

The background of the cover features a series of overlapping, semi-transparent teal and blue curved shapes that create a sense of depth and movement. The text is centered in the upper half of the page.

MEPCO

**MUNICIPAL EMPLOYER
PENSION CENTRE ONTARIO**

ANNUAL REPORT 2017

Table of Contents

Letter from the Chair and President	3
About MEPCO	4
Key Developments in 2017 and MEPCO's Work	5
OMERS Comprehensive Plan Review	7
MEPCO's Objectives and Priorities for 2018	9
MEPCO Board of Directors	10
AMO's Representatives on the OMERS Sponsors Corporation	11
Facts about OMERS	13
OMERS Plan Governance	14
Auditor's Report	17
Financial Statements	18

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 brings the municipal perspective to OMERS-related decisions. More than 35% of OMERS' 276,000 active members work for municipal governments. However, individual municipalities have virtually no say in Plan decisions that could have a major impact on a local budget.

The Board's work in 2017 reflects one of MEPCO's key goals: to achieve a healthy, sustainable OMERS Pension Plan. One major development over the past year was the launch of the Comprehensive Plan Review (CPR) process. This is the first full review of the Plan in more than 50 years. MEPCO strongly believes that all Plan sponsors should work together to complete the Review as anticipating and managing current and future challenges is a pension plan best practice.

It's no secret that OMERS, like all public sector pension plans, faces challenges. The global economy and Plan demographics have changed significantly since the Plan was launched in the 1960s. Members are retiring earlier and living longer, leaving fewer active employees to support a growing group of retirees. In fact, 40 years ago there were about nine active members for every retiree. Today that ratio is less than 2:1. By 2030 it's expected to be 1:1. This means that the Plan must rely more on investment returns than ever before. When you consider these challenges in the context of ongoing volatility in our global markets, it is clear that change is needed to achieve a more stable Plan for all members. You can read more about the CPR on page 7 or by visiting www.mepco.ca.

MEPCO exists thanks to voluntary contributions from member municipalities, though all municipal employers benefit from our work. We continue to provide value for our members by providing expert advice and resources to AMO's four OMERS representatives. Additionally, MEPCO issues detailed updates on OMERS developments and on developments in the public sector pension environment. We also work directly with municipal staff to answer questions and provide resources, and maintain key information on www.mepco.ca. In 2018 MEPCO's Board is focused on providing unique updates and information for our paying members.

We hope that you continue to engage with us throughout 2018 as municipal support is critical to our effective participation in OMERS matters, including the Comprehensive Plan Review.

Sincerely,



Doug Reycraft, *MEPCO Chair*



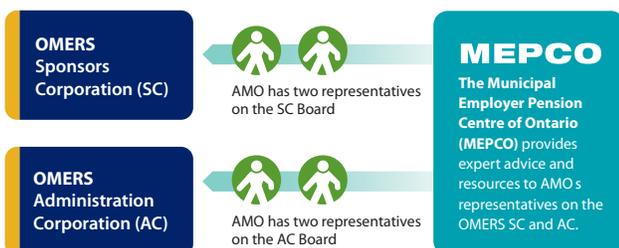
Pat Vanini, *MEPCO President*

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. MEPCO provides municipal employers with support, advocacy and resources on OMERS matters that is equivalent to the level of support provided by other OMERS sponsor organizations, such as employee association.

Individual municipal governments, like individual employees, 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 and on paycheques. MEPCO provides the opportunity for municipal employers to pool resources and speak with one strong, well-informed voice.

MEPCO shares OMERS' goal to ensure 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, investment, membership growth 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. All OMERS member municipalities benefit from MEPCO's work so it is reasonable to expect that they all contribute. In 2017, 95% of these organizations contributed to MEPCO.

Key Developments in 2017 and MEPCO's Work

Providing value for MEPCO members

Much of MEPCO's work happens behind the scenes. Pension matters are complex, but they are critically important to local municipal budgets. All municipal OMERS employers benefit from MEPCO's advocacy and research. In 2017, we provided value for our members by:

- Pushing the municipal employer perspective forward by providing expert advice to AMO's OMERS representatives at four Board meetings.
- Providing six detailed updates on OMERS developments and on developments in the public sector pension environment. Updates are e-mailed to members and posted at www.mepco.ca.
- Working directly with municipal staff to answer questions and provide resources.
- Maintaining key information and resources for municipal employers on our website, www.mepco.ca.
- Sharing updates and news through Twitter: @theMEPCO.

Monitoring Canada Pension Plan Enhancement and its impact on OMERS

In 2016, federal and provincial Ministers of Finance agreed to enhance the Canada Pension Plan (CPP) and improve retirement security. CPP contribution rates will increase between 2019 and 2025 bringing the income replacement rate from 25% to 33%. The OMERS Plan is fully integrated with CPP.

In general, MEPCO supports a stronger retirement system for Ontarians, but enhancement should not lead to higher costs for OMERS members. Currently, the MEPCO Board's official position on CPP enhancement is:

1. The OMERS Plan should be fully integrated with the CPP.
2. The OMERS Plan formula should be amended to minimize the costs of the integration to employers and Plan members by increasing the Yearly Maximum Pensionable Earnings (YMPE) limit.

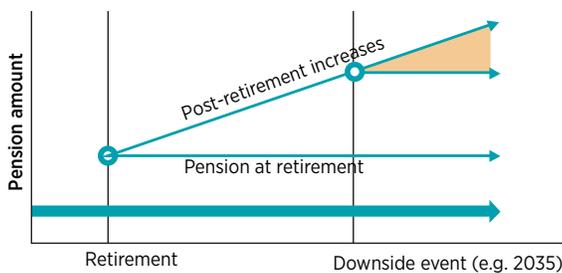
MEPCO's Board will continue to monitor the implementation of CPP enhancement as changes are phased in between 2019 and 2025. The OMERS/CPP integration is now being considered in the context of the Comprehensive Plan Review (CPR). More information about the CPR is available on page 7.

Key Success: MEPCO successfully advocated the adoption of the Primary Plan Funding Management Strategy (FMS). The FMS describes what will happen to benefits and contributions as the Plan moves through periods of funding deficit or surplus. The FMS established a cap on contribution rates of 22.6% (11.3% per side).

Modified Inflation Indexing Proposal (MI2)

In early 2017, the Sponsors Corporation (SC) began considering a proposal that would allow the Board to change future indexing levels, retroactively, if needed, on a temporary basis. This proposal, dubbed MI2, would only apply to benefits earned after it was implemented. The ability to modify indexing levels gives OMERS a sort of “safety valve” that would help the Plan withstand economic downturns without major impacts on benefits or contributions.

Considering the Impact – Post-amendment Pension



MEPCO’s Board has been concerned with the 100% rate of indexing for some time and voiced its strong support for conditional indexing. MI2 is an important lever to improve sustainability without significantly decreasing benefits or contributions at a time when the Plan faces serious pressures. Comparable Ontario public sector pension (Teachers and HOOP) plans have similar measures in place, which have helped return these Plans to full funding or surplus. MI2 is viewed by some Plan sponsors as a “take-away” of benefits. MEPCO strongly disagrees with this characterization and maintains that implementing this Plan change would lead to a healthier, more sustainable OMERS Plan will benefit both employees and employers.

In 2017 further consideration and a decision on MI2 was deferred until after the Comprehensive Plan Review (CPR) is complete. The CPR is underway now and is scheduled to wrap up by June 30, 2018. The Review will determine what changes, if any, should be made to ensure that the Plan is meaningful, affordable and sustainable over the long term.

NRA 60 Paramedics Update

In late 2017, the OMERS Sponsors Corporation (SC) voted on a proposal that would leave it to individual municipalities and their unions to consider Normal Retirement Age 60 for paramedics as part of collective bargaining. Currently, paramedics have a Normal Retirement Age (NRA) of 65. Union representatives have, unsuccessfully, made the “NRA 60 for paramedics” proposal to the SC for several years. MEPCO and AMO have never supported this proposal because of the increased costs for municipal employers and the fact that 30% of current paramedics would not benefit and only 43% may benefit depending on when they choose to retire.

If approved, a member would pay higher contribution rates and may retire up to five years earlier. They could also have NRA 65 service reduced by up to 25% at the date they convert to NRA 60. These requirements may not be attractive to all members. The proposed change could also add to municipal pension costs in the form of increased contributions.

The Sponsors Corporation ultimately voted to defer this proposal until after the Comprehensive Plan Review (CPR) is complete in June 2018.

Continued positive relationship with OMERS

As in previous years, MEPCO continued its strong working relationship with OMERS throughout 2017. OMERS representatives, including the President and CEO, and Chairs of the Sponsors and Administration corporations delivered presentations to the MEPCO Board in 2017. These ongoing discussions demonstrate that OMERS staff value MEPCO’s input on OMERS matters and view the MEPCO Board as a key stakeholder in the Plan’s long-term health and wellbeing.

OMERS Comprehensive Plan Review

In late 2017, the OMERS Sponsors Corporation began a Comprehensive Plan Review (CPR). This is the first full review of the Plan in more than 50 years. The goal of the CPR is to assess the Plan’s long-term sustainability, in light of current and future challenges. Plan demographics and the global economy have changed significantly since OMERS was founded in the 1960s and the CPR will help determine what changes, if any, should be made to ensure that the Plan remains “sustainable, meaningful and affordable for generations to come.”

The CPR will help OMERS:

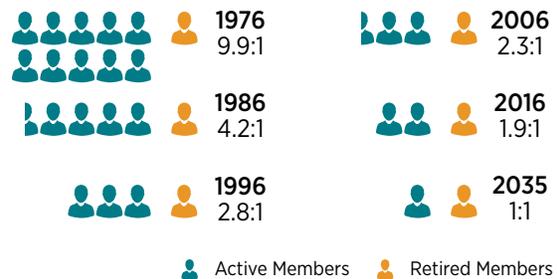
- Fully assess what members, employers and sponsors want and need from the Plan
- Model the Plan’s long-term financial health
- Explore possible risk mitigation and management strategies for specific OMERS challenges

The Challenges

Plan Maturity – the Plan is Aging

There is now a much lower ratio of active, working members to retired members:

Aging Population – Decline in Ratio of Actives Members



In 1976 the ratio was 9:1 (working to retired). In 2030 it’s expected to be 1:1

Why does this matter? The Plan becomes more reliant on investment returns, since there is a smaller active membership base to support Plan contributions. Heavy reliance on investment returns makes the Plan much more vulnerable to economic downturns.

Demographic Changes and Longevity

People are living longer, which means that they spend more years retired. The Plan will have higher liabilities and higher pension costs as it pays out pensions for longer periods of time.

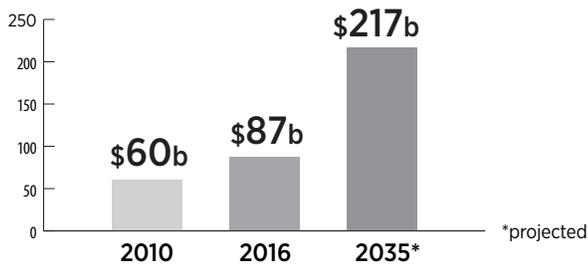
Life Expectancy – 1976 vs 2015



A Changing Workforce

OMERS active membership is likely to shrink over the next 25 years as factors such as technology, privatization and other forces impact employment trends. As the Plan matures, its Liability grows.

OMERS Plan Liability Over Time

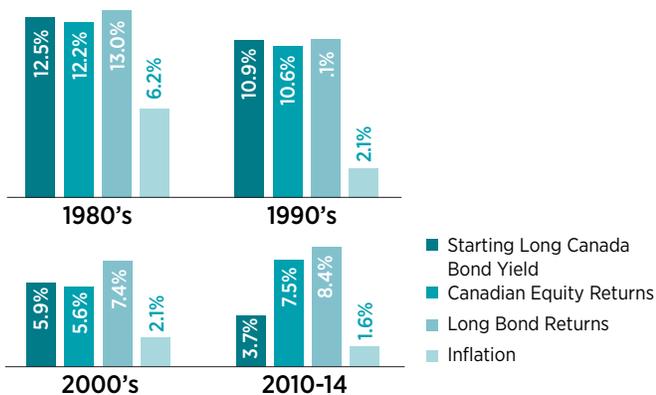


Ultimately, the Plan will face a \$300 billion liability (based on current projected costs).

Market Volatility and Decreased Economic Growth

Economic growth is likely to decrease in developed countries as populations age, leading to lower expected return on investment.

Stresses – Lower Rates and Lower Returns



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

MEPCO's Role

OMERS began reaching out to Plan sponsors in late 2017 and will continue to do so through 2018. Consultations will include one-on-one interviews and individual sponsor meetings, focus groups, surveys and public communications such as website postings. MEPCO will fully participate throughout the consultation process to share the municipal employers' perspective.

MEPCO has long acknowledged that the Plan faces demographic and economic challenges. It currently faces an \$87 billion liability, which is projected to ultimately grow to \$300 billion if no changes are made. Demographic and other pressures are only going to become stronger, so it is necessary to make changes now to improve the Plan's health and long-term sustainability. All Plan sponsors must recognize this need.

Proposed Plan changes identified through the CPR process were considered by the SC Board on June 30, 2018 and will be the subject of consultations with OMERS Plan stakeholder before any final decisions are made.

MEPCO's Objectives and Priorities for 2018

Participate in the Comprehensive Plan Review and analyze any proposed Plan changes

Much of MEPCO's 2018 Work Plan revolves around the Comprehensive Plan Review (CPR) and its possible outcomes. MEPCO will participate fully in the CPR's consultation phase and review its final recommendations. Throughout this phase, the Board will consult with other municipal groups, as appropriate, to further strengthen its municipal perspective. Any proposed Plan changes resulting from the CPR will be analyzed through the lens of the Review and its findings. These changes could include the Modified Indexation Proposal, a proposal to move paramedics to a Normal Retirement Age of 60, and others. The CPR represents an important opportunity to strengthen the Plan's health and sustainability and could result in important Plan change proposals that will each require careful analysis and consideration.

Continue to engage with OMERS

MEPCO will continue its positive relationship with senior staff from the Administration Corporation, the Sponsors Corporation as well as the OMERS President and CEO throughout 2018. In light of the Comprehensive Plan Review, it is important that MEPCO continue to engage with OMERS staff and share information, as appropriate.

Provide value for members

MEPCO has several communications initiatives planned for 2018, including newsletters and updates that will be shared exclusively with contributing members. MEPCO will also continue to keep municipal employers informed by:

- Issuing regular updates and analysis on OMERS developments and developments in the public sector pension environment.
- Hosting a plenary session at the 2018 AMO Conference related to the Comprehensive Plan Review (CPR).
- Answering any individual inquiries.
- Maintaining important information on our website, www.mepco.ca.
- Sharing updates and news through Twitter @theMEPCO.

MEPCO Board of Directors

2017/2018 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.



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.



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.

AMO's Representatives on the OMERS Sponsors Corporation



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.

AMO's Representatives on the OMERS Administration Corporation



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.

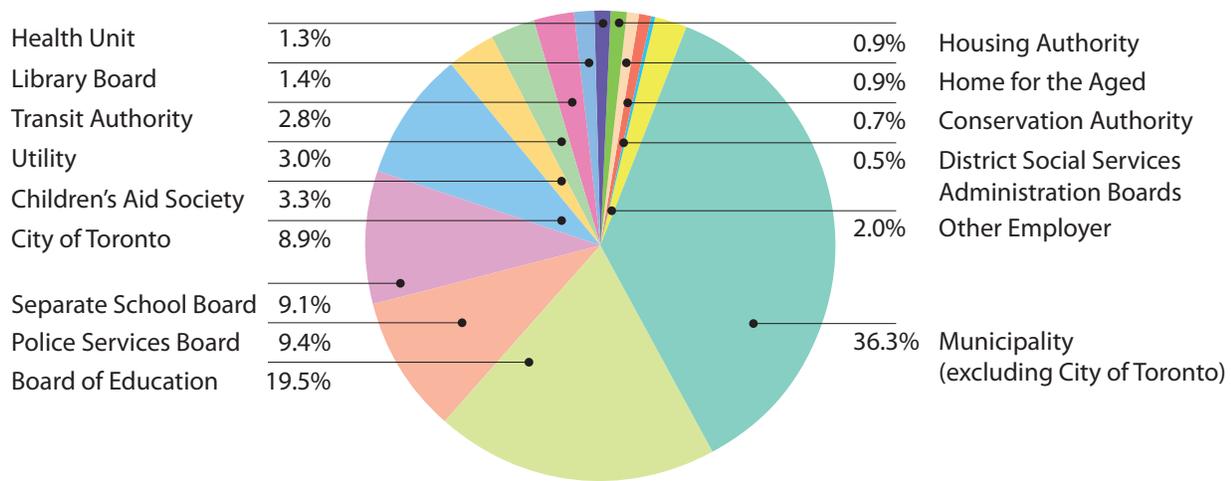


Michael Fenn (MA, AMCT) works as a management consultant. He was an Ontario Deputy Minister under three Premiers, following which he served as CEO of several Crown agencies. His municipal career included being City Manager of Burlington and later CAO of Hamilton-Wentworth Region. He has been profiled 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. The plan has **\$95 billion in net assets** and serves nearly **1,000 employers** and more than **475,000 active members, retirees and survivors**.

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



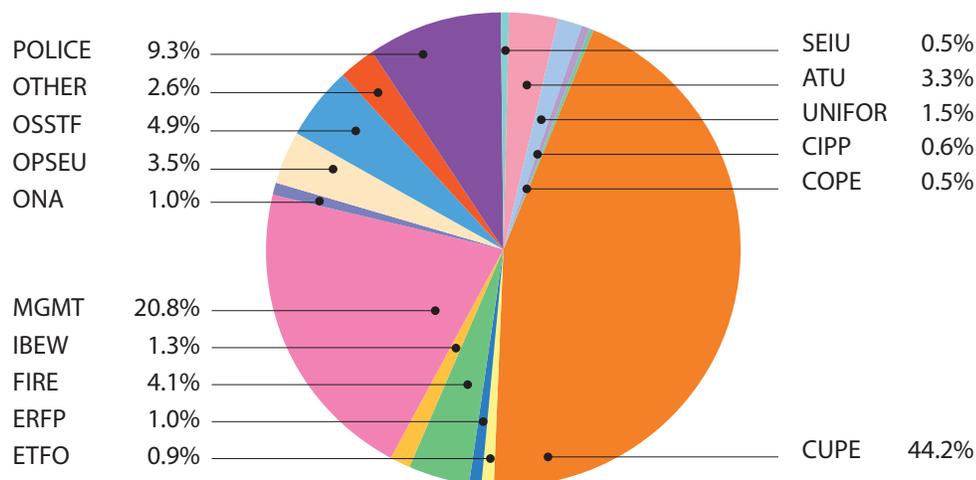
Number of Active Members in OMERS Employer Groups

EMPLOYER CATEGORY	Active Members	% of Active OMERS Members
Municipality (excluding City of Toronto)	100,188	36.3%
Board of Education	53,800	19.5%
Police Services Board	26,951	9.4%
Separate School Board	25,165	9.1%
City of Toronto	24,586	8.9%
Children's Aid Society	9,023	3.3%
Utility	8,248	3.0%
Transit Authority	7,889	2.8%
Library Board	3,994	1.4%
Health Unit	3,502	1.3%
Housing Authority	2,575	0.9%
Home for the Aged	2,400	0.9%
Conservation Authority	1,823	0.7%
Social Services Administration Boards	1,333	0.5%
Other Employer†	5,509	2.0%
Total Active Members (excluding members on disability waiver)	275,986	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	121,845	44.2%
MGMT/NON-UNION - Management/Union Exempt/Non-Union	57,391	20.8%
POLICE - Police Associations of Ontario	25,628	9.3%
OSSTF - Ontario Secondary School Teachers' Federation	13,661	4.9%
FIRE - Ontario Professional Fire Fighters Association	11,447	4.1%
OPSEU - Ontario Public Service Employees Union	9,754	3.5%
ATU - Amalgamated Transit Union	9,126	3.3%
UNIFOR - Auto, Communications, Energy and Paper Workers Union	4,175	1.5%
IBEW - International Brotherhood of Electrical Workers	3,643	1.3%
ONA - Ontario Nurses Association	2,724	1.0%
ERFP - Educational Resource Facilitators of Peel	2,647	1.0%
ETFO - Elementary Teachers' Federation of Ontario	2,425	0.9%
CIPP - Civic Institute of Professional Personnel	1,693	0.6%
SEIU - Service Employees International Union	1,436	0.5%
COPE - Canadian Office and Professional Employees Union	1,322	0.5%
OTHER - Employee affiliations with fewer than 1,000 members each	7,069	2.6%
Total Active Members	275,986	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.

2017/2018 Sponsors Corporation Board of Directors

Employer Representatives	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)
Mary McConville Ontario Association of Children's Aid Societies (OACAS)	Jason Chan Canadian Union of Public Employees (CUPE) Local 79
Charlie Macaluso Electricity Distributors Association (EDA)	Diana Clarke Ontario Public Service Employees Union (OPSEU)
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)

2017/2018 Administration Corporation Board of Directors

George Cooke (Chair)

Employer Representatives	Employee Representatives
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 (2017) 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 Ontario Secondary School Teachers' Federation (OSSTF)
Penny Somerville Association of Municipalities of Ontario (AMO)	Darcie Beggs Canadian Union of Public Employees Ontario (CUPE)
	Yung Wu (from January 2018) Police Association of Ontario (PAO)

Financial Statements

Municipal Employer Pension Centre of Ontario

December 31, 2017

Independent Auditor's Report	17
Statement of Operations	18
Statement of Changes in Net Assets	18
Statement of Financial Position	19
Statement of Cash Flows	20
Notes to Financial Statements	21-23



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, 2017 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, 2017 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 14, 2018

Grant Thornton LLP
Chartered Professional Accountants
Licensed Public Accountants

Municipal Employer Pension Centre of Ontario
Statement of Operations

Year ended December 31	2017	2016
Revenue		
Municipal contributions	\$ 601,844	\$ 590,410
Interest earned	<u>15,519</u>	<u>12,668</u>
	<u>617,363</u>	<u>603,078</u>
Expenses		
Administration (Note 4)	489,201	425,338
Consultants expense	25,748	47,172
Board expense	89,209	83,052
Communications expense	16,446	21,645
OMERS Sponsor Corporation Board Member Allowance	<u>64,434</u>	<u>62,581</u>
	<u>685,038</u>	<u>639,788</u>
Deficiency of revenue over expenses	<u>\$ (67,675)</u>	<u>\$ (36,710)</u>

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

Year ended December 31	<u>Internally restricted</u>			Total	Total
	Arbitration and Mediation Reserve	Wind-Up Reserve	Unrestricted	2017	2016
Balance, beginning of year	\$ 495,548	\$ 321,893	\$ 219,104	\$ 1,036,545	\$ 1,073,255
Deficiency of revenue over expenses	-	-	(67,675)	<u>(67,675)</u>	<u>(36,710)</u>
Balance, end of year	<u>\$ 495,548</u>	<u>\$ 321,893</u>	<u>\$ 151,429</u>	<u>\$ 968,870</u>	<u>\$ 1,036,545</u>

See accompanying notes to the financial statements.



Municipal Employer Pension Centre of Ontario Statement of Financial Position

December 31 2017 2016

Assets

Current

Cash	\$ 51,131	\$ 33,658
Investments (Note 3)	964,510	1,038,991
Accounts receivable	979	3,531
Prepaid expenses	<u>7,709</u>	<u>9,046</u>
	<u>\$ 1,024,329</u>	<u>\$ 1,085,226</u>

Liabilities

Current

Accounts payable and accrued liabilities	\$ 31,533	\$ 27,192
Due to AMO (Note 4)	<u>23,926</u>	<u>21,489</u>
	<u>55,459</u>	<u>48,681</u>

Net assets

Internally restricted (Note 6)

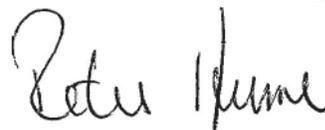
Arbitration and Mediation Reserve	495,548	495,548
Wind-Up Reserve	321,893	321,893
Unrestricted	<u>151,429</u>	<u>219,104</u>

	<u>968,870</u>	<u>1,036,545</u>
	<u>\$ 1,024,329</u>	<u>\$ 1,085,226</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	2017	2016
Increase (decrease) in cash		
Operating		
Deficiency of revenue over expenses	\$ (67,675)	\$ (36,710)
Change in non-cash working capital		
Accounts receivable	2,552	8,646
Prepaid expenses	1,337	(4,299)
Accounts payable and accrued liabilities	4,341	7,732
Due to AMO	<u>2,437</u>	<u>19,082</u>
	(57,008)	(5,549)
Investing		
Investments	<u>74,481</u>	<u>(29,632)</u>
Net increase (decrease) in cash	17,473	(35,181)
Cash, beginning of year	<u>33,658</u>	<u>68,839</u>
Cash, end of year	\$ 51,131	\$ 33,658

See accompanying notes to the financial statements.

Municipal Employer Pension Centre of Ontario

Notes to Financial Statements

December 31, 2017

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 and accounts payable 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, 2017

3. Investments

MEPCO's investments comprise of 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 2017 was 1.36%.

4. Related party transactions

Included in administration expense is \$459,872 (2016 - \$396,415) 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, 2017

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. MEPCO is exposed to interest rate risk on the One Investment High Interest Savings Account.

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, 2017, the allowance for doubtful accounts is \$Nil (2016 - \$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