MUNICIPAL PROPERTY ASSESSMENT CORPORATION

April 29, 2013

To: Heads of Council
All Ontario Municipalities

From: Dan Mathieson
Chair, MPAC Board of Directors

Subject: 2012 Annual Report and Financial Statements

Please find enclosed for your information, the Municipal Property Assessment Corporation's (MPAC) 2012 Annual Report and Financial Statements for the Year Ended December 31, 2012.

These documents have been prepared as required by the *Municipal Property Assessment Corporation Act*. The report is also being provided to the Premier, Minister of Finance, Members of Provincial Parliament and the Association of Municipalities of Ontario. A digital copy of the Annual Report is available here or at www.mpac.ca.

I trust you will find MPAC's activities in 2012, as outlined in the report, to be informative. If you have any questions regarding the reports, please do not hesitate to contact me at 519 271-0250, extension 234, Antoni Wisniowski, President and Chief Administrative Officer, at 905 837-6150, or Arthur Anderson, Director, Municipal Relations, at 905 837-6993.

Yours truly,

Dan Mathieson

Dan Mathieson
Chair, MPAC Board of Directors

Enclosure

Copy Antoni Wisniowski
Arthur Anderson

Municipal Property Assessment Corporation

Financial Statements
December 31, 2012 and December 31, 2011

March 25, 2013

Independent Auditor's Report

To the Directors of
Municipal Property Assessment Corporation

We have audited the accompanying financial statements of Municipal Property Assessment Corporation, which comprise the statements of financial position as at December 31, 2012 and December 31, 2011 and the statements of operations, changes in net assets and cash flows for the years ended December 31, 2012 and December 31, 2011, and the related notes, which comprise 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 audits. We conducted our audits 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Municipal Property Assessment Corporation as at December 31, 2012 and December 31, 2011 and the results of its operations and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with Canadian accounting standards for not-for-profit organizations.

Comparative information
Without modifying our opinion, we draw attention to note 2 to the financial statements, which describes that Municipal Property Assessment Corporation adopted Canadian accounting standards for not-for-profit organizations on January 1, 2012 with a transition date of January 1, 2011. These standards were applied retrospectively by management to the comparative information in these financial statements, including the statements of financial position as at December 31, 2011 and January 1, 2011, and the statements of operations, changes in net assets and cash flows for the year ended December 31, 2011 and related disclosures. We were not engaged to report on the restated opening statement of financial position information as at January 1, 2011 and, as such, it is unaudited.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Municipal Property Assessment Corporation
Statements of Financial Position

(in thousands of dollars)

	December 31, 2012 $	December 31, 2011 $ (restated)	January 1, 2011 $ (restated)
Assets			
Current assets			
Cash	12,632	13,486	31,726
Investments (note 3)	61,247	55,646	35,780
Accounts receivable	2,970	3,731	2,944
Prepaid expenses	2,207	2,206	1,740
	79,056	75,069	72,190
Capital assets (note 4)	17,984	17,972	12,599
Intangible assets (note 5)	910	264	263
	97,950	93,305	85,052
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	21,280	20,322	19,544
Bank loan (note 7)	431	414	909
Deferred revenue	936	815	766
Lease obligations (note 10)	1,228	-	-
	23,875	21,551	21,219
Deferred revenue	2,467	3,524	4,388
Employee future benefits (note 6)	26,439	22,571	19,405
Inducements - rent and renovations	1,593	1,739	1,607
Bank loan (note 7)	37	468	4,165
	54,411	49,853	50,784
Net Assets			
Unrestricted funds	8,741	1,976	335
Reserve for working funds	15,000	16,012	16,198
Reserve for enumeration	2,600	1,300	-
Reserve for corporate projects	-	3,810	4,154
Reserve for assessment update	-	3,000	2,000
Invested in capital and intangible assets	17,198	17,354	11,581
	43,539	43,452	34,268
	97,950	93,305	85,052

Commitments and contingencies (notes 9 and 11)

Approved by the Board of Directors

Daniel B. Mathieson Director _______ Director

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

Municipal Property Assessment Corporation

Statements of Operations

For the years ended December 31, 2012 and December 31, 2011

(in thousands of dollars)

	2012 $	2011 $ (restated)
Revenue		
Municipal	188,769	182,562
Interest	2,256	1,664
Unrealized gains on investments - net	67	1,641
Other	9,139	8,422
	200,231	194,289
Expenses		
Salaries and wages	115,235	108,803
Benefits	29,721	27,001
Office	7,261	6,475
Professional services		
Consulting	1,116	927
Contractor	4,102	3,381
Legal	4,567	3,999
Corporate projects	3,770	4,650
Rentals		
Equipment	1,330	1,349
Facilities	11,015	10,383
Software licences and maintenance	8,154	7,900
Telecommunications and postage	7,211	4,705
Amortization of capital and intangible assets	5,675	4,717
Royalties	936	815
Loss on disposal of assets	51	-
	200,144	185,105
Excess of revenue over expenses for the year	87	9,184

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

Municipal Property Assessment Corporation

Statements of Changes in Net Assets

For the years ended December 31, 2012 and December 31, 2011

(in thousands of dollars)

	2012			2011
	Invested in capital and intangible assets **$**	**Operating funds** **$** (note 8)	**Total** **$**	**Total** **$** (restated)
Net assets - Beginning of year	17,354	26,098	43,452	34,268
Excess (deficiency) of revenue over expenses for the year	(5,726)	5,813	87	9,184
Purchase of capital and intangible assets	6,384	(6,384)	-	-
Incurrence of lease obligation for vehicles accounted for as capital leases	(1,228)	1,228	-	-
Repayment of debt incurred to finance capital and intangible assets	414	(414)	-	-
Net assets - End of year	17,198	26,341	43,539	43,452

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

Municipal Property Assessment Corporation

Statements of Cash Flows

For the years ended December 31, 2012 and December 31, 2011

(in thousands of dollars)

	2012 $	2011 $ (restated)
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses for the year	87	9,184
Add (deduct): Items not affecting cash		
Unrealized gain on investments	(67)	(1,641)
Gain on sale of investments	(1)	-
Employee future benefits expense	3,868	3,166
Amortization of capital assets	4,739	4,247
Amortization of intangible assets	936	470
Loss on disposal of assets	51	-
Amortization of lease inducements	(300)	-
	9,313	15,426
Changes in non-cash working capital		
Accounts receivable	761	(787)
Prepaid expenses	(1)	(466)
Accounts payable and accrued liabilities	958	778
Deferred revenue	(936)	(815)
	10,095	14,136
Investing activities		
Purchase of investments - net	(5,533)	(18,225)
Purchase of capital assets	(3,574)	(9,620)
Purchase of intangible assets	(1,582)	(471)
Receipt of lease inducements	154	132
	(10,535)	(28,184)
Financing activities		
Repayment of bank loan	(414)	(4,192)
Decrease in cash during the year	(854)	(18,240)
Cash - Beginning of year	13,486	31,726
Cash - End of year	12,632	13,486
Supplementary cash flow information		
Interest paid	28	243
Non-cash transactions		
Acquisition of leased vehicles	(1,228)	-
Incurrence of lease obligations	1,228	-

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

(in thousands of dollars)

1 Description of business

The Municipal Property Assessment Corporation (the corporation), formerly the Ontario Property Assessment Corporation, was incorporated effective January 1, 1998 and is a special act corporation under the Municipal Property Assessment Corporation Act, 1997 (Ontario). The corporation is responsible for providing property assessment services for municipalities in the Province of Ontario, as well as providing other statutory duties and other activities consistent with such duties as approved by its board of directors. All municipalities in Ontario are members of the corporation.

2 Summary of significant accounting policies

The financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO).

The significant accounting policies are summarized as follows:

Transition to accounting standards for not-for-profit organizations (ASNPO)

Effective January 1, 2012, the corporation elected to adopt ASNPO as issued by the Canadian Accounting Standards Board. Subject to certain transitional elections, the accounting policies selected under this framework have been applied consistently and retrospectively as if these policies had always been in effect.

The corporation has utilized the following transitional exemptions on the adoption of ASNPO:

- Related party transactions

  The corporation elected not to restate assets or liabilities related to transactions with related parties when the related party transaction occurred prior to the date of transition.

- Financial instruments

  The corporation elected to apply Section 3856, Financial Instruments, from the date of transition rather than to periods before that date.

The impact of the transition to ASNPO on the net assets at the date of transition, January 1, 2011, and the comparative statement of operations is presented below. These accounting changes have been applied retroactively. The following changes have been implemented to comply with ASNPO:

(in thousands of dollars)

a) Statement of operations

	2011 $
Excess of revenue over expenses for the year - as originally reported for operating and restricted funds	6,728
Adjustments to the excess of revenue over expenses for the year on conversion to ASNPO	
Data sharing agreement revenue recognition and deferral (i)	815
Unrealized gains on investments (ii)	1,641
Excess of revenue over expenses for the year - as restated	9,184

b) Net assets

The impact of the transition on the net assets is as follows:

	2011 $
Net assets - Beginning of year - as originally reported for operating and restricted funds	39,422
Adjustments to the net assets on conversion to ASNPO data sharing agreement revenue recognition and deferral (i)	(5,154)
Net assets - Beginning of year - as restated	34,268

i) On transition to ASNPO, the corporation applied the deferral method of accounting for contributions. Funds internally restricted for the purpose of funding future royalty payments and other costs payable under a data sharing agreement with a third party have been retroactively deferred and recognized as revenue when the appropriate payments have been made.

ii) The corporation retroactively recognized unrealized gains and losses on investments in the statements of operations as all changes in fair value relating to financial instruments are required to be recognized in income under ASNPO.

Fund accounting

The corporation previously used the restricted fund method of accounting for revenues. It determined that the deferral method was more appropriate for its operations and decided to adopt this method when it adopted ASNPO. The corporation now follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Contributions for the purchase of capital assets are deferred and amortized into revenue on a straight-line basis at a rate corresponding with the amortization rate for the related capital assets. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

(in thousands of dollars)

Financial instruments

The corporation records cash, accounts receivable, accounts payable and accrued liabilities, bank loan and lease obligations at amortized cost. Amortization is recorded on a straight-line basis.

Investments are recorded at fair value. Financial assets are tested for impairment at the end of each reporting period when there are indications the assets may be impaired.

Capital assets

Capital assets are recorded at cost and are amortized using the straight-line method as follows:

Office equipment	5 years
Furniture and fixtures	5 years
Computer equipment	3 years
Small boats and vessels	3 years
Vehicles under capital lease	5 years

Leasehold improvements are also amortized on a straight-line basis over the term of the lease or ten years, whichever is less.

Intangible assets

Software costs are recorded at cost and are amortized over the licence term or the expected useful life of one year, whichever is shorter.

The costs of developing in-house software are expensed as incurred.

Revenue recognition

Income from assessment services is recognized in the year in which the services are provided.

Interest income is recognized when earned.

Other revenues are recognized when the services have been provided and collection is reasonably assured.

Employee future benefits

The corporation accrues its obligations under employee future benefit plans and the related costs when the benefits are earned through current service.

The cost of post-employment benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimates of retirement ages of employees, expected health-care costs and dental costs.

(in thousands of dollars)

Lease inducements

Deferred lease inducements represent the free rent and improvement allowance received from landlords and are amortized over the term of the lease.

Use of estimates

In preparing the corporation's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Accounts requiring significant estimates include accounts receivable, accrued liabilities, capital assets and employee future benefits.

3 Investments

Investments are primarily in pooled funds comprising a portion of cash, treasury bills, banker's acceptances, securities issued by Canadian federal and provincial governments and Canadian banks, investments in fixed income instruments and investments in equity, which meet the requirements of the corporation's investment policy statement.

In December 2011, in line with the corporation's new investment policy, three new segregated fund accounts were added in the pool in support of the corporation's future benefits obligations as recorded in the non-current liabilities (note 6).

4 Capital assets

			2012
	Cost $	Accumulated amortization $	Net $
Office equipment	1,940	1,538	402
Furniture and fixtures	8,030	6,030	2,000
Computer equipment	32,433	30,033	2,400
Small boats and vessels	42	31	11
Leasehold improvements	20,750	8,807	11,943
Vehicles under capital lease	1,228	-	1,228
	64,423	46,439	17,984

(in thousands of dollars)

			2011
	Cost $	Accumulated amortization $	Net $
Office equipment	2,019	1,456	563
Furniture and fixtures	7,743	5,302	2,441
Computer equipment	30,828	28,139	2,689
Small boats and vessels	39	33	6
Leasehold improvements	19,434	7,161	12,273
	60,063	42,091	17,972

5 Intangible assets

			2012
	Cost $	Accumulated amortization $	Net $
Computer software	15,552	14,642	910

			2011
	Cost $	Accumulated amortization $	Net $
Computer software	13,970	13,706	264

6 Employee future benefits

All employees of the corporation are part of a defined benefit multi-employer benefit plan providing both pension and other retirement benefits. This plan is accounted for as a defined contribution plan in accordance with The Canadian Institute of Chartered Accountants (CICA) Handbook recommendations.

In addition, the corporation has accrued an obligation for other post-employment benefits as follows:

- Employees who transferred to the corporation from the Government of Ontario with less than ten years of service with the province will receive post-retirement group benefit coverage through the corporation for themselves and for their dependants' lifetimes.

- Employees hired by the corporation on or after December 31, 1998 will receive post-retirement group benefit coverage for themselves and for their dependants through the corporation until age 65.

- Employees who transferred to the corporation from the Government of Ontario on December 31, 1998 with ten or more years of service with the province remain covered for post-retirement benefits by the Government of Ontario.

(in thousands of dollars)

- Employees who transferred to the corporation from the Government of Ontario are entitled to receive special termination benefits equal to one week of pay for each year of service up to a maximum of 26 weeks at the end of their employment with the corporation, provided they serve a minimum of five years with the corporation.

- The corporation is a Schedule II employer under the Workplace Safety and Insurance Act (Ontario), 1997 and follows a policy of self-insurance for all its employees.

Information about the corporation's accrued benefit obligations and accrued benefit liabilities is as follows:

	2012 **$**	**2011** **$**
Accrued benefit obligations - Beginning of year	37,584	25,800
Current service costs	1,973	1,181
Interest on accrued obligations	1,799	1,419
Actuarial losses	4,548	9,065
	45,904	37,465
Benefits: Adjustments/payments during the year	(568)	119
Accrued benefit obligations - End of year	45,336	37,584
Unamortized net actuarial losses	(18,897)	(15,013)
Accrued benefit liability	26,439	22,571

Employee future benefits expense recorded during the year is as follows:

	2012 **$**	**2011** **$**
Current service costs	1,973	1,181
Interest on accrued obligations	1,799	1,419
Amortization of actuarial losses	665	446
	4,437	3,046

The significant actuarial assumptions adopted in measuring the corporation's accrued benefit obligations are as follows:

	2012	**2011**
Discount rate	4.2%	4.7%
Health-care inflation - grading down linearly to 5.0% per year over 7 years	8.5%	9.0%
Dental care inflation	4.0%	4.0%

The date of the most recent actuarial valuation of the December 31, 2012 accrued benefit obligations was December 31, 2012.

(in thousands of dollars)

7 Bank loan

The corporation signed an agreement on January 23, 2009, for an unsecured fixed rate term loan at an interest rate of 4.02%, payable by January 27, 2014, in monthly instalments of $37, principal and interest. The loan was obtained to assist with the financing of an enterprise resource planning system that was purchased in 2009 and included in capital assets.

Principal payments required in each of the next two years are as follows:

	$
2013	431
2014	37
	468

(in thousands of dollars)

8 Reserve funds and unrestricted fund

2012

	Unrestricted fund $	Reserve for working funds $	Reserve for enumeration $	Reserve for corporate projects $	Reserve for assessment update $	Total operating fund balance $
Fund balance - Beginning of year	1,976	16,012	1,300	3,810	3,000	26,098
Excess of revenue over expenses for the year	5,813	-	-	-	-	5,813
Purchase of capital and intangible assets	(6,384)	-	-	-	-	(6,384)
Repayment of debt incurred to finance capital and intangible assets	(414)	-	-	-	-	(414)
Incurrence of lease obligation for vehicles accounted for as a capital lease	1,228	-	-	-	-	1,228
Inter-fund transfer from reserve for working funds	1,012	(1,012)	-	-	-	-
Inter-fund transfer from reserve for assessment update	3,000	-	-	-	(3,000)	-
Inter-fund transfer from reserve for corporate projects	3,810	-	-	(3,810)	-	-
Inter-fund transfer to reserve for enumeration	(1,300)	-	1,300	-	-	-
Fund balance - End of year	8,741	15,000	2,600	-	-	26,341

2011

	Unrestricted fund $	Reserve for working funds $	Reserve for enumeration $	Reserve for corporate projects $	Reserve for assessment update $	Total operating fund balance $
Fund balance - Beginning of year	335	16,198	-	4,154	2,000	22,687
Excess (deficiency) of revenue over expenses for the year	14,431	(186)	-	(344)	-	13,901
Purchase of capital and intangible assets	(10,091)	-	-	-	-	(10,091)
Repayment of debt incurred to finance capital and intangible assets	(399)	-	-	-	-	(399)
Inter-fund transfer to reserve for assessment update	(1,000)	-	-	-	1,000	-
Inter-fund transfer to reserve for enumeration	(1,300)	-	1,300	-	-	-
Fund balance - End of year	1,976	16,012	1,300	3,810	3,000	26,098

(in thousands of dollars)

Enumeration reserve

This reserve fund was established in 2011 to fund the costs associated with the preparation of preliminary lists of electors for each municipality and school board for the 2014 provincial elections. The corporation will contribute $1,300 annually to the reserve and will draw down the balance in the election year.

9 Commitments

Lease commitments

The corporation has commitments under various operating leases for property and vehicle leases. Minimum lease payments due in each of the next five years and thereafter are as follows:

	$
2013	6,110
2014	5,369
2015	4,770
2016	4,198
2017	3,358
Thereafter	16,644
	40,449

The corporation is also committed to paying operating costs and property taxes on its various property leases.

Other commitments

During 2012, the corporation entered into one information technology agreement for the development of new software specific to the corporation. Expected payments due on this contract agreement are as follows:

	$
2013	1,181
2014	1,173
2015	293
	2,647

10 Vehicles under capital lease

The corporation entered into several vehicle leases with an interest rate of 3.6% that have a 12-month term. Although the leases are for one year, the corporation has the option to continue leasing the vehicles beyond the initial lease date on a month-to-month basis. Upon termination of the lease, the corporation has guaranteed a certain residual value of the vehicle to the lessor, depending on the ultimate lease term.

If the leases are terminated at the end of the first year, the corporation estimates the required payment for the year to be $990.

(in thousands of dollars)

11 Contingent liabilities and guarantees

The corporation has been named as a defendant in certain legal actions, in which damages have either been sought or, through subsequent pleadings, could be sought. The outcome of these actions is not determinable or is considered insignificant as at December 31, 2012 and accordingly no provision has been made in these financial statements for any liability that may result. Any losses arising from these actions will be recorded in the year the related litigation is settled.

In the normal course of business, the corporation enters into agreements that meet the definition of a guarantee, as outlined in the CICA Handbook. The corporation's primary guarantee subject to the disclosure requirements is as follows:

- The corporation enters into agreements that include indemnities in favour of third parties, such as purchase agreements, confidentiality agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the corporation to compensate counterparties for losses incurred by the counterparties as a result of breaches of contractual obligations, including representations and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of the above indemnifications prevents the corporation from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability, which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the corporation has not made any significant payments under such or similar indemnification agreements and therefore no amount has been accrued in the statements of financial position with respect to these agreements.

12 Financial instruments

Market risk

The corporation's investments are susceptible to market risk, which is defined as the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The corporation's market risk is affected by changes in the level or volatility of market rates or prices, such as interest rates, foreign currency exchange rates and equity prices. The corporation is subject to cash flow interest rate risk due to fluctuations in the prevailing levels of market interest rate sensitive investments. The risk is mitigated through the corporation's investment policy, which requires investments to be held in high-grade, low risk investments.

Credit risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The corporation is exposed to credit risk from banks and debtors. The risk is mitigated in that the corporation conducts business with reputable financial institutions and its debtors are mainly entities within a level of the provincial government.

(in thousands of dollars)

Liquidity risk

Liquidity risk is the risk the corporation will not be able to meet its financial obligations as they come due. The corporation manages liquidity through regular monitoring of forecasted and actual cash flows.

13 Credit facility

The corporation has an unsecured credit facility of $5,000 to be used for its operations, which is renewable annually. As at December 31, 2012, this facility has not been used.

14 Public Sector Salary Disclosure Act, 1996 (Ontario)

The corporation is an employer subject to the Public Sector Salary Disclosure Act, 1996 (Ontario), which requires disclosure of the names of all employees of the corporation who were paid $100 or more in 2012. This information is available on the Ontario Ministry of Finance's website.