

# MEPCO MUNICIPAL EMPLOYER PENSION CENTRE ONTARIO





**ANNUAL REPORT 2018** 

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## Letter from the MEPCO Chair and President

MEPCO's key focus in 2018 was the OMERS Comprehensive Plan Review (CPR) – the first review of its kind in more than 50 years. The CPR was a promising opportunity to assess the Plan's health and propose meaningful changes to improve sustainability – a goal that OMERS and MEPCO share.

The year-long CPR process ended with six proposed Plan changes presented to the Sponsors Corporation (SC) Board for consideration. MEPCO, and AMO's SC representatives, endorsed three proposals that were likely to improve Plan sustainability. Plan changes are approved when they are supported by a two-thirds majority of SC Board members. Ultimately, the SC did not approve any of the changes that MEPCO and AMO supported. The two changes that they did approve – allowing paramedics to negotiate Normal Retirement Age 60 (NRA 60) benefits and eliminating the 35-year service cap – could increase costs for both employers and employees. You can learn more about the individual changes on page 6 of this Report.

While the Board was disappointed in the results of the CPR process, our work to improve Plan health and sustainability is far from over. The CPR highlighted the challenges that continue to face OMERS and other public sector pension plans. These challenges are not going away and they cannot be ignored. MEPCO strongly believes that all Plan sponsors are responsible for sustainability and must work together to make meaningful changes to improve Plan health.

MEPCO worked hard to keep members informed throughout the CPR process and will continue that work as approved changes are implemented. In 2018 we issued four member updates, launched our quarterly newsletter and hosted a main-stage session at the AMO Annual Conference. You can access MEPCO's resources any time at www.mepco.ca and staff are always willing to answer your individual questions.

Without voluntary contributions from our members, MEPCO could not do its important work to support municipal employer interests. All municipal employers benefit from MEPCO's expertise, so it's critical that all contribute.

Looking forward to 2019 and 2020, we are more motivated than ever to work toward changes that would improve sustainability and ultimately, create a healthier pension plan for employers and employees today and for generations to come.

Sincerely,

Doug Reycraft, MEPCO Chair

Brian Rosborough, MEPCO President

## **About MEPCO**

The Municipal Employer Pension
Centre of Ontario (MEPCO) is a nonprofit corporation that provides
expert advice and resources to the
Association of Municipalities of
Ontario's (AMO) representatives on
the OMERS Sponsors Corporation (SC)
and Administration Corporation (AC)
Boards. MEPCO was created in 2007
to ensure that AMO is meeting its
statutory obligations as a sponsor of
the OMERS Pension Plan.

Individual municipal governments, like individual employees, have virtually no opportunity to directly influence decisions made by OMERS. 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:

- Analyzing the impact of pension issues on municipal employers.
- Evaluating every proposed Plan change.
- Providing AMO's representatives to OMERS with advice, tools, professional actuarial and legal advice on Plan design, funding, growth and other matters.
- Keeping MEPCO members informed by issuing regular updates.
- Taking part 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 2018, 85% of these organizations contributed to MEPCO.

### Profiling Success: Approval of the OMERS Funding Management Strategy

In 2014, MEPCO and other employer Plan sponsors were instrumental in the approval of a new 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 and surplus, and provides for a contribution rate cap and the establishment of a reserve fund.

MEPCO actively supported the creation of the FMS. It is a major positive step forward for OMERS employers and employees in managing budgets and moved OMERS closer to achieving a more sustainable, affordable and resilient pension Plan. The FMS reflects MEPCO's focus on flexibility in OMERS benefits, funding and investment policy to meet sustainability challenges. MEPCO continues to call for changes that improve Plan sustainability.

## The Comprehensive Plan Review

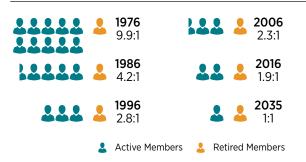
The OMERS Comprehensive Plan Review (CPR) was the first full review of the Plan in more than 50 years. The CPR process was a significant opportunity to improve Plan sustainability, a goal that MEPCO shares with OMERS.

The Review was intended to help the Sponsors Corporation (SC) Board decide what changes, if any, should be made to ensure that the Plan is sustainable and affordable for generations to come. MEPCO, and others, continue to voice concern as the Plan faces ongoing challenges, including:

## **Plan Maturity**

There are now fewer active members to support a growing group of retirees.

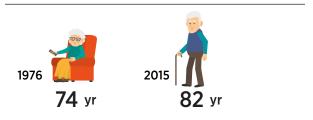
#### Aging Population - Decline in Ratio of Active Members



## **Demographic Changes and Longevity**

People are living longer so 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.

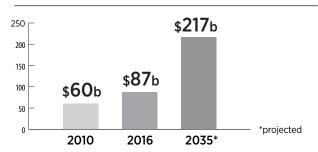
#### Life Expectancy - 1976 vs 2015



## **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. Based on current projected costs, the Plan is on track to face a \$300 billion liability.

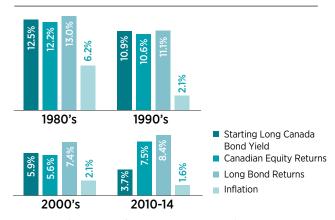
#### **OMERS Plan Liability Over Time**



## 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. In 2018, OMERS achieved a net investment return of only 2.3%. The Plan cannot rely on investment returns alone to improve sustainability and reach funded status.

Stresses - Lower Rates and Lower Returns



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

## **Changes Proposed through the Comprehensive Plan Review**

MEPCO's Board carefully considered all six changes proposed through the CPR process and endorsed three proposals that would improve sustainability.

Change proposed	Supported by MEPCO Board	Change approved by the Sponsors Corporation (SC) Board
<b>Conditional indexing for future service.</b> The ability to modify indexation levels, currently at 100%, would give OMERS a "safety valve" to help the Plan withstand economic downturns without major impacts on benefits or contributions.	Yes.	No.
Fully integrate OMERS with the Canada Pension Plan (CPP). This would save on contribution costs and simplify Plan administration as the CPP is modified to improve retirement security for Canadians.	Yes.	No.
Modification of early retirement subsidies.	Yes.	No.
Allow paramedics to negotiate Normal Retirement Age 60 (NRA 60) benefits. Union representatives have 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.	No.	<b>Yes.</b> To be implemented by January 1, 2021.
Eliminate the 35-year service cap.	No.	<b>Yes.</b> To be implemented by January 1, 2021.
Mandatory Plan participation for non-full-time employees earning more than 35% of the Year's Additional Maximum Pensionable Earnings (YAMPE).	No.	No.

Ultimately, the Sponsors Corporation did not have the two-thirds majority support needed to approve any of the Plan changes that were likely to improve sustainability. The SC voted to approve two changes that could increase costs for employers and employees, including elimination of the 35-year service cap and enabling access to NRA 60 benefits for paramedics.

Despite the disappointing results of the CPR, MEPCO's work to improve Plan sustainability continues. The Board continues to call for commonsense changes that would improve Plan health. All Plan sponsors are responsible for sustainability and MEPCO believes that they should work together to protect the Plan's long-term sustainability for both employees and employers.

<sup>&</sup>lt;sup>1</sup>The Year's Maximum Pensionable Earnings (YMPE) is the earnings limit defined under the Canada Pension Plan. The YAMPE (Year's Additional Maximum Pensionable Earnings) is a new, higher ceiling for earnings on which contributions to CPP will be required. The YAMPE will be phased in over two years beginning in 2019.

## **Key Developments in 2018 and MEPCO's Work**

## **Promoting Municipal Employer Interests**

All municipal OMERS employers benefit from MEPCO's expertise, advocacy and research. In 2018, we provided value for our members by:

- Continuing to promote the municipal employer perspective by providing expert advice to AMO's OMERS representatives at four MEPCO Board meetings.
- Providing extensive input and advice to AMO's SC representatives throughout the CPR process, including holding a special meeting in July 2018.
- Providing four detailed updates on OMERS developments, including the CPR process and OMERS' investment results. Updates are emailed 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.

## Presentation at the 2018 AMO Annual Conference

Paul Harrietha, OMERS Sponsors Corporation CEO, delivered a special presentation on the main stage at the 2018 AMO Conference in Ottawa. The session – Assessing the OMERS Plan Today to Meet the Future – covered information on the CPR process, the challenges facing OMERS, and why it is critical that OMERS makes changes now to improve sustainability.

## **MEPCO Member Newsletter**

In July 2018 we issued the first edition of the MEPCO Member Newsletter. The newsletter provides simple, plain language updates for MEPCO members. The newsletter has been well-received, outpacing the expected open-rate for an AMO electronic publication. Newsletters are issued quarterly shortly after each Board meeting.



## **Ongoing dialogue with OMERS**

Municipal employers are a key stakeholder in the Plan's long-term sustainability. OMERS recognizes this and its staff and executives regularly attend MEPCO Board meetings to provide updates and gather feedback. In 2018, OMERS representatives attended three of four MEPCO Board meetings and provided updates on various OMERS matters:

- March 2018: Paul Harrietha, SC CEO
- March 2018: George Cooke, OAC Board Chair
- May 2018: Chris Vanden Haak, Vice President, Pension Strategy and Governance
- December 2018: George Cooke, OAC Board Chair

## **MEPCO's Objectives and Priorities Going Forward**

## Managing Changes Approved through the Comprehensive Plan Review

Two changes were approved through the CPR process, including allowing paramedics to negotiate Normal Retirement Age 60 (NRA 60) status through collective bargaining, and the removal of the 35-year contribution cap. MEPCO and AMO will work with OMERS to ensure that municipal governments have the information that they need to manage these Plan changes that are scheduled to be implemented by January 2021.

## **Preparing for Future Plan Change Cycles**

The CPR process made it clear that there is a divide among sponsor representatives on the need to make changes that would improve Plan sustainability. Throughout 2019, MEPCO continued to call for the implementation of meaningful sustainability levers as AMO's Sponsors Corporation representatives prepare for the next cycle of Plan changes in 2020.

## **Continue to Engage with OMERS**

MEPCO's Board will continue to welcome participation from OMERS' President and CEO at its quarterly meetings. Ongoing, open communication is key to maintaining a positive relationship with OMERS.

### **Continue to Provide Value for Members**

MEPCO will continue to keep members informed by:

- Issuing regular updates and analysis on OMERS developments and developments in the public sector pension environment.
- Hosting an Insight Breakfast education session at the August 2019 AMO Annual Conference.
- Answering individual inquiries from MEPCO members.
- Maintaining important information on our website, www.mepco.ca.
- Issuing quarterly newsletters for members.
- Launching a LinkedIn account to connect directly with members and stakeholders.

## **MEPCO Board of Directors**

## 2018/2019 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).



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 (CFP,CLU, CH.F.C.) operates Goldring Financial Leadership Inc and has been providing financial and retirement income planning advice to clients since 1979. From 2010-2018, Rick served as mayor of Burlington and between 2014-2018 served on both the Board and Executive of AMO. While mayor, Rick served on the boards of the Burlington Economic Development Corporation, Burlington Hydro and the Burlington Performing Arts Centre. Currently, Rick serves on the Burlington Museums Foundation Board, the Hamilton Health Sciences Foundation Gift Planning Services Committee and is an active member of the Rotary Club of Burlington Lakeshore.



Manon Harvey (CPA,CA, ICD.D) is Director, Integrated Planning and Chief Budget Officer at the Okanagan Campus of the University of British Columbia. She was previously Vice-President of Finance and Corporate Services for the Canada Foundation for Innovation, and Director of Finance for the Children's Hospital of Eastern Ontario. A Chartered Professional Accountant and Certified Director, Ms. Harvey is a Board Member of the pharmaceutical company Medicure Inc. and is a member of the RCMP Departmental Audit Committee and served on the Retirement Plan Committee of Universities Canada 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.



**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.



**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).

## **AMO's Representatives on the OMERS Sponsors Corporation**



**Barry Brown (LLB)** became Co-Chair of the OMERS Sponsors Corporation in 2019. He 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.



Marianne Love (LLB) is the immediate-past Co-Chair of the OMERS Sponsors Corporation (2018) and current Chair of the Sponsors Corporation Risk Oversight Committee. 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.

## **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.

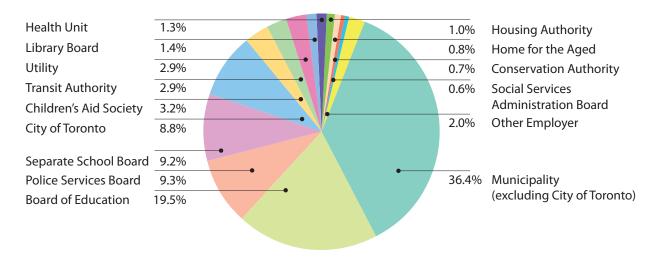


Michael Fenn (MA, AMCT) works as a management consultant. He was an Ontario Deputy Minister under three Premiers, following which he served as CEO of several Crown agencies. His municipal career included being City Manager of Burlington and later CAO of Hamilton-Wentworth Region. He has been profiled 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 represents close to **1,000 employers** and almost **500,000 active members, retirees and survivors**. The Plan's long-term health is fundamental to the well-being of thousands of municipal employees.

## Employers Affiliation (as of December 31, 2018, OMERS Statistics)

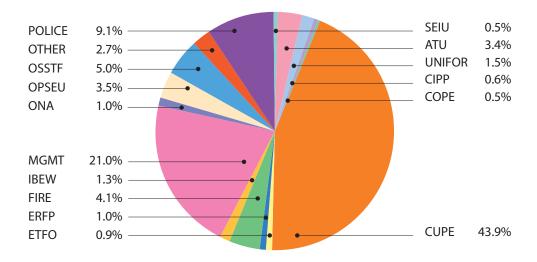


Number of Active Members in OMERS Employer Groups		
EMPLOYER CATEGORY	Active Members	% of Active OMERS Members
Municipality (excluding City of Toronto)	102,244	36.4%
Board of Education	54,871	19.5%
Police Services Board	26,030	9.3%
Separate School Board	25,870	9.2%
City of Toronto	24,790	8.8%
Children's Aid Society	9,045	3.2%
Transit Authority	8,245	2.9%
Utility	8,110	2.9%
Library Board	4,051	1.4%
Health Unit	3,601	1.3%
Housing Authority	2,813	1.0%
Home for the Aged	2,407	0.8%
Conservation Authority	1,897	0.7%
Social Services Administration Boards	1,573	0.6%
Other Employer⁺	5,555	2.0%
Total Active Members (excluding members on disability waiver)	281,102	100%

<sup>&</sup>lt;sup>†</sup>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, 2018, OMERS Statistics)



EMPLOYER CATEGORY	Active Members	% of Active OMERS Members
CUPE - Canadian Union of Public Employees	123,479	43.9%
MGMT/NON-UNION - Management/Union Exempt/Non-Union	58,937	21.0%
POLICE - Police Associations of Ontario	25,586	9.1%
<b>OSSTF -</b> Ontario Secondary School Teachers' Federation	14,175	5.0%
FIRE - Ontario Professional Fire Fighters Association	11,575	4.1%
<b>OPSEU -</b> Ontario Public Service Employees Union	9,981	3.5%
ATU - Amalgamated Transit Union	9,472	3.4%
<b>UNIFOR -</b> Auto, Communications, Energy and Paper Workers Union	4,241	1.5%
IBEW - International Brotherhood of Electrical Workers	3,577	1.3%
<b>ONA -</b> Ontario Nurses Association	2,774	1.0%
<b>ERFP -</b> Educational Resource Facilitators of Peel	2,680	1.0%
ETFO - Elementary Teachers' Federation of Ontario	2,511	0.9%
CIPP - Civic Institute of Professional Personnel	1,696	0.6%
<b>SEIU -</b> Service Employees International Union	1,442	0.5%
<b>COPE -</b> Canadian Office and Professional Employees Union	1,336	0.5%
<b>OTHER -</b> Employee affiliations with fewer than 1,000 members each	7,640	2.7%
Total Active Members	281,102	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 represents municipal employers with two members on each Board. MEPCO is the key resource and advisor to AMO's representatives.

## 2018/2019 Sponsors Corporation Board of Directors

Employer Representatives	Employee Representatives
Barry Brown (Co-Chair) Association of Municipalities of Ontario (AMO)	Frank Ramagnano (Co-Chair) Ontario Professional Fire Fighters' Association (OPFFA)
Marianne Love Association of Municipalities of Ontario (AMO)	Dan Axford Police Association of Ontario (PAO)
Frederick Biro Ontario Association of Police Services Boards (OAPSB)	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)	Jennifer Richards 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)

## 2018/2019 Administration Corporation Board of Directors

George Cooke (Chair)

Employer Representatives	Employee Representatives
Monty Baker Ontario Association of Police Services Boards (OAPSB)	<b>Bill Aziz</b> 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)	Yung Wu 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)



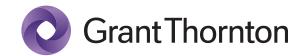
## Financial Statements

## Municipal Employer Pension Centre of Ontario

December 31, 2018

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## Independent Auditor's Report

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To the Members of Municipal Employer Pension Centre of Ontario

### **Opinion**

We have audited the financial statements of Municipal Employer Pension Centre of Ontario ("MEPCO"), which comprise the statement of financial position as at December 31, 2018, and the statements of operations, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of MEPCO as at December 31, 2018, and the results of its operations, changes in net assets and its cash flows for the year then ended in accordance with Canadian accounting standards for not for profit organizations.

#### **Basis for Opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of MEPCO in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing MEPCO's ability to continue as a going concern, disclosing, as applicable, matters related to a going concern and using the going concern basis of accounting unless management either intends to liquidate MEPCO or to cease operations, or has no realistic alternative to do so.

Those charged with governance are responsible for overseeing MEPCO's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance. but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

#### We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 MEPCO's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on MEPCO's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause MEPCO to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Toronto, Canada May 13, 2019

**Chartered Professional Accountants** Licensed Public Accountants

Grant Thornton LLP



Municipal Employer Pension Centre of Ontario Statement of Operations					
Year ended December 31		2018		2017	
Revenue					
Municipal contributions Interest earned	\$	602,894 23,525	\$	601,844 15,519	
		626,419		617,363	
Expenses Administration (Note 4) Board expense OMERS Sponsor Corporation Board Member Allowance Consultants expense Communications expense	_	513,508 83,256 66,103 31,969 24,108		489,201 89,209 64,434 25,748 16,446	
Deficiency of revenue over expenses	\$	(92,525)	\$	(67,675)	

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

Year ended December 31

	Internally r Arbitration Mediation Reserve	estri	cted Wind-Up Reserve	Ur	nrestricted	Total 2018		Total 2017
Balance, beginning of year \$	495,548	\$	321,893	\$	151,429	\$ 968,870	\$	1,036,545
Deficiency of revenue over expenses	<u>-</u>		<u>-</u>		(92,525)	 (92,525)	_	<u>(67,675</u> )
Balance, end of year \$	495,548	\$	321,893	\$	58,904	\$ 876,345	\$	968,870

See accompanying notes to the financial statements.



Municipal Employer Pension Centre of Ontario Statement of Financial Position					
December 31		2018	2017		
Assets Current Cash Investments (Note 3) Accounts receivable	\$	44,230 867,850 1,727	\$ 51,131 964,510 979		
Prepaid expenses		6,357	7,709		
	\$	920,164	\$ 1,024,329		
Liabilities Current Accounts payable and accrued liabilities Due to AMO (Note 4)	<b>\$</b>	20,952 22,867	\$ 31,533 23,926		
		43,819	55,459		
Net assets Internally restricted (Note 6) Arbitration and Mediation Reserve Wind-Up Reserve Unrestricted	\$	495,548 321,893 58,904 876,345 920,164	495,548 321,893 151,429 968,870 \$ 1,024,329		

On behalf of the Board of Directors

See accompanying notes to the financial statements.



Municipal Employer Pension Centre of Ontario Statement of Cash Flows					
Year ended December 31		2018		2017	
(Decrease) increase in cash					
Operating Deficiency of revenue over expenses	\$	(92,525)	\$	(67,675)	
Change in non-cash working capital Accounts receivable Prepaid expenses Accounts payable and accrued liabilities Due to AMO	_	(748) 1,352 (10,581) (1,059) (103,561)	_	2,552 1,337 4,341 2,437 (57,008)	
Investing Investments		96,660		74,48 <u>1</u>	
Net (decrease) increase in cash		(6,901)		17,473	
Cash, beginning of year		51,131		33,658	
Cash, end of year	\$	44,230	\$	51,131	

## **Municipal Employer Pension Centre of Ontario Notes to Financial Statements**

December 31, 2018

#### 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.

### 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, 2018

#### 3. Investments

MEPCO's investments comprise of One Investment High Interest Savings Account (HISA) bearing interest at bank prime rate less 1.535%. The average rate of return for 2018 was 2.09%.

#### Related party transactions

Included in administration expense is \$481,471 (2017 - \$459,872) 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.

### 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.

#### 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.

## **Municipal Employer Pension Centre of Ontario Notes to Financial Statements**

December 31, 2018

#### 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, 2018, the allowance for doubtful accounts is \$Nil (2017 - \$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.

