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Financial Statements

(NSUARB Accounting and Reporting Handbook)

Halifax Regional Water Commission

March 31, 2012

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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, 2012, and the statements of operations, contributed capital surplus, operating surplus, 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, 2012 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 15 to 22 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 21, 2012



Chartered Accountants

Halifax Regional Water Commission

Statement of operations

Year ended March 31, 2012
(in thousands)

	2012		2011
	Budget (Unaudited)	Actual	Actual
Operating revenues			
Water service	\$ 30,393	\$ 30,562	\$ 30,719
Wastewater/stormwater services	53,760	54,383	45,532
Fire protection	9,502	9,502	9,502
Private fire protection services	369	366	362
Airport Aerotech system	1,361	1,352	1,323
Other operating revenue	2,455	2,662	2,242
	<u>97,840</u>	<u>98,827</u>	<u>89,680</u>
Operating expenditures			
Water supply and treatment	6,800	6,598	6,286
Water transmission and distribution	8,768	7,834	7,928
Wastewater/stormwater collection	15,307	15,008	13,562
Wastewater treatment	18,289	16,380	17,139
Engineering and information services	6,175	5,813	5,589
Environmental services	2,427	2,290	2,114
Customer service	3,551	3,330	3,329
Administration and pension	6,593	7,121	6,536
Airport Aerotech system	1,594	1,520	1,484
Depreciation	12,082	11,347	8,865
	<u>81,586</u>	<u>77,241</u>	<u>72,832</u>
Operating profit	<u>16,254</u>	<u>21,586</u>	<u>16,848</u>
Financial and other revenues			
Interest	480	402	545
Other	2,194	2,193	2,279
	<u>2,674</u>	<u>2,595</u>	<u>2,824</u>
	<u>18,928</u>	<u>24,181</u>	<u>19,672</u>
Financial and other expenditures			
Interest on long term debt	8,114	8,100	8,896
Repayment of long term debt	13,145	13,066	13,158
Amortization of debt discount	58	64	70
Grant in lieu of taxes (note 9)	3,882	3,944	3,749
	<u>25,199</u>	<u>25,174</u>	<u>25,873</u>
Excess of expenditures over revenues	<u>\$ (6,271)</u>	<u>\$ (993)</u>	<u>\$ (6,201)</u>

See accompanying notes to the financial statements.

Halifax Regional Water Commission

Balance sheet

March 31
(in thousands) 2012 2011

Assets

Current

Cash and cash equivalents	\$ 16,403	\$ 15,730
Receivables		
Customer charges and contractual	20,563	21,655
Halifax Regional Municipality	1,385	20,398
Materials and supplies	1,154	1,143
Prepays	<u>709</u>	<u>653</u>
	40,214	59,579
Receivable from Halifax Regional Municipality	163	176
Regulatory asset (note 5)	4,156	2,078
Plant under construction	23,951	13,527
Utility plant in service (schedule A)	<u>900,385</u>	<u>893,633</u>
	<u>\$ 968,869</u>	<u>\$ 968,993</u>

Liabilities

Current

Payables and accruals		
Trade	\$ 15,484	\$ 13,903
Halifax Regional Municipality	1,235	7,946
Interest on long term debt	1,421	1,548
Contractor and customer deposits	177	150
Current portion of long term debt (schedule B)	13,109	13,272
Unearned revenue	<u>119</u>	<u>121</u>
	31,545	36,940
Long term debt (schedule B)	133,063	146,118
Accrued pension liability (note 4)	4,309	3,945
Accrued post retirement benefits (note 4)	741	803
Accrued long term service awards (note 6)	<u>2,780</u>	<u>2,600</u>
	<u>172,438</u>	<u>190,406</u>

Equity

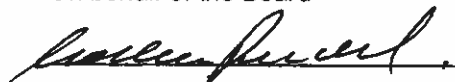
Special purpose reserves (note 8)	19,627	17,973
Contributed capital surplus (page 5)	761,180	743,911
Operating surplus (page 5)	3,244	8,043
Operating surplus used to fund capital (page 5)	<u>12,380</u>	<u>8,660</u>
	<u>796,431</u>	<u>778,587</u>
	<u>\$ 968,869</u>	<u>\$ 968,993</u>

Contingent liabilities (note 3)

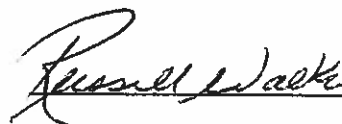
Commitment (note 9)

Subsequent event (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)

2012

2011

Increase (decrease) in cash and cash equivalents

	2012	2011
Operating		
Excess of expenditures over revenues	\$ (993)	\$ (6,201)
Refund of Airport Aerotech stormwater revenue	(86)	-
Depreciation and amortization	12,270	9,727
Accrued pension liability	364	1,360
Decrease in accrued post retirement benefits	(62)	(69)
Repayment of long term debt	13,066	13,158
Increase in accrued long term service costs	<u>180</u>	<u>153</u>
	24,739	18,128
Change in non-cash operating working capital items (note 10)	<u>2,505</u>	<u>1,994</u>
	<u>27,244</u>	<u>20,122</u>
Financing		
Proceeds from issuance of long term debt	-	5,150
Decrease (increase) in receivable from/payable to Halifax Regional Municipality	12,315	(1,101)
Contributions to reserves	3,158	3,836
Debt issue costs	(54)	(32)
Principal repayment on Harbour Solutions long term debt	(6,500)	(6,500)
Principal repayments of long term debt	<u>(6,772)</u>	<u>(8,461)</u>
	<u>2,147</u>	<u>(7,108)</u>
Investing		
Capital cost contributions	1,492	2,662
Proceeds from sale of plant in service	71	1,702
Purchase of capital work in progress	(14,199)	(5,282)
Purchase of plant in service	<u>(16,082)</u>	<u>(19,202)</u>
	<u>(28,718)</u>	<u>(20,120)</u>
Increase (decrease) in cash and cash equivalents	673	(7,106)
Cash and cash equivalents, beginning of year	<u>15,730</u>	<u>22,836</u>
Cash and cash equivalents, end of year	<u>\$ 16,403</u>	<u>\$ 15,730</u>

See accompanying notes to the financial statements.

Halifax Regional Water Commission Statement of contributed capital surplus

Year ended March 31 (in thousands)	2012	2011
Contributed capital surplus, beginning of year	\$ 743,911	\$ 525,916
Contributions to plant in service	15,203	40,573
Transfer from special purpose reserve (note 8)	1,504	6,220
Debt repayment	13,066	13,158
(Loss) gain on sale of land	(37)	1,600
Capital surplus transferred to Halifax Regional Municipality	-	(4,600)
Capital surplus transferred with Halifax Harbour Solutions	(52)	167,241
	<u>773,595</u>	<u>750,108</u>
Less: amortization (note 2(b))	<u>12,415</u>	<u>6,197</u>
Contributed capital surplus, end of year	<u>\$ 761,180</u>	<u>\$ 743,911</u>

Halifax Regional Water Commission Statement of operating surplus

Year ended March 31 (in thousands)	2012	2011
Operating surplus, beginning of year	\$ 8,043	\$ 14,681
Operating surplus used to fund capital	(3,720)	
Excess of expenditures over revenues	(993)	(6,201)
Refund of Airport Aerotech stormwater revenue	(86)	
Stewardship contributions charged to current surplus	-	(437)
Operating surplus, end of year	<u>\$ 3,244</u>	<u>\$ 8,043</u>

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

Year ended March 31 (in thousands)	2012	2011
Operating surplus used to fund capital, beginning of year	\$ 8,660	\$ 8,660
Additions to utility plant in service funded by operating surplus	<u>3,720</u>	<u>-</u>
Operating surplus used to fund capital, end of year	<u>\$ 12,380</u>	<u>\$ 8,660</u>

See accompanying notes to the financial statements.

Halifax Regional Water Commission

Notes to the financial statements

March 31, 2012
(in thousands)

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.

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 in the areas 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 and wastewater/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 water service area is complete. The capital cost contributions are subject to approval by the NSUARB.

Halifax Regional Water Commission

Notes to the financial statements

March 31, 2012

(in thousands)

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

(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 cost basis. The cost of materials and supplies recognized as an expense during the period was \$277 (2011 - \$286).

(g) Revenues and expenditures

All revenues and expenditures are recorded on an accrual basis with the exception of repayment of long term debt. Receivables include outstanding revenue billed by the Commission and estimated metered 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.

Halifax Regional Water Commission

Notes to the financial statements

March 31, 2012

(in thousands)

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 system (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:

- Specifically, at year end, revenue from water and wastewater services have 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.
- Management assumptions are also used in the actuarial determination of the accrued pension liability, accrued post retirement benefit, and accrued long term service awards. These assumptions are outlined in notes 4 and 6 of the financial statements.

Actual results could differ from these estimates.

(k) Financial instruments

The Commission is required to initially recognize and measure 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; c) available for sale - measured at fair value with changes in fair value recognized in other comprehensive income for the current period until realized through disposal or impairment; and d) 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.

Halifax Regional Water Commission

Notes to the financial statements

March 31, 2012

(in thousands)

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

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.

3. Contingent liabilities

As a condition of the sale of a property, 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 the Commission believes its exposure in this regard is minimal.

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.

4. Pension plan and post retirement benefits

The Commission maintains a contributory defined benefit pension plan for all employees and offers post retirement health and insurance benefits to its employees. The pension plan provides pensions based upon length of service and best five years' earnings. The Commission follows the recommendations of Section 3461 "Employee Future Benefits" of the CICA Handbook.

This defined pension plan is funded by employer and employee contributions. Prior to July 1, 2011, the employer and employee were each contributing 9.5% of regular earnings. As of July 1, 2011, the amount increased to 10.47%. 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. During the year, the Commission funded \$637 (2011 - \$670) in contributions to the HRM plan.

Halifax Regional Water Commission

Notes to the financial statements

March 31, 2012

(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. Extended health coverage for these retirees and their spouses after the age of 65 is available on an optional basis at 100% retiree cost.

Information about the Commission's plans, based on an actuarial extrapolation as at March 31, 2012, is as follows:

	2012	2011	2012 Post Retirement Benefits	2011 Post Retirement Benefits
	<u>Pension Plan</u>	<u>Pension Plan</u>		
Accrued benefit obligation				
Balance, beginning of year	\$ 80,058	\$ 70,716	\$ 578	\$ 629
Current service cost	4,096	3,825	-	-
Interest cost	4,347	4,065	24	27
Actuarial loss	14,897	4,069	-	-
Benefit payments	(3,217)	(2,655)	(76)	(85)
Transfers in	11	38	-	-
Actuarial gain	-	-	200	7
Balance, end of year	<u>100,192</u>	<u>80,058</u>	<u>726</u>	<u>578</u>
Fair value of plan assets				
Balance, beginning of year	55,443	50,105	-	-
Actual return on plan assets	2,689	4,273	-	-
Transfers in	11	38	-	-
Benefit payments	(3,217)	(2,655)	-	-
Contributions: Employee	1,692	1,516	-	-
Employer	3,583	2,166	-	-
Balance, end of year	<u>60,201</u>	<u>55,443</u>	<u>-</u>	<u>-</u>
Plan deficit	39,991	24,615	726	578
Unamortized transitional asset	982	1,179	-	-
Unamortized experience (loss) gain	(35,932)	(21,021)	15	225
Unamortized plan amendments	(732)	(828)	-	-
Accrued benefit liability	<u>\$ 4,309</u>	<u>\$ 3,945</u>	<u>\$ 741</u>	<u>\$ 803</u>
Accrued benefit liability, beginning of year	\$ 3,945	\$ 2,585	\$ 803	\$ 872
Expense	3,947	3,526	14	16
Employer contributions	<u>(3,583)</u>	<u>(2,166)</u>	<u>(76)</u>	<u>(85)</u>
Accrued benefit liability recognized	<u>\$ 4,309</u>	<u>\$ 3,945</u>	<u>\$ 741</u>	<u>\$ 803</u>

Administration and pension expense includes pension expense of \$3,947 (2011 - \$3,526). Included in the 2012 pension expense is a special payment of \$1,793 (2011 - \$580). 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.

Halifax Regional Water Commission

Notes to the financial statements

March 31, 2012
(in thousands)

4. Pension plan and post retirement benefits (continued)

The following assumptions have been used in the actuarial extrapolation of the accrued benefit liability at March 31, 2012:

	Pension Plan <u>2012</u>	Pension Plan 2011	Post Retirement Benefits <u>2012</u>	Post Retirement Benefits 2011
Discount rate	4.50%	5.40%	4.50%	4.50%
Expected return on plan assets	6.00%	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	5-10%	5-10%
Health benefit inflation per year	N/A	N/A	5-10%	5-10%
Dental benefit inflation per year	N/A	N/A	5%	5%

Funding for the pension plan is based on regular actuarial reviews. There was an actuarial valuation completed January 1, 2011 and the next review is scheduled for no later than January 1, 2014.

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. As a result, the Commission has recognized a \$4,156 (2011 - \$2,078) regulatory asset. 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. In absence of rate regulation, the Commission would have otherwise recorded \$2,078 (2011 - \$2,078) of additional depreciation in the determination of excess of expenditures over revenues for 2011-12 on the statement of operations.

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>2012</u>	<u>2011</u>
Accrued long term service awards	<u>\$ 2,780</u>	<u>\$ 2,600</u>

The following assumptions have been used in the valuation of the Commission's accrued long term service awards at March 31, 2012:

	<u>2012</u>	<u>2011</u>
Pre-retirement benefits		
Discount rate	4.50%	5.40%
Rate of compensation increase	3.75%	3.75%

Halifax Regional Water Commission

Notes to the financial statements

March 31, 2012
(in thousands)

7. Return on rate base	2012	2011
Rate of return on rate base for water service	2.87%	3.40%
Rate of return on rate base for wastewater/stormwater services	2.62%	1.16%
Rate of return on rate base for Airport Aerotech water service	(3.88)%	(7.46)%
Rate of return on rate base for Airport Aerotech wastewater service	(74.07)%	(55.79)%

8. Special purpose reserves

	Other Capital Reserves	Sewer Redevelopment Reserve	Wastewater Infrastructure Reserve	Wastewater & Stormwater Reserve	2012 Total	2011 Total
Reserve, beginning of year	\$ 397	\$ 2,848	\$ 9,711	\$ 5,017	\$ 17,973	\$ 20,357
Additions	-	-	-	-	-	207
Contributions and interest	-	1,315	1,843	-	3,158	3,629
Expenditures	-	(51)	(227)	(1,226)	(1,504)	(6,220)
Reserve, end of year	\$ 397	\$ 4,112	\$ 11,327	\$ 3,791	\$ 19,627	\$ 17,973

9. Commitment

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 \$3,971 for the 2013 fiscal year.

10. Supplemental cash flow information

	2012	2011
Changes in non-cash operating working capital items		
Receivables	\$ 1,092	\$ 437
Materials and supplies	(11)	(70)
Prepays	(56)	(105)
Payables and accruals, trade	1,581	1,812
Accrued interest on long term debt	(127)	(111)
Contractor and consumer deposits	27	5
Unearned revenue	(1)	26
	\$ 2,505	\$ 1,994

Interest paid during the year was \$8,100 (2011 - \$8,896).

Halifax Regional Water Commission

Notes to the financial statements

March 31, 2012

(in thousands)

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 then 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 in the following table:

	<u>2012</u>	<u>2011</u>
Long-term debt (current portion)	\$ 13,109	\$ 13,272
Long-term debt	<u>133,063</u>	<u>146,118</u>
Funded debt	146,172	159,390
Equity	<u>796,431</u>	<u>778,587</u>
Capital under management	<u>\$ 942,603</u>	<u>\$ 937,977</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.

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.

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.

Halifax Regional Water Commission

Notes to the financial statements

March 31, 2012
(in thousands)

13. Related party transactions

Transactions with HRM are recorded at carrying value in accordance with the CICA Handbook Section 3840 "Related Party Transactions".

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

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

14. Comparative figures

Certain of the comparative figures for 2011 have been reclassified to conform with the financial statement presentation adopted for 2012.

15. Subsequent event

Subsequent to year end the Commission received approval from the NSUARB for a general rate increase ranging from 6.7% to 13.2% depending on meter size which is anticipated to take effect on July 1, 2012.

Halifax Regional Water Commission

Schedule of utility plant in service

Schedule A

Year ended March 31
(in thousands)

2012

2011

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Water				
Intangible plant	\$ 546	\$ 165	\$ 381	\$ 435
Land and land rights	15,906		15,906	15,909
Structures and improvements	76,585	22,307	54,278	54,271
Pumping equipment	8,151	5,039	3,112	3,219
Purification equipment	25,950	15,180	10,770	11,228
Transmission and distribution mains	291,295	60,955	230,340	225,255
Services	29,375	3,869	25,506	24,704
Meters	11,764	2,913	8,851	8,148
Hydrants	17,025	2,539	14,486	14,244
Tools and work equipment	2,518	1,632	886	767
Transportation equipment	4,952	2,686	2,266	2,324
Office equipment and furniture	8,667	6,156	2,511	2,818
Small systems	7,740	1,002	6,738	6,981
Airport Aerotech system	595	162	433	476
	<u>501,069</u>	<u>124,605</u>	<u>376,464</u>	<u>370,779</u>
Wastewater/stormwater				
Intangible plant	4,001	1,129	2,872	3,172
Land and land rights	9,547		9,547	8,573
Structures and improvements	153,706	37,803	115,903	117,847
Pumping and treatment equipment	132,261	9,739	122,522	124,725
Collection system	299,977	60,014	239,963	234,527
Manholes and catchbasins	6,227	4,315	1,912	4,153
Laterals	6,825	392	6,433	5,291
Outfalls	15,315	165	15,150	15,226
Tools and work equipment	784	296	488	610
Transportation equipment	6,288	5,564	724	321
Office equipment	904	376	528	422
Small systems	5,974	901	5,073	5,030
Airport Aerotech system	3,115	309	2,806	2,957
	<u>644,924</u>	<u>121,003</u>	<u>523,921</u>	<u>522,854</u>
Total	\$ 1,145,993	\$ 245,608	\$ 900,385	\$ 893,633

During the year, the amount of \$195 of interest was capitalized to Utility Plant in Service (2011 - \$322).

Halifax Regional Water Commission

Schedule of long term debt

Schedule B

Year ended March 31, 2012
(in thousands)

	Interest Rate	Final Maturity	Balance Remaining	
			2012	2011
Payable to Municipal Finance Corporation				
Water				
Debenture 22 A 1	4.250% to 6.125%	2012	\$ 2,310	\$ 2,620
Debenture 25 A 1	2.970% to 4.560%	2015	3,500	3,750
Debenture 96 A 1	5.500% to 8.000%	2016	400	480
Debenture 26 A 1	4.350% to 4.880%	2016	3,000	3,200
Debenture 27 A 1	4.650% to 5.010%	2017	5,937	6,776
Debenture 23 A 1	3.500% to 5.750%	2018	1,200	1,300
Debenture 28 A 1	3.750% to 5.088%	2018	1,700	1,800
Debenture 98 A 1	5.625% to 6.125%	2019	21,610	24,019
Debenture 99 A 1	6.500% to 6.750%	2019	1,800	2,025
Debenture 30 B 1	1.550% to 3.870%	2020	1,575	1,750
Debenture 31 A 1	1.630% to 4.221%	2021	1,500	1,901
Halifax Harbour Solutions				
Debenture 29 A 1	0.900% to 4.329%	2019	11,700	12,350
Wastewater/stormwater				
Debenture 30 A 1	1.510% to 4.500%	2020	3,230	3,400
Payable to Halifax Regional Municipality				
Municipal Finance Corporation – Wastewater/stormwater				
Debenture 21 A 1	8.000% to 8.000%	2011	-	85
Debenture 21 B 1	3.125% to 6.000%	2011	-	15
Debenture 22 A 1	3.375% to 6.125%	2012	88	176
Debenture 22 B 1	3.250% to 5.625%	2012	44	89
Debenture 23 A 1	3.500% to 5.375%	2013	91	136
Debenture 23 B 1	2.750% to 5.000%	2013	9	13
Debenture 24 A 1	2.550% to 5.450%	2014	249	333
Debenture 24 B 1	2.840% to 5.940%	2024	71,604	77,138
Debenture 24 C 1	7.000% to 7.000%	2015	176	235
Debenture 25 A 1	2.970% to 4.560%	2015	696	869
Debenture 25 B 1	3.630% to 4.830%	2020	135	169
Debenture 26 A 1	4.350% to 4.880%	2016	628	753
Debenture 26 B 1	4.265% to 4.410%	2016	24	29
Debenture 27 A 1	4.450% to 4.625%	2017	394	460
Federation of Canadian Municipalities – Wastewater/stormwater				
Debenture GMIF 1599	1.330% to 3.127%	2014	13,000	14,000
			<u>146,600</u>	<u>159,871</u>
Less: debt issue costs			<u>428</u>	<u>481</u>
			<u>146,172</u>	<u>159,390</u>
Less: amount payable within one year			<u>13,109</u>	<u>13,272</u>
			<u>\$ 133,063</u>	<u>\$ 146,118</u>

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

2013	\$	13,109
2014	\$	13,186
2015	\$	13,349
2016	\$	13,398
2017	\$	13,428

Halifax Regional Water Commission

Schedule of operations for water service

Schedule C

Year ended March 31, 2012
(in thousands)

	2012		2011
	Budget (Unaudited)	Actual	Actual
Operating revenues			
Water service	\$ 30,393	\$ 30,562	\$ 30,719
Fire protection	9,502	9,502	9,502
Private fire protection services	369	366	362
Other operating revenue			
Bulk water stations	289	264	278
Customer late payment fees	129	206	146
Miscellaneous	114	155	183
	<u>40,796</u>	<u>41,055</u>	<u>41,190</u>
Operating expenditures			
Water supply and treatment	6,800	6,598	6,286
Water transmission and distribution	8,768	7,834	7,928
Engineering and information services	3,131	2,958	2,827
Environmental services	655	628	507
Customer service	1,809	1,696	1,696
Administration and pension	3,361	3,628	3,327
Depreciation	6,510	6,458	6,263
	<u>31,034</u>	<u>29,800</u>	<u>28,834</u>
Operating profit	<u>9,762</u>	<u>11,255</u>	<u>12,356</u>
Financial and other revenues			
Interest	240	201	273
Other	170	106	208
	<u>410</u>	<u>307</u>	<u>481</u>
Financial and other expenditures			
Interest on long term debt	2,527	2,472	2,806
Repayment of long term debt	5,132	4,904	4,925
Amortization of debt discount	55	51	58
Grant in lieu of taxes	3,882	3,944	3,749
	<u>11,596</u>	<u>11,371</u>	<u>11,538</u>
Excess of (expenditures over revenues) revenues over expenditures	<u>\$ (1,424)</u>	<u>\$ 191</u>	<u>\$ 1,299</u>

Halifax Regional Water Commission
**Schedule of operations for wastewater/
stormwater services**

Schedule D

Year ended March 31, 2012
(in thousands)

	2012		2011
	<u>Budget</u> (Unaudited)	<u>Actual</u>	<u>Actual</u>
Operating revenues			
Wastewater/stormwater services	\$ 53,760	\$ 54,383	\$ 45,532
Other operating revenue			
Leachate and other contract revenue	878	807	556
Septage tipping fees	400	747	552
Overstrength surcharge	240	165	232
Customer late payment fees	221	141	119
Miscellaneous	184	177	176
	<u>55,683</u>	<u>56,420</u>	<u>47,167</u>
Operating expenditures			
Wastewater/stormwater collection	15,307	15,008	13,562
Wastewater treatment	18,289	16,380	17,139
Engineering and information services	3,044	2,855	2,762
Environmental services	1,772	1,662	1,607
Customer service	1,742	1,634	1,633
Administration and pension	3,232	3,493	3,209
Depreciation	5,572	4,889	2,602
	<u>48,958</u>	<u>45,921</u>	<u>42,514</u>
Operating profit	<u>6,725</u>	<u>10,499</u>	<u>4,653</u>
Financial and other revenues			
Interest	240	201	272
Other	2,024	2,087	2,071
	<u>2,264</u>	<u>2,288</u>	<u>2,343</u>
Financial and other expenditures			
Interest on long term debt	5,587	5,593	6,056
Repayment of long term debt	8,013	8,120	8,193
Amortization of debt discount	3	13	12
	<u>13,603</u>	<u>13,726</u>	<u>14,261</u>
Excess of expenditures over revenues	\$ <u>(4,614)</u>	\$ <u>(939)</u>	\$ <u>(7,265)</u>

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

Schedule E

Year ended March 31, 2012
(in thousands)

	2012		2011
	<u>Budget</u> (Unaudited)	<u>Actual</u>	<u>Actual</u>
Operating revenues			
Metered sales	\$ 524	\$ 537	\$ 503
Fire protection	142	142	142
Customer late payment charges	-	1	1
Miscellaneous	5	5	5
	<u>671</u>	<u>685</u>	<u>651</u>
Operating expenditures			
Water supply and treatment	693	563	537
Water transmission and distribution	117	94	103
Depreciation	44	42	42
	<u>854</u>	<u>699</u>	<u>682</u>
Operating loss	<u>(183)</u>	<u>(14)</u>	<u>(31)</u>
Financial and other expenditures			
Interest on long term debt	-	24	23
Repayment of long term debt	-	29	27
	<u>-</u>	<u>53</u>	<u>50</u>
Excess of expenditures over revenues	<u>\$ (183)</u>	<u>\$ (67)</u>	<u>\$ (81)</u>

Halifax Regional Water Commission

Schedule E

Airport Aerotech system

Schedule of operations for wastewater service

Year ended March 31, 2012

(in thousands)

	2012		2011
	Budget (Unaudited)	Actual	Actual
Operating revenues			
Metered sales	\$ 514	\$ 528	\$ 501
Dewatering	100	98	98
Airplane sewage	40	40	34
Area charges	35	-	38
Customer late payment charges	1	1	1
	<u>690</u>	<u>667</u>	<u>672</u>
Operating expenditures			
Wastewater treatment	641	733	696
Wastewater/stormwater collection	99	62	89
Depreciation	-	26	17
	<u>740</u>	<u>821</u>	<u>802</u>
Operating loss	<u>(50)</u>	<u>(154)</u>	<u>(130)</u>
Financial and other expenditures			
Interest on long term debt	-	11	11
Repayment of long term debt	-	13	13
	<u>-</u>	<u>24</u>	<u>24</u>
Excess of expenditures over revenues	<u>\$ (50)</u>	<u>\$ (178)</u>	<u>\$ (154)</u>
Excess of expenditures over revenues for water and wastewater combined	<u>\$ (233)</u>	<u>\$ (245)</u>	<u>\$ (235)</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 F

Year ended March 31, 2012
(in thousands)

	2012		2011
	Budget (Unaudited)	Actual	Actual
Operating revenues			
Water service	\$ 30,393	\$ 30,562	\$ 30,719
Wastewater/stormwater services	53,760	54,383	45,532
Public fire protection	9,502	9,502	9,502
Private fire protection services	369	366	362
Airport Aerotech system	1,221	1,214	1,191
Other operating revenue	1,177	1,070	1,114
	<u>96,422</u>	<u>97,097</u>	<u>88,420</u>
Operating expenditures			
Water supply and treatment	6,789	6,584	6,258
Water transmission and distribution	8,768	7,834	7,928
Wastewater/stormwater collection	15,307	15,008	13,562
Wastewater treatment	17,623	15,716	16,062
Environmental services	2,427	2,290	2,114
Engineering and information services	6,175	5,813	5,589
Customer service	3,551	3,330	3,329
Administration and pension	6,593	7,121	6,536
Airport Aerotech system	1,594	1,520	1,484
Depreciation	12,082	11,347	8,865
	<u>80,909</u>	<u>76,563</u>	<u>71,727</u>
Financial and other revenues			
Interest	480	402	545
Other	2,080	2,044	2,077
	<u>2,560</u>	<u>2,446</u>	<u>2,622</u>
Financial and other expenditures			
Interest on long term debt	8,114	8,100	8,896
Repayment of long term debt	13,145	13,066	13,158
Amortization of debt discount	58	64	70
Grant in lieu of taxes	3,882	3,944	3,749
	<u>25,199</u>	<u>25,174</u>	<u>25,873</u>
Excess of expenditures over revenues	\$ (7,126)	\$ (2,194)	\$ (6,558)

Halifax Regional Water Commission
Schedule of unregulated activities

Schedule F

Year ended March 31, 2012
(in thousands)

	2012		2011
	<u>Budget</u> (Unaudited)	<u>Actual</u>	<u>Actual</u>
Operating revenues			
Dewatering	\$ 100	\$ 98	\$ 98
Airplane sewage	40	40	34
Leachate treatment & contract revenue	878	807	556
Septage tipping fees	400	747	552
Other operating revenue	-	38	20
	<u>1,418</u>	<u>1,730</u>	<u>1,260</u>
Operating expenditures			
Water supply and treatment	11	14	28
Wastewater treatment	666	664	1,077
	<u>677</u>	<u>678</u>	<u>1,105</u>
Financial and other revenues			
Other	114	149	202
Excess of revenues over expenditures	<u>\$ 855</u>	<u>\$ 1,201</u>	<u>\$ 357</u>