



P.O. Box 1749
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Item No.
Audit & Finance Standing Committee
June 21, 2017

TO: Chair and Members of Audit & Finance Standing Committee

SUBMITTED BY: Original Signed

Jacques Dubé, Chief Administrative Officer

Original Signed

Amanda Whitewood, Director, Finance & Asset Management/CFO

DATE: June 12, 2017

SUBJECT: Year End Financial Statements

ORIGIN

Required by Legislation.

LEGISLATIVE AUTHORITY

HRM Charter, section 48(2) outlines the responsibilities of the Audit Committee which include:

- 48(2)(a) – a detailed review of the financial statements of the Municipality with the Auditor;
- 48(2)(b) – an evaluation of internal controls systems and any management letter with the Auditor; and,
- 48(2)(c) – a review of the conduct and adequacy of the audit.

In addition, HRM Charter, section 46 outlines the appointment and requirements of the Municipal Auditor and the need to file the Auditor's report with Council and the Minister by July 31, 2017.

Audit & Finance Standing Committee Terms of Reference states that the Committee is responsible for: reviewing, in detail, the financial statements of the Municipality with the External Auditors, evaluating internal control systems and management letters with the External Auditors, and, review with management and the External Auditor and recommend to Regional Council for approval, the annual audited financial statements.

The Audit and Finance Standing Committee under its Terms of Reference shall "review the qualification, independence, quality of service and performance of the External Auditors annually and recommend to the Council the appointment or discharge of the External Auditors".

Halifax Regional Municipality Council approved, December 11, 2012, that all budget increases are to be presented to the Audit & Finance Standing Committee, prior to submission to Council.

HRM Charter, section 120(6) – The Municipality may maintain other reserve funds for such purposes as the Council may determine; Reserve Administrative Order 2014-015 (5) The Audit and Finance Standing Committee shall review and recommend to the Council for its consideration all impacts to the Reserves.

The attachments included are necessary for the Audit and Finance Standing Committee and the Municipal Auditor to satisfy their responsibilities and requirements.

RECOMMENDATION

It is recommended that the Audit and Finance Standing Committee recommend that Halifax Regional Council approve:

- 1) The Consolidated Financial Statements of the Halifax Regional Municipality for the year ended March 31, 2017;
- 2) The Statement of General Rate Surplus of the Halifax Regional Municipality for the year ended March 31, 2017;
- 3) Transfers of \$2,164,945, as outlined below, to reduce the general rate surplus to zero:
 - o Police Officer On the Job Injury Reserve, Q411 \$ 80,000
 - o Landfill Closure and Post Closure Costs Reserve, Q506 \$ 318,300
 - o Operating Stabilization Reserve, Q416 \$ 374,000
 - o General Contingency Reserve, Q421 \$1,392,645
- 4) The financial statements of the Halifax Regional Municipality Miscellaneous Trust Funds for the year ended March 31, 2017, and,
- 5) That KPMG continue as the External Auditor until the tender for external audit services is awarded for fiscal year 2017/18.

BACKGROUND

The Statement of General Rate Surplus outlines the total 2016/17 surplus and planned transfers of the surplus to various reserves to bring our general rate surplus to zero.

As approved in the 2016/17 reserve budget, police services received \$374,000 from the Operating Stabilization Reserve for various operating costs. At year end, as police services were ending the year with a surplus, they asked that the \$374,000 they had received during the year be placed back into the reserve to be available in future years budgeting process. Per the reserve business case for The Police Officer On the Job Injury Reserve, the contributions are to be surplus funds from police services, if available. Police Services requested that \$80,000 be placed into the reserve for March 31, 2017.

The Landfill Closure and Post Closure Costs Reserve funded operating costs of \$318,300 per the approved reserve budget. As the Solid Waste Division were ending the year with a surplus, they have asked that \$318,300 be placed back into the reserve for future budget years.

Per the Provincial Financial Accounting and Reporting Manual, the surplus of a municipality is to be placed into a reserve. The General Contingency Reserve, Q421 receives any year-end surplus, and can then be used to fund operating costs, offset deficits, or fund new operating initiatives and /or capital expenditures.

The table below provides additional details of the General Contingency Reserve, Q421, at March 31, 2017.

Net available balance, March 31, 2017	\$ 658,031
Transfer into reserve of year-end surplus	<u>\$ 1,392,645</u>
Revised net available balance, March 31, 2017	\$ 2,050,676

Appointment of External Auditors

Under the terms of reference of the Audit and Finance Standing Committee, the Committee is required to "review the qualifications, independence, quality of service and performance of the External Auditors annually and recommend to the Council the appointment or discharge of the External Auditors".

KPMG LLP was the successful proponent to the RFP for External Audit Services in 2012. The proposal covered the fiscal years from 2012/13 to 2016/17.

The RFP for external audit services has not yet been issued but will be in 2017 for a five-year period commencing with fiscal year 2017/18 and ending with fiscal year 2022/23. KPMG will continue to be the External Auditor until this tender for external audit services has been awarded.

DISCUSSION

A detailed presentation will be provided at the meeting.

FINANCIAL IMPLICATIONS

Outlined in the presentation and attached reports.

RISK CONSIDERATION

N/A

COMMUNITY ENGAGEMENT

N/A

ENVIRONMENTAL IMPLICATIONS

N/A

ALTERNATIVES

1. Audit and Finance Standing Committee may not choose to approve the proposed recommendations. This is not the recommended option.
2. Audit and Finance Standing Committee may approve the proposed recommendations subject to requested modifications. This is not the recommended option.

ATTACHMENTS

1. Consolidated Financial Statements of the HRM, Year ended March 31, 2017.
2. General Rate Surplus of HRM, Year ended March 31, 2017.
3. Financial Statements of HRM Miscellaneous Trust Funds, Year ended March 31, 2017.
4. HRM Audit Findings Report - KPMG

A copy of this report can be obtained online at <http://www.halifax.ca/boardscom/SCfinance/index.php> then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 902.490.4210, or Fax 902.490.4208.

Report Prepared by: Nancy Harper, Accounting Controls & Reporting Manager 902.490.3696

Consolidated Financial Statements of the

HALIFAX REGIONAL MUNICIPALITY

Year ended March 31, 2017

HALIFAX REGIONAL MUNICIPALITY

Consolidated Financial Statements

Year ended March 31, 2017

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HALIFAX REGIONAL MUNICIPALITY

Consolidated Financial Statements

Year ended March 31, 2017

Management's Responsibility for the Consolidated Financial Statements

The management of the Halifax Regional Municipality (the "Municipality") is responsible for the integrity, objectivity and accuracy of the financial information presented in the accompanying financial statements.

The consolidated financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada ("CPA"). A summary of the significant accounting policies is described in Note 1 to the consolidated financial statements.

The Municipality's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded and reliable financial information is available on a timely basis for preparation of the consolidated financial statements. These systems are monitored and evaluated by management.

The Audit and Finance Standing Committee meets with management and the external auditors to review the consolidated financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the consolidated financial statements.

The consolidated financial statements have been audited by KPMG LLP, independent external auditors appointed by the Municipality. The accompanying Independent Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the Municipality's consolidated financial statements.

Jacques Dubé
Chief Administrative Officer

Amanda Whitewood, FCPA, FCMA, C.Dir., CHE
Director, Chief Financial Officer
Finance and Asset Management

Independent Auditors' Report

HALIFAX REGIONAL MUNICIPALITY

Consolidated Statement of Financial Position

March 31, 2017, with comparative information for 2016
(In thousands of dollars)

	2017	2016
Financial assets		
Cash and short-term deposits (note 2)	\$ 235,331	\$ 233,294
Taxes receivable (note 3)	29,768	33,774
Accounts receivable (note 4)	36,964	45,242
Loans, deposits and advances	563	645
Land held for resale	51,819	49,604
Investments (note 5)	65,006	55,569
Investment in the Halifax Regional Water Commission (note 6)	147,629	123,670
	<u>567,080</u>	<u>541,798</u>
Financial liabilities		
Accounts payable and accrued liabilities (note 7)	106,767	112,079
Deferred revenue	62,667	57,526
Employee future benefits (note 9)	55,503	53,895
Solid waste management facilities liabilities (note 10)	11,159	11,983
Long-term debt (note 11)	196,587	214,201
	<u>432,683</u>	<u>449,684</u>
Net financial assets	134,397	92,114
Non-financial assets		
Tangible capital assets (note 14)	1,810,563	1,789,860
Inventory and prepaid expenses	13,235	12,247
	<u>1,823,798</u>	<u>1,802,107</u>
Accumulated surplus (note 15)	\$ 1,958,195	\$ 1,894,221

Commitments and contingent liabilities (notes 13 and 16)

The accompanying notes are an integral part of the consolidated financial statements.

HALIFAX REGIONAL MUNICIPALITY

Consolidated Statement of Operations and Accumulated Surplus

For the year ended March 31, 2017, with comparative information for 2016
(In thousands of dollars)

	Budget	2017	2016
Revenue			
Taxation	\$ 709,013	\$ 710,941	\$ 702,164
Taxation from other governments	38,371	38,336	38,490
User fees and charges	111,708	112,698	117,476
Government grants	41,663	43,953	42,455
Development levies	2,221	2,461	2,963
Investment income (note 5)	3,218	3,519	3,504
Penalties, fines and interest	12,841	12,319	12,928
Land sales, contributions and other revenue	29,678	35,444	21,972
Increase in investment in the Halifax Regional Water Commission before remeasurement gain (note 6)	23,200	23,216	22,951
Grant in lieu of tax from the Halifax Regional Water Commission (note 6)	4,663	4,578	4,528
Total revenue	976,576	987,465	969,431
Expenses			
General government services	116,105	96,940	112,909
Protective services	209,412	212,419	204,248
Transportation services	266,857	272,703	261,394
Environmental services	43,320	41,279	53,762
Recreation and cultural services	130,030	127,550	121,680
Planning and development services	25,203	25,062	23,235
Educational services	148,281	148,281	142,632
Total expenses	939,208	924,234	919,860
Annual surplus	37,368	63,231	49,571
Accumulated surplus, beginning of year	1,894,221	1,894,221	1,834,261
Remeasurement gain from investment in Halifax Regional Water Commission (note 6)	-	743	10,389
Accumulated surplus, end of year	\$ 1,931,589	\$ 1,958,195	\$ 1,894,221

The accompanying notes are an integral part of the consolidated financial statements.

HALIFAX REGIONAL MUNICIPALITY

Consolidated Statement of Change in Net Financial Assets

For the year ended March 31, 2017, with comparative information for 2016
(In thousands of dollars)

	Budget	2017	2016
Annual surplus	\$ 37,368	\$ 63,231	\$ 49,571
Acquisition of tangible capital assets and contributed tangible capital assets	(169,674)	(150,457)	(140,060)
Amortization of tangible capital assets	129,072	129,072	124,441
Gain on disposal of tangible capital assets	-	(105)	(970)
Proceeds on disposal of tangible capital assets	-	787	10,275
	(3,234)	42,528	43,257
Acquisition of inventories of supplies and prepaid expenses	-	(34,573)	(34,468)
Consumption of inventories of supplies and use of prepaid expenses	-	33,585	31,746
Remeasurement gain from investment in Halifax Regional Water Commission (note 6)	-	743	10,389
	-	(245)	7,667
Net change in net financial assets	(3,234)	42,283	50,924
Net financial assets, beginning of year	92,114	92,114	41,190
Net financial assets, end of year	\$ 88,880	\$ 134,397	\$ 92,114

The accompanying notes are an integral part of the consolidated financial statements.

HALIFAX REGIONAL MUNICIPALITY

Consolidated Statement of Cash Flows

For the year ended March 31, 2017, with comparative information for 2016
(In thousands of dollars)

	2017	2016
Cash provided by (used in):		
Operating activities		
Annual surplus	\$ 63,231	\$ 49,571
Items not involving cash:		
Amortization of tangible capital assets	129,072	124,441
Gain on disposal of tangible capital assets	(105)	(970)
Contributed tangible capital assets	(14,093)	(12,744)
Increase in investment in the Halifax Regional Water Commission before remeasurement gain	(23,216)	(22,951)
	154,889	137,347
Change in non-cash assets and liabilities:		
Decrease (increase) in taxes receivable	4,006	(5,683)
Decrease in accounts receivable	8,278	8,295
Decrease in loans, deposits and advances	82	102
Increase in land held for resale	(2,215)	(7,340)
Increase in inventory and prepaid expenses	(988)	(2,722)
Increase (decrease) in accounts payable and accrued liabilities	(5,312)	6,315
Increase in deferred revenue	5,141	1,181
Increase in employee future benefits	1,608	1,491
Decrease in solid waste management facilities liabilities	(824)	(675)
Net change in cash from operating activities	164,665	138,311
Capital activities		
Proceeds on disposal of tangible capital assets	787	10,275
Acquisition of tangible capital assets	(136,364)	(127,316)
Net change in cash from capital activities	(135,577)	(117,041)
Investing activities		
Decrease (increase) in investments	(9,437)	16,568
Net change in cash from investing activities	(9,437)	16,568
Financing activities		
Long-term debt issued	19,500	39,673
Long-term debt redeemed	(43,810)	(45,274)
Net debt recovered from the Halifax Regional Water Commission	6,696	6,904
Net change in cash from financing activities	(17,614)	1,303
Net change in cash and short-term deposits	2,037	39,141
Cash and short-term deposits, beginning of year	233,294	194,153
Cash and short-term deposits, end of year	\$ 235,331	\$ 233,294

The accompanying notes are an integral part of the consolidated financial statements.

HALIFAX REGIONAL MUNICIPALITY

Notes to Consolidated Financial Statements

Year ended March 31, 2017

(In thousands of dollars)

1. Significant accounting policies:

(a) Basis of presentation:

The consolidated financial statements of the Halifax Regional Municipality (the "Municipality") have been prepared by management in accordance with Canadian public sector accounting standards.

(b) Basis of consolidation:

These consolidated financial statements reflect the assets, liabilities, revenues and expenses of the Municipality. The Municipality is comprised of all organizations, committees and local boards accountable for the administration of their financial affairs and resources to the Municipality and which are owned or controlled by the Municipality, except the Halifax Regional Water Commission which is accounted for on the modified equity basis of accounting. The entities included are as follows:

Recreation facilities:

- BMO Centre
- Canada Games Centre
- Centennial Pool Association
- Community Builders Inc. (Cole Harbour Place)
- Dartmouth Sportsplex Community Association
- Eastern Shore Recreation Commission
- Halifax Forum Community Association
- Scotiabank Centre
- Halifax Regional Municipality Centennial Arena Commission
- Sackville Sports Stadium
- St. Margaret's Community Centre Association

Commissions, cultural and other facilities:

- Alderney Landing Association
- Downtown Dartmouth Business Commission
- Downtown Halifax Business Commission
- Main Street Dartmouth and Area Business Improvement Association
- MetroPark Parkade Facility
- North End Business Association
- Quinpool Road Mainstreet District Association Limited
- Sackville Business Association
- Spring Garden Area Business Association
- Spryfield & District Business Commission

Halifax Regional Library

Interdepartmental and inter-organizational transactions and balances between these entities and organizations have been eliminated.

HALIFAX REGIONAL MUNICIPALITY

Notes to Consolidated Financial Statements

Year ended March 31, 2017

(In thousands of dollars)

1. Significant accounting policies (continued):

(c) Investment in the Halifax Regional Water Commission:

The Halifax Regional Water Commission (the "HRWC") is a corporate body without share capital and is accounted for using the modified equity basis of accounting; consistent with public sector accounting standards, as recommended by PSAB for an investment in a government business enterprise. Under the modified equity basis of accounting, the HRWC's accounting principles are not adjusted to conform to those of the Municipality and inter-organizational transactions and balances are not eliminated.

The Municipality recognizes its equity interest in the annual net income or loss of the HRWC in its consolidated statement of operations with a corresponding increase or decrease in its investment account.

(d) Basis of accounting:

Revenues and expenses are recorded on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they are earned and measurable and expenses are recognized as they are incurred and measurable as a result of the receipt of goods or services and the creation of a legal obligation to pay.

(e) Use of estimates:

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the period. Significant estimates include assumptions used in estimating provisions for accrued liabilities, landfill liability, contaminated sites liability and in performing actuarial valuations of employee future benefits. These estimates and assumptions are based on the Municipality's best judgement and may differ significantly from actual results.

(f) Taxation and related revenues:

Property tax billings are prepared by the Municipality based on assessment rolls issued by the Property Valuation Services Corporation. Tax rates are established annually by Council, incorporating amounts to be raised for local services and the requisition made by the Province of Nova Scotia in respect of contributions to education. Taxation revenues are recorded at the time tax billings are due. Assessments and the related property taxes are subject to appeal. Tax adjustments as a result of appeals are recorded when the results of the appeal process are known. An allowance for unresolved assessment appeals is also provided.

(g) User fees and charges:

User fees relate to transit fees, fees for various programs and fees imposed on specific activities. Revenue is recognized when the activity is performed or when the service has been rendered.

(h) Government transfers:

Government transfers are recognized in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made, except when and to the extent that stipulations associated with the transfer give rise to a liability. If a liability is created, the satisfaction of the transfer stipulations by the recipient government determines the timing of the recognition of the transfer as revenue.

(i) Short-term deposits and investments:

Short-term deposits and investments are recorded at cost, adjusted for amortization of premiums or discounts in accordance with the investment policies established for the Municipality. A permanent decline in value would result in a write-down to recognize the loss and be included in the statement of operations.

HALIFAX REGIONAL MUNICIPALITY

Notes to Consolidated Financial Statements

Year ended March 31, 2017

(In thousands of dollars)

1. Significant accounting policies (continued):

- (j) Land held for resale:
Land held for resale is recorded at the lower of cost or net realizable value. Cost includes amounts for improvements to prepare the land for sale or servicing.
- (k) Contaminated sites:
The Municipality accrues a liability to estimate the cost to remediate contaminated sites to the level necessary to allow the property to meet the environmental standard appropriate to its current use or status. The liability is based on estimates and assumptions using the best information available to management.
- (l) Deferred revenue:
Deferred revenue represents taxes, user charges and other fees that have been collected, for which the related services have yet to be performed. These amounts will be recognized as revenue in the period the services are performed.
- (m) Pension, post-employment benefits and compensated absences:
The contributions to a multi-employer, defined benefit pension plan are expensed when contributions are due. The costs of post-employment benefits are recognized when the event that obligates the Municipality occurs. Costs include projected future income payments and fees paid to independent administrators of these plans, calculated on a present value basis.
The costs of post-employment benefits and compensated absences are actuarially determined using the projected benefits method prorated on service and management's best estimate of retirement ages of employees, salary escalation and expected absences. Liabilities are actuarially determined using discount rates that are consistent with the market rates of high quality debt instruments. Any gains or losses from changes in assumptions or experience are amortized over the estimated average remaining service life ("EARSL") for the related employee group.
- (n) Solid waste management facilities liabilities:
The Municipality accrues landfill closure and post-closure care requirements that include final covering and landscaping of the landfill, pumping of ground water and leachates from the site, and ongoing environmental monitoring, site inspection and maintenance. The reported liability is based on estimates and assumptions using the best information available to management.
Future events may result in significant changes to the estimated total expenses, capacity used or total capacity and the estimated liability, and would be recognized prospectively, as a change in estimate, when applicable.
- (o) Non-financial assets:
Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.
 - i) Tangible capital assets
Tangible capital assets are recorded at historical cost or estimated historical cost, based on appraisals or other acceptable methods where historical cost was not available, which includes amounts that are directly attributable to the acquisition, construction, development or betterment of the asset. The cost of normal maintenance and repairs which do not add value to the asset or materially extend the useful life of the asset are not capitalized. The cost, less residual value of the tangible capital assets, are amortized on a straight line basis over their estimated useful lives as follows:

HALIFAX REGIONAL MUNICIPALITY

Notes to Consolidated Financial Statements

Year ended March 31, 2017

(In thousands of dollars)

1. Significant accounting policies (continued):

(o) (i) Tangible capital assets (continued):

Asset	Useful Life – Years
Land improvements	10 - 50
Buildings and building improvements	15 - 40
Vehicles	5 - 15
Machinery and equipment	5 - 10
Dams	40
Roads and infrastructure	5 - 75
Ferries	2 - 30

The useful life for landfill cells, which are included in land improvements, is based upon the capacity of each cell.

Leasehold improvements are amortized over the shorter of the term of the lease (including one renewal period, if provided for) or the useful life of the asset.

For assets with a useful life of 5 years or less, amortization will commence in the year the asset is available for use, and be recorded at 50% of the annual charge in the first and last years of the asset's useful life. For assets with a useful life greater than 5 years, amortization will commence in the year following the year the asset is put into use.

Roads and infrastructure includes road beds, road surfaces, infrastructure and bridges. The useful life of these assets are as follows: road beds - 40 years, road surfaces - 5 to 20 years, infrastructure - 20 to 30 years and bridges - 75 years.

The school buildings which are owned by the Municipality but in use by the Halifax Regional School Board are not recorded as tangible capital assets. No amortization is recorded by the Municipality as long as the buildings are in use by and under the control of the Halifax Regional School Board.

ii) Contributions of tangible capital assets

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and are also recorded as revenue.

iii) Natural resources

Natural resources that have not been purchased are not recognized as assets.

iv) Works of art and cultural and historic assets

Works of art and cultural and historic assets are not recorded as assets, unless used in the provision of a municipal service.

v) Interest capitalization

The Municipality does not capitalize interest costs associated with the acquisition or construction of a tangible capital asset.

vi) Leased tangible capital assets

Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as leased tangible capital assets. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

HALIFAX REGIONAL MUNICIPALITY

Notes to Consolidated Financial Statements

Year ended March 31, 2017

(In thousands of dollars)

1. Significant accounting policies (continued):

(p) Inventories of supplies:

Inventories of supplies held for consumption are recorded at the lower cost or replacement cost.

(q) Expenses:

Expenses are recognized in the year the events giving rise to the event occurs and there is a legal or constructive obligation to pay.

(r) School boards:

The assets, liabilities, taxation and other revenues and expenses with respect to the operations of the school boards are not reflected in the consolidated financial statements as they are provincial government entities.

(s) Miscellaneous Trust Funds:

Miscellaneous Trust Funds and their related operations administered by the Municipality are not included in the consolidated financial statements, but are reported separately in the Miscellaneous Trust Funds financial statements.

(t) Funds and reserves:

Certain amounts, as approved by Council, are set aside in accumulated surplus for future operating and capital purposes. Transfers to/from funds and reserves are an adjustment to the respective fund when approved.

2. Cash and short-term deposits:

	2017	2016
Halifax Regional Municipality	\$ 228,366	\$ 227,625
Recreation facilities, commissions, cultural and other facilities and the Halifax Regional Library	6,965	5,669
Total	\$ 235,331	\$ 233,294

Cash and short-term deposits include interest bearing accounts and money market instruments with a term to maturity of 90 days or less.

3. Taxes receivable:

	2017	2016
Taxes receivable	\$ 34,704	\$ 37,995
Allowance	(4,936)	(4,221)
Total	\$ 29,768	\$ 33,774

HALIFAX REGIONAL MUNICIPALITY

Notes to Consolidated Financial Statements

Year ended March 31, 2017
(In thousands of dollars)

4. Accounts receivable:

	2017		2016	
Federal government	\$	24,284	\$	34,919
Provincial government		7,935		7,923
Other receivables		18,970		27,549
Allowance		(14,225)		(25,149)
Total	\$	36,964	\$	45,242

5. Investments:

Money market instruments include Federal and Provincial treasury bills, discounted notes of Federal Crown Corporations and instruments of Canadian Financial Institutions. These investments have a term to maturity of one year or less. Investments shown here have a remaining term to maturity of more than 90 days at March 31, 2017.

Bonds of Federal and Provincial governments and their guarantees have a maturity range from June 15, 2017 to December 18, 2018. The weighted average yield on market value of these bonds is 0.81% at March 31, 2017 (2016 - 0.89%).

	2017		2016	
	Cost	Market value	Cost	Market value
Money market instruments	\$ 52,989	\$ 53,001	\$ 41,534	\$ 41,593
Bonds of Federal and Provincial governments and their guarantees	12,017	12,214	14,035	14,376
Total	\$ 65,006	\$ 65,215	\$ 55,569	\$ 55,969

The investment income earned on money market instruments is \$3,266 (2016 - \$3,176) and on bonds of Federal and Provincial governments and their guarantees is \$253 (2016 - \$328).

HALIFAX REGIONAL MUNICIPALITY

Notes to Consolidated Financial Statements

Year ended March 31, 2017

(In thousands of dollars)

6. Investment in the Halifax Regional Water Commission:

The HRWC is a government business enterprise of the Municipality and is responsible for the supply of municipal water, wastewater and stormwater services to residents of the Municipality. HRWC reports under International Financial Reporting Standards ("IFRS"). In the current fiscal year, HRWC capitalized driveway and cross culvert assets that were previously unrecorded. As a result, at March 31, 2017, capital assets and long-term liabilities were increased by \$91,010.

(a) The following table provides condensed supplementary financial information for the HRWC:

	2017	2016
Financial position		
Current assets	\$ 90,706	\$ 90,394
Capital assets	1,186,221	1,077,043
Total assets	1,276,927	1,167,437
Current liabilities	54,721	59,802
Long-term liabilities	1,074,577	983,965
Total liabilities	1,129,298	1,043,767
Net assets	\$ 147,629	\$ 123,670
Results of operations		
Revenues	\$ 137,997	\$ 131,717
Operating expenses	(122,173)	(111,676)
Financing expenses	(8,674)	(9,075)
Other income	20,836	16,705
Regulatory deferral account amortization	(192)	(192)
Net income before grant in lieu of tax	27,794	27,479
Grant in lieu of tax	(4,578)	(4,528)
Increase in investment and equity before remeasurement gain (loss)	23,216	22,951
Investment and equity, beginning of year	123,670	90,330
Change in investment and equity through remeasurement gain (loss)	743	10,389
Investment and equity, end of year	\$ 147,629	\$ 123,670

(b) The following summarizes the Municipality's transactions with the HRWC for the year:

	2017	2016
Revenues		
Grant in lieu of tax	\$ 4,578	\$ 4,528
Expenses		
Stormwater charge	\$ 3,881	\$ 3,881
Fire protection charge	\$ 7,181	\$ 8,560

All transactions are in the normal course of operations, and are recorded at the exchange value based on normal commercial rates, or as agreed to by the parties.

HALIFAX REGIONAL MUNICIPALITY

Notes to Consolidated Financial Statements

Year ended March 31, 2017

(In thousands of dollars)

7. Accounts payable and accrued liabilities:

	2017	2016
Trade accounts payable	\$ 38,827	\$ 40,253
Federal government	4,612	10,212
Provincial government	5,615	5,198
Salaries and wages payable	16	27
Accrued liabilities	55,527	53,934
Accrued interest	2,170	2,455
Total	\$ 106,767	\$ 112,079

8. Employee future benefits - employees' retirement pension plan:

Employees of the Municipality participate in the Halifax Regional Municipality Pension Plan (the "HRM Plan"). The HRM Plan is a multi-employer plan administered by the Halifax Regional Municipality Pension Committee (the "Committee"). Other employers participating in the HRM Plan include the Halifax Regional School Board and Quest. The Committee is comprised of representatives from both management and unions, and is responsible for setting contribution rates for all participating employers. The HRM Plan is funded equally by participating employers and members. Accounting for the HRM Plan under the Municipality's consolidated financial statements follows rules for defined contribution pension plans.

The HRM Plan provides a lifetime benefit representing 2% of the member's highest average earnings over a period of three years times the number of years of credited service in the pension plan. Only regular earnings are recognized under the defined benefit provisions of the HRM Plan. The HRM Plan also provides defined contribution benefits, at the option of the member, on the portion of earnings that is overtime and other non-regular earnings.

The Municipality contributed to the HRM Plan an amount of \$31,615 for the year ending March 31, 2017 (2016 - \$30,549). Since January 1, 2016, the Municipality and the members are each contributing 12.21% of regular earnings for members participating in the main division of the pension plan. Other contribution rates are in effect for the other divisions of the plan, and for members in public safety occupations.

The last actuarial valuation filed with regulators was at December 31, 2015. The next actuarial valuation, at December 31, 2016, is to be filed by September 30, 2017. The interest rate used in the last filed valuation was 6.55% per year. The following estimates as at December 31, 2016 are based on the actuarial valuation as at December 31, 2015 extrapolated to December 31, 2016 and is based on a best estimate discount rate assumption of 7.25% per annum (2015 - 7.25%).

	2017 Extrapolated	2016 Extrapolated
Actuarial value of plan assets	\$ 1,621,183	\$ 1,515,696
Estimated present value of accrued pension benefits	(1,607,539)	(1,552,494)
Estimated funding surplus (deficit)	\$ 13,644	\$ (36,798)

HALIFAX REGIONAL MUNICIPALITY

Notes to Consolidated Financial Statements

Year ended March 31, 2017
(In thousands of dollars)

9. Employee future benefits - retiring allowances and other future benefits:

The Municipality provides for the payment of retiring allowances to retiring employees in accordance with the terms of the various collective agreements and Municipal policy. The retiring allowance is based on the member's final annual salary and years of service at retirement. On the retirement of a police officer, the Municipality also provides for a lump sum payment to a health trust for the benefit of the retiring member. The amount depends on the level of the officer's sick bank at the time of retirement.

The Municipality continues to pay for its share of the contributions to the HRM Plan for members in receipt of benefits from a long-term disability plan sponsored and recognized by the Municipality.

The Municipality also provides for employee sick leave. Unused sick leave accumulates to a maximum number of hours which varies by employment agreement. Under this program, employees are not entitled to a cash payment in lieu of sick leave when they leave the Municipality's employment except as described above with respect to the retirement of a police officer.

The Municipality also pays lifetime and temporary benefits to former employees who retired from the Municipality under various early retirement programs and arrangements that were in place prior to April 1, 2004.

Actuarial valuations of the above benefits are done for accounting purposes using the projected benefit method prorated on services. The last actuarial valuation of the unused sick leave benefits was conducted as at March 31, 2015. The last actuarial valuation of the police health trust benefits was conducted as at March 31, 2017. For all other benefits, actuarial valuations were conducted as at March 31, 2016. Key actuarial assumptions used in the valuations were based on the Municipality's best estimates.

A reconciliation of the accrued benefit obligation for these plans, along with the main assumptions used for disclosure and expense calculations are as follows:

	2017	2016
Accrued benefit obligation, beginning of year	\$ 62,219	\$ 60,844
Current period benefit cost	4,543	4,445
Benefit payments	(5,802)	(5,892)
Interest cost	1,780	1,918
Actuarial loss	1,873	904
Accrued benefit obligation, end of year	\$ 64,613	\$ 62,219
Main assumptions used for fiscal year-end disclosure		
Discount rate	2.51%	2.89%
Salary increase	3% plus merit	3% plus merit
Main assumptions used for expense calculation		
Discount rate	2.89%	3.19%
Salary increase	3% plus merit	3% plus merit

HALIFAX REGIONAL MUNICIPALITY

Notes to Consolidated Financial Statements

Year ended March 31, 2017
(In thousands of dollars)

9. Employee future benefits - retiring allowances and other future benefits (continued):

These other employee benefit plans require no contributions from employees. The benefit liability as at March 31, 2017 is estimated to include the following components:

	2017	2016
Accrued benefit obligation		
Retiring allowances	\$ 32,456	\$ 30,458
Sick leave	18,308	18,078
HRM pension contributions for employees on long term disability	5,230	5,083
Police Health Trust	2,148	2,057
Other	6,471	6,543
	64,613	62,219
Unamortized actuarial loss	(9,110)	(8,324)
Benefit liability	\$ 55,503	\$ 53,895

The unamortized actuarial losses will be amortized over the EARSL of the related employee groups starting in the next fiscal year. EARSL is determined separately for each benefit program.

The total expense related to other employee benefits described above includes the following components:

	2017	2016
Current period benefit cost	\$ 4,543	\$ 4,445
Amortization of actuarial loss	1,088	1,020
Other employee benefit expense	5,631	5,465
Other employee benefit interest expense	1,780	1,918
Total expense related to other employee benefit plans	\$ 7,411	\$ 7,383

HALIFAX REGIONAL MUNICIPALITY

Notes to Consolidated Financial Statements

Year ended March 31, 2017

(In thousands of dollars)

10. Solid waste management facilities liabilities:

The Nova Scotia Environmental Protection Act (the "Act") sets out the regulatory requirements for the closure and maintenance of landfill sites. Under this Act, the Municipality is required to provide for closure and post closure care of solid waste landfill sites.

The estimated liability for the care of the landfill sites is the present value of future cash flows associated with closure and post closure costs discounted using a long-term borrowing rate of 2.16% (2016 - 2.43%) and a forecasted inflation rate of 2.05% (2016 - 1.36%).

Sackville Landfill:

The Sackville Landfill site closed during the year ended March 31, 1997. A closure plan and an environmental audit were completed in 1996. Post closure care activities for this site include perpetual care that will involve the management and monitoring of groundwater, gas and leachate levels, operating and monitoring the leachate treatment plant when necessary, removal of buildings, site cleanup and general site maintenance. The continuous monitoring of the site is anticipated to be ongoing.

Otter Lake Landfill:

The Otter Lake Landfill site opened during the year ended March 31, 1999 and is expected to accept residential waste for another 35 years assuming a growth rate of 2% per year in the volume of residential waste processed.

The site's design consists of nine cell phases with an expected total capacity of 5,200,000 tonnes (2016 - 5,200,000 tonnes).

Post closure care activities for this site, include perpetual care and will involve the management and monitoring of groundwater, gas and leachate levels, operating and monitoring the leachate treatment plant when necessary, removal of buildings, site cleanup and general site maintenance.

The liability was adjusted for capacity used of 100% for the closed cells and 90.40% (2016 - 81.94%) of Cell 6.

Mengoni Landfill:

The Mengoni Landfill site closed during the year ended March 31, 2008. A closure plan and an environmental audit were completed in 2008. Post closure care activities for this site include perpetual care that is expected to occur until 2029 and will involve the management and monitoring of groundwater, gas and leachate levels, operating and monitoring the leachate treatment plant when necessary, removal of buildings, site cleanup and general site maintenance.

A reserve has been established to fund the post closure care activities for the landfill sites described above.

HALIFAX REGIONAL MUNICIPALITY

Notes to Consolidated Financial Statements

Year ended March 31, 2017

(In thousands of dollars)

10. Solid waste management facilities liabilities (continued):

	Sackville	Otter Lake	Mengoni	2017 Total
Estimated present value of closure and post closure costs	\$ 19,255	\$ 36,391	\$ 2,492	\$ 58,138
Less: expenses incurred	17,982	26,686	2,311	46,979
	1,273	9,705	181	11,159
Reserve fund				15,960
Excess of available reserves over liability				\$ (4,801)

	Sackville	Otter Lake	Mengoni	2016 Total
Estimated present value of closure and post closure costs	\$ 19,476	\$ 36,576	\$ 2,485	\$ 58,537
Less: expenses incurred	17,577	26,685	2,292	46,554
	1,899	9,891	193	11,983
Reserve fund				13,489
Excess of available reserves over liability				\$ (1,506)

HALIFAX REGIONAL MUNICIPALITY

Notes to Consolidated Financial Statements

Year ended March 31, 2017

(In thousands of dollars)

11. Long-term debt:

The schedules of long-term debt attached to the consolidated financial statements detail the various terms and conditions related to the long-term debt (see pages 30 and 31).

Principal payments required in each of the next five years and thereafter on debt held as at March 31, 2017 are as follows:

2018	\$	35,877
2019		33,033
2020		27,894
2021		29,756
2022		17,786
Thereafter		52,241
Total	\$	196,587

12. Miscellaneous Trust Funds:

Miscellaneous Trust Funds administered by the Municipality are reported on separately. The total trust assets under administration at March 31, 2017 are \$7,169 (2016 - \$7,058).

13. Commitments:

(a) The Municipality and its consolidated entities rent facilities under several long-term operating leases with annual payments for each of the next five years as follows:

2018	\$	5,137
2019		4,432
2020		3,553
2021		2,813
2022		867
Total	\$	16,802

(b) The Municipality and its consolidated entities has entered into several long-term operating leases for various purposes other than rent with annual payments for each of the next five years as follows:

2018	\$	6,852
2019		4,984
2020		3,798
2021		3,418
2022		3,336
Total	\$	22,388

(c) The Municipality has entered into several long-term contracts for waste resources operations with aggregate annual payments for each of the next five years approximately \$38,253 (2016 - \$40,600).

HALIFAX REGIONAL MUNICIPALITY

Notes to Consolidated Financial Statements

Year ended March 31, 2017

(In thousands of dollars)

14. Tangible capital assets:

Cost	Balance at March 31, 2016	Additions (Net of Transfers)	Disposals	Balance at March 31, 2017
Land	\$ 281,152	\$ (870)	\$ (213)	\$ 280,069
Land improvements	250,289	7,654	-	257,943
Buildings	542,103	11,676	-	553,779
Vehicles	214,587	20,294	(1,254)	233,627
Machinery and equipment	136,113	26,235	(67,140)	95,208
Roads and infrastructure	1,857,543	68,968	(18,964)	1,907,547
Dams	480	-	-	480
Ferries	32,171	6,288	(5,816)	32,643
Leasehold improvements	3,030	-	-	3,030
Assets under construction	36,705	10,212	(115)	46,802
Total	\$ 3,354,173	\$ 150,457	\$ (93,502)	\$ 3,411,128

Accumulated amortization	Balance at March 31, 2016	Disposals	Amortization Expense	Balance at March 31, 2017
Land	\$ -	\$ -	\$ -	\$ -
Land improvements	187,380	-	4,106	191,486
Buildings	227,066	-	19,739	246,805
Vehicles	130,434	(900)	14,705	144,239
Machinery and equipment	88,123	(67,140)	14,112	35,095
Roads and infrastructure	908,901	(18,964)	75,159	965,096
Dams	468	-	12	480
Ferries	20,660	(5,816)	1,067	15,911
Leasehold improvements	1,281	-	172	1,453
Assets under construction	-	-	-	-
Total	\$ 1,564,313	\$ (92,820)	\$ 129,072	\$ 1,600,565

	Net book value March 31, 2016	Net book value March 31, 2017
Land	\$ 281,152	\$ 280,069
Land improvements	62,909	66,457
Buildings	315,037	306,974
Vehicles	84,153	89,388
Machinery and equipment	47,990	60,113
Roads and infrastructure	948,642	942,451
Dams	12	-
Ferries	11,511	16,732
Leasehold improvements	1,749	1,577
Assets under construction	36,705	46,802
Total	\$ 1,789,860	\$ 1,810,563

HALIFAX REGIONAL MUNICIPALITY

Notes to Consolidated Financial Statements

Year ended March 31, 2017

(In thousands of dollars)

14. Tangible capital assets:

Cost	Balance at March 31, 2015	Additions (Net of Transfers)	Disposals	Balance at March 31, 2016
Land	\$ 286,734	\$ 3,573	\$ (9,155)	\$ 281,152
Land improvements	243,385	6,904	-	250,289
Buildings	514,624	27,605	(126)	542,103
Vehicles	209,122	7,487	(2,022)	214,587
Machinery and equipment	116,741	19,372	-	136,113
Roads and infrastructure	1,796,140	61,403	-	1,857,543
Dams	480	-	-	480
Ferries	26,481	5,690	-	32,171
Leasehold improvements	3,030	-	-	3,030
Assets under construction	28,679	8,026	-	36,705
Total	\$ 3,225,416	\$ 140,060	\$ (11,303)	\$ 3,354,173

Accumulated amortization	Balance at March 31, 2015	Disposals	Amortization Expense	Balance at March 31, 2016
Land	\$ -	\$ -	\$ -	\$ -
Land improvements	180,975	-	6,405	187,380
Buildings	209,162	(114)	18,018	227,066
Vehicles	117,026	(1,884)	15,292	130,434
Machinery and equipment	77,410	-	10,713	88,123
Roads and infrastructure	836,048	-	72,853	908,901
Dams	456	-	12	468
Ferries	19,683	-	977	20,660
Leasehold improvements	1,110	-	171	1,281
Assets under construction	-	-	-	-
Total	\$ 1,441,870	\$ (1,998)	\$ 124,441	\$ 1,564,313

	Net book value March 31, 2015	Net book value March 31, 2016
Land	\$ 286,734	\$ 281,152
Land improvements	62,410	62,909
Buildings	305,462	315,037
Vehicles	92,096	84,153
Machinery and equipment	39,331	47,990
Roads and infrastructure	960,092	948,642
Dams	24	12
Ferries	6,798	11,511
Leasehold improvements	1,920	1,749
Assets under construction	28,679	36,705
Total	\$ 1,783,546	\$ 1,789,860

HALIFAX REGIONAL MUNICIPALITY

Notes to Consolidated Financial Statements

Year ended March 31, 2017

(In thousands of dollars)

14. Tangible capital assets (continued):

(a) Assets under construction:

Assets under construction having a value of \$46,802 (2016 - \$36,705) have not been amortized. Amortization of these assets will commence when the asset is available for productive use.

(b) Contributed tangible capital assets:

Contributed tangible capital assets have been recognized at the fair market value at the date of contribution. The value of contributed assets received during the year is \$14,093 (2016 - \$12,744) and is comprised of roads and infrastructure in the amount of \$13,775 (2016 - \$12,610) and land and land improvements having a value of \$318 (2016 - \$134).

(c) Tangible capital assets disclosed at nominal values:

Where an estimate of fair value could not be made, the tangible capital asset was recognized at a nominal value. Land is the only category where nominal values were assigned.

(d) Works of art and cultural and historical assets:

The Municipality manages and controls various works of art and non-operational cultural and historical assets including buildings, artifacts, paintings and sculptures located at Municipal sites and public display areas. These assets are not recorded as tangible capital assets and are not amortized.

(e) Impairment of tangible capital assets:

The impairment of tangible capital assets during the year was \$115 (2016 - \$12).

(f) Roads and infrastructure:

Roads and infrastructure at March 31, 2017 have a net book value of \$942,451 (2016 - \$948,642) and are comprised of: road beds - \$277,376 (2016 - \$283,267), road surfaces - \$299,667 (2016 - \$318,562), infrastructure - \$351,122 (2016 - \$333,896) and bridges - \$14,286 (2016 - \$12,917).

HALIFAX REGIONAL MUNICIPALITY

Notes to Consolidated Financial Statements

Year ended March 31, 2017

(In thousands of dollars)

15. Accumulated surplus:

Accumulated surplus consists of individual fund surplus and reserve funds as follows:

	2017	2016
Surplus		
Invested in tangible capital assets	\$ 1,613,976	\$ 1,575,659
Other	21,626	27,091
Equity in Halifax Regional Water Commission (note 6)	147,629	123,670
Funded by reserves		
Landfill closure costs	(11,159)	(11,983)
Unfunded		
Employee future benefits, accrued interest and other	(17,160)	(17,182)
Total surplus	1,754,912	1,697,255
Risk reserves set aside by Council		
Insurance and risk	4,034	3,995
Police officer on the job injury	1,950	1,852
Operating stabilization	8,988	8,877
General contingency	2,463	2,973
Total risk reserves set aside by Council	17,435	17,697
Obligation reserves set aside by Council		
Landfill closure and post closure costs	15,960	13,489
Municipal election	646	1,664
Convention centre	4,198	2,774
Capital fund	12,335	18,759
Fleet vehicles and equipment	2,217	4,193
Central Library recapitalization	2,491	1,634
Building recapitalization and replacement	3,952	3,542
Multi-District facilities	3,728	2,935
Transit capital	9,376	9,282
Solid waste facilities	13,573	15,053
Titanic commemorative	-	114
Total obligation reserves set aside by Council	68,476	73,439
Opportunity reserves set aside by Council		
Strategic capital	48,520	56,745
Parkland development	4,960	4,714
Business/Industrial parks expansion	31,422	21,119
Community and events	2,772	1,921
Gas tax	12,694	17,411
Debt principle and interest repayment	17,004	3,920
Total opportunity reserves set aside by Council	117,372	105,830
Total accumulated surplus	\$ 1,958,195	\$ 1,894,221

HALIFAX REGIONAL MUNICIPALITY

Notes to Consolidated Financial Statements

Year ended March 31, 2017

(In thousands of dollars)

16. Contingent liabilities:

- (a) As of March 31, 2017, there are a number of claims against the Municipality and its consolidated entities in varying amounts and for which provisions have been made in these consolidated financial statements, as appropriate. It is not possible to determine the amounts that may ultimately be assessed against the Municipality with respect to these claims, but management believes that any such amounts would not have a material impact on the financial position of the Municipality.
- (b) The Municipality is the plaintiff in various proceedings, which have arisen, in the normal course of carrying on its operations. It is not possible at this time to determine the amounts the Municipality may receive with respect to these claims.
- (c) In September 2014, Council approved a blanket guarantee for HRWC debt subject to HRWC maintaining a debt service ratio of 35% or less. The debt service ratio is currently 21.6% at March 31, 2017 (2016 - 22.0%). As at March 31, 2017, total outstanding debt is \$226,002 (2016 - \$240,145), with maturity dates ranging from 2016 to 2025. The Municipality is responsible for outstanding debt of \$52,066 (2016 - \$58,762) recoverable from the HRWC.

17. Financial instruments:

(a) Fair value:

The fair value of the Municipality's financial instruments that are comprised of cash and short-term deposits, taxes receivable, accounts receivable, loans, deposits and advances and accounts payable and accrued liabilities approximate their carrying value due to their short-term nature and are measured at cost or amortized cost in the statement of financial position.

The fair value of investments is considered to be market value. The market value of investments is disclosed in note 5.

It is not practical to determine the fair value of the investment in the HRWC due to the lack of comparable market information.

Unless otherwise noted, it is management's opinion that the Municipality is not exposed to significant interest or currency risks arising from these financial instruments.

(b) Credit risk:

The Municipality is exposed to credit-related losses in the event of non-performance by counterparties to the financial instruments. Wherever possible, the Municipality attempts to minimize credit exposure by dealing only with credit worthy counterparties and/or obtaining sufficient security for the applicable financial instrument.

HALIFAX REGIONAL MUNICIPALITY

Notes to Consolidated Financial Statements

Year ended March 31, 2017

(In thousands of dollars)

18. Amounts contributed for provincially mandated services:

	Budget	2017	2016
School boards	\$ 148,281	\$ 148,281	\$ 142,632
Assessment services	6,903	6,903	6,870
Social housing	3,225	3,425	3,044
Correctional services	6,647	6,647	6,615
Total	\$ 165,056	\$ 165,256	\$ 159,161

(a) School boards:

The Municipality is required to provide a mandatory contribution in the amount of \$131,935 (2016 - \$125,836) and supplementary contributions of \$16,346 (2016 - \$16,796) to the Halifax Regional School Board and the Conseil scolaire acadien provincial. These contributions are recorded as expenses in educational services.

(b) Assessment services:

The Municipality is required to pay a share of the cost of operating the Property Valuation Services Corporation based on the total municipal assessment cost times the average of the Municipality's share of the Uniform Assessment and the Municipality's share of assessment accounts. This expense is included in general government services.

(c) Social housing:

The Municipality is required to pay a share of the costs of the operations of the Metropolitan Regional Housing Authority. This expense is included in general government services.

(d) Correctional services:

The Municipality is required to make a mandatory contribution to fund the cost of correctional services. The contribution is set by provincial formula and is included in protective services.

HALIFAX REGIONAL MUNICIPALITY

Notes to Consolidated Financial Statements

Year ended March 31, 2017
(In thousands of dollars)

19. Budget data:

The budget data presented in these consolidated financial statements is based upon the fiscal 2016/17 operating and capital budgets approved by Council on March 8, 2016, plus the budgeted figures of the recreation, cultural and other facilities, and commissions included in the consolidated financial statements, to the extent that they could be reasonably determined. Council approved budgets are prepared on a modified cash basis which differs from budget amounts reported on the consolidated statement of operations and change in net financial assets which are prepared in accordance with Canadian public sector accounting standards.

The accounting standards in Handbook Section PSAS 3150 Tangible Capital Assets have not been adopted for budget preparation purposes. The fiscal 2016/17 Council approved budget has been modified to reflect these adjustments.

The chart below reconciles the approved budgets to the budget figures reported in these consolidated financial statements.

	2017	2016
Revenue		
Operating budget	\$ 872,838	\$ 869,134
Capital budget	197,934	135,804
	<u>1,070,772</u>	<u>1,004,938</u>
Less:		
Miscellaneous capital funding	(669)	(3,371)
Principal and interest recovery from Halifax Regional Water Commission	(9,622)	(10,164)
Tax concessions	(5,655)	(5,565)
Transfers from reserves to capital	(72,040)	(26,310)
Transfers from operating to capital	(42,690)	(47,704)
Long-term debt issued	(50,085)	(36,318)
	<u>(180,761)</u>	<u>(129,432)</u>
Add:		
Revenues from agencies, boards and commissions	30,900	30,300
Restricted area rate surpluses	2,312	1,842
Proceeds from sale of assets deposited to reserves	13,850	5,824
Interest on reserves	1,618	2,159
Development levies in reserves	1,450	1,793
Other reserve revenue	2,372	1,839
Tangible capital asset related adjustments	10,863	17,365
Increase in investment of the Halifax Regional Water Commission before remeasurement gain (loss)	23,200	23,000
	<u>86,565</u>	<u>84,122</u>
Total revenue	\$ 976,576	\$ 959,628

HALIFAX REGIONAL MUNICIPALITY

Notes to Consolidated Financial Statements

Year ended March 31, 2017

(In thousands of dollars)

19. Budget data (continued):

	2017	2016
Expenses		
Operating budget	\$ 872,838	\$ 869,134
Less:		
Tax concessions	(5,655)	(5,565)
Transfers from operating to capital	(42,690)	(47,704)
Transfers from operating to reserves	(22,066)	(15,488)
Change in solid waste management facilities liabilities	(824)	(675)
Principal and interest payments made on behalf of Halifax Regional Water Commission	(9,622)	(10,164)
Long-term debt redeemed	(37,244)	(36,208)
	(118,101)	(115,804)
Add:		
Expenses from agencies, boards and commissions	30,953	30,779
Cost of lots sold in business parks	2,891	1,053
Application of restricted area rate surpluses	2,312	1,842
Tangible capital assets adjustments including amortization	148,315	140,734
	184,471	174,408
Total expenses	939,208	927,738
Annual surplus	\$ 37,368	\$ 31,890

20. Segmented information:

The Municipality is a diversified municipal government institution that provides a wide range of services to its citizens, including fire, police, public transit, roads, waste and recycling services, water supply and distribution, wastewater treatment, libraries, and recreation and cultural services.

Segmented information has been prepared by major functional classification of activities provided, consistent with the Consolidated Statement of Operations and provincially legislated requirements.

The major segments are as follows:

General government services: Activities that provide for the overall operation of the Municipality and that are common to, or affect all of, the services provided by the Municipality. This includes the activities of the Mayor and Council, the estimated contaminated sites liability and the following administrative activities: human resources, legal services, office of the Auditor General, finance and information, communications and technology, and the office of the Chief Administrative Officer.

HALIFAX REGIONAL MUNICIPALITY

Notes to Consolidated Financial Statements

Year ended March 31, 2017

(In thousands of dollars)

20. Segmented information (continued):

Protective services: Activities that provide for the public safety of the inhabitants of the Municipality. This includes police and fire protection and other protective services such as by-law enforcement and protective inspections.

Transportation services: Activities related to public transportation including road transport. This includes public transportation services offered throughout the Municipality using buses, ferries and specialized Access-A-Bus vehicles. Other transportation activities include the planning, development and maintenance of roads, traffic operations, parking, snow and ice control and street lighting.

Environmental services: Activities that provide environmentally regulated services. This includes the collection of garbage and other waste material, the maintenance and operation of sanitary landfill sites, solid waste landfill closure and post-closure costs allocated to the current year, and through the Halifax Regional Water Commission, water supply and distribution and wastewater treatment.

Recreation and cultural services: Activities related to the Municipality's recreation facilities, including swimming pools, skating rinks and arenas, beaches, parks, playgrounds and sports fields. Activities that provide for cultural facilities such as the library and related programs.

Planning and development services: Activities that support and control the Municipality's physical and economic development. This includes activities related to land use planning, zoning and development, activities related to the development of industrial parks, promotion of tourism and activities that enhance local economic development.

Educational services: Activities that provide for the funding of both mandatory and supplementary contributions to school boards.

For each reported segment, revenues and expenses represent both amounts that are directly attributable to the segment and amounts that are allocated on a reasonable basis.

The accounting policies used in these segments are consistent with those followed in the preparation of the consolidated financial statements as disclosed in note 1.

For additional information, see the Consolidated Schedules of Segment Disclosure (see pages 32 and 33).

HALIFAX REGIONAL MUNICIPALITY

Schedule of Remuneration of Members of Council and Chief Administrative Officers

Year ended March 31, 2017

(In thousands of dollars)

	2017	2016
Council members:		
M. Savage, Mayor	\$ 178	\$ 171
S. Adams	84	82
S. Austin	36	-
L. Blackburn	36	-
S. Cleary	36	-
S. Craig	87	82
B. Dalrymple	48	82
D. Fisher	-	37
D. Hendsbee	84	82
B. Johns	48	82
B. Karsten	84	82
T. Mancini	84	13
W. Mason	84	82
G. McCluskey	48	82
L. Mosher	48	82
L. Nicoll	84	87
T. Outhit	84	82
R. Rankin	48	82
L. Smith	36	-
S. Streach	36	-
R. Walker	84	82
J. Watts	48	82
M. Whitman	89	85
R. Zurawski	36	-
Chief Administrative Officers:		
J. Dubé	150	-
R. Butts	-	325
J. Traves (Acting)	86	82

The remuneration, for members of Council, includes their base salary, plus an incremental amount if a member was Deputy Mayor.

HALIFAX REGIONAL MUNICIPALITY

Consolidated Schedule of Long-term Debt

Year ended March 31, 2017

(In thousands of dollars)

	Term (years)	Interest rate - %	Matures	Balance March 31, 2016	Issued	Redeemed	Balance March 31, 2017
Municipal Finance Corporation:							
24-HBR-1	20	2.84/5.94	2024	\$ 49,500	\$ -	\$ 5,500	\$ 44,000
05-B-1	15	3.63/4.83	2020	12,095	-	1,210	10,885
06-A-1	10	4.29/4.88	2016	2,309	-	2,309	-
06-B-1	10	4.1/4.41	2016	1,015	-	1,015	-
07-A-1	10	4.45/4.63	2017	3,913	-	1,956	1,957
07-B-1	10	4.65/5.01	2017	1,760	-	880	880
08-A-1	10	3.75/4.884	2018	7,950	-	2,650	5,300
08-B-1	10	3.1/5.095	2018	7,421	-	2,473	4,948
09-A-1	15	1.0/5.644	2024	26,181	-	4,395	21,786
09-B-1	10	0.97/4.329	2019	2,600	-	650	1,950
10-A-1	10	1.51/4.5	2020	10,200	-	2,040	8,160
10-B-1	10	1.55/3.87	2020	13,363	-	2,673	10,690
11-A-1	10	1.63/4.221	2021	7,950	-	1,325	6,625
11-B-1	10	1.219/3.645	2021	6,609	-	1,102	5,507
12-A-1	10	1.636/3.48	2022	10,360	-	1,480	8,880
12-B-1	10	1.51/3.16	2022	6,720	-	960	5,760
13-A-1	10	1.33/2.979	2023	18,880	-	2,360	16,520
13-B-1	10	1.285/3.614	2023	2,936	-	367	2,569
14-A-1	10	1.245/3.347	2024	19,688	-	2,188	17,500
14-B-1	10	1.20/3.19	2024	18,252	-	2,028	16,224
15-A-1	10	1.011/2.786	2025	27,000	-	2,700	24,300
15-B-1	10	1.040/2.894	2025	10,132	-	1,013	9,119
16-A-1	10	1.150/2.925	2026	-	19,500	-	19,500
				266,834	19,500	43,274	243,060
Federation of Canadian Municipalities:							
FCM	20	2.0	2032	3,400	-	200	3,200
GMIF1202	10	1.75	2025	2,541	-	254	2,287
Misc.:							
5% stock Permanent		5.0	-	2	-	-	2
Sackville Landfill Trust:							
Acadia School	20	7.0	2018	186	-	82	104
				272,963	19,500	43,810	248,653
Less: Long-term debt recoverable from the Halifax Regional							
Water Commission:							
14-B-1	10	1.20/3.19	2024	(9,000)	-	(1,000)	(8,000)
24-HBR-1	20	2.84/5.94	2024	(49,500)	-	(5,500)	(44,000)
Other debt	1 to 4	2.55/6.875	2015/2017	(262)	-	(196)	(66)
				(58,762)	-	(6,696)	(52,066)
Long-term debt				\$ 214,201	\$ 19,500	\$ 37,114	\$ 196,587

HALIFAX REGIONAL MUNICIPALITY

Consolidated Schedule of Long-term Debt

Year ended March 31, 2017

(In thousands of dollars)

	Term (years)	Interest rate - %	Matures	Balance March 31, 2015	Issued	Redeemed	Balance March 31, 2016
Municipal Finance Corporation:							
24-HBR-1	20	2.84/5.94	2024	55,000	-	5,500	49,500
05-A-1	10	2.97/4.56	2015	2,300	-	2,300	-
05-B-1	15	3.63/4.83	2020	16,442	-	4,347	12,095
06-A-1	10	4.29/4.88	2016	4,617	-	2,308	2,309
06-B-1	10	4.1/4.41	2016	2,030	-	1,015	1,015
07-A-1	10	4.45/4.63	2017	5,870	-	1,957	3,913
07-B-1	10	4.65/5.01	2017	2,640	-	880	1,760
08-A-1	10	3.75/4.884	2018	10,600	-	2,650	7,950
08-B-1	10	3.1/5.095	2018	9,895	-	2,474	7,421
09-A-1	15	1.0/5.644	2024	30,576	-	4,395	26,181
09-B-1	10	0.97/4.329	2019	3,250	-	650	2,600
10-A-1	10	1.51/4.5	2020	12,240	-	2,040	10,200
10-B-1	10	1.55/3.87	2020	16,035	-	2,672	13,363
11-A-1	10	1.63/4.221	2021	9,275	-	1,325	7,950
11-B-1	10	1.219/3.645	2021	7,711	-	1,102	6,609
12-A-1	10	1.636/3.48	2022	11,840	-	1,480	10,360
12-B-1	10	1.51/3.16	2022	7,680	-	960	6,720
13-A-1	10	1.33/2.979	2023	21,240	-	2,360	18,880
13-B-1	10	1.285/3.614	2023	3,303	-	367	2,936
14-A-1	10	1.245/3.347	2024	21,875	-	2,187	19,688
14-B-1	10	1.20/3.19	2024	20,280	-	2,028	18,252
15-A-1	10	1.011/2.786	2025	-	27,000	-	27,000
15-B-1	10	1-040/2.894	2025	-	10,132	-	10,132
				274,699	37,132	44,997	266,834
Federation of Canadian Municipalities:							
FCM	20	2.0	2032	3,600	-	200	3,400
GMIF1202	10	1.75	2025	-	2,541	-	2,541
Misc.:							
5% stock Permanent		5.0	-	2	-	-	2
Sackville Landfill Trust:							
Acadia School	20	7.0	2018	263	-	77	186
				278,564	39,673	45,274	272,963
Less: Long-term debt recoverable from the Halifax Regional							
Water Commission:							
14-B-1	10	1.20/3.19	2024	(10,000)	-	(1,000)	(9,000)
24-HBR-1	20	2.84/5.94	2024	(55,000)	-	(5,500)	(49,500)
Other debt	1 to 4	2.55/6.875	2014/2017	(666)	-	(404)	(262)
				(55,666)	-	(6,904)	(58,762)
Long-term debt				\$ 222,898	\$ 39,673	\$ 38,370	\$ 214,201

HALIFAX REGIONAL MUNICIPALITY

Consolidated Schedule of Segment Disclosure

Year ended March 31, 2017
(In thousands of dollars)

	General Government Services	Protective Services	Transportation Services	Environmental Services	Recreation and Cultural Services	Planning and Development Services	Educational Services	2017 Total
Revenue								
Taxation	\$ 476,954	\$ 6,647	\$ 79,059	\$ -	\$ -	\$ -	\$ 148,281	\$ 710,941
Taxation from other governments	38,336	-	-	-	-	-	-	38,336
User fees and charges	7,737	11,539	39,054	5,407	44,204	4,757	-	112,698
Government grants	3,886	3,800	27,208	2,163	6,896	-	-	43,953
Development levies	-	-	771	878	812	-	-	2,461
Investment income	3,519	-	-	-	-	-	-	3,519
Penalties, fines and interest	5,604	6,352	-	-	363	-	-	12,319
Land sales, contributions and other revenue	8,123	72	13,753	(256)	1,103	12,649	-	35,444
Increase in investment in the Halifax Regional Water Commission before remeasurement gain (loss)	23,216	-	-	-	-	-	-	23,216
Grant in lieu of tax from the Halifax Regional Water Commission	4,578	-	-	-	-	-	-	4,578
Total revenue	571,953	28,410	159,845	8,192	53,378	17,406	148,281	987,465
Expenses								
Salaries, wages and benefits	49,576	148,741	95,819	2,238	57,288	11,471	-	365,133
Interest on long-term debt	904	351	3,410	329	1,582	41	-	6,617
Materials, goods, supplies and utilities	14,342	6,014	21,918	74	13,514	231	-	56,093
Contracted services	11,860	29,959	40,444	35,427	11,770	2,065	-	131,525
Other operating expenses	(7,709)	16,059	16,281	783	24,337	5,007	-	54,758
External transfers and grants	11,058	6,792	4,118	-	4,583	6,204	148,281	181,036
Amortization	16,909	4,503	90,713	2,428	14,476	43	-	129,072
Total expenses	96,940	212,419	272,703	41,279	127,550	25,062	148,281	924,234
Annual surplus (deficit)	\$ 475,013	\$ (184,009)	\$ (112,858)	\$ (33,087)	\$ (74,172)	\$ (7,656)	\$ -	\$ 63,231

HALIFAX REGIONAL MUNICIPALITY

Consolidated Schedule of Segment Disclosure

Year ended March 31, 2017
(In thousands of dollars)

	General Government Services	Protective Services	Transportation Services	Environmental Services	Recreation and Cultural Services	Planning and Development Services	Educational Services	2016 Total
Revenue								
Taxation	\$ 476,077	\$ 6,433	\$ 77,022	\$ -	\$ -	\$ -	\$ 142,632	702,164
Taxation from other governments	38,490	-	-	-	-	-	-	38,490
User fees and charges	7,154	9,066	40,371	13,281	42,621	4,983	-	117,476
Government grants	4,658	3,842	26,072	2,612	5,271	-	-	42,455
Development levies	-	-	1,534	519	910	-	-	2,963
Investment income	3,504	-	-	-	-	-	-	3,504
Penalties, fines and interest	6,229	6,233	-	-	466	-	-	12,928
Land sales, contributions and other revenue	2,978	46	12,680	14	819	5,435	-	21,972
Increase in investment in the Halifax Regional Water Commission before remeasurement	22,951	-	-	-	-	-	-	22,951
Grant in lieu of tax from the Halifax Regional Water Commission	4,528	-	-	-	-	-	-	4,528
Total revenue	566,569	25,620	157,679	16,426	50,087	10,418	142,632	969,431
Expenses								
Salaries, wages and benefits	49,899	140,844	91,466	2,215	55,395	10,605	-	350,424
Interest on long-term debt	1,174	432	3,433	452	1,720	47	-	7,258
Materials, goods, supplies and utilities	14,581	5,425	21,800	88	11,115	337	-	53,346
Contracted services	13,248	28,762	34,854	45,631	12,479	2,376	-	137,350
Other operating expenses	9,327	17,397	17,346	862	25,219	2,988	-	73,139
External transfers and grants	11,428	6,752	4,080	-	2,153	6,858	142,632	173,903
Amortization	13,252	4,636	88,415	4,514	13,599	24	-	124,440
Total expenses	112,909	204,248	261,394	53,762	121,680	23,235	142,632	919,860
Annual surplus (deficit)	\$ 453,660	\$ (178,628)	\$ (103,715)	\$ (37,336)	\$ (71,593)	\$ (12,817)	\$ -	\$ 49,571

Statement of General Rate Surplus of the

HALIFAX REGIONAL MUNICIPALITY

Year ended March 31, 2017

INSERT AUDITORS' REPORT HERE

HALIFAX REGIONAL MUNICIPALITY

Statement of General Rate Surplus

For the year ended March 31, 2017, with comparative information for 2016
(In thousands of dollars)

	2017	2016
General rate surplus, before transfers	\$ 2,165	\$ 5,431
Transfer to capital:		
Mount Hope Interchange	-	(4,235)
Transfers to reserves:		
Contribution to Police Officer On the Job Injury reserve	(80)	(50)
Contribution to Capital Fund reserve	-	(214)
Contribution to Landfill Closure Costs reserve	(318)	-
Contribution to Operating Stabilization reserve	(374)	-
Contribution to General Contingency reserve	(1,393)	(932)
	<u>(2,165)</u>	<u>(5,431)</u>
General rate surplus	-	-

The accompanying notes are an integral part of the statement.

HALIFAX REGIONAL MUNICIPALITY

Notes to the Statement of General Rate Surplus

Year ended March 31, 2017
(In thousands of dollars)

1. Basis of accounting:

This financial information has been prepared to conform in all material respects to the accounting principles prescribed pursuant to Section 451 of the Municipal Government Act Nova Scotia ("MGA") by The Department of Municipal Affairs and adheres to their Financial Accounting and Reporting Manual ("FRAM") and is intended for the use of Members of Council of the Halifax Regional Municipality ("the Municipality").

This statement is the net actual result of revenue and expenses of the Municipality's Operating Fund, to the extent that those revenues and expenses are included in the calculation of the Municipality's estimate of required sums as determined under Section 93 of the Halifax Regional Municipality Charter, the basis for the general tax rate. As per FRAM Section 3.16(g), any resulting surplus shall be transferred to an operating reserve.

2. Significant accounting policies:

Revenue and expenses included in the determination of the general rate surplus are recorded on an accrual basis except as noted below:

- a) Interest expense is recorded on a cash basis;
- b) Debt principal repayments are deducted as an expense;
- c) Inter-fund transfers are included in the financial results of the Operating Fund;
- d) Transfers from the Operating Fund to purchase or construct tangible capital assets are deducted as an expense; and,
- e) Amortization of tangible capital assets, changes in the value of the liability for employee sick leave and the liability for contaminated sites are not included in the determination of the general rate surplus.

Financial Statements of the

HALIFAX REGIONAL MUNICIPALITY
MISCELLANEOUS TRUST FUNDS

Year ended March 31, 2017

HALIFAX REGIONAL MUNICIPALITY

MISCELLANEOUS TRUST FUNDS

Statement of Financial Position

March 31, 2017, with comparative figures for 2016

	2017	2016
Assets		
Cash	\$ 7,059,060	\$ 6,865,108
Accounts receivable (note 2)	103,938	186,534
Due from Halifax Regional Municipality	-	99
Investments (note 3)	6,410	6,410
	\$ 7,169,408	\$ 7,058,151
Liabilities and Fund Equity		
Accrued liabilities	-	-
Fund equity (schedule)	7,169,408	7,058,151
	\$ 7,169,408	\$ 7,058,151

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

Approved on behalf of the Halifax Regional Municipality

Mayor, Mike Savage

Municipal Clerk, Kevin Arjoon

HALIFAX REGIONAL MUNICIPALITY

MISCELLANEOUS TRUST FUNDS

Statement of Income and Expenditures and Fund Equity

For the year ended March 31, 2017, with comparative figures for 2016

	2017	2016
Income		
Investment income	\$ 88,513	\$ 96,974
Capital contributions received during the year	10,460	12,492
Tax sales	86,516	148,386
	<hr/> 185,489	<hr/> 257,852
Expenditures		
Transfer to Halifax Regional Municipality	(61,815)	195,099
Net transactions with Trustors	136,047	109,724
	<hr/> 74,232	<hr/> 304,823
Excess of income over expenditures (expenditures over income)	111,257	(46,971)
Fund equity, beginning of the year	7,058,151	7,105,122
Fund equity, end of the year	<hr/> \$ 7,169,408	<hr/> \$ 7,058,151

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

HALIFAX REGIONAL MUNICIPALITY

MISCELLANEOUS TRUST FUNDS

Statement of Cash Flow

For the year ended March 31, 2017 with comparative figures for 2016

	2017	2016
Excess of income over expenditures (expenditures over income)	\$ 111,257	\$ (46,971)
Decrease in accounts receivable	82,596	77,028
Decrease (increase) in due from Halifax Regional Municipality	99	(99)
Decrease in accrued liabilities	-	(450,000)
Increase (decrease) in cash	193,952	(420,042)
Cash, beginning of the year	6,865,108	7,285,150
Cash, end of the year	\$ 7,059,060	\$ 6,865,108

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

HALIFAX REGIONAL MUNICIPALITY

MISCELLANEOUS TRUST FUNDS

Notes to Financial Statements

Year ended March 31, 2017

The Halifax Regional Municipality has a number of trust funds as identified in the Schedule of Fund Equity. The trust funds are in place to fund the operation, maintenance and facilities of the identified beneficiary. The trust funds have a variety of restrictions that specify the purpose for which the funds can be used.

1. Significant accounting policies:

(a) Basics of accounting

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations.

(b) Revenue recognition:

Investment income earned in the miscellaneous trust funds is recognized in the fund in which the interest bearing investment is held.

Tax sales revenue is recognized when received, generally being the date the property is sold.

Capital contribution related to various services fees are recognized as revenue in the period received.

(c) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the year. Actual results could differ from those estimates.

2. Accounts receivable:

The accounts receivable balance, \$103,938 (2016 - \$186,534) is due from an entity controlled by the Halifax Regional Municipality. During the year, the entity made principal payments of \$82,596 (2016 - \$77,028) and interest payments of \$10,440 (2016 - \$16,008).

3. Investments:

	2017		2016	
Shares, cost	\$	6,410	\$	6,410
	\$	6,410	\$	6,410
Shares, market values	\$	400,499	\$	318,004
	\$	400,499	\$	318,004

The market value shown for investments represents the estimated value of the shares as at March 31, 2017. Shares are valued at the year end quoted market prices.

HALIFAX REGIONAL MUNICIPALITY

MISCELLANEOUS TRUST FUNDS

Schedule of Funds Equity

Year ended March 31, 2017

	Balance March 31, 2016	Income	Transfer from (to) Halifax Regional Municipality	Expenditures of Trustors	Capital Contributions	Balance March 31, 2017
J.L. Dillman Park Maintenance	\$ 163,265	\$ 1,439	\$ -	\$ -	\$ -	\$ 164,704
Tax sales	2,674,736	112,291	(25,775)	(83,222)	-	2,678,030
J.D. Shatford Memorial	60,000	527	(527)	-	-	60,000
Sackville Landfill	980,203	18,262	(10,440)	(52,725)	-	935,300
Camphill Cemetery Trust	137,020	1,213	(1,213)	-	2,250	139,270
Camphill Cemetery Perpetual Care	566,179	4,971	(4,971)	-	-	566,179
Camphill Cemetery Fence	12,063	106	(106)	-	-	12,063
Fairview Cemetery Trust	2,344,976	34,472	(34,472)	-	7,710	2,352,686
Fairview Cemetery Maintenance	45,000	395	(395)	-	-	45,000
Titanic Trust	23,622	903	139,859	-	500	164,884
Commons Commutation	16,491	145	(145)	-	-	16,491
Harbour Championship	9,850	87	-	(100)	-	9,837
Other	24,746	218	-	-	-	24,964
	\$ 7,058,151	\$ 175,029	\$ 61,815	\$ (136,047)	\$ 10,460	\$ 7,169,408



Halifax Regional Municipality

Audit Findings Report
For the year ended March 31, 2017

KPMG LLP



Prepared as of June 14, 2017 for the June 21, 2017 Audit and Finance Standings Committee meeting.

kpmg.ca/audit

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Executive summary

Purpose of this report*

The purpose of this Audit Findings Report is to assist you, as a member of the Audit and Finance Standing Committee, in your review of the results of our audit of the consolidated financial statements of Halifax Regional Municipality ("HRM") as at and for the year ended March 31, 2017.

This Audit Findings Report builds on the Audit Plan we presented to the Audit and Finance Standing Committee on March 8, 2017.

Changes from the Audit Plan

There have been no significant changes regarding our audit from the Audit Planning Report previously presented to you.

Adjustments and differences

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

*This Audit Findings Report should not be used for any other purpose or by anyone other than the audit committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Executive summary

Finalizing the audit

As of June 14, 2017, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

- receipt of the final Halifax Water Commission Group Audit communications from Grant Thornton and related review;
- receipt of legal letter;
- receipt of signed management representation letter;
- completing our discussions with the audit and finance standing committee;
- obtaining evidence of the Council's approval of the financial statements.

We will update the Audit and Finance Standing Committee, and not solely the Chair (as required by professional standards), on significant matters, *if any*, arising from the completion of the audit, including the completion of the above procedures. Our auditors' report will be dated upon the completion of any remaining procedures.

Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.

Significant accounting policies and practices

There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

Critical accounting estimates

Overall, we are satisfied with the reasonability of critical accounting estimates.

Independence

We are independent with respect to the Halifax Regional Municipality (and its related entities), within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any other standards or applicable legislation or regulation.

Audit risks and results

Inherent risk of material misstatement is the susceptibility of a balance or assertion to misstatement which could be material, individually or when aggregated with other misstatements, assuming that there are no related controls.

We highlight our significant findings in respect of significant financial reporting risks as identified in our discussion with you in the Audit Plan, as well as any additional significant risks identified.

Significant financial reporting risks

We did not identify any significant financial reporting risks.

Audit risks and results

Inherent risk of material misstatement is the susceptibility of a balance or assertion to misstatement which could be material, individually or when aggregated with other misstatements, assuming that there are no related controls.

We highlight our significant findings in respect of significant financial reporting risks as identified in our discussion with you in the Audit Plan, as well as any additional significant risks identified

Significant financial reporting risks

Fraud risk form management override of controls

Our response and significant findings

We have performed the required procedures, which includes substantive testing of journal entries and other adjustments.
There were no issues or significant unusual transactions identified and therefore no impact on our audit.

Critical accounting estimates

Under PSAS (PS 2130) management is required to disclose information in the consolidated financial statements about the nature of measurement uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to carrying amounts of assets and liabilities within the next financial year. Generally, these are considered to be "critical accounting estimates."

We have summarized our assessment of the subjective areas.

Critical accounting estimates

Asset / liability	Balance (\$'000s)	KPMG comment
Measurement of employee future benefits liability	\$55,503	<p>Employee future benefits are determined based on management's best estimate of the obligations that have accrued to employees for benefits they will receive at or after retirement.</p> <p>In order to determine the obligation, key assumptions and estimates are made and used by actuaries to project the benefits based on the demographics of the current employees.</p> <p>Key considerations in determining the obligation include the discount rate to discount the future obligation to present day and salary increases that will impact the future amounts required to be paid under the programs.</p> <p>Discount rates are based on borrowing rates available to the Municipality and salary increases reflect historical salary adjustments.</p> <p>We agreed with the estimates made by management.</p> <p>We relied on management's experts who prepared the estimate and represented to us that they believed these estimates to be reasonable based on accepted actuary practices in Canada.</p>

We believe management's process for identifying critical accounting estimates is adequate.

Data & Analytics in the audit

As previously communicated in our Audit Planning Report, we have utilized Data & Analytics (D&A) in order to enhance the quality and effectiveness of the audit. We have summarized areas of the audit where D&A tools and routines were used.

Area(s) of focus	D&A tools and routines	Our results
Journal entry testing	<ul style="list-style-type: none"> Utilized KPMG application software (IDEA) to evaluate the completeness of the journal entry population through a roll-forward of 100% of the accounts. 	No adjustments or differences.
Property tax revenue	<ul style="list-style-type: none"> Utilized KPMG application software (IDEA) to analyze assessed property values by locations (urban, suburban and rural) based on raw data extracted from the property tax billing software for comparison to the confirmed assessment information received by KPMG from Property Valuation Services Corporation. This was used in our substantive testing of property tax revenue. 	No differences were noted.

Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the Company's relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter included in the Appendices.

We also highlight the following:

Form, arrangement, and content of the financial statements	Adequate
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Application of accounting pronouncements issued but not yet effective	No concerns at this time regarding future implementation.
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Other matters

Professional standards require us to communicate to the Audit Committee Other Matters, such as material inconsistencies or material misstatements between MD&A and the audited financial statements, identified fraud or non-compliance with laws and regulations, consultations with other accountants, significant matters relating to the Company's related parties, significant difficulties encountered during the audit, and disagreements with management.

Other matters

We have highlighted below other significant matters that we would like to bring to your attention:

Matter	KPMG comment
Suspected third-party fraud	<p>Management at HRM informed KPMG on June 6, 2017 of a fraud investigation related to a payment.</p> <p>KPMG reviewed management's process and assessment of the events and inquired as to the potential extent of fraud under investigation. Controls designed to mitigate a fraud of this nature were not tested or relied upon by KPMG during the course of our audit. The potential impact of the fraud was below KPMG's audit misstatement posting threshold and therefore considered clearly immaterial to the financial statements as a whole. As a result there was no change to our audit approach.</p>

Adjustments and differences

Adjustments and differences identified during the audit have been categorized as "Corrected adjustments" or "Uncorrected differences". These include disclosure adjustments and differences.

Professional standards require that we request of management and the audit committee that all identified differences be corrected. We have already made this request of management.

Corrected adjustments

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

Uncorrected differences

We did not identify differences that are uncorrected.

Appendices

Appendix 1: Required communications

Appendix 2: Independence

Appendix 3: Draft Independent Auditors Report

Appendix 4: Draft Management Representation Letter

Appendix 5: Audit Quality and Risk Management

Appendix 6: Background and professional standards

Appendix 1: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

- **Auditors' report** – the conclusion of our audit is set out in our draft auditors' report attached to the draft financial statements.
- **Management representation letter** – In accordance with professional standards, copies of the management representation letter are provided to the Audit Committee. The management representation letter is attached.

Appendix 2: Independence

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising.

Professional standards require that we communicate the related safeguards that have been applied to eliminate identified threats to independence or to reduce them to an acceptable level. Although we have policies and procedures to ensure that we did not provide any prohibited services and to ensure that we have not audited our own work, we have applied the following safeguards related to the threats to independence:

- We instituted policies and procedures to prohibit us from making management decisions or assuming responsibility for such decisions
- We obtained management's acknowledgement of responsibility for the results of the work performed by us regarding non-audit services, and we have not made any management decisions or assumed responsibility for such decisions

Appendix 3: Draft Independent Auditors report



KPMG LLP
Purdy's Wharf Tower One
Suite 1500, 1959 Upper Water Street
Halifax NS B3J 3N2

Telephone (902) 492-6000
Fax (902) 492-1307
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To Mayor and the Councillors of the Halifax Regional Municipality

We have audited the accompanying consolidated financial statements of the Halifax Regional Municipality, which comprise the consolidated statement of financial position as at March 31, 2017, the consolidated statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information including the schedule of remuneration of members of council and chief administrative officer and consolidated schedules of long-term debt and segment disclosure.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Halifax Regional Municipality as at March 31, 2017, and its consolidated results of operations, its consolidated changes in net financial assets, and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

DRAFT

Chartered Professional Accountants, Licensed Public Accountants
July 6, 2017
Halifax, Canada

Appendix 4: Draft Management Representation Letter

KPMG LLP
Chartered Professional Accountants
Purdy's Wharf Tower I
1959 Upper Water Street, Suite 1500
Halifax, Nova Scotia, B3J 3N2

July ●, 2017

To Whom It May Concern:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the consolidated financial statements (hereinafter referred to as "financial statements") of Halifax Regional Municipality ("the Entity") as at and for the period ended March 31, 2017.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

GENERAL:

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated February 11, 2013, for:
 - a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared in accordance with the relevant financial reporting framework;
 - b) providing you with all relevant information, such as all financial records and related data, including the names of all related parties and information regarding all relationships and transactions with related parties, and complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements, and access to such relevant information;
 - c) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
 - d) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.

INTERNAL CONTROL OVER FINANCIAL REPORTING:

- 2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which management is aware.

FRAUD & NON-COMPLIANCE WITH LAWS AND REGULATIONS:

- 3) We have disclosed to you:
 - a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
 - b) all information in relation to fraud or suspected fraud that we are aware of and that affects the Entity and involves: management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements;
 - c) all information in relation to allegations of fraud, or suspected fraud, affecting the Entity's financial statements, communicated by employees, former employees, analysts, regulators, or others;
 - d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements;
 - e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

COMMITMENTS & CONTINGENCIES:

- 4) There are no:
 - a) other liabilities that are required to be recognized and no other contingent assets or contingent liabilities that are required to be disclosed in the financial statements in accordance with the relevant financial reporting framework, including liabilities or contingent liabilities arising from illegal acts or possible illegal acts, or possible violations of human rights legislation;
 - b) guarantees, whether written or oral, under which the Entity is contingently liable.

SUBSEQUENT EVENTS:

- 5) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

NON-CONSOLIDATED PARTIES SUBJECT TO INFLUENCE:

- 6) We have disclosed to you the identity of the Entity's parties which are not consolidated but over which the Entity has significant influence and all similar relationships and transactions of which we are aware and all similar relationship and transactions have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

RELATED PARTIES:

- 7) We have disclosed to you the identity of the Entity's related parties.
- 8) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.
- 9) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

ESTIMATES:

- 10) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:

- 11) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002). We also confirm that the financial statements of the Entity will not be included in the consolidated financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

ASSETS & LIABILITIES - GENERAL:

- 12) The Entity has satisfactory title to all assets.
- 13) There are no liens or encumbrances on the Entity's assets.
- 14) We have no plans or intentions that may affect the carrying amount or classification of assets and liabilities.

CONTRACTUAL AGREEMENTS:

- 15) The Entity has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of non-compliance including violations or default of the covenants in the Entity's debt agreements.

ENVIRONMENTAL MATTERS:

- 16) The Entity has appropriately recognized, measured and disclosed environmental matters in the financial statements, including estimated closure costs related to landfills.

EMPLOYEE FUTURE BENEFITS:

- 17) The employee future benefit costs, assets and obligations, if any, have been determined, accounted for and disclosed in accordance with the financial reporting framework.
- 18) The employee future benefit costs, assets and obligations have been determined, accounted for and disclosed in accordance with PSAS 3250 and 3255. In particular:
 - a) each actuarial assumption used reflects management's best estimate solely with respect to that individual assumption, determined on a basis that the plan will continue to be in effect in the absence of evidence to the contrary;
 - b) the set of actuarial assumptions for each plan are individually consistent;
 - c) the discount rate used to determine the accrued benefit obligation for each plan was determined by reference to market interest rates at the measurement date on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments; or inherent in the amount at which at the accrued benefit obligation could be settled.

EXPERTS / SPECIALISTS:

- 19) The information provided by us to Morneau Shepell and Aon Hewitt (the experts) and used in the work and findings of the experts are complete and accurate. We agree with the findings of the experts in evaluating the employee future benefits disclosure and have adequately considered the qualifications of the experts in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to the experts with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matter that have had an impact on the independence and objectivity of the experts.

CONTINGENT LIABILITIES:

- 20) The Entity is subject to a number of legal matter including lawsuits and complaints that could result in a future settlement. We have provided you with a complete listing of all identified matters with an estimated or potential settlement of greater than \$100,000 if the Entity is considered at fault or decides to settle the matter. All material matters, individually and in aggregate, have been considered under the accounting framework and where significant have been measured and/or disclosed in the financial statements.

OTHER:

- 21) We have disclosed to you all properties that have a potential contamination and could require a liability to be recognized under PS 3260 Liability for Contaminated Sites. The liability recorded at March 31, 2017 reflects management's best estimate of the amount required to remediate the contaminated sites as is based on all information available at the financial statement date.

Yours very truly,

Jacques Dube, Chief Administrative Officer

Amanda Whitewood, Director, Finance and Information, Communication and Technology/ CFO

cc: Audit and Finance Standing Committee

Attachment I – Definitions

MATERIALITY

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

FRAUD & ERROR

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

RELATED PARTIES

In accordance with Public sector accounting standards, a *related party* is defined as:

- when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Two not-for-profit organizations are related parties if one has an economic interest in the other. Related parties also include management and immediate family members.

In accordance with Public sector accounting standards, a *related party transaction* is defined as:

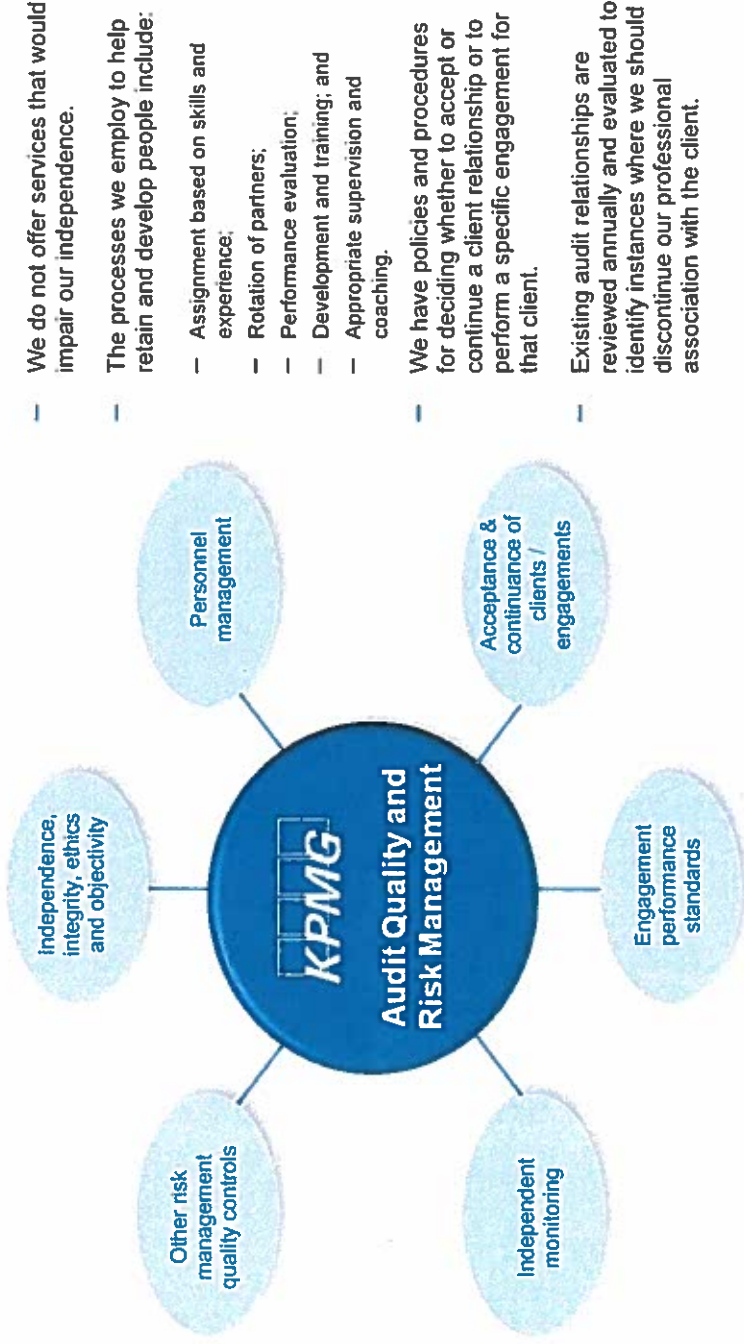
- a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

Appendix 5: Audit Quality and Risk Management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems.

Visit our [Audit Quality Resources page](#) for more information including access to our audit quality report, [Audit quality: Our hands-on process](#).



- Other controls include:
 - Before the firm issues its audit report, the Engagement Quality Control Review reviews the appropriateness of key elements of publicly listed client audits.
 - Technical department and specialist resources provide real-time support to audit teams in the field.
- We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.
- We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.
- All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.

- We do not offer services that would impair our independence.
- The processes we employ to help retain and develop people include:
 - Assignment based on skills and experience;
 - Rotation of partners;
 - Performance evaluation;
 - Development and training; and
 - Appropriate supervision and coaching.
- We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.
- Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

Appendix 6: Background and professional standards

Internal control over financial reporting

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

The control deficiencies communicated to you are limited to those control deficiencies that we identified during the audit.

Documents containing or referring to the audited financial statements

We are required by our professional standards to read only documents containing or referring to audited financial statements and our related auditors' report that are available through to the date of our auditors' report. The objective of reading these documents through to the date of our auditors' report is to identify material inconsistencies, if any, between the audited financial statements and the other information. We also have certain responsibilities, if on reading the other information for the purpose of identifying material inconsistencies, we become aware of an apparent material misstatement of fact.

We are also required by our professional standards when the financial statements are translated into another language to consider whether each version, available through to the date of our auditors' report, contains the same information and carries the same meaning.

