on any new developments. More information about Plan indexation is available on page 7.

Improving Member Engagement

MEPCO plans to engage with its members in a more meaningful way in 2017. Pension matters are complex. Add in the fact that individual municipal councils have virtually no say in OMERS-related decisions and it's clear that many elected officials and municipal staff members are not motivated to learn more about MEPCO's work. In spite of this, changes to the OMERS Plan can have huge impacts on municipal budgets. It's important to stay informed and MEPCO Plans to seek out new educational and engagement opportunities with its members in 2017. Stay tuned for more information.

MEPCO Board of Directors



MEPCO Chair, Doug Reycraft served as AMO President from 2006-2008 and on AMO and the Federation of Canadian Municipalities' Boards. A retired teacher, Reycraft formerly served as Mayor of Southwest Middlesex and as Councillor for the County of Middlesex.



MEPCO Vice Chair, Peter Hume is a former Councillor for the City of Ottawa. He is a past President of AMO and served in that role for most of the August 2008 – August 2011 term. Mr. Hume was 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).



Manon Harvey (CPA, CA, ICD.D) is Vice President of 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 is a member of the RCMP and the CSIS Departmental Audit Committees and served on the Retirement Plan Committee of Universities Canada (previously 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). Mr. Héту retired from the MEPCO Board in 2017.



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, the City of Burlington, the Town of Aurora, the Town of Orangeville and the Town of Huntsville. Mr. Moyle was the Chair of the former Joint Employer Steering Committee on OMERS governance.

BOD, continue on page 10



Gretchen Van Riesen is a pension and benefits consultant with over 40 years of pension and benefits experience. Retired in 2007 from her role as Vice President Global Pension and Benefits at CIBC, Gretchen was responsible for benefits policy and design, and pension investment and governance. Gretchen is currently a consultant to the Pension Investment Association of Canada and sits on a number of pension-related and not for profit boards, including the Board of Trustees of the Colleges of Applied Arts and Technology (CAAT) Pension Plan (2015); and the Board of the Teachers Pension Plan Corporation of Newfoundland and Labrador (2016). She is currently a member of the Investment Advisory Committee of the Financial Services Commission of Ontario.



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 a number of other boards and committees dealing with investment and portfolio management issues. 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 Willis 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.



Rick Goldring is the Mayor of the City of Burlington. He took his oath of office for his second term on December 1, 2014. Prior to being sworn in as Mayor in 2010, he served as the Ward 5 City & Regional Councillor for four years. As Mayor, Rick serves as a member of the Halton Regional Council, is on the Board of Directors for the Burlington Economic Development Corporation and Burlington Hydro, and is Chair of the Association of Ontario Municipalities (AMO) Large Urban Caucus. Rick is also a member of the Big Cities Mayor Caucus of Ontario and Chair of its Subcommittee on Emergency Services.



John Skorobohacz is a seasoned municipal administrator. He is the Chief Administrative Officer (CAO) of the Town of Midland and is past CAO for the Town of Innisfil and the City of Windsor. A proven strategic and creative problem solver, Mr. Skorobohacz currently serves on the Board of the Ontario Municipal Leadership Institute. He is also a member of the Board of the United Way of Greater Simcoe County/Muskoka.



Marianne Love (LLB) is Co-Chair of the OMERS Sponsors Corporation and also Co-Chairs the OMERS Joint Council. She is a Senior Consultant for Gallagher 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 more than 25 years of experience working and consulting in municipal government.



Barry Brown (LLB) has more than 30 years of experience as a leading labour and employment lawyer. He was a partner at Hicks Morley LLP, a firm dedicated to representing employers on human resources law and advocacy issues. Mr. Brown was consistently recognized as one of the best lawyers in Canada by both the Canadian Legal Expert Directory and The Best Lawyers in Canada. He has been a member of the Sponsors Corporation since January 2015.



Penny Somerville (FCPA, ICD.D) is a retired senior executive with more than 25 years of experience in Canada's financial services sector. She spent 27 years with BMO Financial Group holding various executive positions with wide-ranging responsibilities, including Executive Vice President and Treasurer. Ms. Somerville is currently a member of Cidel Bank Canada's Board and Governance and Conduct Review Committee and Chair of its Audit Committee, and Runnymede Healthcare Centre's Board and Finance Committee. In 2011, she became a Fellow of the Institute of Chartered Professional Accountants of Ontario.

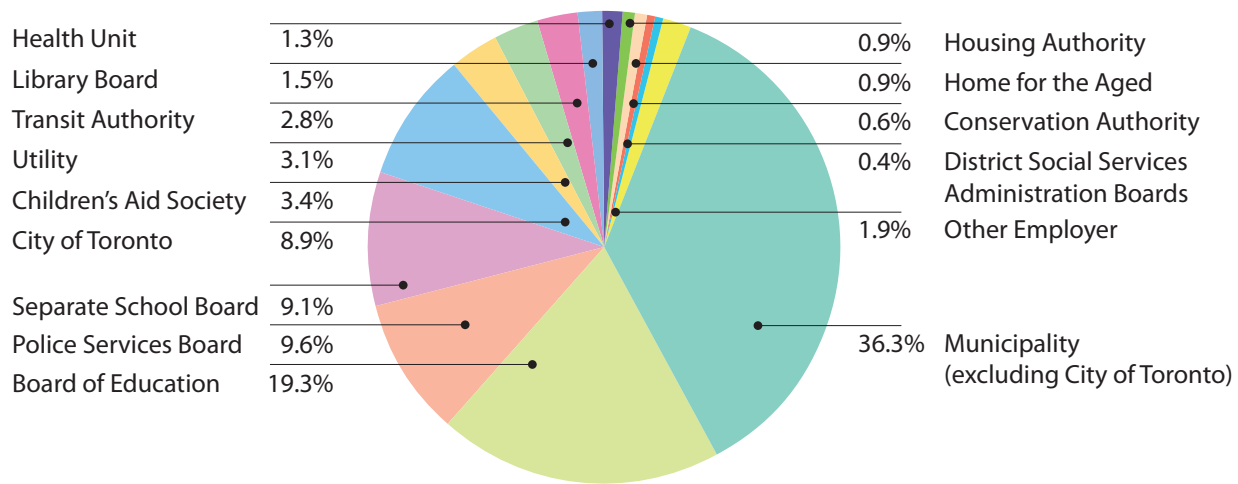


Michael Fenn (MA, AMCT) works as a management consultant. He was an Ontario Deputy Minister under three Premiers, following which he served as CEO of several Crown agencies. His municipal career included being City Manager of Burlington and later CAO of Hamilton-Wentworth Region. He has been profiled with a chapter in Professor David Siegel's new book "Leaders in the Shadows." Mr. Fenn has written extensively on investment in public infrastructure. In 2010, he was one of two Ontarians named to the Association of Municipalities of Ontario's Honour Roll. On the OMERS Board, he serves on the Governance Committee and chairs the Board's Technology Committee.

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 **\$85.2 billion in net investment assets** and serves nearly **1,000 employers** and more than **470,000 active members**, retirees and survivors.

Employers Affiliation (as of December 31, 2016, OMERS Statistics)



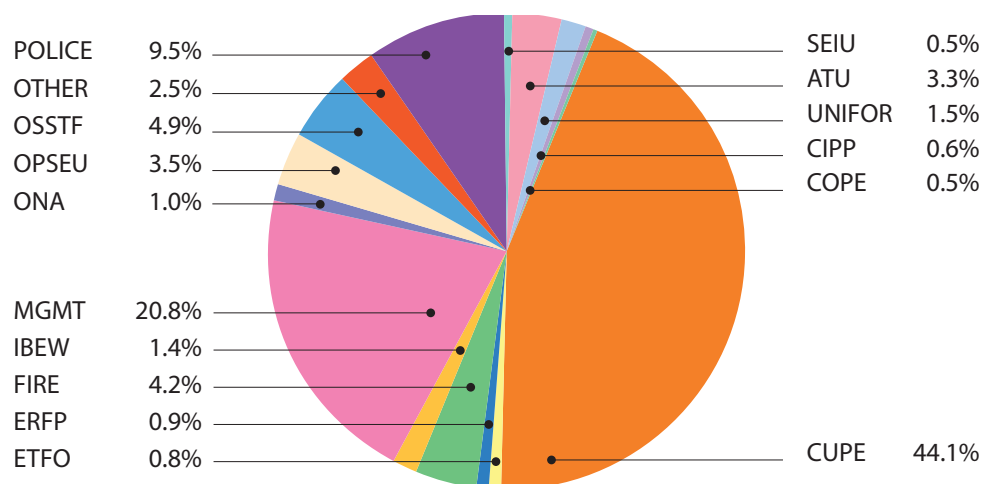
Number of Active Members in OMERS Employer Groups

EMPLOYER CATEGORY	Active Members	% of Active OMERS Members
Municipality (excluding City of Toronto)	99,110	36.3%
Board of Education	52,688	19.3%
Police Services Board	26,191	9.6%
Separate School Board	24,860	9.1%
City of Toronto	24,391	8.9%
Children's Aid Society	9,182	3.4%
Utility	8,349	3.1%
Transit Authority	7,590	2.8%
Library Board	3,986	1.5%
Health Unit	3,525	1.3%
Housing Authority	2,479	0.9%
Home for the Aged	2,422	0.9%
Conservation Authority	1,793	0.6%
Social Services Administration Boards	1,098	0.4%
Other Employer [†]	5,159	1.9%
Total Active Members (excluding members on disability waiver)	272,823	100%

[†]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, 2016, OMERS Statistics)



Member Affiliation Breakdown

EMPLOYER CATEGORY	Active Members	% of Active OMERS Members
CUPE – Canadian Union of Public Employees	120,287	44.1%
MGMT/NON-UNION – Management/Union Exempt/Non-Union	56,692	20.8%
POLICE – Police Associations of Ontario	25,905	9.5%
OSSTF – Ontario Secondary School Teachers’ Federation	13,317	4.9%
FIRE – Ontario Professional Fire Fighters Association	11,430	4.2%
OPSEU – Ontario Public Service Employees Union	9,638	3.5%
ATU – Amalgamated Transit Union	8,922	3.3%
UNIFOR – Auto, Communications, Energy and Paper Workers Union	4,171	1.5%
IBEW – International Brotherhood of Electrical Workers	3,705	1.4%
ONA – Ontario Nurses Association	2,653	1.0%
ERFP – Educational Resource Facilitators of Peel	2,524	0.9%
ETFO – Elementary Teachers’ Federation of Ontario	2,302	0.8%
CIPP – Civic Institute of Professional Personnel	1,700	0.6%
SEIU – Service Employees International Union	1,455	0.5%
COPE – Canadian Office and Professional Employees Union	1,297	0.5%
OTHER – Employee affiliations with fewer than 1,000 members each	6,825	2.5%
Total Active Members	272,823	100%

Source: www.OMERS.com

OMERS Plan Governance

The Ontario Municipal Retirement System (OMERS) is governed by two corporate Boards. The Sponsors Corporation (SC) is responsible for Plan design, including changes to contribution rates. The Administration Corporation (AC) is responsible for the Plan's day to day operations, including managing investment strategy, Plan valuation and benefit administration. The two Boards are made up of employee and employer representatives. AMO represented municipal employers with two members on each Board. MEPCO is the key resource and advisor to AMO's representatives.

2016/2017 Sponsors Corporation Board of Directors

Employer Representatives	Plan Employee Representatives
Marianne Love (Co-Chair) Association of Municipalities of Ontario (AMO)	Frank Ramagnano (Co-Chair) Ontario Professional Fire Fighters' Association (OPFFA)
Frederick Biro Ontario Association of Police Services Boards (OAPSB)	Dan Axford Police Association of Ontario (PAO)
Barry Brown Association of Municipalities of Ontario (AMO)	Paul Bailey Retiree - 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)	Tim Maguire Canadian Union of Public Employees (CUPE) Local 79
Pete Derochie Ontario Catholic School Trustees' Association (OCSTA)	John Weatherup Canadian Union of Public Employees (CUPE) Ontario
Joe Pennachetti City of Toronto	Sandra Sahli Ontario Secondary School Teachers' Federation (OSSTF)

2016/2017 Administration Corporation Board of Directors

George Cooke (Chair)

Monty Baker Ontario Association of Police Services Boards (OAPSB)	Bill Aziz Ontario Professional Fire Fighters Association (OPFFA)
David M. Beatty City of Toronto	Charlene Mueller (from April 2016) Canadian Union of Public Employees Ontario (CUPE)
William (Bill) Butt Electricity Distributors' Association (EDA)	Laurie Hutchinson Ontario Public Service Employees Union (OPSEU)
Michael Fenn Association of Municipalities of Ontario (AMO)	Eugene Swimmer Police Association of Ontario (PAO)
Cliff Inskip Ontario Catholic School Trustees' Association (OCSTA) and the Ontario Public School Boards' Association (OPSBA)	David Tsubouchi Retiree Organization
Jim Phillips Ontario Association of Children's Aid Societies (OACAS)	Paul Elliot (from January 2017) Ontario Secondary School Teachers' Federation (OSSTF)
Penny Somerville Association of Municipalities of Ontario (AMO)	Darcie Beggs (from January 2017) Canadian Union of Public Employees Ontario (CUPE)
	Sheila Vandenberg (to December 2016) Ontario Secondary School Teachers' Federation (OSSTF)
	John Weatherup (to December 2016) Canadian Union of Public Employees Ontario (CUPE)

Financial Statements

Municipal Employer Pension Centre of Ontario

December 31, 2016

Independent Auditor's Report	16
Statement of Operations	17
Statement of Changes in Net Assets	17
Statement of Financial Position	18
Statement of Cash Flows	19
Notes to Financial Statements	20-22



Grant Thornton

Grant Thornton LLP
Suite 200
15 Allstate Parkway
Markham, ON
L3R 5B4

T +1 416 366 0100
F +1 905 475 8906
www.GrantThornton.ca

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, 2016 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, 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.

Toronto, Canada
May 15, 2017

Grant Thornton LLP
Chartered Professional Accountants
Licensed Public Accountants



Municipal Employer Pension Centre of Ontario Statement of Operations

Year ended December 31	2016	2015
Revenue		
Municipal contributions	\$ 590,410	\$ 601,109
Interest earned	<u>12,668</u>	<u>14,840</u>
	<u>603,078</u>	<u>615,949</u>
Expenses		
Administration (Note 4)	425,338	419,446
Consultants expense	47,172	62,318
Board expense	83,052	85,436
Communications expense	21,645	24,155
OMERS Sponsor Corporation Board Member Allowance	<u>62,581</u>	<u>66,339</u>
	<u>639,788</u>	<u>657,694</u>
Deficiency of revenue over expenses	\$ <u>(36,710)</u>	\$ <u>(41,745)</u>

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

	Internally restricted			Total 2016	Total 2015
	Arbitration and Mediation Reserve	Wind-Up Reserve	Unrestricted		
Balance, beginning of year	\$ 495,548	\$ 321,893	\$ 255,814	\$ 1,073,255	\$ 1,115,000
Deficiency of revenue over expenses	-	-	(36,710)	<u>(36,710)</u>	<u>(41,745)</u>
Balance, end of year	\$ <u>495,548</u>	\$ <u>321,893</u>	\$ <u>219,104</u>	\$ <u>1,036,545</u>	\$ <u>1,073,255</u>

See accompanying notes to the financial statements.



Municipal Employer Pension Centre of Ontario Statement of Financial Position

December 31

2016

2015

Assets

Current

Cash	\$ 33,658	\$ 68,839
Investments (Note 3)	1,038,991	1,009,359
Accounts receivable	3,531	12,177
Prepaid expenses	<u>9,046</u>	<u>4,747</u>
	<u>\$ 1,085,226</u>	<u>\$ 1,095,122</u>

Liabilities

Current

Accounts payable and accrued liabilities	\$ 27,192	\$ 19,460
Due to AMO (Note 4)	<u>21,489</u>	<u>2,407</u>
	<u>48,681</u>	<u>21,867</u>

Net assets

Internally restricted (Note 6)

Arbitration and Mediation Reserve	495,548	495,548
Wind-Up Reserve	321,893	321,893
Unrestricted	<u>219,104</u>	<u>255,814</u>

	<u>1,036,545</u>	<u>1,073,255</u>
	<u>\$ 1,085,226</u>	<u>\$ 1,095,122</u>

On behalf of the Board of Directors

Director

Director

See accompanying notes to the financial statements.

Municipal Employer Pension Centre of Ontario
Statement of Cash Flows

Year ended December 31	2016	2015
Increase (decrease) in cash		
Operating		
Deficiency of revenue over expenses	\$ (36,710)	\$ (41,745)
Change in non-cash working capital		
Accounts receivable	8,646	(10,250)
Prepaid expenses	(4,299)	(1,872)
Accounts payable and accrued liabilities	7,732	7,211
Due to AMO	<u>19,082</u>	<u>(362)</u>
	(5,549)	(47,018)
Investing		
Investments	<u>(29,632)</u>	56,061
Net change in cash	(35,181)	9,043
Cash, beginning of year	<u>68,839</u>	<u>59,796</u>
Cash, end of year	<u>\$ 33,658</u>	<u>\$ 68,839</u>

See accompanying notes to the financial statements.

Municipal Employer Pension Centre of Ontario

Notes to Financial Statements

December 31, 2016

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 Canadian 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 which are initially measured at fair value and subsequently 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 Financial Statements

December 31, 2016

3. Investments

One Investment High Interest Savings Account (HISA) bearing interest at bank prime less a variable interest rate ranging from 1.55% to 1.70% depending on the total portfolio balance. The average rate of return for 2016 was 1.10%.

4. Related party transactions

Included in administration expense is \$396,415 (2015 - \$390,426) 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 6) 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. Net assets internally restricted

Arbitration and Mediation Reserve

The Board of Directors ("Board") 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 prior to use.

Wind-Up Reserve

The Board has set aside funds for the eventual wind-up of MEPCO. Each year, management will reassess the necessary reserve and based on that assessment, transfer an amount to the reserve subject to the surplus available. The Board has approved that this transfer would be based on management's assessment.

Municipal Employer Pension Centre of Ontario

Notes to Financial Statements

December 31, 2016

7. 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, 2016, the allowance for doubtful accounts is \$Nil (2015 - \$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.

8. Comparative figures

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

MEPCO
MUNICIPAL EMPLOYER
PENSION CENTRE ONTARIO

www.mepco.ca