



**Grant Thornton**

Financial Statements

(NSUARB Accounting and Reporting Handbook)

Halifax Regional Water Commission

March 31, 2014

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## Independent auditor's report

To the Members of the Board of the  
**Halifax Regional Water Commission**

Grant Thornton LLP  
Suite 1100  
2000 Barrington Street  
Halifax, NS  
B3J 3K1  
T (902) 421-1734  
F (902) 420-1068  
www.GrantThornton.ca

We have audited the accompanying financial statements of Halifax Regional Water Commission, which comprise the balance sheet as at March 31, 2014, and the statements of operations, contributed capital surplus, operating deficit, operating surplus used to fund capital and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management based on the financial reporting provisions of the Accounting and Reporting Handbook for Water Utilities ("the Water Utility Handbook") issued by the Nova Scotia Utility and Review Board.

### **Management's responsibility for the financial statements**

Management is responsible for the preparation of these financial statements in accordance with the financial reporting provisions of the Water Utility Handbook, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibility**

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

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

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

### **Opinion**

In our opinion, the financial statements of Halifax Regional Water Commission for the year ended March 31, 2014 are prepared, in all material respects, in accordance with the financial reporting provisions of the Water Utility Handbook.

### **Basis of Accounting**

Without modifying our opinion, we draw attention to note 2(a) to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Halifax Regional Water Commission to comply with the financial reporting provisions of the Water Utility Handbook referred to above. As a result, the financial statements may not be suitable for another purpose.

### **Other matters**

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The current year's supplementary information included on pages 18 to 26 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied, only to the extent necessary to express an opinion, in that audit of the financial statements taken as a whole.



Halifax, Canada  
June 19, 2014

Chartered Accountants

# Halifax Regional Water Commission

## Statement of operations

Year ended March 31, 2014  
(in thousands)

	2014		2013
	<u>Budget</u> (Unaudited)	<u>Actual</u>	<u>Actual</u>
Operating revenues			
Water service	\$ 34,981	\$ 34,341	\$ 32,218
Wastewater service	58,089	54,698	52,140
Stormwater service	8,434	8,446	5,756
Fire protection	9,575	9,575	9,844
Private fire protection services	443	429	370
Airport Aerotech system	1,746	1,717	1,397
Other operating revenue	<u>2,355</u>	<u>2,295</u>	<u>2,345</u>
	<u>115,623</u>	<u>111,501</u>	<u>104,070</u>
Operating expenditures			
Water supply and treatment	7,251	7,284	6,863
Water transmission and distribution	9,334	8,495	8,372
Wastewater collection	9,160	10,671	9,289
Stormwater collection	5,548	4,055	3,492
Wastewater treatment	18,486	18,079	16,762
Engineering and information services	6,543	6,774	6,564
Environmental services	2,562	2,559	2,503
Customer service	3,542	3,930	3,793
Administration and pension	9,655	10,388	9,365
Airport Aerotech system	1,685	1,702	1,857
Depreciation	<u>18,448</u>	<u>15,798</u>	<u>14,177</u>
	<u>92,214</u>	<u>89,735</u>	<u>83,037</u>
Operating profit	<u>23,409</u>	<u>21,766</u>	<u>21,033</u>
Financial and other revenues			
Interest	660	689	674
Other	<u>2,297</u>	<u>2,318</u>	<u>2,295</u>
	<u>2,957</u>	<u>3,007</u>	<u>2,969</u>
	<u>26,366</u>	<u>24,773</u>	<u>24,002</u>
Financial and other expenditures			
Interest on long term debt	8,519	8,161	7,605
Repayment of long term debt	18,556	17,256	14,566
Amortization of debt discount	134	132	88
Grant in lieu of taxes	<u>4,249</u>	<u>4,187</u>	<u>3,971</u>
	<u>31,458</u>	<u>29,736</u>	<u>26,230</u>
Excess of expenditures over revenues	\$ <u>(5,092)</u>	\$ <u>(4,963)</u>	\$ <u>(2,228)</u>

See accompanying notes to the financial statements.

# Halifax Regional Water Commission

## Balance sheet

March 31  
(in thousands)

2014

2013

### Assets

#### Current

Cash and cash equivalents	\$ 38,290	\$ 22,353
Receivables		
Customer charges and contractual	23,437	23,861
Halifax Regional Municipality	818	2,115
Materials and supplies	1,445	1,294
Prepays	694	748
	<u>64,684</u>	<u>50,371</u>

Regulatory asset (note 5)	3,964	4,156
Plant under construction	10,676	44,597
Utility plant in service (schedule A)	1,005,207	937,692
	<u>\$ 1,084,531</u>	<u>\$ 1,036,816</u>

### Liabilities

#### Current

Payables and accruals		
Trade	\$ 20,202	\$ 17,203
Interest on long term debt	2,026	1,653
Halifax Regional Municipality	3,796	2,281
Contractor and customer deposits	190	194
Current portion of long term debt (schedule B)	28,139	15,553
Unearned revenue	118	117
	<u>54,471</u>	<u>37,001</u>

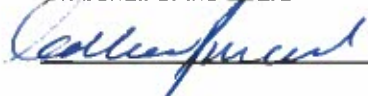
Long term debt (schedule B)	186,964	166,879
Accrued pension liability (note 4)	10,234	7,107
Accrued post retirement benefits (note 4)	617	677
Accrued long term service awards (note 6)	3,159	2,929
	<u>255,445</u>	<u>214,593</u>

### Equity

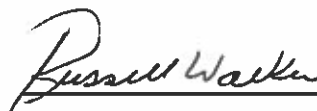
Special purpose reserves (note 8)	18,030	22,670
Contributed capital surplus (page 5)	802,636	786,170
Operating (deficit) surplus (page 5)	(3,960)	1,003
Operating surplus used to fund capital (page 5)	12,380	12,380
	<u>829,086</u>	<u>822,223</u>
	<u>\$ 1,084,531</u>	<u>\$ 1,036,816</u>

Contingent liabilities (note 3)  
Commitments (note 9)  
Subsequent events (note 15)

On behalf of the Board



Commissioner



Commissioner

See accompanying notes to the financial statements.

# Halifax Regional Water Commission

## Statement of cash flows

Year ended March 31  
(in thousands)

2014

2013

Increase (decrease) in cash and cash equivalents

<b>Operating</b>		
Excess of expenditures over revenues	\$ (4,963)	\$ (2,228)
Depreciation and amortization	17,090	15,328
Accrued pension liability	3,127	2,798
Decrease in accrued post retirement benefits	(60)	(64)
Repayment of long term debt	17,256	14,566
Increase in accrued long term service awards	230	149
	<u>32,680</u>	<u>30,549</u>
Change in non-cash operating working capital items (note 10)	<u>6,508</u>	<u>(1,195)</u>
	<u>39,188</u>	<u>29,354</u>
<b>Financing</b>		
Proceeds from issuance of long term debt	48,457	51,726
Decrease in receivable from Halifax Regional Municipality	-	163
Contributions to reserves	2,283	4,024
Debt issue costs	(231)	(357)
Principal repayment on Harbour Solutions long term debt	(6,500)	(6,500)
Principal repayments of long term debt	<u>(9,053)</u>	<u>(8,609)</u>
	<u>34,956</u>	<u>40,447</u>
<b>Investing</b>		
Capital cost contributions	324	2,643
Proceeds from sale of plant in service	278	670
Purchase of plant under construction	(6,089)	(33,388)
Purchase of utility plant in service	<u>(52,720)</u>	<u>(33,776)</u>
	<u>(58,207)</u>	<u>(63,851)</u>
Increase in cash and cash equivalents	15,937	5,950
Cash and cash equivalents, beginning of year	<u>22,353</u>	<u>16,403</u>
Cash and cash equivalents, end of year	<u>\$ 38,290</u>	<u>\$ 22,353</u>

See accompanying notes to the financial statements.

## Halifax Regional Water Commission Statement of contributed capital surplus

Year ended March 31 (in thousands)	2014	2013
Contributed capital surplus, beginning of year	\$ 786,170	\$ 761,180
Contributions to plant in service	4,259	18,683
Transfer from special purpose reserve (note 8)	6,923	981
Debt repayment	17,256	14,566
Loss on disposal of assets	(2,252)	(52)
Gain on sale of land	152	583
	<u>812,508</u>	<u>795,941</u>
Less: amortization (note 2(b))	<u>9,872</u>	<u>9,771</u>
Contributed capital surplus, end of year	<u>\$ 802,636</u>	<u>\$ 786,170</u>

## Halifax Regional Water Commission Statement of operating deficit

Year ended March 31 (in thousands)	2014	2013
Operating surplus, beginning of year	\$ 1,003	\$ 3,244
Operating surplus used to fund capital	-	-
Excess of expenditures over revenues	(4,963)	(2,228)
Stewardship contributions charged to current surplus	-	(13)
Operating (deficit) surplus, end of year	<u>\$ (3,960)</u>	<u>\$ 1,003</u>

## Halifax Regional Water Commission Statement of operating surplus used to fund capital

Year ended March 31 (in thousands)	2014	2013
Operating surplus used to fund capital, beginning of year	\$ 12,380	\$ 12,380
Additions to utility plant in service funded by operating surplus	-	-
Operating surplus used to fund capital, end of year	<u>\$ 12,380</u>	<u>\$ 12,380</u>

See accompanying notes to the financial statements.

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# Halifax Regional Water Commission

## Notes to the financial statements

March 31, 2014  
(in thousands)

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### 1. Nature of operations

The Commission is a public utility owned by the Halifax Regional Municipality (HRM). The Commission is responsible for the supply of municipal water, wastewater and stormwater services to the residents of the HRM.

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### 2. Summary of significant accounting policies

#### (a) Regulation

In matters of administrative policy relating to rates, capital expenditures, depreciation rates and accounting matters, the Commission is subject to the jurisdiction of the Nova Scotia Utility and Review Board (NSUARB). Rates charged to and collected from customers are designed to recover costs of providing the regulated services. These statements have been prepared in accordance with the Accounting and Reporting Handbook for Water Utilities (Handbook) issued by the NSUARB. There are differences in the accounting treatment of certain transactions from Canadian generally accepted accounting principles including the accounting of principal debt payments and gains and losses on the disposal of fixed assets.

Regulatory assets represent costs incurred that have been deferred as approved by the NSUARB and will be recovered through future rates collected from customers.

#### (b) Utility plant

Utility plant in service (Schedule A) is recorded at cost, including interest capitalized on the financing of projects during construction. Contributions for capital expenditures are credited to contributed capital surplus. Structures and land taken out of service are removed from utility plant in service and placed in plant not in service at cost less accumulated depreciation. Losses or gains related to assets retired, demolished or sold are charged or credited to contributed capital surplus for the period.

The Handbook permits the recording of contributed assets. The estimated value of contributed assets is credited to contributed capital surplus. Commencing in fiscal 2005, contributed assets are depreciated over their estimated remaining useful lives. The related contributed capital surplus is being amortized on the same basis as the contributed assets to which it relates.

The Commission has implemented a policy to account for infrastructure extensions into its water, wastewater and stormwater service districts, which for the most part will be recovered by capital contributions from developers in current and future periods. The objective is for these extensions to be cost neutral to the Commission with regard to current customers, unless there is a benefit to them. The related infrastructure extensions may include costs incurred by the Commission to provide additional capacity, not required at the present time, but undertaken to allow for future expansion. The estimated portion of these costs that do not benefit existing customers are recorded as contributed assets. The capital cost contribution is credited to contributed capital surplus when receivable and estimates adjusted, if required, when the development into the service area is complete. The capital cost contributions are subject to approval by the NSUARB.



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# Halifax Regional Water Commission

## Notes to the financial statements

March 31, 2014  
(in thousands)

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### 2. Summary of significant accounting policies (continued)

#### (c) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks, net of bank indebtedness.

#### (d) Depreciation

Depreciation is provided using the straight-line method over the estimated useful lives of the assets.

The estimated useful lives for the major classifications of utility plant in service are as follows:

Structures and improvements	50 to 100 years
Pumping equipment	5 to 30 years
Purification equipment	20 to 50 years
Water and wastewater/stormwater mains	60 to 100 years
Services	50 to 60 years
Meters	20 to 25 years
Hydrants	50 to 80 years
Tools and work equipment	5 to 30 years
Office equipment and furniture and transportation equipment	3 to 10 years

In the year of acquisition, depreciation is calculated at 50% of the above rates unless a project is significant, in which depreciation is prorated for the number of months the asset was in use.

#### (e) Depreciation fund

The Commission does not maintain a depreciation fund. The Commission has received NSUARB approval for exemption from setting up a depreciation fund as long as net depreciable additions to plant exceed the depreciation charged.

#### (f) Materials and supplies

Materials and supplies inventories are carried at the lower of cost and net realizable value with cost being determined on a moving average basis. The cost of materials and supplies expensed during the period was \$292 (2013 - \$290).

#### (g) Revenues and expenditures

All revenues and expenditures are recorded on an accrual basis. Receivables include outstanding revenue billed by the Commission and estimated revenue not yet billed.

#### (h) Long term debt

Interest on long term debt is recorded on an accrual basis. Debt issue costs are deferred and amortized over the term of the debt to which it relates.

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# Halifax Regional Water Commission

## Notes to the financial statements

March 31, 2014  
(in thousands)

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### 2. Summary of significant accounting policies (continued)

#### (i) Reserves

Certain funds within the reserves can be used for capital expenditures only with the approval of the NSUARB. All reserve withdrawals in excess of \$250,000 require approval from the NSUARB. System connection charges approved by the NSUARB are added to these reserves as collected. The reserves are to be used for capital expenditures on the wastewater/stormwater systems (note 8).

#### (j) Measurement uncertainty

In preparing the Commission's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenditures during the period. Significant estimates and assumptions are not limited to but include the following:

- At year end, revenue from water and wastewater services has been earned but not yet billed due to the timing of the billing cycles. Management estimates the unbilled revenue accrual based on historic billing trends.
- Allowance for doubtful accounts includes a provision for successful stormwater exemption appeals.
- Management assumptions are used in the actuarial determination of the accrued pension liability, accrued post retirement benefits, and accrued long term service awards. These assumptions are outlined in notes 4 and 6.

Actual results could differ from these estimates.

#### (k) Financial instruments

The Commission initially recognizes and measures its financial assets and liabilities at fair value. Loans and receivables, held to maturity financial assets and other financial liabilities are subsequently measured at cost or amortized cost.

The Commission classifies financial assets and liabilities according to their characteristics and management's choices and intentions related thereto for the purposes of ongoing measurements. Classification choices for financial assets include: a) held for trading - measured at fair value with changes in fair value recorded in net earnings; b) held to maturity - recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is derecognized or impaired; and c) loans and receivables - recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is no longer recognized or impaired.

Classification choices for financial liabilities include: a) held for trading - measured at fair value with changes in fair value recorded in net earnings and b) other - measured at amortized cost with gains and losses recognized in net earnings in the period that the liability is no longer recognized. Any financial asset or liability can be classified as held for trading as long as its fair value is reliably determinable.

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# Halifax Regional Water Commission

## Notes to the financial statements

March 31, 2014  
(in thousands)

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### 2. Summary of significant accounting policies (continued)

#### (k) Financial instruments (continued)

The Commission's financial assets and liabilities are classified and measured as follows:

<u>Asset/Liability</u>	<u>Classification</u>	<u>Measurement</u>
Cash	Held for trading	Fair value
Cash equivalents	Held for trading	Fair value
Receivables	Loans and receivables	Amortized cost
Receivable from HRM	Loans and receivables	Amortized cost
Payables and accruals	Other liabilities	Amortized cost
Long term debt	Other liabilities	Amortized cost
Deposits	Other liabilities	Amortized cost

Unless otherwise noted, it is management's opinion that the Commission is not exposed to significant interest, currency or credit risks arising from financial instruments. The fair value of the Commission's financial instruments approximates their carrying values.

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### 3. Contingent liabilities

As a condition of the sale of a property in prior year, the Commission indemnified the purchaser from claims or actions resulting from migration of halocarbons. The environmental risk is assessed to be low and the likelihood of any related liability is not determinable.

The Commission has been named along with the contractor for a flooding incident that occurred as a result of an overflow of wastewater at a pumping station associated with the Halifax Harbour Solutions (HHS) project. The claim is being defended by the Commission's insurer and management believes exposure in this regard is minimal.

There are active claims against the Commission; however, the likelihood of actual liability is not determinable at this time. If the Commission's defense of active claims is unsuccessful, the potential exposure would be \$2 – 2.5 million.

The Commission has certain outstanding grievances for alleged violations of the collective agreements with its unions. The financial risk of these grievances is not considered material.

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### 4. Pension plan and post retirement benefits

The Commission is responsible for funding the employer share of the contributions to the HRM pension plan for certain employees that transferred from HRM as of August 1, 2007. HRM administers this defined benefit pension plan and the Commission reimburses HRM for the pension costs related to the Commission's proportionate share of the employees covered under the plan. Due to the nature of the plan, the Commission does not have sufficient information to account for the plan as a defined benefit; therefore, the multiemployer defined benefit plan is accounted for in the same manner as a defined contribution plan. An expense is recorded in the period when the Commission is obligated to make contributions for services rendered by the employee. During the year, the Commission funded \$643 (2013 - \$709) in contributions to the plan.

For all other employees, the Commission maintains a defined benefit pension plan and offers post retirement health and insurance benefits to all of its employees. The pension plan provides pensions based upon length of service and best five years' earnings. This defined benefit pension plan is funded by employer and employee contributions, each contributing 10.47% of regular employee earnings. The Commission follows the recommendations of Section 3461 "Employee Future Benefits" of the CICA Handbook, Part V (Pre-changeover accounting standards).

# Halifax Regional Water Commission

## Notes to the financial statements

March 31, 2014  
(in thousands)

### 4. Pension plan and post retirement benefits (continued)

Employees who retired prior to July 1, 1998 have extended health benefits coverage for life and drug coverage until age 65. Employees who retired after July 1, 1998 and before December 31, 2008 have coverage for drug, extended health, dental and life insurance until age 65 on a 50/50 cost shared basis (100% basis for employees who retired after December 1, 2008). Extended health coverage for these retirees and their spouses after the age of 65 is available on an optional basis at 100% retiree cost and drug coverage is available through the provincially managed drug program.

Information about the Commission's plans, based on an actuarial extrapolation as at March 31, 2014, is as follows:

	2014	2013	2014	2013
	<u>Pension Plan</u>	<u>Pension Plan</u>	<u>Post Retirement Benefits</u>	<u>Post Retirement Benefits</u>
<b>Accrued benefit obligation</b>				
Balance, beginning of year	\$ 112,291	\$ 100,192	\$ 736	\$ 726
Current service cost	6,823	6,542	-	-
Interest cost	4,905	4,583	23	24
Actuarial loss	4,687	4,209	-	-
Benefit payments	(3,300)	(3,252)	(83)	(88)
Transfers in	21	17	-	-
Actuarial gain	-	-	192	74
Balance, end of year	<u>125,427</u>	<u>112,291</u>	<u>868</u>	<u>736</u>
<b>Fair value of plan assets</b>				
Balance, beginning of year	67,189	60,201	-	-
Actual return on plan assets	7,758	4,325	-	-
Transfers in	21	17	-	-
Benefit payments	(3,300)	(3,252)	-	-
Contributions: Employee	2,112	2,138	-	-
Employer	3,698	3,760	-	-
Balance, end of year	<u>77,478</u>	<u>67,189</u>	<u>-</u>	<u>-</u>
Plan deficit	47,949	45,102	868	736
Unamortized transitional asset	590	786	-	-
Unamortized experience loss	(37,763)	(38,144)	(251)	(59)
Unamortized plan amendments	(542)	(637)	-	-
Accrued benefit liability	<u>\$ 10,234</u>	<u>\$ 7,107</u>	<u>\$ 617</u>	<u>\$ 677</u>
Accrued benefit liability, beginning of year	\$ 7,107	\$ 4,309	\$ 677	\$ 741
Expense	6,825	6,558	23	24
Employer contributions	<u>(3,698)</u>	<u>(3,760)</u>	<u>(83)</u>	<u>(88)</u>
Accrued benefit liability recognized	<u>\$ 10,234</u>	<u>\$ 7,107</u>	<u>\$ 617</u>	<u>\$ 677</u>

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## Halifax Regional Water Commission

### Notes to the financial statements

March 31, 2014  
(in thousands)

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#### 4. Pension plan and post retirement benefits (continued)

Administration and pension expense includes pension expense of \$6,825 (2013 - \$6,558). This amount includes the amortization of experience gains and losses and plan improvements. Amortization is calculated on a straight-line basis over the estimated average remaining service life of the employee group, currently estimated at 19 years.

The following assumptions have been used in the actuarial extrapolations of the accrued benefit liability at March 31, 2014:

	Pension Plan <u>2014</u>	Pension Plan <u>2013</u>	Post Retirement Benefits <u>2014</u>	Post Retirement Benefits <u>2013</u>
Discount rate	4.50%	4.30%	3.70%	3.30%
Expected return on plan assets	5.50%	6.00%	N/A	N/A
Rate of compensation increase	3.75%	3.75%	N/A	N/A
Expenses for life benefits as a % of claims	N/A	N/A	10%	10%
Health benefit inflation per year	N/A	N/A	4.50-7.97%	4.50-8.23%
Dental benefit inflation per year	N/A	N/A	4.50%	4.50%

Funding for the pension plan is based on regular actuarial reviews and the next valuation was performed as at January 1, 2014.

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#### 5. Regulatory asset

In June 2011, the NSUARB granted the Commission approval to defer depreciation charges on certain assets transferred in 2010 from HRM relating to the Halifax Harbour Solutions Project. Depreciation of \$2,078 was deferred in each of fiscal 2010-11 and 2011-12. As a result, the Commission recognized a \$4,156 regulatory asset. In absence of rate regulation, this regulatory asset would have been expensed as depreciation in fiscal 2010-11 and 2011-12. In May 2012, the NSUARB granted approval of the amortization of this asset over the remaining useful lives of the underlying assets, beginning in 2013-14. The expense recognized in 2013-14 is \$192 (2013 - \$0).

# Halifax Regional Water Commission

## Notes to the financial statements

March 31, 2014  
(in thousands)

### 6. Accrued long term service awards

The Commission has a non-funded long term service award that is accrued annually, but is payable on retirement, termination or death if the employee has at least 10 years of continuous service. The benefit is equal to three days' pay for each completed year of service, up to a maximum of six month's salary.

	<u>2014</u>	<u>2013</u>
Accrued long term service awards	<u>\$ 3,159</u>	<u>\$ 2,929</u>

The following assumptions have been used in the valuation of the Commission's accrued long term service awards at March 31, 2014:

	<u>2014</u>	<u>2013</u>
Discount rate	4.50%	4.30%
Rate of compensation increase	3.75%	3.75%

### 7. Return on rate base

	<u>2014</u>	<u>2013</u>
Rate of return on rate base for water service	2.32%	2.42%
Rate of return on rate base for wastewater service	2.08%	2.75%
Rate of return on rate base for stormwater service	10.02%	0.75%
Rate of return on rate base for Airport Aerotech water service	(2.41)%	(44.76)%
Rate of return on rate base for Airport Aerotech wastewater service	10.76%	(153.99)%

### 8. Special purpose reserves

	<u>Other Capital Reserves</u>	<u>Sewer Redevelopment Reserve</u>	<u>Wastewater Infrastructure Reserve</u>	<u>Wastewater &amp; Stormwater Reserve</u>	<u>2014 Total</u>	<u>2013 Total</u>
Reserve, beginning of year	\$ 211	\$ 5,321	\$ 13,562	\$ 3,576	\$ 22,670	\$ 19,627
Additions	-	-	-	-	-	-
Contributions and interest	1	1,055	1,227	-	2,283	4,024
Expenditures	-	(740)	(6,000)	(183)	(6,923)	(981)
Reserve, end of year	<u>\$ 212</u>	<u>\$ 5,636</u>	<u>\$ 8,789</u>	<u>\$ 3,393</u>	<u>\$ 18,030</u>	<u>\$ 22,670</u>

### 9. Commitments

An agreement with HRM for renewal of the dividend/grant in lieu of taxes for fiscal years 2011 to 2015 for water services was approved by the NSUARB as part of the January 1, 2011 rate decision. There was no dividend/grant in lieu of taxes approved for wastewater/stormwater. The Commission is committed to a payment of \$4,349 for the 2015 fiscal year.

At March 31, 2014, the Commission had \$54,191 in expenditures from current and past approved capital budgets not yet expended.

# Halifax Regional Water Commission

## Notes to the financial statements

March 31, 2014

(in thousands)

10. Supplemental cash flow information	<u>2014</u>	<u>2013</u>
Changes in non-cash operating working capital items		
Receivables	\$ 424	\$ (3,298)
Payable to/receivable from HRM, net	2,812	316
Materials and supplies	(151)	(140)
Prepays	54	(39)
Payables and accruals, trade	2,999	1,719
Accrued interest on long term debt	373	232
Contractor and consumer deposits	(4)	17
Unearned revenue	1	(2)
	<u>\$ 6,508</u>	<u>\$ (1,195)</u>

Interest paid during the year was \$8,161 (2013 - \$7,605).

### 11. Capital management

The Commission's objective when managing capital is to ensure sufficient liquidity to support its financial obligations and execute its operating and capital plans. The Commission monitors and makes adjustments to its capital structure through additional borrowings of long term debt which are used to finance capital projects.

The Commission considers its total capitalization to include all long term debt and total equity. The calculation is set out as follows:

	<u>2014</u>	<u>2013</u>
Long term debt (current portion)	\$ 28,139	\$ 15,553
Long term debt	<u>186,964</u>	<u>166,879</u>
Funded debt	215,103	182,432
Equity	<u>829,086</u>	<u>822,223</u>
Capital under management	<u>\$ 1,044,189</u>	<u>\$ 1,004,655</u>

The Commission is a regulated utility and is subject to the regulations of the NSUARB. As part of this regulation, the Commission must obtain approval by the NSUARB for all borrowings. The Commission has obtained regulatory approval for all borrowings during the fiscal year. The Commission is not subject to financial borrowing covenants.

### 12. Financial risk management

#### *Credit risk*

Credit risk arises from the possibility that the Commission's customers may experience financial difficulty and be unable to fulfill their obligations. The Commission's maximum exposure to credit risk corresponds to the customer charges and contractual accounts receivable. However, the Commission's customers are numerous and diverse, which reduces the concentration of credit risk. The Commission considers the credit quality of its accounts receivables that are neither past due or impaired to be collectible.

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# Halifax Regional Water Commission

## Notes to the financial statements

March 31, 2014  
(in thousands)

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### 12. Financial risk management (continued)

#### *Interest risk*

Interest risk arises from the possibility that change in interest rate will cause the Commission a potential loss. All of the Commission's long term debt is at varying fixed rates and has staggered maturity dates. The Commission, therefore, considers its exposure to interest rate fluctuations to be minimal.

#### *Market risk*

Market risk arises from the possibility that the value of an investment will fluctuate as a result of changes in market prices. These changes could affect the market value of the investments in the Commission's employees' pension plan and consequently the plan's deficit. The risk is mitigated by the pension plan diversifying the types of investments in its portfolio.

#### *Liquidity risk*

Liquidity risk arises from the possibility of the Commission not being able to meet its cash requirements in a timely and cost effective manner. The Commission manages this risk by closely monitoring the cash on hand in comparison to upcoming cash commitments.

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### 13. Related party transactions

Transactions with HRM are recorded at carrying value in accordance with Section 3840 "Related Party Transactions" of the CICA Handbook, Part V (Pre-changeover accounting standards).

The Commission is obligated to make payments on debt, held in the name of HRM, associated with wastewater and stormwater assets which were transferred to the Commission in 2007 and subsequent years.

Amounts receivable from and payable to HRM have normal credit terms.

During the year, the Commission had the following related party transactions with HRM:

- The Commission recorded revenue for provision of water, wastewater and stormwater services to HRM in the amount of \$3,304 (2013 - \$552).
  - The Commission recorded fire protection revenue from HRM of \$9,758 (2013 - \$10,000).
  - The Commission paid a grant in lieu of tax of \$4,187 (2013 - \$3,971).
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### 14. Comparative figures

Certain of the comparative figures for 2013 have been reclassified to conform with the financial statement presentation adopted for 2014.



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## **Halifax Regional Water Commission**

### **Notes to the financial statements**

March 31, 2014  
(in thousands)

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#### **15. Subsequent events**

Subsequent to year end, the Commission received the actuarial valuation results as at January 1, 2014. The results indicated the employer current service cost and going concern special payments associated with the period January to March 2014 will increase. A going concern special payment accrual of \$434 was made at March 31, 2014. The \$138 current service cost estimate for the contribution rate change from 10.47% to 12.95% was not accrued at March 31, 2014. The additional contributions will be recorded as employee deductions are matched, through the period of July to December, retroactive to January 1, 2014.

Subsequent to year end, the Commission issued long term debt in the amount of \$5,569. Principal payments are due annually and interest semi-annually at rates ranging from 1.245% to 3.347%. Final maturity of this debt is in 2024.

**Halifax Regional Water Commission**  
**Schedule of utility plant in service**

**Schedule A**

Year ended March 31  
(in thousands)

2014

2013

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
<b>Water</b>				
Intangible plant	\$ 1,654	\$ 411	\$ 1,243	\$ 1,093
Land and land rights	15,875	-	15,875	15,873
Structures and improvements	85,028	24,840	60,308	59,903
Pumping equipment	9,711	5,577	4,014	4,345
Purification equipment	26,239	17,514	8,725	9,700
Transmission and distribution mains	317,382	67,958	249,424	240,422
Services	31,850	4,717	27,133	26,943
Meters	13,689	3,419	10,270	9,607
Hydrants	17,814	3,038	14,776	14,797
Manholes	236	6	230	
Tools and work equipment	2,641	1,870	771	883
Transportation equipment	5,324	3,780	1,544	1,856
Office equipment and furniture	10,310	7,435	2,875	2,262
Small systems	8,473	1,515	6,958	7,218
Airport Aerotech system	829	239	590	466
	<u>547,055</u>	<u>142,319</u>	<u>404,736</u>	<u>395,368</u>
<b>Wastewater</b>				
Intangible plant	5,787	1,884	3,903	4,198
Land and land rights	9,585	-	9,585	9,566
Structures and improvements	165,667	39,240	126,427	112,711
Pumping equipment	10,261	7,272	2,989	2,108
Treatment equipment	165,923	20,864	145,059	112,488
Collection system	223,542	44,782	178,760	176,081
Manholes and catchbasins	3,203	141	3,062	2,639
Laterals	10,964	526	10,438	8,300
Outfalls	19,029	821	18,208	14,792
Tools and work equipment	882	640	242	343
Transportation equipment	7,135	5,459	1,676	1,446
Office equipment and furniture	2,814	959	1,855	630
Small systems	8,302	1,412	6,890	7,116
Airport Aerotech system	3,229	538	2,691	2,697
	<u>636,323</u>	<u>124,538</u>	<u>511,785</u>	<u>455,115</u>
Carried forward	<u>1,183,378</u>	<u>266,857</u>	<u>916,521</u>	<u>850,483</u>

**Halifax Regional Water Commission**  
**Schedule of utility plant in service**

**Schedule A**

Year ended March 31  
(in thousands)

2014

2013

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Brought forward	\$ 1,183,378	\$ 266,857	\$ 916,521	\$ 850,483
<b>Stormwater</b>				
Structures and improvements	8,802	554	8,248	8,258
Collection system	92,094	20,490	71,604	71,623
Manholes and catchbasins	6,186	440	5,746	5,476
Laterals	2,269	103	2,166	1,824
Tools and work equipment	32	4	28	28
Transportation equipment	191	19	172	-
Office equipment and furniture	771	49	722	-
	<u>110,345</u>	<u>21,659</u>	<u>88,686</u>	<u>87,209</u>
<b>Total</b>	<b>\$ 1,293,723</b>	<b>\$ 288,516</b>	<b>\$ 1,005,207</b>	<b>\$ 937,692</b>

During the year, \$1,023 of interest was capitalized to Utility Plant in Service (2013 - \$947).

# Halifax Regional Water Commission

## Schedule of long term debt

# Schedule B

Year ended March 31, 2014

(in thousands)

	Interest Rate	Final Maturity	Balance Remaining	
			2014	2013
<b>Payable to Municipal Finance Corporation</b>				
<b>Water</b>				
Debenture 23 A 1	4.250% to 6.125%	2018	\$ 1,000	\$ 1,100
Debenture 25 A 1	2.970% to 4.560%	2015	3,000	3,250
Debenture 96 A 1	5.500% to 8.000%	2016	240	320
Debenture 26 A 1	4.350% to 4.880%	2016	2,600	2,800
Debenture 27 A 1	4.650% to 5.010%	2017	4,139	5,059
Debenture 28 A 1	3.750% to 5.088%	2018	1,500	1,600
Debenture 98 A 1	5.625% to 6.125%	2019	16,334	19,051
Debenture 99 A 1	6.500% to 6.750%	2019	1,350	1,575
Debenture 30 B 1	1.550% to 3.870%	2020	1,225	1,400
Debenture 31 A 1	1.630% to 4.221%	2021	1,200	1,350
Debenture 32 A 1	1.636% to 3.480%	2022	1,800	2,000
Debenture 32 C 1	1.510% to 3.160%	2022	10,197	10,734
Debenture 33 A 1	1.330% to 3.489%	2023	10,112	-
Debenture 33 B 1	1.285% to 4.114%	2023	7,412	-
<b>Halifax Harbour Solutions</b>				
Debenture 29 A 1	0.900% to 4.329%	2019	10,400	11,050
<b>Wastewater/stormwater</b>				
Debenture 30 A 1	1.510% to 4.500%	2020	2,890	3,060
Debenture 32 A 1	1.636% to 3.480%	2022	2,277	2,397
Debenture 32 B 1	1.380% to 3.156%	2022	30,400	32,000
Debenture 32 C 1	1.510% to 3.160%	2022	4,365	4,595
Debenture 33 A 1	1.330% to 3.489%	2023	16,860	-
Debenture 33 B 1	1.285% to 4.114%	2023	10,893	-
<b>Stormwater</b>				
Debenture 33 A 1	1.330% to 3.489%	2023	540	-
Debenture 33 B 1	1.285% to 4.114%	2023	2,639	-
			<u>143,373</u>	<u>103,341</u>
<b>Payable to Halifax Regional Municipality</b>				
<b>Municipal Finance Corporation – Wastewater/stormwater</b>				
Debenture 23 A 1	3.500% to 5.375%	2013	-	46
Debenture 23 B 1	2.750% to 5.000%	2013	-	4
Debenture 24 A 1	2.550% to 5.450%	2014	83	166
Debenture 24 B 1	2.840% to 5.940%	2024	60,534	66,069
Debenture 24 C 1	7.000% to 7.000%	2015	59	117
Debenture 25 A 1	2.970% to 4.560%	2015	348	522
Debenture 25 B 1	3.630% to 4.830%	2020	68	101
Debenture 26 A 1	4.350% to 4.880%	2016	376	502
Debenture 26 B 1	4.265% to 4.410%	2016	15	19
Debenture 27 A 1	4.450% to 4.625%	2017	263	329
<b>Federation of Canadian Municipalities – Wastewater/stormwater</b>				
Debenture GMIF 1599	1.330% to 3.127%	2014	11,000	12,000
			<u>72,746</u>	<u>79,875</u>
			<u>216,119</u>	<u>183,216</u>
Less: debt issue costs			<u>1,016</u>	<u>784</u>
			<u>215,103</u>	<u>182,432</u>
Less: amount payable within one year			<u>28,139</u>	<u>15,553</u>
			<u>\$ 186,964</u>	<u>\$ 166,879</u>

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**Halifax Regional Water Commission**  
**Schedule of long term debt**

**Schedule B**

Year ended March 31, 2014  
(in thousands)

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The debentures are repayable in fixed annual or semi-annual principal instalments plus interest payable semi-annually. Principal instalments for the next five years are as follows:

2015	\$	28,139
2016	\$	19,687
2017	\$	18,968
2018	\$	16,809
2019	\$	17,350

# Halifax Regional Water Commission

## Schedule of operations for water service

## Schedule C

Year ended March 31, 2014

(in thousands)

	2014		2013
	<u>Budget</u> (Unaudited)	<u>Actual</u>	<u>Actual</u>
Operating revenues			
Water service	\$ 34,981	\$ 34,341	\$ 32,218
Fire protection	9,575	9,575	9,844
Private fire protection services	443	429	370
Other operating revenue			
Bulk water stations	261	241	255
Customer late payment fees	228	256	277
Miscellaneous	149	140	143
	<u>45,637</u>	<u>44,982</u>	<u>43,107</u>
Operating expenditures			
Water supply and treatment	7,251	7,284	6,863
Water transmission and distribution	9,334	8,495	8,372
Engineering and information services	3,272	3,416	3,362
Environmental services	669	693	642
Customer service	1,804	2,006	1,934
Administration and pension	4,919	5,305	4,701
Depreciation	7,605	7,118	6,768
	<u>34,854</u>	<u>34,317</u>	<u>32,642</u>
Operating profit	<u>10,783</u>	<u>10,665</u>	<u>10,465</u>
Financial and other revenues			
Interest	330	344	337
Other	216	235	230
	<u>546</u>	<u>579</u>	<u>567</u>
Financial and other expenditures			
Interest on long term debt	2,437	2,487	2,249
Repayment of long term debt	6,262	6,295	5,140
Amortization of debt discount	67	70	57
Grant in lieu of taxes	4,249	4,187	3,971
	<u>13,015</u>	<u>13,039</u>	<u>11,417</u>
Excess of expenditures over revenues	\$ <u>(1,686)</u>	\$ <u>(1,795)</u>	\$ <u>(385)</u>

**Halifax Regional Water Commission**  
**Schedule of operations for wastewater service**

**Schedule D**

Year ended March 31, 2014  
(in thousands)

	2014		2013
	<u>Budget</u> (Unaudited)	<u>Actual</u>	<u>Actual</u>
Operating revenues			
Wastewater service	\$ 58,089	\$ 54,698	\$ 52,140
Other operating revenue			
Leachate and other contract revenue	437	412	475
Septage tipping fees	715	633	598
Overstrength surcharge	180	226	195
Customer late payment fees	148	192	166
Miscellaneous	<u>128</u>	<u>101</u>	<u>139</u>
	<u>59,697</u>	<u>56,262</u>	<u>53,713</u>
Operating expenditures			
Wastewater collection	9,160	10,671	9,288
Wastewater treatment	18,486	18,079	16,762
Engineering and information services	2,715	2,787	2,657
Environmental services	1,293	1,282	1,275
Customer service	1,442	1,597	1,543
Administration and pension	3,931	4,219	3,871
Depreciation	<u>10,417</u>	<u>8,370</u>	<u>7,409</u>
	<u>47,444</u>	<u>47,005</u>	<u>42,805</u>
Operating profit	<u>12,253</u>	<u>9,257</u>	<u>10,908</u>
Financial and other revenues			
Interest	330	345	337
Other	<u>2,081</u>	<u>2,083</u>	<u>2,065</u>
	<u>2,411</u>	<u>2,428</u>	<u>2,402</u>
Financial and other expenditures			
Interest on long term debt	5,636	5,223	4,922
Repayment of long term debt	11,532	10,225	8,772
Amortization of debt discount	<u>67</u>	<u>61</u>	<u>31</u>
	<u>17,235</u>	<u>15,509</u>	<u>13,725</u>
Excess of expenditures over revenues	\$ <u>(2,571)</u>	\$ <u>(3,824)</u>	\$ <u>(415)</u>

**Halifax Regional Water Commission**  
**Schedule of operations for stormwater service**

**Schedule E**

Year ended March 31, 2014  
(in thousands)

	2014		2013
	Budget (Unaudited)	Actual	Actual
Operating revenues			
Stormwater site generated service	\$ 5,763	\$ 5,775	\$ 5,755
Stormwater right-of-way service	2,671	2,671	-
Other operating revenue			
Customer late payment fees	16	19	18
Miscellaneous	93	75	79
	<u>8,543</u>	<u>8,540</u>	<u>5,852</u>
Operating expenditures			
Stormwater collection	5,548	4,055	3,492
Engineering and information services	556	571	544
Environmental services	600	584	586
Customer service	296	327	316
Administration and pension	805	864	793
Depreciation	426	310	-
	<u>8,231</u>	<u>6,711</u>	<u>5,731</u>
Operating profit	<u>312</u>	<u>1,829</u>	<u>121</u>
Financial and other expenditures			
Interest on long term debt	398	394	383
Repayment of long term debt	664	652	585
Amortization of debt discount		1	
	<u>1,062</u>	<u>1,047</u>	<u>968</u>
Excess of revenues over expenditures (expenditures over revenues)	<u>\$ (750)</u>	<u>\$ 782</u>	<u>\$ (847)</u>



**Halifax Regional Water Commission**  
**Airport Aerotech system**  
**Schedule of operations for water service**  
Year ended March 31, 2014  
(in thousands)

**Schedule F**

	2014		2013
	<u>Budget</u> (Unaudited)	<u>Actual</u>	<u>Actual</u>
Operating revenues			
Water service	\$ 628	\$ 620	\$ 537
Fire protection	183	183	156
Customer late payment charges	1	1	1
Miscellaneous	5	5	5
	<u>817</u>	<u>809</u>	<u>699</u>
Operating expenditures			
Plant operations	606	652	722
Pumping stations	28	24	20
Water transmission and distribution	110	109	103
Depreciation	50	37	36
	<u>794</u>	<u>822</u>	<u>881</u>
Operating loss	<u>23</u>	<u>(13)</u>	<u>(182)</u>
Financial and other expenditures			
Interest on long term debt	30	30	34
Repayment of long term debt	54	46	44
	<u>84</u>	<u>76</u>	<u>78</u>
Excess of expenditures over revenues	\$ <u>(61)</u>	\$ <u>(89)</u>	\$ <u>(260)</u>

**Halifax Regional Water Commission**  
**Airport Aerotech system**  
**Schedule of operations for wastewater service**

**Schedule F**

Year ended March 31, 2014  
(in thousands)

	2014		2013
	<u>Budget</u> (Unaudited)	<u>Actual</u>	<u>Actual</u>
Operating revenues			
Wastewater service	\$ 624	\$ 622	\$ 459
Dewatering	210	210	182
Airplane effluent	94	75	56
Customer late payment charges	<u>1</u>	<u>1</u>	<u>1</u>
	<u>929</u>	<u>908</u>	<u>698</u>
Operating expenditures			
Wastewater treatment	761	806	906
Wastewater/stormwater collection	68	37	44
Depreciation	<u>62</u>	<u>37</u>	<u>26</u>
	<u>891</u>	<u>880</u>	<u>976</u>
Operating profit (loss)	<u>38</u>	<u>28</u>	<u>(278)</u>
Financial and other expenditures			
Interest on long term debt	18	27	17
Repayment of long term debt	<u>44</u>	<u>38</u>	<u>25</u>
	<u>62</u>	<u>65</u>	<u>42</u>
Excess of expenditures over revenues	<u>\$ (24)</u>	<u>\$ (37)</u>	<u>\$ (320)</u>
Excess of expenditures over revenues for water and wastewater combined	<u>\$ (85)</u>	<u>\$ (126)</u>	<u>\$ (580)</u>

The Commission no longer provides stormwater services for the Airport Aerotech system effective November 18, 2011.

# Halifax Regional Water Commission

## Schedule of regulated activities

# Schedule G

Year ended March 31, 2014  
(in thousands)

	2014		2013
	Budget (Unaudited)	Actual	Actual
<b>Operating revenues</b>			
Water service	\$ 34,981	\$ 34,341	\$ 32,218
Wastewater service	58,089	54,698	52,140
Stormwater service	8,434	8,446	5,756
Public fire protection	9,575	9,575	9,844
Private fire protection services	443	429	370
Airport Aerotech system	1,442	1,432	1,159
Other operating revenue	1,182	1,229	1,245
	<u>114,146</u>	<u>110,150</u>	<u>102,732</u>
<b>Operating expenditures</b>			
Water supply and treatment	7,238	7,274	6,855
Water transmission and distribution	9,334	8,495	8,372
Wastewater collection	9,160	10,671	9,289
Stormwater collection	5,548	4,055	3,492
Wastewater treatment	16,889	17,012	15,949
Engineering and information services	6,543	6,774	6,564
Environmental services	2,562	2,559	2,503
Customer service	3,507	3,904	3,774
Administration and pension	9,635	10,369	9,290
Airport Aerotech system	1,685	1,702	1,857
Depreciation	18,448	15,792	14,174
	<u>90,549</u>	<u>88,607</u>	<u>82,119</u>
<b>Financial and other revenues</b>			
Interest	660	689	674
Other	2,088	2,069	2,061
	<u>2,748</u>	<u>2,758</u>	<u>2,735</u>
<b>Financial and other expenditures</b>			
Interest on long term debt	8,519	8,161	7,605
Repayment of long term debt	18,556	17,256	14,566
Amortization of debt discount	134	132	88
Grant in lieu of taxes	4,249	4,187	3,971
	<u>31,458</u>	<u>29,736</u>	<u>26,230</u>
<b>Excess of expenditures over revenues</b>	<u>\$ (5,113)</u>	<u>\$ (5,435)</u>	<u>\$ (2,882)</u>

# Halifax Regional Water Commission

## Schedule of unregulated activities

## Schedule G

Year ended March 31, 2014  
(in thousands)

	2014		2013
	<u>Budget</u> (Unaudited)	<u>Actual</u>	<u>Actual</u>
Operating revenues			
Dewatering	\$ 210	\$ 210	\$ 182
Airplane sewage	715	633	56
Leachate treatment & contract revenue	437	412	475
Septage tipping fees	94	75	598
Other operating revenue	21	21	27
	<u>1,477</u>	<u>1,351</u>	<u>1,338</u>
Operating expenditures			
Water supply and treatment	13	10	8
Wastewater treatment	1,597	1,067	813
Other	55	45	94
Depreciation	-	6	3
	<u>1,665</u>	<u>1,128</u>	<u>918</u>
Financial and other revenues			
Other	<u>209</u>	<u>249</u>	<u>234</u>
Excess of revenues over expenditures	<u>\$ 21</u>	<u>\$ 472</u>	<u>\$ 654</u>