MUNICIPAL PROPERTY ASSESSMENT CORPORATION

Municipal Property Assessment Corporation

Financial Statements
December 31, 2011
(in thousands of dollars)

March 29, 2012

Independent Auditor's Report

To the Board of Directors of
Municipal Property Assessment Corporation

We have audited the accompanying financial statements of Municipal Property Assessment Corporation, which comprise the statement of financial position as at December 31, 2011 and the statements of operations and changes in fund balance and cash flows for the year ended 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 generally accepted accounting principles, 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.

PricewaterhouseCoopers LLP, Chartered Accountants
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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, 2011 and the results of its operations and its cash flows for the year ended December 31, 2011 in accordance with Canadian generally accepted accounting principles.

Other matter

The financial statements of Municipal Property Assessment Corporation for the year ended December 31, 2010 were audited by another auditor who expressed an unmodified opinion on those financial statements on March 29, 2011.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Municipal Property Assessment Corporation

Statement of Financial Position

As at December 31, 2011

(in thousands of dollars)

	2011 $	2010 $
Assets		
Current assets		
Cash	13,486	31,726
Investments (note 4)	55,646	35,780
Accounts receivable	3,731	2,944
Prepaid expenses	2,206	1,740
	75,069	72,190
Capital assets (note 5)	17,972	12,599
Intangible assets (note 6)	264	263
	93,305	85,052
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	20,322	19,544
Bank loan (note 8)	414	909
	20,736	20,453
Employee future benefits (note 7)	22,571	19,405
Inducements - rent and renovations	1,739	1,607
Bank loan (note 8)	468	4,165
	45,514	45,630
Fund Balances		
Restricted fund		
Invested in capital and intangible assets	17,354	11,581
Operating funds		
Unrestricted funds	1,976	335
Reserve for working funds	16,012	16,198
Reserve for enumeration (note 9)	1,300	-
Reserve for data sharing agreement (note 9)	4,339	5,154
Reserve for corporate projects (note 9)	3,810	4,154
Reserve for assessment update (note 9)	3,000	2,000
	30,437	27,841
	47,791	39,422
	93,305	85,052

Commitments and contingencies (notes 10 and 11)

Approved by the Board of Directors

______________________ Director ______________________ Director

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

Municipal Property Assessment Corporation

Statement of Operations and Changes in Fund Balance - Operating Funds

For the year ended December 31, 2011

(in thousands of dollars)

	2011 $	2010 $
Revenue		
Municipal	182,562	175,709
Interest	1,664	1,396
Other	7,607	7,495
	191,833	184,600
Expenses		
Salaries and wages	108,803	106,864
Benefits	27,001	23,248
Office	6,475	6,236
Professional services		
Consulting	927	733
Contractor	3,381	2,893
Legal	3,999	3,769
Corporate projects	4,650	5,258
Rentals		
Equipment	1,349	1,421
Facilities	10,383	10,022
Software licences and maintenance	7,900	7,903
Telecommunications and postage	4,705	7,471
Royalties (note 9)	815	766
	180,388	176,584
Excess of revenue over expenses for the year	11,445	8,016
Inter-fund transfers		
Purchase of capital assets	(10,091)	(5,335)
Repayment of debt incurred to finance purchase of capital and intangible assets	(399)	(382)
Unrealized gains on available-for-sale financial assets	1,641	378
Fund balance - Beginning of year	27,841	25,164
Fund balance - End of year	30,437	27,841

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

Municipal Property Assessment Corporation

Statement of Operations and Changes in Fund Balance - Restricted Fund

For the year ended December 31, 2011

(in thousands of dollars)

	2011 $	2010 $
Expenses		
Amortization of capital and intangible assets	4,717	7,841
Deficiency of revenue over expenses for the year	(4,717)	(7,841)
Inter-fund transfers		
Purchase of capital and intangible assets	10,091	5,335
Repayment of debt incurred to finance purchase of capital and intangible assets	399	382
	5,773	(2,124)
Fund balance - Beginning of year	11,581	13,705
Fund balance - End of year	17,354	11,581

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

Municipal Property Assessment Corporation

Statement of Cash Flows

For the year ended December 31, 2011

(in thousands of dollars)

	2011 $	2010 $
Cash provided by (used in)		
Operating activities		
Excess (deficiency) of revenue over expenses for the year		
Operating funds	11,445	8,016
Restricted fund	(4,717)	(7,841)
Add (deduct): Items not affecting cash		
Gain on sale of investments	-	(636)
Employee future benefits expense	3,166	1,632
Amortization of capital assets	4,247	7,841
Amortization of intangible assets	470	-
	14,611	9,012
Changes in non-cash working capital		
Accounts receivable	(787)	(1,222)
Prepaid expenses	(466)	905
Accounts payable and accrued liabilities	778	875
	14,136	9,570
Investing activities		
Purchase of investments - net	(18,225)	(18,100)
Purchase of capital assets	(9,620)	(4,871)
Purchase of intangible assets	(471)	(464)
Inducements - rent and renovations	132	687
	(28,184)	(22,748)
Financing activities		
Proceeds from (repayment of) bank loan	(4,192)	3,411
Decrease in cash during the year	(18,240)	(9,767)
Cash - Beginning of year	31,726	41,493
Cash - End of year	13,486	31,726
Supplementary cash flow information		
Interest paid	243	137
Non-cash transactions		
Investments	1,641	378
Unrealized gain on investments classified as available-for-sale	1,641	378

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 as approved by its board of directors consistent with such duties. All municipalities in Ontario are members of the corporation.

2 Summary of significant accounting policies

Fund accounting

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) for not-for-profit organizations using the restricted fund method of reporting restricted contributions.

The operating funds account for the corporation's program delivery and administrative activities.

The restricted fund reports the assets, revenue and expenses related to the corporation's capital assets.

Financial instruments

The corporation has classified each of its financial instruments into accounting categories. The category of a financial instrument determines its subsequent accounting treatment. The classification of each financial instrument is as follows:

Description	Classification
Cash	held-for-trading
Investments	available-for-sale
Accounts receivable	loans and receivables
Accounts payable and accrued liabilities	other liabilities
Bank loans	other liabilities

Held-for-trading financial instruments are carried at fair value, with changes in fair value recognized in the statement of operations and changes in fund balance - operating funds in the current year. Available-for-sale financial instruments are carried at fair value, with changes in fair value recognized directly in fund balances until they are realized through disposal or impairment. Investments are accounted for on a settlement date basis and related transaction costs are expensed as incurred.

Loans and receivables are carried at amortized cost, using the effective interest method net of impairment. Other liabilities are carried at amortized cost using the effective interest method.

The fair value of investments is determined directly from bid prices in an active market. The carrying values of cash, accounts receivable, and accounts payable and accrued liabilities approximate fair values due to their short-term maturity. The carrying value of the bank loans approximates fair value based on the terms and conditions of the borrowing arrangement compared to current market conditions for similar items.

(in thousands of dollars)

Premiums and discounts on bond purchases are amortized using the effective interest method.

As allowed under Section 3855, Financial Instruments - Recognition and Measurement, of The Canadian Institute of Chartered Accountants (CICA) Handbook, the corporation has elected not to account for non-financial contracts as derivatives and not to account for embedded derivatives in non-financial contracts, leases and insurance contracts as embedded derivatives.

The corporation has elected to follow the disclosure requirements of Section 3861, Financial Instruments - Disclosure and Presentation, of the CICA Handbook.

Capital assets

Capital assets are recorded at cost and are amortized using the straight-line method with one-half of the amortization taken in the year of acquisition.

Office equipment	5 years
Furniture and fixtures	5 years
Computer equipment	3 years
Small boats and vessels	3 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 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 these 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 Future accounting changes

The CICA has issued a new accounting framework applicable to not-for-profit organizations. Effective for fiscal years beginning on January 1, 2012, not-for-profit organizations are required to choose between International Financial Reporting Standards (IFRS), Canadian GAAP for not-for-profit organizations and Public Sector Accounting Standards. Early adoption of these standards is permitted. The corporation currently plans to adopt Canadian GAAP for not-for-profit organizations for its fiscal year beginning on January 1, 2012. The impact of this transition has not been determined at this time.

4 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. This is in support of the corporation's future benefits obligations as recorded in the non-current liabilities (note 7).

5 Capital assets

			2011	2010
	Cost $	Accumulated amortization $	Net $	Net $
Office equipment	2,019	1,456	563	420
Furniture and fixtures	7,743	5,302	2,441	1,698
Computer equipment	30,828	28,139	2,689	2,492
Small boats and vessels	39	33	6	18
Leasehold improvements	19,434	7,161	12,273	7,971
	60,063	42,091	17,972	12,599

(in thousands of dollars)

6 Intangible assets

	2011			2010
	Cost $	Accumulated amortization $	Net $	Net $
Computer software	13,970	13,706	264	263

7 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 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 their dependants' lifetimes.
- Employees hired by the corporation on or after December 31, 1998 will receive post-retirement group benefit coverage for themselves and 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.
- 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 obligation and accrued benefit liabilities is as follows:

	2011 $	2010 $
Accrued benefit obligation - Beginning of year	25,800	20,358
Current service costs	1,181	921
Interest on accrued obligation	1,419	1,288
Actuarial losses	9,065	3,999
	37,465	26,566
Benefits: Adjustments/payments during the year	119	(766)
Accrued benefit obligation - End of year	37,584	25,800
Unamortized net actuarial losses/gains	(15,013)	(6,395)
Accrued benefit liability	22,571	19,405

(in thousands of dollars)

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

	2011 $	2010 $
Current service costs	1,181	921
Interest on accrued obligation	1,419	1,288
Amortization of actuarial losses	446	189
	3,046	2,398

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

Discount rate	4.7% per year
Health-care inflation	9.0% per year grading down linearly to 5.0% per year over eight years
Dental care inflation	4.0% per year

The date of the most recent actuarial valuation of the December 31, 2011 accrued benefit obligation was December 31, 2011.

8 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.

The corporation had a second term loan, which was repaid in full during the year.

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

	$
2012	414
2013	431
2014	37
	882

9 Reserve funds

Enumeration reserve

This reserve fund was established in 2011 to fund the costs associated with the preparation of a preliminary list 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.

(in thousands of dollars)

Reserve for data sharing agreement

At the direction of the board of directors, the corporation established an internally restricted fund in 2005 for the purpose of funding future royalty payments and other costs that are payable under a data sharing agreement with a third party. The continuity of this reserve fund is as follows:

	2011 $	2010 $
Balance - Beginning of year	5,154	5,920
Royalty payments during the year	(815)	(766)
Balance - End of year	4,339	5,154

Corporate project reserve

The corporation budgets for certain corporate projects annually. In 2006, a reserve for corporate projects was established. The committed, unspent portions of budgeted corporate projects are transferred into this reserve fund. By the end of 2011, a total of $3,810 (2010 - $4,154) has been set aside to fund projects scheduled for completion in future years.

Assessment update reserve

This reserve fund was established in 2009 to fund the costs associated with the assessment update. The corporation will contribute $1,000 annually to the reserve and will draw down the reserve every four years when an assessment update is undertaken. The next assessment is expected in fiscal 2012.

10 Lease commitments

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

	$
2012	6,333
2013	5,807
2014	5,091
2015	4,532
2016	4,060
Thereafter	18,991

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

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, 2011 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 thousands of dollars)

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 statement 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. It 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-trade, 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.

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.

(in thousands of dollars)

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, 2011, this facility has not been used.

14 Capital management

The corporation considers its capital to be the operating funds and long-term debt. The operating funds consist of a number of internally restricted funds. These funds have been allocated by the board of directors to be used for specific future projects. The reserve for working funds is considered working capital.

Under its bank loan agreements, the corporation must satisfy certain covenants. As at December 31, 2011, the corporation is in compliance with all such covenants.

15 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 2011. This information is available on the Ontario Ministry of Finance's website.

16 Reclassification of prior year's amounts

Certain prior year amounts have been reclassified to conform to the current year's financial statement presentation.