



Annual Report | 2017

Strengthening Ontario's
municipal governments
by helping them save
money, make money
and solve capacity.

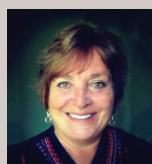


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|----------------------------|----|
| The 2017 LAS Board | 2 |
| Message from the Chair | 3 |
| About LAS | 4 |
| 2017 Highlights | 5 |
| The ONE Investment Program | 6 |
| Commodity Procurement | 8 |
| Energy & Asset Services | 10 |
| Administrative Services | 13 |
| Education and Outreach | 15 |
| Financial Statements | 17 |

The 2017 LAS Board



Gary McNamara
Chair
Mayor
Town of Tecumseh



Kim Dooling
Principal
KDE Procurement
Advisors



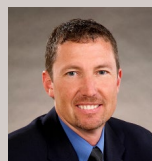
Doug Luker
CAO
Township of Tiny



Julia McKenzie
Treasurer
Town of Huntsville



Lois O'Neill Jackson
CAO
Municipality of Trent Lakes



Jean-Pierre Ouellette
CAO
Town of Cochrane



Jim Pine
CAO/Clerk
County of Hastings



Chris Wray
CAO Clerk-Treasurer
Municipality of Wawa

Message from the Chair



In 2017, Local Authority Services (LAS) marked 25 years of serving Ontario's municipal governments and the broader public sector. This milestone shows just how critical our business solutions are in helping local governments stretch dollars further, so they can do more to serve residents and build better communities.

LAS has grown over the years to offer a range of services to help municipalities "save money, make money and solve capacity." We've achieved tremendous success, this year serving more than 85% of Ontario's municipalities – some 382 municipal governments – with more than a dozen different programs.

From earning more on investments to cutting energy costs and improving asset management planning – we are focused on effective and practical ways to support municipal governments and the broader public sector.

LAS remains committed to growing the breadth and quality of our services. In fact, during 2017, LAS developed a five-year strategic plan to guide us in our effort and to make sure that our programs and services deliver meaningful results. The strategy is based on three pillars:

(1) Programs: LAS programs will be data-driven, with a focus on continuous improvement. This approach means reviewing program data regularly to improve services, as well as understanding and meeting evolving municipal needs. The focus is on innovation.

(2) Knowledge: There will be new learning opportunities for municipal government, as well as new channels to share best practices and learn from one another. Learning and development for LAS staff is also a priority, to provide the best service possible and empower them to come up with even better solutions for you.

(3) Customer-Focused: LAS will build trust and recognition by developing customer service models, marketing plans and communication strategies that are tailored to the needs, preferences and challenges of municipal governments.

The plan was based on outreach and input gathered through conversations and focus groups with members across the province. We surveyed municipalities that do not currently participate and engaged with LAS partners to get their feedback. We are now hard at work putting this plan into action and expect to see another year of growth and success in 2018.

Municipalities are being asked to do more and more. There is tremendous pressure on local tax dollars. Working together on creative solutions isn't a luxury, but a necessity. We look forward to serving you, so that you can deliver a brighter future for your community.

A stylized, handwritten signature in black ink, appearing to read 'Gary McNamara'.

Gary McNamara
LAS Chair and Mayor of Tecumseh

About LAS

Local Authority Services (LAS) was founded in 1992 by the Association of Municipalities of Ontario on the premise that by working together, municipalities could achieve economies of scale that could help them all do more. LAS provides municipalities with ways to lower costs, increase revenue and solve staff capacity issues through more than a dozen programs:

The One Investment Program:

- High Interest Savings Account (HISA)
- Money Market
- Bond
- Universal Corporate Bond
- Equity

Commodity Procurement Programs:

- Natural Gas
- Electricity
- Fuel

Energy & Asset Services:

- Energy Planning
- LED Streetlight Upgrades
- Energy Training
- Recreation Facility Lighting
- Fleet Management
- Road Assessment

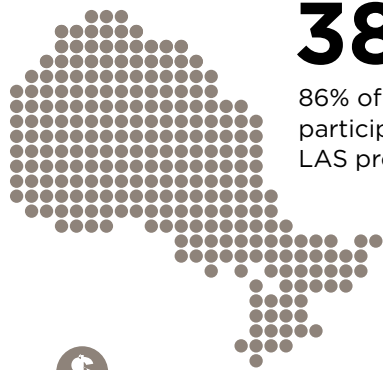
Administrative Services:

- Group Benefits
- Closed Meetings Investigations
- Municipal Risk Management
- Group Home and Auto Insurance
- Sewer and Water Line Warranty Program

Education and Outreach:

- Hosting Town Hall sessions
- Delivering workshops
- Sponsorship of inaugural ROMA Conference
- AMO Conference

2017 Highlights



382 Municipalities Served

86% of all Ontario municipalities participated in at least one LAS program or service



Saving Money:

- 20 New LED Street Lighting Retrofits
- 15 New Recreation Lighting Retrofits



Solving Capacity:

- Launched Roads Assessment Service
- Launched Fleet Management Service
- Delivered “Procuring for Energy Efficiency Workshop” for 80 participants
- Launched first LAS online course
- Launched Train-the-Trainer workshops on energy



Making Money:

- 65% Growth in HISA investment balance and 22 new investors
- Achieving prudent investor standard legislation



STRATEGIC PLANNING OUTREACH

- **Eight** Town Hall Sessions – 140 participants
- Two Focus Groups at ROMA Conference – **29** participants
- Survey of all **20** partners
- Survey of all **62** non-participating municipalities
- Review other provinces and the United States

What we learned:

1. Find innovative programs for changing needs
2. Build LAS capacity and resources to do even more
3. Create greater awareness of LAS services and focus on customer



The ONE Investment Program

Since 1993, the ONE Investment Program has been focused solely on meeting the investment needs of Ontario's municipal community. By combining investments and offering a range of options, the ONE Investment Program helps municipal governments earn better returns, pay lower management fees and plan for the future of our communities. ONE continues to offer a turnkey approach to municipal investing, benefiting even the smallest municipalities. We are fully compliant with the Municipal Act.

The Program currently manages \$1.7 billion in investments, in five portfolios.

The highlight of the ONE product offerings in 2017 was the success of the HISA. At the end of 2017, its balance grew to \$900 million in investments as interest rates moved to Prime less 1.535%, with no thresholds.

| Product/Portfolio | Recommended Term |
|--|---------------------|
| High Interest Savings Account (HISA) (1+ month investment) | 1+ month |
| Money Market Portfolio (1 - 18 month investment) | 1-18 months |
| Bond Portfolio (18 - 36 month investment) | 18 months - 3 years |
| Universe Corporate Bond Portfolio (4+ year investment) | 4+ years |
| Canadian Equity Portfolio¹ (5+ year investment) | 5+ years |



135 Ontario municipalities and broader public sector investors had investments with the ONE Investment Program

CASE STUDY:

Prudent Investor - Province Broadens Municipal Investment Powers

Municipal financial investments are critical to long-term planning and financing of important local infrastructure projects. Investing well requires understanding of financial markets and compliance with regulations on how a municipal government can invest.

Municipal governments have only been able to invest in a “legal list” of eligible investment set out by provincial legislation. For years, LAS and AMO have advocated to also allow municipal governments to invest under the prudent investor standard. This standard, commonly used by pensions and trusts, allows investment in any security as long as it is prudent for the investor’s circumstances.

In 2017, the Province passed legislation that will allow municipalities this greater flexibility. It means that municipal governments will be able to build more diverse investment portfolios that are more tailored to local needs and better manage risk. It also provides greater flexibility to respond to changing financial markets.

Under the detailed regulation announced in March 2018, interested municipalities will be able to pass a by-law approving the prudent investor approach starting January 1, 2019.

Municipalities will be able to qualify either independently or as part of a group. To qualify independently, the municipal government must have at least \$100 million in money and investments that it does not require immediately, or at least \$50 million in net financial assets.

Work is underway to build on the expertise of our ONE program to offer new options under the prudent investment standard. ONE is committed to ensuring that all municipalities, regardless of financial assets, can access the benefits of the new investing powers. ONE will also continue to operate its current investment programs, which are all managed in compliance with current “legal list” requirements.



Commodity Procurement Programs

For more than 25 years, LAS has leveraged group buying power to achieve lower commodity costs, saving municipalities millions on natural gas, electricity and fuel.

Natural Gas: This is LAS' first and oldest-serving program. It helps members stabilize natural gas rates through a four-year natural gas hedging strategy. The program maintains consistent revenues and serves 175 municipal and broader public-sector program participants. LAS plans to look for additional broader public-sector organizations that could similarly benefit from the program.

Fuel: The Fuel Procurement Program is a simple alternative for small and medium-sized municipalities to save money on fuel and reduce the administrative burden. There was modest growth in this program in 2017 and efforts are underway to work with program partners to further grow the partnership. This program serves 19 municipalities.

Electricity: Ontario's electricity market has been unpredictable. LAS helps municipalities create some predictability through a managed program of hedge contracts and spot market exposure. LAS also offers a way for municipalities to take advantage of low spot market rates overnight for their streetlights.

A key challenge has been the steady rise in the Global Adjustment portion of the bill. This line item is independent of market rates and cannot be managed by any retail program.

Currently, 140 municipalities take part in these programs. The turnkey program includes usage data and market information to further help municipalities manage energy costs.

CASE STUDY:

LAS Hedge Checker - Back Office Tool Improves Bottom Line

As a licensed electricity retailer in Ontario, LAS has provided predictable electrical commodity costs opportunities to municipalities since 2007.

Behind the scenes, LAS staff monitor hedge levels and seek opportunities to continuously improve the billing and settlement process.

Hedging electricity prices is complex in Ontario's market. Only the spot market rate can be hedged, not the Global Adjustment, which has become a larger and larger part of the overall cost of electricity. As a result, over-hedging is a risk and closely managing hedge levels is key to delivering results.

In 2017, LAS staff developed a "hedge checker" program, which measures monthly hedge level for every municipality with the click of a button. The hedge checking spreadsheet allows staff to manage hedge levels through reallocation of surplus hedge between municipalities. As a result, 84% of municipalities were hedged within 5% of their target hedge level.

Through improvements to reporting tools, staff are able to ensure every billing transaction is settled appropriately, which can translate into savings for municipalities.



Energy & Asset Services

Energy Planning: Municipal governments and other broader public-sector organizations must complete and submit an Energy Consumption and GHG Emission report each year. LAS' Energy Planning Tool helps municipalities and other organizations develop and update plans that comply with provincial government regulations.

In 2017 the program had 178 municipal subscribers, representing 40% of all Ontario municipalities.

LED Streetlight Program: Since its launch in March 2013, the LAS LED Streetlight Program has become the leading LED Streetlight replacement program in Canada and is among one of the largest programs in its class internationally. In fact, this program has been recognized by the World Bank as being among the most efficient and successful delivery models in the world.

Our LED Streetlight Program employs a unique turnkey approach that brings together all the services municipalities require to roll out the new technology and start reaping the benefits quickly.

In 2017, the program had 20 new municipalities launch streetlight replacement programs, for a total of 166 in the program's history.

- Reduces street light energy consumption by 50-70%, generating about 60% in annual cost savings.
- Reduces municipal maintenance costs by more than 80%

Recreation Facility Lighting: LAS offers a turnkey solution to replace lighting in buildings with high ceilings with energy efficient LEDs. Replacing old and expensive “high bay” lighting systems in buildings like arenas, recreation facilities, transit garages and fire halls lowers costs and reduces maintenance needs. In 2017, LAS worked with 9 municipalities on 19 lighting projects.

Fleet Management: Operating fleets is key to municipal services and operations, but transportation is one of the top contributors to GHG emissions and climate change. In 2017, LAS launched an easy way to evaluate the suitability of replacing vehicles with electric or hybrid electric vehicles. The program uses telematics, an innovative mobile technology that gathers data on usage patterns. The program includes:

- Technology to track, collect and evaluate vehicle usage data for all vehicles in your fleet;
- Access to generated fleet data through an online platform; and,
- Data and knowledge to support conversion of fleets to electric or hybrid-electric vehicles.

Roads Assessment Service: In 2017, LAS was pleased to launch a new Roads Assessment service in partnership with StreetScan. With more than 300,000-lane kilometres of municipal roads across Ontario, manual inspection and roads assessment studies are an onerous task. Given the priority the province is placing on asset management, and the need for municipalities to have better data, LAS partnered with StreetScan to offer an automated option. This program includes:

- Patented mobile sensing and road condition data gathering;
- Data handling, processing, algorithms and analysis;
- Customizable data analysis software and visualization in a secure web-based GIS application; and,
- Pavement management engine for repair and maintenance decision-making.

The result is a service that provides timely data in a cost-effective way that helps municipal governments maintain high quality road networks. Seven municipalities signed on to the program in 2017.

CASE STUDY:

A Smarter Way to Assess Roads

Better data on the condition of local roads can help municipal governments better manage the costs and improve access to funding for road maintenance.

That is why LAS partnered with StreetScan, a company offering automated roads assessment and data collection. And it is also why the City of Kenora was eager to try it out.

“We were intrigued by the ability to get more objective, scientific data on our roads,” said Jeff Hawley, Manager of Operations and Infrastructure for the City. “When different people are driving and assessing roads, it can vary because it’s much more subjective.”

StreetScan’s vehicle uses sound, optical and electromagnetic waves to scan the condition of the pavement. These objective measures mean that there is consistent data across the network. In addition to data, it collects video and still images. Mr. Hawley noted that being able to see the images gave them great confidence in the quality of the data.

The data is uploaded to a web-based app to help monitor and financially plan road improvement work. As road work is completed, that information can also be added to the system. It helps significantly with asset management planning, which is essential both for local budgeting and for accessing provincial funding.

The web platform is also able to project future road conditions based on local climate and maintenance costs based on local markets.

“It gives you reliable data and cost estimates for repairs, making it a lot easier to plan and make spending decisions,” Hawley said.

Funding from FCM helped Kenora try out the new technology. Now that they have seen it in action, Kenora staff plans to use it again in the future.



Administrative Services

There is strength in numbers. Through the group purchasing power of the municipal sector, LAS can offer credible and competitively priced services with fewer administrative hurdles.

LAS offers a range of innovative and cost-effective solutions to common challenges.

Group Benefits: The LAS Program offers completely flexible benefit coverage options for staff and elected officials at a cost lower than what most municipalities can achieve on a standalone basis. The program serves members with less than 10 employees to those with more than 400 employees.

The program grew slightly in 2017 with three new municipal enrollments to achieve an 8% growth rate in 2017.

Group Home and Auto Insurance: LAS has negotiated exclusive discount rates for personal home and automobile insurance through the Cowan Insurance Group. The service is available to all staff and elected officials of Ontario municipalities.

The program grew by 20% in 2017 with 140 new policies and 854 renewals in 2017.

Sewer and Water Line Warranty Program: The LAS-endorsed Sewer and Water Line Warranty Service offers homeowners the option of a low-cost warranty that will repair or replace water and sewer lines on residential properties. Homeowners do not always realize that they are responsible for these repairs. The service provides homeowners with both warranty protection and confidence that needed repairs will be done correctly. LAS has partnered with Service Line Warranties of Canada Inc to provide this service to homeowners across Ontario.

More than 500,000 households have received mailings and there are 31 municipalities that have endorsed and enrolled in the program. In 2017, new municipal enrollments include Fort Frances, Arnprior, Parry Sound, Billings, Gananoque and Elliot Lake.

Closed Meetings Investigations: LAS has been filling the role of closed meetings investigator for interested Ontario municipalities since 2008 through a credible, professional and independent investigator service. In 2017, 145 municipalities used the LAS service. On January 1, 2018, the definition of meeting in the *Municipal Act, 2001* was expanded. The LAS partner provided educational material that outlined what those changes mean to municipalities moving forward.

Municipal Risk Management: Municipal liability and risk management issues cost municipalities millions of dollars every year. LAS and Frank Cowan Company have partnered to offer municipalities information about new and emerging risk management issues to help reduce the frequency and severity of claims. In 2017, LAS and Frank Cowan have been reviewing the program, with a re-launch planned for the new term of council in 2019.



Education and Outreach

LAS aims to provide high-quality education opportunities that will help to build capacity in Ontario's municipal sector.

Outreach

- Major sponsor of Rural Ontario Municipal Association Conference
- Attended or exhibited at 9 municipal-related conferences
- 5 Town Hall sessions that provided an overview of LAS' services
- 50+ in-person meetings

Education

- Delivered 7 investment basics workshops
- 5 energy training workshops
- Two train-the-trainer workshops and one webinar on improving energy awareness and savings
- Launched e-Learning portal on LAS webpage. The first course available is Procuring for Energy Efficiency, with more to come.

CASE STUDY:

Improving Staff Knowledge on Saving Energy

Electricity is a major operating expense for all municipalities. With hydro rates rising steadily, managing consumption is critical to controlling costs and property taxes.

LAS partnered with Stephen Dixon, a well-known energy trainer, to create Operator 101. The training is targeted for pool and arena operators, municipal maintenance personnel and other related municipal staff who would benefit from learning the basics of energy efficiency.

The training covers a broad range of topics. It covers the fundamentals of energy and understanding the energy bill. It provides a broad overview of how to manage energy use through building automation systems and good practices for managing HVAC systems, ice rinks and pools, lighting, and the whole building envelope. Training can be tailored to meet the specific needs of the group.

The City of Barrie was eager to try it out.

‘We found the Operator 101 training very engaging and tailored specifically to the experience for those that attended,’ said Adam McMullin, Energy Management Coordinator for the City of Barrie. ‘The operators left the session with a better understanding of the impact of facility operations on energy consumption and the potential cost savings of simple conservation activities.’

The biggest plus is that Ontario’s Independent Electricity System Operator (IESO) will cover half of the cost of training for each participant. In addition to these subjects, municipalities can design their own energy training curriculum to offer to their staff.



Financial Statements

Local Authority Services

December 31, 2017

| | |
|---------------------------------------|---------|
| Independent Auditor's Report | 18 - 19 |
| Statement of Financial Position | 20 |
| Statement of Operations | 21 |
| Statement of Changes in Fund Balances | 22 |
| Statement of Cash Flows | 23 |
| Notes to Financial Statements | 24 - 30 |



Independent Auditor's Report

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To the Shareholder of
Local Authority Services

We have audited the accompanying financial statements of Local Authority Services, which comprise the statement of financial position as at December 31, 2017 and the statements of operations, changes in fund balances and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Local Authority Services as at December 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

The logo for Grant Thornton LLP, featuring the company name in a stylized, cursive script font.

Toronto, Canada
May 25, 2018

Chartered Professional Accountants
Licensed Public Accountants

Local Authority Services

Statement of Financial Position

December 31

2017

2016

Assets

Current

| | | |
|--|--------------|--------------|
| Cash (Note 4) | \$ 7,278,673 | \$ 9,485,463 |
| Cash - One Investment HISA deposits (Note 5) | 843,425,641 | 511,652,796 |
| Investments (Note 6) | 5,063,061 | 4,724,545 |
| Accounts receivable | 1,944,791 | 1,167,793 |
| Prepaid expenses | 118,270 | 98,228 |

857,830,436 527,128,825

Property and equipment (Note 7)

120,411 137,565

\$ 857,950,847 \$ 527,266,390

Liabilities

Current

| | | |
|---|--------------|--------------|
| Accounts payable and accrued liabilities (Note 9) | \$ 4,645,293 | \$ 6,665,063 |
| Due to AMO (Note 10) | 110,103 | 186,724 |
| One Investment - HISA deposits (Note 5) | 843,425,641 | 511,652,796 |
| Energy program payables (Note 8(a)) | 732,000 | 732,000 |
| Deferred revenue | 44,310 | 46,744 |

848,957,347 519,283,327

Fund balances

Internally restricted

| | | |
|---|-----------|-----------|
| Natural gas procurement program (Note 8(a)) | 4,790,020 | 4,387,159 |
| Electricity procurement program (Note 8(b)) | 522,304 | 567,624 |

Unrestricted **3,681,176** 3,028,280

8,993,500 7,983,063

\$ 857,950,847 \$ 527,266,390

On behalf of the Board of Directors

Director

Director

See accompanying notes to the financial statements.

Local Authority Services

Statement of Operations

Year ended December 31

| | Internally restricted | | | | |
|------------------------------------|---------------------------------------|---------------------------------------|-------------------|----------------------------|----------------------|
| | Natural gas procurement program | Electricity procurement program | Unrestricted | Total 2017 | Total 2016 |
| | | | | | Restated (Note 3) |
| Revenue | | | | | |
| Program | \$ 20,645,684 | \$ 755,430 | \$ 4,772,281 | \$ 26,173,395 | \$ 25,466,720 |
| Investment income | <u>35,443</u> | <u>39,840</u> | <u>30,435</u> | <u>105,718</u> | <u>82,430</u> |
| | <u>20,681,127</u> | <u>795,270</u> | <u>4,802,716</u> | <u>26,279,113</u> | <u>25,549,150</u> |
| Expenses | | | | | |
| Program | 18,692,695 | 630,804 | 3,501,175 | 22,824,674 | 22,059,162 |
| Administration (Note 10 and 12) | 79,212 | 173,977 | 611,150 | 864,339 | 699,906 |
| Amortization | <u>-</u> | <u>35,809</u> | <u>37,495</u> | <u>73,304</u> | <u>59,266</u> |
| | <u>18,771,907</u> | <u>840,590</u> | <u>4,149,820</u> | <u>23,762,317</u> | <u>22,818,334</u> |
| Excess of revenue over expenses | <u>\$ 1,909,220</u> | <u>\$ (45,320)</u> | <u>\$ 652,896</u> | <u>\$ 2,516,796</u> | <u>\$ 2,730,816</u> |

See accompanying notes to the financial statements.

Local Authority Services

Statement of Changes in Fund Balances

Year ended December 31

| | Internally restricted | | | | |
|------------------------------------|---------------------------------------|---------------------------------------|---------------------|---------------------|----------------------|
| | Natural gas procurement program | Electricity procurement program | Unrestricted | Total 2017 | Total 2016 |
| | | | | | Restated (Note 3) |
| Balance, beginning of year | \$ 4,387,159 | \$ 567,624 | \$ 3,028,280 | \$ 7,983,063 | \$ 6,252,247 |
| Excess of revenue over expenses | 1,909,220 | (45,320) | 652,896 | 2,516,796 | 2,730,816 |
| Rebates (Note 8(a)) | (1,506,359) | - | - | (1,506,359) | (1,000,000) |
| Balance, end of year | <u>\$ 4,790,020</u> | <u>\$ 522,304</u> | <u>\$ 3,681,176</u> | <u>\$ 8,993,500</u> | <u>\$ 7,983,063</u> |

See accompanying notes to the financial statements.

Local Authority Services

Statement of Cash Flows

Year ended December 31

2017

2016

Increase (decrease) in cash

Operating

Excess of revenue over expenses
Amortization

\$ 2,516,796 \$ 2,730,816
73,304 59,266

2,590,100 2,790,082

Change in non-cash operating working capital

Accounts receivable

(716,155) 1,969,371

Prepaid expenses

(20,042) (33,235)

Accounts payable and accrued liabilities

(2,080,613) (3,717,270)

Due to AMO

(76,621) 26,488

Deferred revenue

(2,434) (43,016)

Deferred contributions- projects

- (24,876)

(305,765) 967,544

Financing

Rebates

(1,506,359) (1,000,000)

Investing

Purchase of investments

(338,516) (1,787,325)

Additions to property and equipment

(56,150) (138,303)

(394,666) (1,925,628)

Net decrease in cash

(2,206,790) (1,958,084)

Cash, beginning of year

9,485,463 11,443,547

Cash, end of year

\$ 7,278,673 \$ 9,485,463

See accompanying notes to the financial statements.

Local Authority Services

Notes to Financial Statements

December 31, 2017

1. Nature of operations and basis of presentation

Local Authority Services Limited (LAS) was incorporated on May 13, 1992 under the Business Corporations Act (Ontario) with share capital. On November 28, 2013, LAS was issued a Certificate of Continuance under the Canada Not-For-Profit Corporations Act and LAS changed its name to Local Authority Services.

LAS is a subsidiary of Association of Municipalities of Ontario (AMO). LAS is mandated to work with municipalities, their agencies, boards and commissions as well as other organizations of Ontario's broader public sector to assist them in reducing the cost of their expenditures and to increase their levels of non-tax revenue through the principle of joint or co-operative procurement efforts.

LAS is exempt from income taxes, provided certain requirements of the Income Tax Act (Canada) are met.

2. Summary of significant accounting policies

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations. Accounting standards for not-for-profit organizations require entities to select policies appropriate for their circumstances from choices provided in the specific standards. The following are details of the choices selected by LAS and applied in these financial statements.

Use of estimates

In preparing LAS'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 those estimates.

Financial instruments

LAS considers any contract creating a financial asset, liability or equity instrument as a financial instrument, except in certain limited circumstances.

LAS's financial instruments comprise cash, investments (including One Investment HISA deposits), accounts receivable, accounts payable and energy program payables which are initially measured at fair value and subsequently measured at amortized cost.

Property and equipment

Property and equipment are recorded at cost and are amortized on a straight-line basis over their useful life as follows:

| | |
|--------------------------------|---------|
| Computer hardware and software | 4 years |
| Furniture and fixtures | 5 years |

Contracts to buy or sell a non-financial item

Contracts related to the natural gas procurement program and the retail electricity program are future contracts to buy or sell a commodity and as such are non-financial items and therefore not recognized in the financial statements but are disclosed in Note 8. The gains and losses are recognized in the statement of operations in the year in which the contracts are settled.

Local Authority Services

Notes to Financial Statements

December 31, 2017

2. Summary of significant accounting policies (continued)

Revenue recognition

LAS follows the deferral method of accounting for externally restricted contributions. Under the deferral method, grants and funds received in support of specific initiatives, are deferred until such time as costs related to the initiative are incurred. Non-restricted grants and funds are recognized as revenue in the year received.

Investment income is recognized as revenue in the period it is earned.

Pension

AMO makes contributions on behalf of its employees, including the employees of LAS, to the Ontario Municipal Employees Retirement System (OMERS), which is a multi-employer plan. The plan is a defined benefit plan which specifies the amount of retirement benefit to be received by the employees based on the length of service and rates of pay. As the amount LAS is obligated under the plan is not quantifiable, the accounting, presentation and disclosures that would otherwise be required are not determinable. Due to this fact, LAS follows the standards for a defined contribution plan, the details of which are disclosed in Note 11.

3. Prior year adjustment

From 2014 to 2016, rebates to municipalities participating in the natural gas procurement program were recorded as an expense in the statement of operations. As these amounts represent a return of surpluses generated from the natural gas procurement program, these amounts should have been recorded as a direct reduction to fund balances. This resulted in a misclassification between the statement of operation and the statement of changes in fund balances, but does not impact the overall fund balance of LAS, as any amount charged to the statement of operations, ultimately is charged to the statement of fund balances. The prior year comparative balances have been adjustment to reflect this change which resulted in the following:

| | |
|--|---------------------|
| Statement of Operations | |
| Excess of revenue over expenses – increased by | \$ <u>1,000,000</u> |
| Statement of Changes in Fund balances | |
| Rebates – increased by | \$ <u>1,000,000</u> |

4. Cash

| | <u>2017</u> | <u>2016</u> |
|---------------------------------|---------------------|---------------------|
| Unrestricted | \$ <u>4,849,182</u> | \$ 7,449,434 |
| Natural gas procurement program | <u>2,429,491</u> | <u>2,036,029</u> |
| | <u>\$ 7,278,673</u> | <u>\$ 9,485,463</u> |

Local Authority Services

Notes to Financial Statements

December 31, 2017

5. One Investment HISA deposits

One Investment HISA deposits represents amounts received from and owing to municipalities and other entities for investment in LAS One Investment - High Interest Savings Account (HISA) program.

6. Investments

One Investment High Interest Savings Account (HISA) bearing interest at bank prime less a variable interest rate ranging from 1.55% to 1.70% depending on the total portfolio balance. The average rate of return for 2017 was 1.36%.

7. Property and equipment

| | | | <u>2017</u> | <u>2016</u> |
|--------------------------------|---------------------|-------------------------------------|---------------------------|---------------------------|
| | <u>Cost</u> | <u>Accumulated Amortization</u> | <u>Net Book Value</u> | <u>Net Book Value</u> |
| Computer hardware and software | \$ 1,251,582 | \$ 1,132,218 | \$ 119,364 | \$ 135,358 |
| Furniture and fixtures | <u>12,667</u> | <u>11,620</u> | <u>1,047</u> | <u>2,207</u> |
| | <u>\$ 1,264,249</u> | <u>\$ 1,143,838</u> | <u>\$ 120,411</u> | <u>\$ 137,565</u> |

8. Energy programs

The LAS Board of Directors (the "Board") has established internally restricted reserves for the natural gas and electricity procurement programs. These amounts are not available for other purposes without the approval of the Board.

(a) Natural gas procurement program

LAS, as an agent of the municipalities, enters into natural gas purchase contracts with suppliers for the purpose of managing the price risk relating to natural gas. LAS has offsetting sales contracts with municipalities. On a monthly basis, all gas contracts are balanced. On an annual basis, LAS is required to balance the gas purchased for the municipalities with their consumption, in line with the parameters established by the gas utilities. If the municipalities consume more gas than hedged, then any shortfall is purchased on the spot market. Conversely, if the municipalities consume less gas than hedged, then the surplus gas is sold in the market place at the then prevalent spot market price.

From inception, the natural gas procurement program established a reserve that is held in trust and is maintained by the service provider. This reserve is used to balance any purchasing shortfalls or surpluses. On completion of the year-end reconciliation, the excess funds are recognized as revenue of the natural gas procurement program. Based on a recommendation from management, rebates may be distributed from the excess funds to municipalities in the form of a rebate in proportion to their consumption for a stated period. These funds, along with any accumulated interest, are not usually distributed until a year after the reconciliation has occurred.

Local Authority Services

Notes to Financial Statements

December 31, 2017

8. Energy programs (continued)

(a) Natural gas procurement program (continued)

In June 2007, LAS changed its service provider and transferred \$732,000 to the new service provider as seed money for the program. The amount in excess of the \$732,000 was distributed to municipalities based on their consumption as at November 1, 2006. If and when this program is terminated, this seed money will be distributed to the municipalities enrolled in the program at November 2006 based on their consumption at that time.

At year-end, LAS had the following natural gas purchase and sale and transportation contracts that were not recognized in these financial statements based on LAS's accounting policy for contracts to buy or sell a non-financial item disclosed in Note 2.

| | <u>2017</u> | <u>2016</u> |
|------------------------------------|---|---------------------------------|
| <u>Purchase and sale contracts</u> | | |
| Flow end date | January 2018 to October 2021 | January 2017 to October 2021 |
| Fixed price (per GJ) | \$2.22 to \$3.94 | \$2.36 to \$3.94 |
| Supply period (months) | 10-12 | 10-12 |
| Volume (GJ) | 8,825,500 | 9,096,500 |
| Amount of forward contracts | \$16,642,500 | \$29,770,105 |
| <u>Transportation contracts</u> | | |
| Flow end date | January 2018 to October 2018 | January 2017 to October 2017 |
| Fixed price (per GJ) | \$0.40 to \$1.87 | \$0.14 to \$2.45 |
| Volume (GJ) | 4,309,012 | 3,396,592 |
| Amount of forward contracts | \$7,402,428 | \$4,153,823 |

Rebates

Based on management's recommendation, LAS makes rebates to the participants of the natural gas procurement program in proportion to the participant's consumption for a stated period. Rebates of \$1,506,359 were made in 2017 (2016 - \$1,000,000).

(b) Electricity procurement program

LAS, as an agent of the municipalities, enters into electricity purchase contracts with suppliers for the purpose of managing the price risk relating to electricity. LAS has offsetting sales contracts with municipalities. On an hourly basis, LAS is required to balance the electricity purchased for the municipalities with their consumption. If the municipalities consume more electricity than hedged, then any shortfall is purchased on the spot market. Conversely, if the municipalities consume less electricity than hedged, then the surplus electricity is sold in the market place, at the then prevalent spot market price.

Local Authority Services

Notes to Financial Statements

December 31, 2017

8. Energy programs (continued)

(b) Electricity procurement program

At year-end, LAS had the following electricity purchase and sale contracts that were not recognized in the financial statements based on LAS's accounting policy for contracts to buy or sell a non-financial item disclosed in Note 2.

| | <u>2017</u> | <u>2016</u> |
|-----------------------------|--------------------------|--------------------|
| Flow end date | December 31, 2018 | December 31, 2017 |
| Fixed price (per MW) | \$19.91 | \$22.29 to \$22.30 |
| Supply period (months) | 12 | 12 |
| Volume (MW) | 504,602 | 528,305 |
| Amount of forward contracts | \$10,146,629 | \$11,778,922 |

9. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities is a deposit of \$4,000,000 (2016 - \$4,000,000), refundable to the City of Toronto on the wind down of the Retail Consolidate Billing program.

10. Related party transactions

Amounts due to AMO are unsecured, repayable on demand and are non-interest bearing.

Included in administration expenses is \$694,440 (2016 - \$447,002) 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.

11. Pension

During 2017, pension contributions in the amount of \$109,769 (2016 - \$119,133) were expensed and paid to OMERS on behalf of employees of LAS.

Local Authority Services

Notes to Financial Statements

December 31, 2017

12. Allocation of expenses

Expenses such as rent, information technology costs, salaries and benefits are allocated based on the percentage of the expense which is used to benefit the underlying program. Expenses allocated from the unrestricted funds to the internally restricted funds were as follows:

| | Natural gas procurement program | Electricity procurement program |
|-------------------------|---------------------------------------|---------------------------------------|
| 2017 | | |
| Salaries and benefits | \$ 33,182 | \$ 72,879 |
| Administration expenses | <u>46,030</u> | <u>101,098</u> |
| | \$ 79,212 | \$ 173,977 |
| 2016 | | |
| Salaries and benefits | \$ 18,811 | \$ 84,649 |
| Administration expenses | <u>30,882</u> | <u>138,971</u> |
| | \$ 49,693 | \$ 223,620 |

13. 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.

Interest rate price and cash flow risk

Interest rate price and cash flow risk is the risk that the fair value or cash flows from a financial instrument will fluctuate because of market changes in interest rates. LAS is exposed to interest rate price risk on its investments.

Currency risk

Currency risk is the risk that the fair value of, or future cash flows from, a financial instrument will fluctuate because of changes in foreign exchange rates. LAS's foreign currency purchase and sale transactions and its assets and liabilities that are denominated in foreign currencies are minimal.

Liquidity risk

Liquidity risk is the risk that LAS will encounter difficulty in meeting the obligations associated with its financial liabilities. LAS is exposed to liquidity risk mainly in respect of its accounts payable, including the amount due to AMO and energy program payables.

LAS reduces exposure to liquidity risk by ensuring that it maintains adequate cash reserves to pay trade creditors.

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. LAS's main credit risks relate to its accounts receivable and investments.

Local Authority Services

Notes to Financial Statements

December 31, 2017

14. Financial instruments

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

It is management's opinion that LAS is not exposed to significant interest rate, currency, liquidity, credit risk or other price risk arising from its financial instruments.



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