



Annual Report | 2018



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

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The 2018 LAS Board



Gary McNamara
Chair
Mayor
Town of Tecumseh



Sheridan Graham
Director, Corporate
Projects & Services
Peterborough County



Doug Luker
CAO
Township of Tiny



Julia McKenzie
Treasurer
Town of Huntsville



Lois O'Neill Jackson
Special Projects/
Deputy Clerk
Township of Alnwick/
Haldimand



Jean-Pierre Ouellette
CAO
Town of Cochrane



Jim Pine
CAO/Clerk
County of Hastings



Chris Wray
CAO/Clerk
Township of Johnson

Message from the Chair



For more than 25 years, Local Authority Services (LAS) has been serving the needs of Ontario's municipal and broader public sector with business solutions that build stronger communities

by helping to save money, make money or solve capacity challenges.

While there has never been more pressure to stretch tax dollars further, there is also a limit to how much any one municipality or agency can do alone. That's where LAS comes in. Our turnkey programs and bulk purchasing options deliver value and savings by leveraging the power of the group. Our programs also provide the needed expertise to address capacity and resource gaps.

LAS runs more than a dozen different programs, ranging from group benefit plans to energy procurement to asset management support.

Our focus has always been on meeting the needs of customers. And this goal was front and centre in 2018 as we began to put our five-year strategic plan into action.

At its heart, the strategy aims to ensure we are consistently evolving and innovating to meet customer needs, either by adapting existing programs or pursuing new ones. It is a data-driven, continuous improvement approach that puts the municipal customer at the centre.

For example, we recognized the value of our Recreation Facility LED Lighting Service, which can save tens of thousands of dollars every year in electricity and maintenance costs for arenas. In 2018, the program used the same competitive bidding approach for a broader

array of lighting options. The program now can convert almost any municipal or public facility to LED lights, from long-term care to libraries.

We expanded our Road Assessment Service to include sidewalks, making the process for planning maintenance work more efficient and effective.

2018 was also big year for municipal investing, as new regulations allow eligible municipalities to invest under the prudent investor standard, if they choose. This represented a decade of joint advocacy work by AMO and program partners at the Municipal Finance Officers Association.

The ONE Investment Program is now a standalone non-profit organization that will offer more investment services to help municipal governments create additional revenue opportunities and strategies to fund asset management plans.

We've been keeping municipal staff posted about prudent investor through a bi-weekly email newsletter.

As the pace of change and challenges continues, we're committed to sharing information with our customers across program areas, through newsletter, blogs, webinars and other outreach.

LAS is proud to offer solutions based on our unique understanding of the municipal sector. We look forward to continuing to help your municipality achieve your goals and build a better Ontario.

A handwritten signature in black ink, appearing to read 'Gary McNamara', with a stylized flourish at the end.

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
- Prudent Investor Services

Commodity Procurement Programs:

- Natural Gas
- Electricity
- Fuel

Energy & Asset Services:

- Energy Planning
- LED Streetlight Upgrades
- Energy Training
- Facility Lighting
- Fleet Management
- Road & Sidewalk 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 and webinars
- ROMA Conference sponsorship and session
- AMO Conference

2018 Highlights

Served 383 municipalities

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

5-year strategic plan: Year 1

The strategic plan is based on three main pillars, all focused on achieving our vision to connect municipalities with solutions that save money, make money and solve capacity.



Programs

Better use of data to help us help you. Continuous improvement program design and delivery.

- Helping to save money by expanding facility lighting program so that more municipal facilities can convert to LEDs and reduce costs.
- Helping to save money and solve capacity by expanding road assessment services to include sidewalk assessments, further streamlining asset management planning.



Knowledge

Expand knowledge and foster learning opportunities.

- Helping to solve capacity by increasing use of webinars to offer more convenient learning opportunities.
- Making it easier to get in-person info through regional Town Halls and increasing outreach at municipal conferences.



Customer Focused

Look for opportunities to provide customers added value.

- Helping to save money through better information in new, quarterly energy newsletters
- Helping to make money through expanded services at ONE Investment and biweekly e-newsletter – providing investment insights and next steps.

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, ONE Investment helps municipal governments earn better returns, pay lower management fees and plan for the future of our communities.



ONE offers a turnkey approach to municipal investing that is fully compliant with the Municipal Act. As the regulatory environment has changed, ONE is evolving to make sure that all municipalities, big and small, can benefit from investment revenues.

At the end of 2018, the Program was managing \$1.96 billion in investments, in five portfolios.

The ONE HISA and Equity Portfolio experienced the greatest change in 2018, with HISA closing the year with a balance of \$1.1 billion, 30% higher than the previous year, offering a rate of return of 2.415% as of December 31, 2018. The growth was driven through promotion of ONE HISA's attractive interest rate, which municipalities found appealing for short-term needs.

The Equity Portfolio ended the year with a balance of \$367.3 million, 27% higher than the previous year. This growth was achieved through ONE's outreach and education efforts, which helped municipalities better align their investments with their cash requirements. This, in turn, allowed them to shift some funds into longer-term investment portfolios, with potential for better returns over the long run.



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

ONE Investment Leads the Way

In 2018, ONE Investment worked to evolve from a program offered jointly by LAS and the Municipal Finance Officers Association (MFOA), to a stand-alone non-profit organization offering a range of investment options for the municipal investor.

This change was driven by the new prudent investor regulation, which provides municipal governments with the option to invest in a broader array of investment products that help build more diverse portfolios. This helps manage risk better, while offering the potential for better returns. The change is the result of more than a decade of joint advocacy by AMO and MFOA.

For 25 years, ONE has provided turnkey investment solutions that are uniquely suited to the municipal investor. Now, to help all municipalities, regardless of size, benefit from the new regulations, ONE has expanded its services. It sought and received an exemption from the Ontario Securities Commission which allows ONE to provide the kind of advice and investment services that will help municipal governments pool their investments, so they can benefit from the new prudent investor standards.

ONE is also building a customer service team comprised of retired municipal treasurers and a CFA charterholder. Together, they will provide municipal government staff with the range of expertise needed to develop an approach that is right for the municipality, whether investing with the “legal list” or under the prudent investor standard.

Investments are an essential part of the revenue mix for municipal governments. Every dollar earned from investments is one more that can help the municipal government. A carefully planned investment strategy can help fund important infrastructure projects, long-term capital plans or even contribute to operating revenues. Frankly, in today’s fiscal environment, municipalities cannot afford to ignore investment revenue.

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.

In 2018, staff conducted a customer service survey to better understand members needs and how to serve them better.

Overall customers responded that LAS provided a good level of service. They look to LAS procurement programs to deliver cost savings and budget stability. Clients also said they wanted more information about programs and energy markets, preferably via an e-newsletter. In response, LAS introduced a quarterly Energy Newsletter providing participants with market information that would help municipalities make more informed decisions.



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 177 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. This program remained steady at serving 19 municipalities in 2018.

Electricity: Ontario's electricity market has been unpredictable. LAS helps municipalities create some stability 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, 142 municipalities take part in electricity programs. The program provides usage data and market information to further help municipalities manage energy costs.

Energy & Asset Services

Energy Planning: Municipal governments and other broader public-sector organizations must complete and submit an Energy Consumption and Green House Gas (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 2018, the program had 173 municipal subscribers, representing nearly 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.

The 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. It reduces energy consumption by about 50% to 70%, generating about 60% in annual cost savings and 80% savings in maintenance.

In 2018, the program had 10 new municipalities launch streetlight replacement programs, for a total of 176 in the program's history. Given the broad uptake, the program has largely achieved its goal of converting streetlights. In 2019, LAS will wind down the program

Facility Lighting: LAS was pleased to expand its turnkey solution to install energy efficient LED lights in municipal and public facilities. In addition to high-bay lighting systems, LAS now offers a range of solutions for LED lighting that can be used across municipal facilities. With the expansion, LAS worked with 22 municipalities on 43 lighting projects in 2018, more than double from the previous year.

Fleet Management: Operating fleets is key to municipal services and operations.



Transportation is also 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 used telematics, an innovative mobile technology that gathers data on usage patterns. Four municipalities participated in the program. It was subsequently wrapped up in 2018 in response to a variety of changing circumstances, including cancellation of Ontario's electric vehicle rebate and vehicle availability. If conditions change again and there is greater demand for the service, LAS will consider relaunching. For the time being, LAS will focus on programs that meet pressing client needs.

Road and Sidewalk Assessment Service: In 2018, LAS built on its successful Road Assessment service to include sidewalk assessment services in partnership with StreetScan.

With more than 300,000-lane kilometres of municipal roads and tens of thousands of kilometres of sidewalks across Ontario, manual inspection and road assessment studies are an onerous task.

Given the importance of 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 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. In 2018, a total of 31 municipalities signed on to the project, a five-fold increase from 2017. This included 10 sidewalk projects.

Facility lighting program grows to meet customer needs

Converting to LED lights offers big savings both in terms of energy cost and maintenance. As more municipalities found savings in replacing high-bay lighting, many asked LAS to expand the types of lights available.

Using an open, competitive bidding process, LAS selected additional partners to install a broader variety of lighting for various municipal facilities. They partnered with brand names like Philips, Acuity and Sylvania to deliver competitively priced LED products.

Haldimand County for example, converted their 128-bed long-term care facility, Grandview Lodge, generating savings of some \$70,000 on energy cost and maintenance per year. The quality of service from service provider, Conrad Lighting Solutions, was an extra bonus.

“The installers were very flexible with working around our residents’ schedules. They very much understood they were working in the residents’ home and could often be seen explaining what was going on and visiting with them,” noted Steve Schwoob, Supervisor, Facility Operations for Grandview Lodge.

In Kenora, they have replaced lights in the library and in water and wastewater treatment facilities.

The retrofits have the added benefit of qualifying for a Save ON Energy rebate – a program that continues today and can cover 10 to 15 per cent of project costs.

The program is turnkey. LAS’ service provider, Conrad Lighting Solutions prepares a free proposal on the cost of the lighting project, incentives and expected pay back. LAS applies for the incentives to the local distribution company on the municipality’s behalf. The project begins after incentives are pre-approved. Municipalities benefit from the savings, while LAS and its partners do the legwork.

The State of the Sidewalk: New assessment tool launched in 2018

Temiskaming Shores was one of the first municipalities to sign up for StreetScan's automated road assessment service and was pleased with the quality of the data it received. Director of Public Works, Doug Walsh said that it helped staff and ultimately, Council, make informed decisions based on objective evidence of road quality, rather than on anecdotal feedback.

When the sidewalk service was launched, the City saw the same opportunity. Rather than staff walking and recording subjective assessments, the mobile unit is pushed down the sidewalk. It generates a measurable quality rating for all sidewalks and provides estimated repair costs depending on whether it needs a spot fix, or full or partial replacement.

Keeping sidewalks, especially those in high use areas, in good repair is good for public safety and is good risk management, preventing trips and falls and reducing claims, Walsh added.

StreetScan's road and sidewalk services provide valuable data on both quality and cost of repair. Combined with local knowledge and priorities, it helps municipalities to develop asset management plans and funding decisions based on evidence.

Administrative Services



There is strength in numbers. Through the group purchasing power of the municipal sector, LAS can offer innovative and competitively priced solutions.

Group Benefits: The 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 enrolled five municipalities in 2018 and achieved 9% growth.

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. In 2018, the program grew by 12.5%, with 122 new policies written and 1,022 renewals.

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. LAS has partnered with Services Line Warranties of Canada Inc. to provide homeowners with both warranty protections and confidence that needed repairs will be done correctly.

More than 500,000 households have received mailings and there are 49 municipalities that have endorsed and enrolled in the program including 13 municipalities that joined in 2018.

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 2018, 147 municipalities subscribed to the LAS service.

Municipal Risk Management: Municipal liability and risk management issues cost municipalities millions of dollars every year. During 2018, AMO, LAS and Frank Cowan Company worked together to create a new online Institute of Municipal Risk Management to educate Councils and staff on existing and emerging risks and how to manage them. Through education, the institute will help reduce both the frequency and severity of claims, protecting our residents and the property taxpayer.

Education and Outreach

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

Outreach

- Platinum sponsor of 2018 Rural Ontario Municipal Association Conference
- Attended or exhibited at six municipal-related conferences, including presentation at the AMO Conference
- Delivered five in-person Town Hall sessions that provided an overview of LAS services
- Developed webinars for programs presented at Town Halls, including a session on facility lighting and one on the electricity hedge program
- ONE e-newsletter sent biweekly – marked one-year anniversary in November 2018
- Hosted two Road Assessment webinars
- Introduced LAS welcome packages for new Councils and ONE Investment package for new treasurers

Education

- Delivered five “ONE Investments 101” workshops across Ontario
- Five energy training workshops were held in three municipalities.
- Four Train-The-Trainer energy workshops and three follow up training webinars
- Delivered Canadian Free Trade Agreement (CFTA)-Comprehensive Economic Trade Agreement (CETA) webinar outlining changes to public procurement



#ONMuni: Making Progress on Digital Transformation

Many governments are exploring how to harness digital technologies to improve service delivery and efficiency, and to engage residents to build stronger relationships.

In 2017, AMO released *#OnMuni Online*, a discussion paper with municipal perspectives on how to achieve effective and efficient digital transformation. Opportunities identified in the paper spurred AMO to seek partnerships with digital technology providers to help members find efficiencies, cost savings, and meet legislated requirements established by provincial regulations.

AMO has since secured two partnerships with digital technology providers:

1. Notarius digital signatures are electronic signatures that provide high assurance levels of signer identity and document integrity, authenticity and longevity. Using this technology will help municipalities streamline processes, reduce costs for document storage and safeguard the integrity of important municipal records.
2. eSCRIBE specializes in secure, cloud-based, paperless meeting management and livestreaming solutions. The software is designed to increase transparency to citizens, increase stakeholder engagement, and drive operational efficiencies for municipal staff by reducing resources currently required to support meetings.

For the United Counties of Prescott & Russell, the Notarius solution came as they were just looking for a paperless signing solution that could be used across departments, was user-friendly and offered reliability when it came to the digital signatures.

“Now a contract that used to take three to four weeks to circulate via mail between signatories can be signed in a matter of hours,” said Marc-André Drouin, the Counties’ IT Manager. “It’s so easy to use that no signers have needed help signing the documents.”

Since implementation in 2014, City of Thorold has continued to expand their use of eSCRIBE to gain efficiencies for their meetings that go far beyond their initial plans to eliminate paper, including iPad apps for councillors, and in the future, video streaming.

“When you have done something the same way for a long time, it can be hard to accept change,” said Donna Delvecchio, City Clerk of Thorold. “Our Legislative Assistant has been here for 30 years but has totally embraced eSCRIBE. To have someone go through that big a change and be totally on board is a testament to the solution. We don’t know what we would do without eSCRIBE.”

These efforts are consistent with the priorities of the Ontario government encouraging municipal governments to improve efficiency and to modernize services. The Ontario government has acknowledged that some of Ontario’s small and rural municipalities may have limited capacity to plan, modernize and improve the way they provide services to their communities. It has offered a one-time, \$200-million fund to assist.

AMO is continuing to identify potential partners that offer cost-effective, proven, and appropriate technology to help members with their digital transformation efforts.



Financial Statements

Local Authority Services

December 31, 2018

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Independent Auditor's Report

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To the Shareholder of
Local Authority Services

Opinion

We have audited the financial statements of Local Authority Services (LAS), which comprise the statement of financial position as at December 31, 2018, and the statements of operations, changes in fund balances and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

We also:

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

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

Toronto, Canada
May 24, 2019

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

Chartered Professional Accountants
Licensed Public Accountants

Local Authority Services

Statement of Financial Position

December 31

2018

2017

Assets

Current

Cash (Note 3)	\$ 6,457,154	\$ 7,278,673
Cash - One Investment HISA deposits (Note 4)	1,099,717,036	843,425,641
Investments (Note 5)	5,878,635	5,063,061
Accounts receivable	1,830,977	1,944,791
Prepaid expenses	<u>127,862</u>	<u>118,270</u>

1,114,011,664 857,830,436

Property and equipment (Note 6)

64,297 120,411

\$ 1,114,075,961 \$857,950,847

Liabilities

Current

Accounts payable and accrued liabilities (Note 8)	\$ 2,930,333	\$ 4,645,293
Due to AMO (Note 9)	160,446	110,103
One Investment - HISA deposits (Note 4)	1,099,717,036	843,425,641
Energy program payables (Note 7)	732,000	732,000
Deferred revenue	<u>24,590</u>	<u>44,310</u>

1,103,564,405 848,957,347

Fund balances

Internally restricted

Natural gas procurement program (Note 7(a))	5,887,091	4,790,020
Electricity procurement program (Note 7(b))	622,179	522,304

Unrestricted 4,002,286 3,681,176

10,511,556 8,993,500

\$ 1,114,075,961 \$857,950,847

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 2018	Total 2017
Revenue					
Program	\$ 21,721,270	\$ 666,679	\$ 5,167,049	\$ 27,554,998	\$ 26,173,395
Investment income	<u>60,903</u>	<u>44,199</u>	<u>59,602</u>	<u>164,704</u>	<u>105,718</u>
	<u>21,782,173</u>	<u>710,878</u>	<u>5,226,651</u>	<u>27,719,702</u>	<u>26,279,113</u>
Expenses					
Program	19,143,802	425,632	3,560,243	23,129,677	22,729,619
Administration (Note 9 and 11)	41,300	162,941	1,310,200	1,514,441	959,394
Amortization	<u>-</u>	<u>22,430</u>	<u>35,098</u>	<u>57,528</u>	<u>73,304</u>
	<u>19,185,102</u>	<u>611,003</u>	<u>4,905,541</u>	<u>24,701,646</u>	<u>23,762,317</u>
Excess of revenue over expenses	<u>\$ 2,597,071</u>	<u>\$ 99,875</u>	<u>\$ 321,110</u>	<u>\$ 3,018,056</u>	<u>\$ 2,516,796</u>

See accompanying notes to the financial statements.

Local Authority Services

Statement of Changes in Fund Balances

Year ended December 31

	Internally restricted			Total	Total
	Natural gas procurement program	Electricity procurement program	Unrestricted	2018	2017
Balance, beginning of year	\$ 4,790,020	\$ 522,304	\$ 3,681,176	\$ 8,993,500	\$ 7,983,063
Excess of revenue over expenses	2,597,071	99,875	321,110	3,018,056	2,516,796
Rebates (Note 7(a))	<u>(1,500,000)</u>	<u>-</u>	<u>-</u>	<u>(1,500,000)</u>	<u>(1,506,359)</u>
Balance, end of year	<u>\$ 5,887,091</u>	<u>\$ 622,179</u>	<u>\$ 4,002,286</u>	<u>\$ 10,511,556</u>	<u>\$ 8,993,500</u>

See accompanying notes to the financial statements.

Local Authority Services

Statement of Cash Flows

Year ended December 31

2018

2017

(Decrease) increase in cash

Operating

Excess of revenue over expenses
Amortization

\$ 3,018,056 \$ 2,516,796
57,528 73,304

3,075,584 2,590,100

Change in non-cash operating working capital

Accounts receivable

113,814 (716,155)

Prepaid expenses

(9,592) (20,042)

Accounts payable and accrued liabilities

(1,714,960) (2,080,613)

Due to AMO

50,343 (76,621)

Deferred revenue

(19,720) (2,434)

1,495,469 (305,765)

Financing

Rebates

(1,500,000) (1,506,359)

Investing

Purchase of investments

(815,574) (338,516)

Additions to property and equipment

(1,414) (56,150)

(816,988) (394,666)

Net decrease in cash

(821,519) (2,206,790)

Cash, beginning of year

7,278,673 9,485,463

Cash, end of year

\$ 6,457,154 \$ 7,278,673

See accompanying notes to the financial statements.

Local Authority Services

Notes to Financial Statements

December 31, 2018

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 lives 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 7. The gains and losses are recognized in the statement of operations in the year in which the contracts are settled.

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Notes to Financial Statements

December 31, 2018

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 10.

3. Cash

	<u>2018</u>	<u>2017</u>
Unrestricted	\$ 3,014,640	\$ 4,849,182
Natural gas procurement program	<u>3,442,514</u>	<u>2,429,491</u>
	<u>\$ 6,457,154</u>	<u>\$ 7,278,673</u>

4. One Investment HISA deposits

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

5. Investments

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

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Notes to Financial Statements

December 31, 2018

6. Property and equipment

			<u>2018</u>	<u>2017</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Computer hardware and software	\$ 1,252,997	\$ 1,189,398	\$ 63,599	\$ 119,364
Furniture and fixtures	<u>12,667</u>	<u>11,969</u>	<u>698</u>	<u>1,047</u>
	<u>\$ 1,265,664</u>	<u>\$ 1,201,367</u>	<u>\$ 64,297</u>	<u>\$ 120,411</u>

7. 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.

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.

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Notes to Financial Statements

December 31, 2018

7. Energy programs (continued)

(a) Natural gas procurement program (continued)

	<u>2018</u>	<u>2017</u>
<u>Purchase and sale contracts</u>		
Flow end date	January 2019 to October 2022	January 2018 to October 2021
Fixed price (per GJ)	\$1.57 to \$3.35	\$2.22 to \$3.94
Supply period (months)	10-12	10-12
Volume (GJ)	8,552,500	8,825,500
Amount of forward contracts	\$13,847,815	\$16,642,500
<u>Transportation contracts</u>		
Flow end date	January 2019 to October 2019	January 2018 to October 2018
Fixed price (per GJ)	\$0.91 to \$3.24	\$0.40 to \$1.87
Volume (GJ)	3,603,362	4,309,012
Amount of forward contracts	\$9,270,901	\$7,402,428

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 \$1,500,000 were made in 2018 (2017 - \$1,506,359).

(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.

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>2018</u>	<u>2017</u>
Flow end date	December 31, 2019	December 31, 2018
Fixed price (per MW)	\$22.50	\$19.91
Supply period (months)	12	12
Volume (MW)	342,912	504,602
Amount of forward contracts	\$7,715,516	\$10,146,629

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8. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities is a deposit of \$2,000,000 (2017 - \$4,000,000), refundable to the City of Toronto on the wind down of the Retail Consolidate Billing program.

9. Related party transactions

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

Included in administration expenses is \$705,981 (2017 - \$694,440) 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.

10. Pension

During 2018, pension contributions in the amount of \$102,101 (2017 - \$109,769) were expensed and paid to OMERS on behalf of employees of LAS.

11. 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
2018		
Salaries and benefits	\$ 27,454	\$ 108,312
Administration expenses	<u>13,846</u>	<u>54,629</u>
	<u>\$ 41,300</u>	<u>\$ 162,941</u>
2017		
Salaries and benefits	\$ 33,182	\$ 72,879
Administration expenses	<u>46,030</u>	<u>101,098</u>
	<u>\$ 79,212</u>	<u>\$ 173,977</u>

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Notes to Financial Statements

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12. 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.

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.

13. Comparative figures

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.



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