HALIFAX

P.O. Box 1749
Halifax, Nova Scotia
B3J 3A5 Canada

Item No. 14.3.3
Halifax Regional Council
July 31, 2018

TO: Mayor Savage and Members of Halifax Regional Council

Original Signed

SUBMITTED BY: ____
Councillor Bill Karsten, Chair, Audit & Finance Standing Committee

DATE: July 19, 2018

SUBJECT: Year End Financial Statements

ORIGIN

July 18, 2018 meeting of the Audit & Finance Standing Committee, Item No. 12.1.1.

LEGISLATIVE AUTHORITY

Audit & Finance Standing Committee Terms of Reference section 3. (c) which states:
'3. The Audit and Finance Standing Committee shall:
c) review with management and the External Auditor and recommend to the Council for approval, the annual audited financial statements'

RECOMMENDATION

That Halifax Regional Council approve:
1. The Consolidated Financial Statements of the Halifax Regional Municipality for the year ended March 31, 2018;
2. The Statement of General Rate Surplus of the Halifax Regional Municipality for the year ended March 31, 2018;
3. Transfers of $17,260,060, as outlined below, to reduce the general rate surplus to zero:

- Police Officer on the Job Injury Reserve, Q411 $ 100,000
- Multi-District Facilities Reserve, Q546 $ 5,370,000
- Convention Centre Reserve, Q521 $ 2,000,000
- General Contingency Reserve, Q421 $ 9,790,060

4. The financial statements of the Halifax Regional Municipality Miscellaneous Trust Funds for the year ended March 31, 2018; and,
5. The appointment of KPMG to be the External Auditors for the fiscal year ended March 31, 2019.

BACKGROUND

A staff report dated June 26, 2018 pertaining to the year end financial statements was before the Audit & Finance Standing Committee for consideration at its meeting held on July 18, 2018.

For further information, please refer to the attached staff report dated June 26, 2018.

DISCUSSION

The Audit & Finance Standing Committee considered the June 26, 2018 staff report and forwarded the recommendation to Halifax Regional Council as outlined in this report.

FINANCIAL IMPLICATIONS

Financial implications are addressed in the attached staff report dated June 26, 2018.

RISK CONSIDERATION

Not applicable.

COMMUNITY ENGAGEMENT

The Audit & Finance Standing Committee meetings are open to public attendance, a live webcast is provided of the meeting, and members of the public are invited to address the Committee for up to five minutes at the end of each meeting during the Public Participation portion of the meeting. The agenda, reports, minutes, and meeting video of the Audit & Finance Standing Committee are posted on Halifax.ca.

ENVIRONMENTAL IMPLICATIONS

Not applicable.

ALTERNATIVES

The Audit & Finance Standing Committee did not discuss alternative recommendations.

ATTACHMENTS

Staff report dated June 26, 2018.

A copy of this report can be obtained online at halifax.ca or by contacting the Office of the Municipal Clerk at 902.490.4210.

Report Prepared by: Krista Vining, Legislative Assistant, Office of the Municipal Clerk, 902.490.6520

HALIFAX

P.O. Box 1749
Halifax, Nova Scotia
B3J 3A5 Canada

Item No. 12.1.1
Audit & Finance Standing Committee
July 18, 2018

TO: Chair and Members of Audit & Finance Standing Committee

Original Signed

SUBMITTED BY:

Jerry Blackwood, Acting Director, Finance & Asset Management/CFO

Original Signed

Jacques Dubé, Chief Administrative Officer

DATE: June 26, 2018

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 September 30th in each year.

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 & 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".

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 & 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, 2018;
2) The Statement of General Rate Surplus of the Halifax Regional Municipality for the year ended March 31, 2018;
3) Transfers of $17,260,060, as outlined below, to reduce the general rate surplus to zero:
   - Police Officer on the Job Injury Reserve, Q411 $ 100,000
   - Multi-District Facilities Reserve, Q546 $ 5,370,000
   - Convention Centre Reserve, Q521 $ 2,000,000
   - General Contingency Reserve, Q421 $ 9,790,060
4) The financial statements of the Halifax Regional Municipality Miscellaneous Trust Funds for the year ended March 31, 2018; and,
5) The appointment of KPMG to be the External Auditors for the fiscal year ended March 31, 2019.

BACKGROUND

The Statement of General Rate Surplus outlines the total 2017/18 surplus and planned transfers of the surplus to various reserves to bring our general rate surplus to zero.

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 $100,000 be placed into the reserve for March 31, 2018.

The Multi-District Facilities Reserve, Q546 was projecting a negative balance. Each year, the Scotiabank Centre contributes the revenue from the naming rights and their annual surplus to the reserve. The Reserve then funds renovations through the capital project. Due to the ongoing capital project costs being higher than anticipated contributions, a transfer from HRM's operating surplus of $5,370,000 is being requested, to fund the anticipated deficit of the reserve for fiscal 2018/19 and 2019/20.

On April 10, 2018, Regional Council approved, following a recommendation report (attachment 5), that HRM make payment of up to 50% of Halifax Convention Centre costs incurred prior to substantial completion of the facility from the 2017-18 projected surplus. As ongoing operating costs for the Halifax Convention Centre are expected to outpace revenues, with HRM responsible for 50% of the deficits, a transfer of $2,000,000 to the reserve is being requested.

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, 2018.

Net available balance, March 31, 2018	$1,105,703
Transfer into reserve of year-end surplus	$9,790,060
Revised net available balance, March 31, 2018	$10,895,763

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 2018. The proposal covered the fiscal years from 2017/18 to 2021/22. KPMG has completed the audit of the 2017/18 Consolidated Financial Statements, Miscellaneous Trust Funds, and General Rate Surplus in accordance with the requirements of the RFP.

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 Halifax Regional Municipality for the Year ended March 31, 2018.
2. General Rate Surplus of the Halifax Regional Municipality for the Year ended March 31, 2018.
3. Financial Statements of the Halifax Regional Municipality Miscellaneous Trust Funds for the Year ended March 31, 2018.
4. HRM Audit Findings Report – KPMG
5. Staff Report Dated March 21, 2018 - Payments for Halifax Convention Centre and Reserve Update

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A copy of this report can be obtained online at halifax.ca or by contacting the Office of the Municipal Clerk at 902.490.4210.

Report Prepared by: Louis de Montbrun, Manager, Financial Reporting, Finance & Asset Management, 902.476.0585 & Dave Harley, Senior Financial Consultant, 902.490.4260

Consolidated Financial Statements of the

HALIFAX REGIONAL MUNICIPALITY

Year ended March 31, 2018

HALIFAX REGIONAL MUNICIPALITY

Consolidated Financial Statements

Year ended March 31, 2018

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HALIFAX REGIONAL MUNICIPALITY

Consolidated Financial Statements

Year ended March 31, 2018

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	Jerry Blackwood, CPA, CGA
Chief Administrative Officer	A/Director, Chief Financial Officer
	Finance and Asset Management

Independent Auditors' Report

HALIFAX REGIONAL MUNICIPALITY

Consolidated Statement of Financial Position

March 31, 2018, with comparative information for 2017
(In thousands of dollars)

	2018	2017
Financial assets		
Cash and short-term deposits (note 2)	$ 187,292	$ 235,331
Taxes receivable (note 3)	31,116	29,768
Accounts receivable (note 4)	53,669	36,964
Loans, deposits and advances	690	563
Land held for resale	54,541	51,819
Investments (note 5)	75,802	65,006
Investment in the Halifax Regional Water Commission (note 6)	167,662	147,629
	570,772	567,080
Financial liabilities		
Accounts payable and accrued liabilities (note 7)	106,900	106,767
Deferred revenue	59,001	62,667
Employee future benefits (note 9)	58,204	55,503
Solid waste management facilities liabilities (note 10)	3,184	11,159
Long-term debt (note 11)	180,062	196,587
	407,351	432,683
Net financial assets	163,421	134,397
Non-financial assets		
Tangible capital assets (note 14)	1,864,541	1,810,563
Inventory and prepaid expenses	12,300	13,235
	1,876,841	1,823,798
Accumulated surplus (note 15)	$ 2,040,262	$ 1,958,195

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, 2018, with comparative information for 2017
(In thousands of dollars)

	Budget	2018	2017
Revenue			
Taxation	$ 731,185	$ 736,207	$ 710,941
Taxation from other governments	39,649	38,569	38,336
User fees and charges	107,584	113,648	112,698
Government grants	73,306	74,824	43,953
Development levies	2,584	4,039	2,461
Investment income (note 5)	3,860	4,670	3,519
Penalties, fines and interest	14,730	11,647	12,319
Land sales, contributions and other revenue	26,445	27,243	35,444
Increase in investment in the Halifax Regional Water Commission before remeasurement gain (loss) (note 6)	21,800	21,783	23,216
Grant in lieu of tax from the Halifax Regional Water Commission (note 6)	4,827	4,774	4,578
Total revenue	1,025,970	1,037,404	987,465
Expenses			
General government services	121,448	110,887	96,940
Protective services	217,254	220,608	212,419
Transportation services	271,372	271,770	272,703
Environmental services	42,888	41,076	41,279
Recreation and cultural services	136,188	131,611	127,550
Planning and development services	29,450	26,249	25,062
Educational services	151,454	151,386	148,281
Total expenses	970,054	953,587	924,234
Annual surplus	55,916	83,817	63,231
Accumulated surplus, beginning of year	1,958,195	1,958,195	1,894,221
Remeasurement gain (loss) from investment in Halifax Regional Water Commission (note 6)	-	(1,750)	743
Accumulated surplus, end of year	$ 2,014,111	$ 2,040,262	$ 1,958,195

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, 2018, with comparative information for 2017
(In thousands of dollars)

	Budget	2018	2017
Annual surplus	$ 55,916	$ 83,817	$ 63,231
Acquisition of tangible capital assets and contributed tangible capital assets	(181,203)	(191,834)	(150,457)
Amortization of tangible capital assets	137,664	137,664	129,072
Loss (gain) on disposal of tangible capital assets	-	106	(105)
Proceeds on disposal of tangible capital assets	-	86	787
	12,377	29,839	42,528
Acquisition of inventories of supplies and prepaid expenses	-	(37,176)	(34,573)
Consumption of inventories of supplies and use of prepaid expenses	-	38,111	33,585
Remeasurement gain (loss) from investment in Halifax Regional Water Commission (note 6)	-	(1,750)	743
	-	(815)	(245)
Net change in net financial assets	12,377	29,024	42,283
Net financial assets, beginning of year	134,397	134,397	92,114
Net financial assets, end of year	$ 146,774	$ 163,421	$ 134,397

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, 2018, with comparative information for 2017
(In thousands of dollars)

	2018	2017
Cash provided by (used in):		
Operating activities		
Annual surplus	$ 83,817	$ 63,231
Items not involving cash:		
Amortization of tangible capital assets	137,664	129,072
Loss (gain) on disposal of tangible capital assets	106	(105)
Contributed tangible capital assets	(15,949)	(14,093)
Increase in investment in the Halifax Regional Water Commission before remeasurement gain (loss)	(21,783)	(23,216)
	183,855	154,889
Change in non-cash assets and liabilities:		
Decrease (increase) in taxes receivable	(1,348)	4,006
Decrease (increase) in accounts receivable	(16,705)	8,278
Decrease (increase) in loans, deposits and advances	(127)	82
Increase in land held for resale	(2,722)	(2,215)
Decrease (increase) in inventory and prepaid expenses	935	(988)
Increase (decrease) in accounts payable and accrued liabilities	133	(5,312)
Increase (decrease) in deferred revenue	(3,666)	5,141
Increase in employee future benefits	2,701	1,608
Decrease in solid waste management facilities liabilities	(7,975)	(824)
Net change in cash from operating activities	155,081	164,665
Capital activities		
Proceeds on disposal of tangible capital assets	86	787
Acquisition of tangible capital assets	(175,885)	(136,364)
Net change in cash from capital activities	(175,799)	(135,577)
Investing activities		
Increase in investments	(10,796)	(9,437)
Net change in cash from investing activities	(10,796)	(9,437)
Financing activities		
Long-term debt issued	19,351	19,500
Long-term debt redeemed	(42,442)	(43,810)
Net debt recovered from the Halifax Regional Water Commission	6,566	6,696
Net change in cash from financing activities	(16,525)	(17,614)
Net change in cash and short-term deposits	(48,039)	2,037
Cash and short-term deposits, beginning of year	235,331	233,294
Cash and short-term deposits, end of year	$ 187,292	$ 235,331

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

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 and Events East Group (Halifax Convention Centre Corporation), a corporation jointly owned and controlled between the Province of Nova Scotia and the Municipality, which is accounted for at 50% based on the proportionate consolidation 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 4-Pad
- 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
- Events East Group (Halifax Convention Centre Corporation)
- 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.

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.

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, 2018
(In thousands of dollars)

1. Significant accounting policies (continued):

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

Asset	**Useful Life – Years**
Land improvements	
Bridges, docks, seawalls, and wharves	50
Sports fields and skateparks	25
Playground and other land improvements	15
Trails	10
Buildings and building improvements	
Structure and electrical	40
Mechanical, roof, exterior architecture, and site work	20
Interior architecture	15
Vehicles	5 - 15
Machinery and equipment	4 - 10
Dams	40
Roads and infrastructure	
Road beds	40
Road surfaces	5 - 20
Infrastructure	20 - 30
Bridges	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.

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.

(In thousands of dollars)

1. Significant accounting policies (continued):

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.

(p) Inventories of supplies:
Inventories of supplies held for consumption are recorded at the lower of cost or replacement cost.

(q) Expenses:
Expenses are recognized in the year the events giving rise to the expenses occur 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:

	2018	2017
Halifax Regional Municipality	$ 178,356	$ 228,366
Recreation facilities, commissions, cultural and other facilities and the Halifax Regional Library	8,936	6,965
Total	$ 187,292	$ 235,331

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

3. Taxes receivable:

	2018	2017
Taxes receivable	$ 34,829	$ 34,704
Allowance	(3,713)	(4,936)
Total	$ 31,116	$ 29,768

(In thousands of dollars)

4. Accounts receivable:

	2018	2017
Federal government	$ 32,023	$ 24,284
Provincial government	9,298	7,935
Other receivables	23,888	18,970
Allowance	(11,540)	(14,225)
Total	$ 53,669	$ 36,964

5. Investments:

Money market instruments include Provincial treasury bills 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, 2018.

Bonds of Provincial governments and their guarantees have a maturity range from June 15, 2018 to December 18, 2018. The weighted average yield on market value of these bonds is 2.20% at March 31, 2018 (2017 - 0.81%).

	Cost	2018 Market value	Cost	2017 Market value
Money market instruments	$ 65,782	$ 66,056	$ 52,989	$ 53,001
Bonds of Provincial governments and their guarantees	10,020	10,050	12,017	12,214
Total	$ 75,802	$ 76,106	$ 65,006	$ 65,215

The investment income earned on money market instruments is $4,429 (2017 - $3,266) and on bonds of Federal and Provincial governments and their guarantees is $241 (2017 - $253).

(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").

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

	2018	2017
Financial position		
Current assets	$ 93,333	$ 90,706
Capital assets	1,242,055	1,186,221
Total assets	1,335,388	1,276,927
Current liabilities	63,989	54,721
Long-term liabilities	1,103,737	1,074,577
Total liabilities	1,167,726	1,129,298
Net assets	$ 167,662	$ 147,629
Results of operations		
Revenues	$ 138,145	$ 137,997
Operating expenses	(124,815)	(122,173)
Financing expenses	(8,086)	(8,674)
Other income	21,505	20,836
Regulatory deferral account amortization	(192)	(192)
Net income before grant in lieu of tax	26,557	27,794
Grant in lieu of tax	(4,774)	(4,578)
Increase in investment before remeasurement gain (loss)	21,783	23,216
Investment, beginning of year	147,629	123,670
Change in investment through remeasurement gain (loss)	(1,750)	743
Investment, end of year	$ 167,662	$ 147,629

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

	2018	2017
Revenues		
Grant in lieu of tax	$ 4,774	$ 4,578
Expenses		
Stormwater charge	$ 3,847	$ 3,881
Fire protection charge	7,243	7,181

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.

(In thousands of dollars)

7. Accounts payable and accrued liabilities:

	2018	2017
Trade accounts payable	$ 44,483	$ 38,827
Federal government	9,256	4,612
Provincial government	10,677	5,615
Salaries and wages payable	5,828	16
Accrued liabilities	34,709	55,527
Accrued interest	1,947	2,170
Total	$ 106,900	$ 106,767

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"). There are thirteen employers participating in the HRM Plan including 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 $35,516 for the year ending March 31, 2018 (2017 - $31,615). 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, 2016. The next actuarial valuation, at December 31, 2017, is to be filed by September 30, 2018. The interest rate used in the last filed valuation was 6.40% per year. The following estimates as at December 31, 2017 are based on the actuarial valuation as at December 31, 2016 extrapolated to December 31, 2017 and is based on a best estimate discount rate assumption of 6.40% per annum (2016 - 7.25%).

	2018 Extrapolated	2017 Extrapolated
Actuarial value of plan assets	$ 1,765,561	$ 1,621,183
Estimated present value of accrued pension benefits	(1,880,173)	(1,607,539)
Estimated funding surplus (deficit)	$ (114,612)	$ 13,644

(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, 2018. 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:

	2018	2017
Accrued benefit obligation, beginning of year	$ 64,613	$ 62,219
Current period benefit cost	5,098	4,543
Benefit payments	(5,299)	(5,802)
Interest cost	1,683	1,780
Actuarial loss (gain)	(6,235)	1,873
Accrued benefit obligation, end of year	$ 59,860	$ 64,613
Main assumptions used for fiscal year-end disclosure		
Discount rate	2.51%	2.51%
Salary increase	3% plus merit	3% plus merit
Main assumptions used for expense calculation		
Discount rate	2.84%	2.89%
Salary increase	3% plus merit	3% plus merit

(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, 2018 is estimated to include the following components:

	2018	2017
Accrued benefit obligation		
Retiring allowances	$ 32,815	$ 32,456
Sick leave	14,571	18,308
HRM pension contributions for employees on long-term disability	4,771	5,230
Police Health Trust	2,318	2,148
Other	5,385	6,471
	59,860	64,613
Unamortized actuarial loss	(1,656)	(9,110)
Benefit liability	$ 58,204	$ 55,503

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:

	2018	2017
Current period benefit cost	$ 5,098	$ 4,543
Amortization of actuarial loss	1,219	1,088
Other employee benefit expense	6,317	5,631
Other employee benefit interest expense	1,683	1,780
Total expense related to other employee benefit plans	$ 8,000	$ 7,411

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 post closure costs discounted using a long-term borrowing rate of 2.84% (2017 - 2.16%) and a forecasted inflation rate of 2.16% (2017 - 2.05%).

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 waste for another 18 years, until the fiscal year ended March 31, 2036.

The site's design consists of nine cell phases with an expected total capacity of 5,158,956 tonnes (2017 - 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. The Municipality has signed a long-term contract with a third party to operate the Otter Lake Landfill. Under the terms of the operating agreement, the third party is responsible for the capital cost to close Cell 7. The long-term post closure costs remain a liability of the Municipality.

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.

(In thousands of dollars)

10. Solid waste management facilities liabilities (continued):

	Sackville	Otter Lake	Mengoni	2018 Total
Estimated present value of closure and post closure costs	$ 19,196	$ 36,046	$ 2,494	$ 57,736
Less: expenses incurred	18,028	34,195	2,329	54,552
	1,168	1,851	165	3,184
Reserve fund				8,583
Excess of available reserves over liability				$ (5,399)

	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)

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, 2018 are as follows:

2019	$ 34,968
2020	29,829
2021	31,691
2022	19,721
2023	17,295
Thereafter	46,558
	$ 180,062

(In thousands of dollars)

12. Miscellaneous Trust Funds:

Miscellaneous Trust Funds administered by the Municipality are reported on separately. The total trust assets under administration at March 31, 2018 are $7,409 (2017 - $7,169).

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:

2019	$	6,281
2020		5,096
2021		4,224
2022		2,146
2023		1,883
Total	$	19,630

(b) The Municipality and its consolidated entities have 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:

2019	$	6,623
2020		5,326
2021		4,495
2022		4,322
2023		3,537
Total	$	24,303

(c) The Municipality has entered into several long-term contracts for waste resources operations with aggregate annual payments of approximately $41,455 (2017 - $38,253) for each of the next five years.

(d) The Province of Nova Scotia has a 25 year lease agreement with Argyle Developments Inc. and others for a design construction agreement for the new Halifax Convention Centre (HCC). The Municipality is not a party to that lease but, under a separate agreement with the Province of Nova Scotia, has agreed to share 50% of the "Annual Base Rent". The Annual Base Rent covers the long-term financing for the facility and is $10,760 per year. The Municipality's share is $5,380. The Municipality has also agreed to share in 50% of the facility maintenance costs, property tax, operating costs, lifecycle costs and the annual operating deficit.

(In thousands of dollars)

14. Tangible capital assets:

Cost	Balance at March 31, 2017	Additions (Net of Transfers)	Disposals	Balance at March 31, 2018
Land	$ 280,069	$ 5,941	$ (22)	$ 285,988
Land improvements	257,943	9,635	-	267,578
Buildings	553,779	53,001	-	606,780
Vehicles	233,627	28,170	(1,377)	260,420
Machinery and equipment	95,208	13,964	(5,251)	103,921
Roads and infrastructure	1,907,547	77,771	(6,335)	1,978,983
Dams	480	-	-	480
Ferries	32,643	6,566	-	39,209
Leasehold improvements	3,030	-	-	3,030
Assets under construction	46,802	(3,214)	-	43,588
Total	$ 3,411,128	$ 191,834	$ (12,985)	$ 3,589,977

Accumulated amortization	Balance at March 31, 2017	Disposals	Amortization Expense	Balance at March 31, 2018
Land	$ -	$ -	$ -	$ -
Land improvements	191,486	-	4,569	196,055
Buildings	246,805	-	20,409	267,214
Vehicles	144,239	(1,207)	14,165	157,197
Machinery and equipment	35,095	(5,251)	17,782	47,626
Roads and infrastructure	965,096	(6,335)	79,116	1,037,877
Dams	480	-	-	480
Ferries	15,911	-	1,451	17,362
Leasehold improvements	1,453	-	172	1,625
Assets under construction	-	-	-	-
Total	$ 1,600,565	$ (12,793)	$ 137,664	$ 1,725,436

	Net book value March 31, 2017	Net book value March 31, 2018
Land	$ 280,069	$ 285,988
Land improvements	66,457	71,523
Buildings	306,974	339,566
Vehicles	89,388	103,223
Machinery and equipment	60,113	56,295
Roads and infrastructure	942,451	941,106
Dams	-	-
Ferries	16,732	21,847
Leasehold improvements	1,577	1,405
Assets under construction	46,802	43,588
Total	$ 1,810,563	$ 1,864,541

(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

14. Tangible capital assets (continued):

(a) Assets under construction:
Assets under construction having a value of $43,588 (2017 - $46,802) 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 $15,949 (2017 - $14,093) and is comprised of roads and infrastructure in the amount of $15,931 (2017 - $13,775), and land and land improvements having a value of $18 (2017 - $318).

(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 $nil (2017 - $115).

(f) Roads and infrastructure:
Roads and infrastructure have a net book value of $941,106 (2017 - $942,451) and are comprised of: road beds - $271,049 (2017 - $277,376), road surfaces - $287,615 (2017 - $299,667), infrastructure - $368,459 (2017 - $351,122) and bridges - $13,983 (2017 - $14,286).

(g) Buildings:
Buildings have a net book value of $339,566 (2017 - $306,974) and are comprised of: structure and electrical - $120,320 (2017 - $106,069), mechanical, roof, exterior architecture, and site work - $172,315 (2017 - $156,606), and interior architecture - $46,931 (2017 - $44,299).

(h) Land Improvements:
Land improvements have a net book value of $71,523 (2017 - $66,457) and are comprised of: bridges, docks, seawalls, and wharves - $18,081 (2017 - $17,157), sports fields and skateparks - $22,359 (2017 - $21,558), playground and other land improvements - $26,161 (2017 - $22,399), and trails - $4,922 (2017 - $5,343).

(In thousands of dollars)

15. Accumulated surplus:

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

	2018	2017
Surplus		
Invested in tangible capital assets	$ 1,684,479	$ 1,613,976
Other	9,124	21,626
Equity in Halifax Regional Water Commission (note 6)	167,662	147,629
Funded by reserves		
Landfill closure costs	(3,184)	(11,159)
Unfunded		
Employee future benefits, accrued interest and other	(17,364)	(17,160)
Total surplus	1,840,717	1,754,912
Risk reserves set aside by Council		
Insurance and risk	4,089	4,034
Police officer on the job injury	2,102	1,950
Operating stabilization	8,875	8,988
General contingency	12,233	2,463
Total risk reserves set aside by Council	27,299	17,435
Obligation reserves set aside by Council		
Landfill closure and post closure costs	8,583	15,960
Municipal election	1,073	646
Convention centre	7,633	4,198
Capital fund	14,756	12,335
Fleet vehicles and equipment	2,375	2,217
Central Library recapitalization	3,382	2,491
Building recapitalization and replacement	4,196	3,952
Multi-District facilities	7,252	3,728
Transit capital	4,858	9,376
Solid waste facilities	14,724	13,573
Total obligation reserves set aside by Council	68,832	68,476
Opportunity reserves set aside by Council		
Strategic capital	20,738	48,520
Parkland development	3,805	4,960
Business/Industrial parks expansion	33,571	31,422
Community and events	4,825	2,772
Gas tax	9,077	12,694
Debt principal and interest repayment	31,398	17,004
Total opportunity reserves set aside by Council	103,414	117,372
Total accumulated surplus	$ 2,040,262	$ 1,958,195

16. Contingent liabilities:

(a) As of March 31, 2018, there are a number of legal 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 with the exception of the following:

   i) The Municipality has been named as a defendant in a legal action claiming damages in the amount of $120,000,000. As this proceeding is at an early stage, it is not possible at this time for management to determine the likelihood of loss, or the timing of resolution of the matter. Accordingly, no provision for losses has been reflected in the accounts of the Municipality for this

(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 proceedings.

(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 21.5% at March 31, 2018 (2017 - 21.6%). As at March 31, 2018, total outstanding debt is $214,413 (2017 - $226,002), with maturity dates ranging from 2017 to 2026. The Municipality is responsible for outstanding debt of $45,500 (2017 - $52,066) 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.

(In thousands of dollars)

18. Amounts contributed for provincially mandated services:

	Budget	2018	2017
School boards	$ 151,454	$ 151,386	$ 148,281
Assessment services	6,893	6,893	6,903
Social housing	3,525	3,518	3,425
Correctional services	6,685	6,685	6,647
Total	$ 168,557	$ 168,482	$ 165,256

(a) School boards:

The Municipality is required to provide a mandatory contribution in the amount of $135,490 (2017 - $131,935) and supplementary contributions of $15,896 (2017 - $16,346) 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.

(In thousands of dollars)

19. Budget data:

The budget data presented in these consolidated financial statements is based upon the fiscal 2017/18 operating and capital budgets approved by Council on April 11, 2017, 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 2017/18 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.

	2018	2017
Revenue		
Operating budget	$ 895,735	$ 872,838
Capital budget	187,269	197,934
	1,083,004	1,070,772
Less:		
Miscellaneous capital funding	(5,000)	(669)
Principal and interest recovery from Halifax Regional Water Commission	(9,164)	(9,622)
Tax concessions	(5,995)	(5,655)
Transfers from reserves to capital	(49,800)	(72,040)
Transfers from operating to capital	(36,900)	(42,690)
Long-term debt issued	(32,765)	(50,085)
	(139,624)	(180,761)
Add:		
Revenues from agencies, boards and commissions	28,344	30,900
Restricted area rate surpluses	3,331	2,312
Proceeds from sale of assets deposited to reserves	8,005	13,850
Interest on reserves	2,120	1,618
Development levies in reserves	1,250	1,450
Other reserve revenue	2,409	2,372
Tangible capital asset related adjustments	15,331	10,863
Increase in investment of the Halifax Regional Water Commission before remeasurement gain (loss)	21,800	23,200
	82,590	86,565
Total revenue	$ 1,025,970	$ 976,576

(In thousands of dollars)

19. Budget data (continued):

	2018	2017
Expenses		
Operating budget	$ 895,735	$ 872,838
Less:		
Tax concessions	(5,995)	(5,655)
Transfers from operating to capital	(36,900)	(42,690)
Transfers from operating to reserves	(25,008)	(22,066)
Change in solid waste management facilities liabilities	(7,975)	(824)
Principal and interest payments made on behalf of Halifax Regional Water Commission	(9,164)	(9,622)
Long-term debt redeemed	(35,792)	(37,244)
	(120,834)	(118,101)
Add:		
Expenses from agencies, boards and commissions	31,590	30,953
Cost of lots sold in business parks	1,338	2,891
Application of restricted area rate surpluses	3,331	2,312
Tangible capital assets adjustments including amortization	158,894	148,315
	195,153	184,471
Total expenses	970,054	939,208
Annual surplus	$ 55,916	$ 37,368

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, diversity, inclusion, legal, municipal clerk, external services; office of the Auditor General, finance, asset management, information, communications, technology, and the office of the Chief Administrative Officer.

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 Officer

Year ended March 31, 2018
(In thousands of dollars)

	2018	2017
Council members:		
M. Savage, Mayor	$ 177	$ 178
S. Adams	86	84
S. Austin	86	36
L. Blackburn	86	36
S. Cleary	86	36
S. Craig	91	87
B. Dalrymple	-	48
D. Hendsbee	86	84
B. Johns	-	48
B. Karsten	86	84
T. Mancini	86	84
W. Mason	89	84
G. McCluskey	-	48
L. Mosher	-	48
L. Nicoll	86	84
T. Outhit	86	84
R. Rankin	-	48
L. Smith	86	36
S. Streatch	86	36
R. Walker	86	84
J. Watts	-	48
M. Whitman	86	89
R. Zurawski	86	36
Chief Administrative Officer:		
J. Dubé	272	150
J. Traves (Acting)	-	86

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, 2018
(In thousands of dollars)

	Term (years)	Interest rate - %	Matures	Balance March 31, 2017	Issued	Redeemed	Balance March 31, 2018
Municipal Finance Corporation:							
24-HBR-1	20	2.84/5.94	2024	$ 44,000	$ -	$ 5,500	$ 38,500
05-B-1	15	3.63/4.83	2020	10,885	-	1,209	9,676
07-A-1	10	4.45/4.63	2017	1,957	-	1,957	-
07-B-1	10	4.65/5.01	2017	880	-	880	-
08-A-1	10	3.75/4.884	2018	5,300	-	2,650	2,650
08-B-1	10	3.1/5.095	2018	4,948	-	2,474	2,474
09-A-1	15	1.0/5.644	2024	21,786	-	4,396	17,390
09-B-1	10	0.97/4.329	2019	1,950	-	650	1,300
10-A-1	10	1.51/4.5	2020	8,160	-	2,040	6,120
10-B-1	10	1.55/3.87	2020	10,690	-	2,672	8,018
11-A-1	10	1.63/4.221	2021	6,625	-	1,325	5,300
11-B-1	10	1.219/3.645	2021	5,507	-	1,101	4,406
12-A-1	10	1.636/3.48	2022	8,880	-	1,480	7,400
12-B-1	10	1.51/3.16	2022	5,760	-	960	4,800
13-A-1	10	1.33/2.979	2023	16,520	-	2,360	14,160
13-B-1	10	1.285/3.614	2023	2,569	-	367	2,202
14-A-1	10	1.245/3.347	2024	17,500	-	2,187	15,313
14-B-1	10	1.20/3.19	2024	16,224	-	2,028	14,196
15-A-1	10	1.011/2.786	2025	24,300	-	2,700	21,600
15-B-1	10	1.040/2.894	2025	9,119	-	1,013	8,106
16-A-1	10	1.150/2.925	2026	19,500	-	1,950	17,550
17-A-1	10	1.20/2.653	2027	-	8,241	-	8,241
17-B-1	10	1.734/3.073	2027	-	11,110	-	11,110
				243,060	19,351	41,899	220,512
Federation of Canadian Municipalities:							
FCM	20	2.0	2032	3,200	-	200	3,000
GMIF12028	10	1.75	2025	2,287	-	254	2,033
Misc.:							
5% stock	Permanent	5.0	-	2	-	-	2
Sackville Landfill Trust:							
Acadia School	20	7.0	2018	104	-	89	15
				248,653	19,351	42,442	225,562
Less: Long-term debt recoverable from the Halifax Regional Water Commission:							
14-B-1	10	1.20/3.19	2024	(8,000)	-	(1,000)	(7,000)
24-HBR-1	20	2.84/5.94	2024	(44,000)	-	(5,500)	(38,500)
Other debt	1 to 4	2.55/6.875	2015/2017	(66)	-	(66)	-
				(52,066)	-	(6,566)	(45,500)
Long-term debt				$ 196,587	$ 19,351	$ 35,876	$ 180,062

HALIFAX REGIONAL MUNICIPALITY

Consolidated Schedule of Long-term Debt

Year ended March 31, 2018
(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
GMIF12028	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 Segment Disclosure

Year ended March 31, 2018
(In thousands of dollars)

	General Government Services	Protective Services	Transportation Services	Environmental Services	Recreation and Cultural Services	Planning and Development Services	Educational Services	2018 Total
Revenue								
Taxation	$ 497,883	$ 6,685	$ 80,253	$ -	$ -	$ -	$ 151,386	$ 736,207
Taxation from other governments	38,569	-	-	-	-	-	-	38,569
User fees and charges	7,314	13,037	39,432	5,196	42,419	6,250	-	113,648
Government grants	3,629	3,800	56,338	3,747	7,310	-	-	74,824
Development levies	-	-	1,334	982	1,723	-	-	4,039
Investment income	4,670	-	-	-		-	-	4,670
Penalties, fines and interest	5,859	5,503	-	-	285	-	-	11,647
Land sales, contributions and other revenue	6,194	102	14,912	-	975	5,060	-	27,243
Increase in investment in the Halifax Regional Water Commission before remeasurement gain (loss) (note 6)	21,783	-	-	-	-	-	-	21,783
Grant in lieu of tax from the Halifax Regional Water Commission	4,774	-	-	-	-	-	-	4,774
Total revenue	590,675	29,127	192,269	9,925	52,712	11,310	151,386	1,037,404
Expenses								
Salaries, wages and benefits	46,909	155,656	98,190	2,367	61,839	11,887	-	376,848
Interest on long-term debt	819	283	2,945	229	1,432	38	-	5,746
Materials, goods, supplies and utilities	14,938	6,083	21,625	84	12,823	260	-	55,813
Contracted services	9,995	30,006	33,297	35,381	13,109	1,285	-	123,073
Other operating expenses	5,998	17,620	16,642	343	27,191	3,570	-	71,364
External transfers and grants	11,477	6,881	4,104	-	65	9,166	151,386	183,079
Amortization	20,751	4,079	94,967	2,672	15,152	43	-	137,664
Total expenses	110,887	220,608	271,770	41,076	131,611	26,249	151,386	953,587
Annual surplus (deficit)	$ 479,788	$ (191,481)	$ (79,501)	$ (31,151)	$ (78,899)	$ (14,939)	$ -	$ 83,817

HALIFAX REGIONAL MUNICIPALITY

Consolidated Schedule of Segment Disclosure

Year ended March 31, 2018
(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	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

Statement of General Rate Surplus of the

HALIFAX REGIONAL MUNICIPALITY

Year ended March 31, 2018

INSERT AUDITORS' REPORT HERE

HALIFAX REGIONAL MUNICIPALITY

Statement of General Rate Surplus

For the year ended March 31, 2018, with comparative information for 2017
(In thousands of dollars)

	2018	2017
General rate surplus, before transfers	$ 17,260	$ 2,165
Transfers to reserves:		
Contribution to Police Officer On the Job Injury reserve	(100)	(80)
Contribution to Landfill Closure Costs reserve	-	(318)
Contribution to Operating Stabilization reserve	-	(374)
Contribution to Multi-District Facilities reserve	(5,370)	-
Contribution to Convention Centre reserve	(2,000)	-
Contribution to General Contingency reserve	(9,790)	(1,393)
	(17,260)	(2,165)
General rate surplus	-	-

The accompanying notes are an integral part of the statement.

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(m) Operating Reserve Fund if the municipality's fund statement of operations results in a surplus, the surplus shall be transferred to the 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 no longer in active or productive use 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, 2018

HALIFAX REGIONAL MUNICIPALITY

MISCELLANEOUS TRUST FUNDS
Statement of Financial Position

March 31, 2018, with comparative figures for 2017

	2018	2017
Assets		
Cash	$ 7,387,679	$ 7,059,060
Accounts receivable (note 2)	15,371	103,938
Investments (note 3)	6,410	6,410
	$ 7,409,460	$ 7,169,408
Liabilities and Funds Equity		
Funds equity (schedule)	7,409,460	7,169,408
	$ 7,409,460	$ 7,169,408

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 Funds Equity

For the year ended March 31, 2018, with comparative figures for 2017

	2018	2017
Income		
Investment income	$ 114,508	$ 88,513
Capital contributions received during the year	16,451	10,460
Tax sales	785,669	86,516
	916,628	185,489
Expenditures		
Transfer to (from) Halifax Regional Municipality	102,889	(61,815)
Net transactions with Trustors	573,687	136,047
	676,576	74,232
Excess of income over expenditures	240,052	111,257
Funds equity, beginning of the year	7,169,408	7,058,151
Funds equity, end of the year	$ 7,409,460	$ 7,169,408

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, 2018, with comparative figures for 2017

		2018	2017
Excess of income over expenditures	$	240,052 $	111,257
Decrease in accounts receivable		88,567	82,596
Decrease in due from Halifax Regional Municipality		-	99
Increase in cash		328,619	193,952
Cash, beginning of the year		7,059,060	6,865,108
Cash, end of the year	$	7,387,679 $	7,059,060

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

The Halifax Regional Municipality has a number of trust funds as identified in the Schedule of Funds 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 according 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, $15,371 (2017 - $103,938), is due from an entity controlled by the Halifax Regional Municipality. During the year, the entity made principal payments of $88,567 (2017 - $82,596) and interest payments of $4,469 (2017 - $10,440).

3. Investments:

	2018	2017
Shares, cost	$ 6,410	$ 6,410
	$ 6,410	$ 6,410
Shares, market values	$ 392,394	$ 400,499
	$ 392,394	$ 400,499

The market value shown for investments represents the estimated value of the shares as at March 31, 2018. Shares are valued at the year end quoted market prices.

HALIFAX REGIONAL MUNICIPALITY

MISCELLANEOUS TRUST FUNDS

Schedule of Funds Equity

Year ended March 31, 2018

	Balance March 31, 2017	Income	Transfer from (to) Halifax Regional Municipality	Expenditures of Trustors	Capital Contributions	Balance March 31, 2018
J.L. Dillman Park Maintenance	$ 164,704	$ 2,171	$ -	$ -	$ -	$ 166,875
Tax sales	2,678,030	823,902	(38,234)	(478,587)	-	2,985,111
J.D. Shatford Memorial	60,000	786	(786)	-	-	60,000
Sackville Landfill	935,300	15,032	(4,469)	(95,000)	-	850,863
Camphill Cemetery Trust	139,270	1,834	(1,834)	-	1,350	140,620
Camphill Cemetery Perpetual Care	566,179	7,417	(7,417)	-	-	566,179
Camphill Cemetery Fence	12,063	158	(158)	-	-	12,063
Fairview Cemetery Trust	2,352,686	45,435	(49,185)	-	14,352	2,363,288
Fairview Cemetery Maintenance	45,000	590	(590)	-	-	45,000
Titanic Trust	164,884	2,178	-	-	749	167,811
Commons Commutation	16,491	216	(216)	-	-	16,491
Harbour Championship	9,837	129	-	(100)	-	9,866
Other	24,964	329	-	-	-	25,293
	$ 7,169,408	$ 900,177	$ (102,889)	$ (573,687)	$ 16,451	$ 7,409,460

KPMG

Halifax Regional Municipality

Audit Findings Report

For the year ended March 31, 2018

KPMG LLP

Licensed Public Accountants

Prepared as of July 5, 2018 for the July 18, 2018 Audit and Finance Standing 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, 2018.

This Audit Findings Report builds on the Audit Plan we presented to the Audit and Finance Standing Committee on March 21, 2018.

Changes from the Audit Plan

We have highlighted the significant changes between the Audit Planning Report previously presented to you:

- The Audit Planning Report as originally presented to the Audit and Finance Standing Committee on March 21, 2018 included the evaluation of the design and implementation and operating effectiveness of controls over revenue, capital assets, routine expenses, and treasury.

  These procedures were reported in error as we had planned to take a fully substantive audit approach in these areas.
- The Office of the Auditor General performed a procurement audit, released May 16, 2018, which highlights control weaknesses in the procurement process. While many of these weaknesses do not impact controls related to financial reporting, the impact of weaknesses that may impact financial reporting were considered and the type and extent of audit evidence obtained was amended where risk assessments changed. See page 10.

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 and finance standing 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 July 5, 2018, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

– receipt of legal letter;
– receipt of signed management rep 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

The significant deficiencies in ICFR that have come to our attention include inappropriate access rights in SAP and supporting transactions. See page 12.

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 bodies in Canada and any other standards or applicable legislation or regulation.

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.

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. See other areas of focus on page 10.

Audit risks and results, cont.

Professional standards presume the risk of fraudulent revenue recognition and the risk of management override of controls exist in all organizations.

The risk of fraudulent revenue recognition can be rebutted, but the risk of management override of controls cannot, since management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Significant financial reporting risks	Our response and significant findings
Fraud risk from management override of controls	We have performed the required procedures, which includes substantive testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions. Based on the procedures performed, there were no findings identified requiring communication to the Audit and Finance Standing Committee.

Critical accounting estimates

Under PSAS (PS 2130), management is required to disclose information in the consolidated financial statements about the assumptions it makes about the future, and other major sources of estimation 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:

Asset / liability	Balance	KPMG comment
Measurement of employee future benefits liability	$58.2 million	Management engages Robertson, Eadie & Associates to perform valuations of employee future benefit plans. 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. 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. Key assumptions used by the experts include discount rate, interest, inflation and salary projection. We have performed procedures to understand the nature, scope and objective of the expert’s work and to evaluate the expert’s competence, capabilities and objectivity. We relied on management’s experts who prepared the estimate and represented to us that they believed these estimates to be reasonable and in accordance with accepted actuarial practice in Canada.

We believe management’s process for identifying critical accounting estimates is considered 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.

Areas of focus	D&A tools and routines	Our results
Journal Entry Testing	Utilized KPMG application software (IDEA) for the following: - evaluate the completeness of the journal entry population through a roll-forward of 100% of the accounts. - analyze and identify journal entries meeting certain criteria for further testing.	No adjustments, differences or issues noted as a result of our testing.
Property Tax Revenue	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 or issues were identified during our testing.

Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the HRM'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
Application of accounting pronouncements issued but not yet effective	No concerns at this time regarding future implementation.

Other matters

Professional standards require us to communicate to the Audit and Standing Committee other matters, such as identified fraud or non-compliance with laws and regulations, consultations with other accountants, significant matters relating to the HRM's related parties, significant difficulties encountered during the audit, and disagreements with management.

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

Matter	KPMG comment
The Office of the Auditor General performed a procurement audit, released May 16, 2018, which highlights control weaknesses in the procurement process. Certain weaknesses related to areas of procurement that could impact the financial reporting of purchases. As a result, KPMG increased the audit risk in this area and amended our audit approach.	In response to the findings of the procurement audit as completed by the Office of the Auditor General, KPMG increased the risk of material misstatement of routine expenses to moderate and performed procedures to assess the impact of key control weaknesses over the financial reporting of procurement transactions identified by the Auditor General. These included: - Segregation of duties relating to creating vendor and processing payment to vendor. - Segregation of duties relating to individuals that can issue goods receipts, post invoices and enter a purchase order. - Potential for unauthorized access relating to former employees that remain in the SAP system. With assistance from IBM and management, KPMG obtained details of individuals and user accounts identified in these control weaknesses. KPMG followed-up on these individuals to identify whether there was evidence that the following had occurred: - A user performed duties that were incompatible with their role and resulted in a financial transaction being recorded. - A former employee accessed the SAP system. Where evidence indicated either had occurred, KPMG obtained audit evidence as to the business reason for the occurrence. KPMG also discussed and reviewed management's process for assessing the impact of the Auditor General report which included the review of SAP audit logs to consider if inappropriate system enforced segregation of duties lead to inappropriate processing of financial information. All procedures were performed without exception and there was nothing identified that would impact our audit opinion or require additional communications with management, the Audit and Finance Standing Committee or Council on this matter.

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 remain uncorrected.

Control observations

In accordance with professional standards, we are required to communicate to the Audit and Finance Standing Committee any control deficiencies that we identified during the audit and have determined to be significant deficiencies in ICFR.

Significant deficiencies

Description	Potential effect
Appropriate access rights in SAP and supporting transactions	As noted by the Auditor General, there were instances of inappropriate system access rights that resulted in poor segregation of duties and former employee user accounts not being deactivated on a timely basis. Although other controls within the HRM may exist to detect errors or misuse of system access, we support the observation by the Auditor General and encourage management to review access rights of SAP users and the processes that support changes to access rights to ensure role based system access is implemented and maintained. We recommend that two key processes be undertaken to ensure the issues are addressed. First, a review of current state SAP access rights be undertaken to ensure users have access that enable them to perform their role. In the event a user is asked to perform duties outside their role, for example to cover for vacations, temporary access rights should be granted and procedures followed to increase oversight to ensure inappropriate transactions do not occur. Secondly, a review of how user access rights are managed when individuals join the organization, change roles or leave the organization should be undertaken. Often a periodic process to validate user access rights is required to ensure user access change management procedures are working effectively and correct any mistakes that may have occurred.

Appendices

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 as attached
- **Management representation letter** –In accordance with professional standards, copies of the management representation letter are provided to the Audit Committee. The draft 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.

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 listed above:

- 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, 2018 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, 2018, 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**.**

Chartered Professional Accountants, Licensed Public Accountants
July •, 2018
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
Canada

July •, 2018

Ladies and Gentlemen:

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, 2018.

General:

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

We also 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:

Responsibilities:

1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated February 6, 2018, including for:

   a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework.

   b) providing you with all information of which we are aware that is relevant to the preparation of the financial statements, such as all financial records and documentation and other matters, including (i) the names of all related parties and information regarding all relationships and transactions with related parties; and (ii) the 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 providing you with access to such relevant information. All significant board and committee actions are included in the summaries.

   c) providing you with additional information that you may request from us for the purpose of the engagement.

d) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.

e) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.

f) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.

g) providing you with written representations that you are required to obtain under your professional standards and written representations that you determined are necessary.

h) ensuring that internal auditors providing direct assistance to you, if any, were instructed to follow your instructions and that management, and others within the entity, did not intervene in the work the internal auditors performed for you.

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 we are 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 financial statements and involves: management, employees who have significant roles in internal control over financial reporting, 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 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.

Subsequent events:

4) 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.

Related parties:

5) We have disclosed to you the identity of the Entity's related parties.

6) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.

7) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

Estimates:

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

Going concern:

9) We have provided you with all information relevant to the use of the going concern assumption in the financial statements.

Non-SEC registrants or non-reporting issuers:

10) 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:

11) The Entity has satisfactory title to all assets.

12) There are no liens or encumbrances on the Entity's assets.

13) We have no plans or intentions that may affect the carrying amount or classification of assets and liabilities.

Contractual agreements:

14) 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:

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

Employee future benefits:

16) The employee future benefit costs, assets and obligations, if any, have been determined, accounted for and disclosed in accordance with the financial reporting framework.

17) 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:

18) The information provided by us to Eckler and Robertson Eadie & Associates 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:

19) 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.

Yours very truly,

Jacques Dubé, Chief Administrative Officer

Jerry Blackwood, Chief Financial Officer

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 Canadian public sector accounting standards *related party* is defined as:

- When one party has the ability to exercise control or shared control over the other. Two or more parties are related when they are subject to common control or shared control. Related parties also include key management personnel and close family members.

In accordance with Canadian 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. These transfers are related party transactions whether or not there is an exchange of considerations or transactions have been given accounting recognition. 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 Reviewer 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.

Appendix 7: Lean in Audit™

An innovative approach leading to enhanced value and quality

Our new innovative audit approach, Lean in Audit, further improves audit value and productivity to help deliver real insight to you. Lean in Audit is process-oriented, directly engaging organizational stakeholders and employing hands-on tools, such as walkthroughs and flowcharts of actual financial processes.

By embedding Lean techniques into our core audit delivery process, our teams are able to enhance their understanding of the business processes and control environment within your organization – allowing us to provide actionable quality and productivity improvement observations.

Any insights gathered through the course of the audit will be available to both engagement teams and yourselves. For example, we may identify control gaps and potential process improvement areas, while companies have the opportunity to apply such insights to streamline processes, inform business decisions, improve compliance, lower costs, increase productivity, strengthen customer service and satisfaction and drive overall performance.

How it works

1. Lean training

- Provide basic Lean training and equip our teams with a new Lean mind-set to improve quality, value and productivity.

2. Interactive workshops

- Perform interactive workshops to conduct walkthroughs of selected financial processes providing end to end transparency and understanding of process and control quality and effectiveness.

3. Insight reporting

- Quick and pragmatic insight report including your teams immediate quick win actions and prioritized opportunities to realize benefit.

Appendix 8: New Auditor Reporting

In response to investors demanding more than a binary pass/fail opinion from the auditors' report, the new and revised auditor reporting standards have introduced significant changes to the traditional auditors' report we provide.

In April 2017, the Auditing and Assurance Standards Board (AASB) in Canada approved the new and revised auditor reporting standards as Canadian Auditing Standards (CASs).

What's new?

Highlights of the new auditors' report include:

Change	Applicability
Re-ordering of the auditors' report including moving opinion to the first section	Listed and non-listed entities
Expanded descriptions of management's, those charged with governance and auditors' responsibilities	Listed and non-listed entities
Disclosure of name of the engagement partner	Listed entities
Description of key audit matters (KAMs)	Applicable only when required by law or regulation or when the auditors is engaged to do so

When are the new requirements effective?

The new and revised standards in Canada will be effective for audits of financial statements for periods ending on or after December 15, 2018 with early application permitted

kpmg.ca/audit

P.O. Box 1749
Halifax, Nova Scotia
B3J 3A5 Canada

Item No. 14.2.3
Halifax Regional Council
April 10, 2018

TO: Mayor Savage and Members of Halifax Regional Council

Original Signed

SUBMITTED BY: Councillor Bill Karsten, Chair, Audit and Finance Standing Committee

DATE: March 21, 2018

SUBJECT: Payments for Halifax Convention Centre and Reserve Update

ORIGIN

Motion passed by the Audit and Finance Standing Committee at a meeting held on March 21, 2018.

LEGISLATIVE AUTHORITY

Section 8 of the Audit and Finance Standing Committee's Terms of Reference:

> The Audit and Finance Standing Committee shall review and make recommendations on proposals coming to the Council outside of the annual budget or tender process including:
> (a) new programs or services not yet approved or funded;
> (b) programs or services that are being substantially altered;
> (c) proposed changes in any operating or project budget items;
> (d) the commitment of funds where there is insufficient approved budget;
> (e) new or increased capital projects not within the approved budget;
> (f) increases in project budget due to cost sharing; and
> (g) the creation or modification of reserves and withdrawals not approved in the approved budget.

RECOMMENDATION

The Audit and Finance Standing Committee recommend Halifax Regional Council approve:
1. A payment of $301,500 in respect of costs incurred for the Halifax Convention Centre for the period 2016-17;
2. Subject to confirmation of the final 2017-18 year end, payment of up to 50% of Halifax Convention Centre costs incurred prior to substantial completion of the facility from the 2017-18 projected surplus; and,
3. That staff return with additional updates and recommendations on the Halifax Convention Centre including an updated Business Case for the Halifax Convention Centre Reserve that includes Deed Transfer Taxes related to the Nova Centre.

BACKGROUND

A staff report regarding this matter was submitted to the March 21, 2018 meeting of the Audit and Finance Standing Committee.

DISCUSSION

The Standing Committee considered the report and passed a motion endorsing the staff recommendation as noted above.

FINANCIAL IMPLICATIONS

The attached staff report dated March 6, 2018 addresses Financial Implications.

RISK CONSIDERATION

The attached staff report dated March 6, 2018 advises that there are no risks.

COMMUNITY ENGAGEMENT

The Audit & Finance Standing Committee meetings are open to public attendance, a live webcast is provided of the meeting, and members of the public are invited to address the Committee for up to five minutes at the end of each meeting during the Public Participation portion of the meeting. The agenda, reports, minutes, and meeting video of the Audit & Finance Standing Committee are posted on Halifax.ca

ENVIRONMENTAL IMPLICATIONS

None.

ALTERNATIVES

The Standing Committee did not provide alternatives.

ATTACHMENTS

Attachment 1: Staff report dated March 6, 2018.

A copy of this report can be obtained online at halifax.ca or by contacting the Office of the Municipal Clerk at 902.490.4210.

Report Prepared by: Sheilagh Edmonds, Legislative Assistant 902.490.6520

HALIFAX

Attachment 1

P.O. Box 1749
Halifax, Nova Scotia
B3J 3A5 Canada

Item No.
Audit & Finance Standing Committee
March 21, 2018

TO: Chair and Members of Audit & Finance Standing Committee

SUBMITTED BY: Original signed

Jacques Dubé, Chief Administrative Officer

DATE: March 6, 2018

SUBJECT: Payments for Halifax Convention Centre & Reserve Update

ORIGIN

December 13, 2010 Council motion to support the development of a new convention centre in downtown Halifax, as per the terms negotiated with the Province of Nova Scotia.

July 10, 2012 Council motion that Halifax Regional Council authorize the Mayor and Municipal Clerk to execute the attached Memorandum of Agreement outlining the construction, operational and financial agreements surrounding the new downtown convention centre.

May 26, 2015 Information Report - Halifax Convention Centre Update

LEGISLATIVE AUTHORITY

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

Halifax Charter, section 93(1) - The Council shall make estimates of the sums that are required by the Municipality for the fiscal year.

Halifax Charter, section 35(2)(d)(i) -

(2) The Chief Administrative Officer may

(d) subject to policies adopted by the Council,

(i) make or authorize expenditures, and enter into contracts on behalf of the Municipality, for anything required for the Municipality where the amount of the expenditure is budgeted or within the amount determined by the Council by policy, and may delegate this authority to employees of the Municipality,

RECOMMENDATION ON PAGE 2

RECOMMENDATION

The Audit and Finance Standing Committee recommends that Regional Council approve:

(1) A payment of $301,500 in respect of costs incurred for the Halifax Convention Centre for the period 2016-17;
(2) Subject to confirmation of the final 2017-18 year end, payment of up to 50% of Halifax Convention Centre costs incurred prior to substantial completion of the facility from the 2017-18 projected surplus; and,
(3) That staff return with additional updates and recommendations on the Halifax Convention Centre including an updated Business Case for the Halifax Convention Centre Reserve that includes Deed Transfer Taxes related to the Nova Centre.

BACKGROUND

The Halifax Convention Centre (HCC) reached substantial completion on March 1, 2018. The HCC is part of a much larger private complex, the Nova Centre. The Nova Centre includes an office tower, hotel, retail, underground parking and the Convention Centre. The Convention Centre is leased by the Province of Nova Scotia with the capital costs, debt and interest included in the lease payment. Events East has taken over the operations of the HCC from the Joint Steering Committee.

HRM is not a party to the lease agreement but is a 50/50 partner with the Province on the Convention Centre. Through a series of negotiations, HRM Regional Council signed a Memorandum of Understanding (MOU) agreeing to equally share in the costs of the new convention centre with the Province. That sharing of costs includes all operating and capital costs. The total cost of the convention centre also includes the cost of supporting conventions at the Convention Centre through Events East, as well as those lifecycle costs not covered by the Province's lease arrangement. HRM is obligated to begin paying its share of the costs upon substantial completion of the convention centre.

As part of its funding strategy, HRM established a Convention Centre Reserve (Q521). All commercial property taxes from the Nova Centre including the office tower, hotel, retail, underground parking and the Convention Centre itself are placed within the reserve. Those revenues (and the funds for the existing World Trade and Convention Centre) are used to offset the annual costs under the MOU.

DISCUSSION

When the MOU was approved by Council in 2010 there was no other office construction underway in the downtown core. It was anticipated at the time of the MOU that the full build-out and occupancy of the Nova Centre would not occur for several years after the completion of the convention centre. As such, the annual taxes from the Nova Centre were not expected to fully offset the HCC payments until Year 6. For instance, in Year 1 of the HCC opening, taxes were expected to be $1.8m short, with the shortfall covered by funds built up in the reserve prior to the opening of the HCC.

Currently the convention centre has reached substantial completion. The office tower is finished and is approximately 30% occupied. An operator for the hotel has just been selected. At present, the Property Valuation Services Corporation (PVSC) assesses the Nova centre as one assessment account with a value of $200m. As such, separate values for the office tower and hotel are not available but may become apparent through the assessment appeal process.

Since 2010 there has been considerable office construction in downtown Halifax leading to higher vacancies than expected and downward pressure on office leases. Hence, rather than assessments growing as expected, assessments in the downtown office market have declined. Along with declines in the commercial tax rates this has increased the shortfall by $900,000, from the anticipated $1.8m to $2.7m. Combined with higher operating costs ($600,000) and other items ($200,000) this means a total shortfall of $3.5m (not $1.8m) in 2018-19. As planned, the shortfall is still to be funded through the HCC Reserve with no impact upon the 2018-19 general tax rates.

Summary of Original and Revised Estimates

	Tax and Other Revenues	Payment for HCC	Excess/ (Shortfall)	Reserve Balance
Original Estimate	5,071,000	-6,922,574	-1,851,574	5,923,074
Revised Estimate	3,941,000	-7,490,000	-3,549,000	2,020,000

Tax revenues for the Nova Centre will increase as the office tower is leased up and as the hotel is finished and occupied. However, there is considerably more office space downtown than in past years, leading to lower office rents and hence lower assessed values than would exist otherwise. While the economy remains strong, it is extremely difficult to ascertain when assessments for the downtown office market will again start to rise. This broader downtown trend will continue to affect the HCC reserve with the reserve balance being negative into the medium term (See Attachment Two). In the next two to four years there may be a reserve shortfall of between $5m to $8m. Staff intend to return to Council with additional updates and possible revisions to the Business Case for the HCC reserve. In particular, any Deed Transfer Tax revenues related to the Nova Centre could be deposited into the reserve. In addition, a portion of the 2017-18 projected surplus may need to be directed into the HCC reserve.

Interim Period Costs

In 2014-15 the Province approached HRM on cost sharing interim period costs such as marketing and other costs with the Province prior to substantial completion. Staff budgeted funds for 2014-15 for marketing and other costs on a 50/50 shared basis. Regional Council was provided with an information report (May 26, 2015) and funds were budgeted in fiscal services (see attachment 3). As per the Information Report, these funds were again budgeted in 2015-16 and 2016-17. The 2016-17 budget for these costs was $1,219,000. In the Winter of 2016 a payment of $890,500 was made to Events East. In 2016, the Province approached HRM and asked to be reimbursed for $301,500 in payments the Province made to Events East. The request includes two items that had not appeared in the information report (ICT Peripherals and Governance) and one that exceeded the amounts in the Information Report (Sales and Marketing). The amounts requested are legitimate expenditures that were made by Events East. Staff could not pay these amounts as they were not within the MOU or the Information Report; and, had not otherwise been authorized by Regional Council.

The Information Report anticipated the Convention facility opening in 2016 and provided for additional funds in 2014-15 through 2016-17. In 2017 HRM budgeted for costs following substantial completion but no additional interim period costs were budgeted for sales and marketing or other transition costs. As such, there is no authority from Council to pay any 2017-18 amounts prior to substantial completion.

Cost Sharing under the HCC MOU for 2017-18

	Lease Costs	+	Events East			=	Total
	P&I		Before March 1st	After March 1st	Incentives		
Provincial Share	456,956		4,053,570	188,115	1,010,000		5,708,641
Municipal Share	456,956		-	188,115	-		645,071
Total	913,911		4,053,570	376,230	1,010,000		6,353,711

Note: Events East costs are estmates and are subject to audit. All amounts are prorated based on 31 days for 2017-18. Excludes costs for the former WTCC building which end with substantial completion of the HCC.

In 2017-18 the estimated operating costs for the HCC are projected at $6.4m. Of the $6.4m, Council is obligated to pay an estimated $645,000 under the MOU (ie, the period starting after substantial completion on March 1, 2018). This would come out of the Convention Centre Reserve (Q521). The remaining funds include $1m in incentives for conference participants disadvantaged by the delayed opening of the facility plus just over $4m in ongoing operating costs. These amounts would be fully borne by the Province and not shared 50/50 with HRM. Should Regional Council agree, HRM's 50% share of the ongoing operating costs would be approximately $2,027,000.

In addition to the above $6.4m total costs, there could be as much as $1.5m in capital and smallware costs to be paid by HRM once final information becomes available.

Summary:
The new Halifax Convention Centre is currently exceeding expectations for convention bookings. The facility shows every sign of being extremely successful and contributing to the economic and cultural life of the Province. As a long-term partner in its success, HRM should also be a full partner in its costs. It has paid interim period costs from 2014-15 through to 2016-17. In good faith and as a full partner it should contribute to the remaining interim period costs. If Regional Council agreed to share in the remaining costs for 2017-18 (other than the incentives due to construction delay), it would cost an estimated $2,027,000.

FINANCIAL IMPLICATIONS

In 2016-17, $301,500 was accrued but not paid pending Council Approval. If Council agreed to authorize this payment there would be no additional financial impact to the organization. If Council does not authorize the payment, the accrual would be reversed and the organization would have an additional savings of $301,500.

If Regional Council agreed to pay out the anticipated $2,027,000, this amount would be funded in M250 and would lower the projected surplus for 2017-18 by $2,027,000. The exact amount would need to be confirmed once the 2017-18 fiscal year end for Events East is concluded. Regional Council will be updated on amounts required from the surplus as final information becomes available.

In addition, funding of $1.5m for capital and other items may be required once final information becomes available. Funding may also be required for other transition purposes including cash flow. Staff will return with additional information and updates as necessary.

RISK CONSIDERATION

There are no risks specifically associated with this report.

COMMUNITY ENGAGEMENT

No community engagement was necessary.

ENVIRONMENTAL IMPLICATIONS

There are no environmental implications.

ALTERNATIVES

Regional Council could decline to pay out additional amounts for the period prior to substantial completion.

Regional Council could pay the $2,027,000 from the Convention Centre reserve. This is not recommended as it would leave the reserve in a deficit for 2019-20.

ATTACHMENTS

Attachment 1 - Amounts Requested Under the May 26, 2015 Information Report
Attachment 2 - Summary of Original vs revised Funding
Attachment 3 - Halifax Convention Centre Update, Information Report, May 26, 2015
Attachment 4 - Memorandum of Agreement – Halifax Convention Centre, July 11, 2012

A copy of this report can be obtained online at halifax.ca or by contacting the Office of the Municipal Clerk at 902.490.4210.

Report Prepared by: Bruce Fisher, MPA, CPA CMA, Manager of Financial Policy and Planning, Finance and Asset Management, 902.490.4493

Report Approved by: Original signed
John Traves, Q.C., Director of Legal Services, 902.490.4219

Financial Approval by: Original signed
Jerry Blackwood, Acting Director of Finance and Asset Management/CFO, 902.490.6308

ATTACHMENT 1

Amounts Requested Under the May 26, 2015 Information Report

	Information Report - May 26, 2015	HRM Budget 2016-17	Feb 17/17 - Paid to TCL	Invoiced by PNS - April 2017	Total
	2016-17	2016-17	2016-17	2016-17	2016-17
HCC Operations					
HCC Sales and Marketing	663,000		633,000	156,000	789,000
Event Management System					0
Operational Readiness – Carried from 14/15					0
Operational Readiness	315,500		257,500	-500	257,000
Time and Attendance System (TCA)	272,500				0
ICT Peripherals				38,000	38,000
Governance				108,000	108,000
Total	**1,251,000**	**1,219,000**	**890,500**	**301,500**	**1,192,000**

Summary of Original vs Revised Funding

Year	Expected Shortfall	Revised Shortfall	Expected Reserve Balance	Revised Reserve Balance
	(December 2010)	(March 2018)	(December 2010)	(March 2018)
1	-1,852,000	-3,549,000	5,923,000	2,020,000
2	-1,284,000	-3,709,000	4,846,000	-1,689,000
3	-1,047,000	-3,235,000	3,968,000	-4,924,000
4	-897,000	-2,868,000	3,210,000	-7,792,000
5	-739,000	-2,263,000	2,583,000	-10,055,000
6	-305,000	-1,951,000	2,368,000	-12,006,000
7	156,000	-1,758,000	2,607,000	-13,764,000
8	654,000	-1,555,000	3,352,000	-15,319,000
9	840,000	-1,342,000	4,309,000	-16,661,000
10	1,430,000	-1,119,000	5,890,000	-17,780,000

Note: Assumes assessed values start to recover in Year 5 through 7.

HALIFAX

P.O. Box 1749
Halifax, Nova Scotia
B3J 3A5 Canada

Item No. 6
Halifax Regional Council
May 26, 2015

TO:	Mayor Savage and Members of Halifax Regional Council
SUBMITTED BY:	Original Signed Greg Keefe, Director Finance and ICT
DATE:	May 05, 2015
SUBJECT:	Halifax Convention Centre Update

INFORMATION REPORT

ORIGIN

December 13, 2010 Council motion to support the development of a new convention centre in downtown Halifax, as per the terms negotiated with the Province of Nova Scotia.

July 10, 2012 Council motion that Halifax Regional Council authorize the Mayor and Municipal Clerk to execute the attached Memorandum of Agreement outlining the construction, operational and financial agreements surrounding the new downtown convention centre.

LEGISLATIVE AUTHORITY

Not Applicable

BACKGROUND

The Memorandum of Agreement approved by Council on July 10, 2012 provided for:

- Equal cost sharing by the Federal Government, Province and HRM for a fixed price construction contract
- Equal cost sharing between the Province and HRM on the ongoing operations of the facility for the term of the lease
- The Facility Operator will be a public sector entity, governed by a competency based Board of Directors, appointed jointly by the Province and HRM

DISCUSSION

Governance

Joint Steering Committee
To provide oversight during the period between the signing of the MOU between the Province and Halifax and the creation of the Halifax Convention Centre Corporation (HCC), staff established a Joint Steering Committee. This has been co-chaired by the Deputy Minister (DM) of Economic and Rural Development

and Tourism (ERDT) for the Province and the Chief Administrative Officer (CAO) for Halifax. The Provincial co-chair will transition to the DM of the Department of Business. It meets monthly and provides guidance to staff of the Province, Halifax and Trade Centre Limited on issues related to the HCC.

Legislation

In the Spring 2014 session, the Province passed the Halifax Convention Centre Act. This legislation:

- creates the public sector corporation, Halifax Convention Centre Corporation (HCC);
- defines the objects of the corporation as;
  - "to operate, maintain and manage the activities of the Halifax Convention Centre in a manner that will promote and develop economic development, tourism and industry in the Province generally, and the Municipality in particular, in accordance with strategic directions established by the Board and approved by the Chief Administrative Officer and the Minister" and
  - "includes other activities as approved by the Chief Administrative Officer and the Minister."
- provides for a Board of Directors, their qualifications, the appointment process and their authority;
- provides for the issuance of capital stock. Two shares, to be known as the "Principal Shares", one of each to be issued to HRM and one to the Minister on behalf of the Province;
- provides for the transition of staff from Trade Centre Limited to HCC

The Board of Directors will consist of 8 persons, four appointed by the Province and four by HRM. In appointing the Board, Regional Council and the Minister shall take into consideration expertise, competency, and other factors as may be set out in the by-laws of the Corporation. The Board will elect the Chair.

> The following persons are disqualified from being a member of the Board:
> (a) a person who is less than nineteen (19) years of age;
> (b) a person who is of unsound mind and has been so found by a Court in Canada or elsewhere;
> (c) a person who is not an individual;
> (d) a person who has the status of bankrupt;
> (e) a person who does, or did in the prior ten (10) calendar years, hold the position of a member of a federal or provincial legislature in Canada or a member of a municipal council in Canada

The Board will appoint a person to be President and Chief Executive Officer.

Upon proclamation of the legislation, planned for fall 2015, the CAO of Halifax and the DM of the Department of Business will become the Interim Board of HCC. They will deal with transition activities such as staffing and the initial budget. Recruitment for the Board will take place during winter 2015/16, with the appointment of the Board effective April 1, 2016.

Design Construction and Lease Agreements

As per the MOU with the Province, the Province is the lead in negotiating the agreements with the developer. HRM has observer status. The Design Construction Agreement is the construction agreement that sets out the building specifications (square footage, number of rooms, ceiling heights, fit and finish and equipment as an example). The lease will be between the Province and the developer, with HRM reimbursing the Province. The lease lays out the responsibilities for each party, what the developer will pay to repair and maintain as well the tenant's (Halifax Convention Centre) obligations. The lease also speaks to the integration of the other units in the complex.

The lease costs are broken out into a number of components:

- The first cost is the base rent, or the cost of design, construction and land. This amount is fixed for the 25 year term of the lease. The base rent is the principal and interest costs to design and build the facility (less the Federal payment paid at substantial completion) amortized over the 25 years plus a rent payment for land. The design and construction costs are fixed and the interest rate will be fixed when the agreement is signed so there will be certainty in the cost to be shared. The land rent payment is also fixed.
- The second cost is the operating cost of the facility that will be supplied by the owner such as cleaning, security, pest control, waste removal etc.
- The third costs are costs that are paid directly by the Halifax Convention Centre. These are separately metered utilities, property taxes (if taxes are assigned to individual condo units), insurance, operating and maintenance of the interior of the Convention Centre spaces, etc.
- The final category of costs are CAM or common area costs. These are the costs for cleaning and maintaining areas of the complex that are shared by all tenants in the complex. As an example operating and maintenance of common systems, cleaning of shared spaces or snow removal.

These costs will be shared on a 50% basis with the exception of property taxes. The MOU sets out the allocation for the payment of property taxes.

The negotiation process between the Province and the developer also involves validation that the final convention centre plans align with the RFP details and commitments. The plans for the full complex will also be reviewed by the Province to ensure the cost allocation of the common areas is equitable. When this process is final, the Province and the developer will sign the lease. HRM will not be a signatory.

The lease will contain a commitment for the substantial completion date. The working date for substantial completion is September 2016, which will allow an opening date of January 2017. No funds will flow to the developer until the substantial completion date. At that time the federal commitment to the project will be paid to the developer ($51.4 m). The balance of the capital costs will then be amortized over the 25 year term of the lease and shared equally between the Province and HRM. In order to ensure that the interest rate received for financing the convention centre is attractive, the ability for the Province to terminate the lease is very limited. The Province is looking at a number of options, such as purchasing insurance, and provisions in the lease to mitigate the risk.

Interim Period

Marketing and Sales

The number of national and international clients choosing Nova Scotia's new Halifax Convention Centre to host their events continues to grow. TCL is on track to achieve the public market projections. While the change in opening date to 2017 did impact some clients, TCL has successfully rebooked 14 of the 17 impacted clients in the existing facility or moved them to a future year.

As of May 4, 2015, 27 national and international events were secured for the new convention centre resulting in 23,150 delegates. Fourteen of those events (4 international, 9 national associations, 1 national corporate) are for the first year of operations, resulting in 14,000 delegates which is 80% of the delegate goal for year 1.

Operational Readiness

Recruit Operational Manager

TCL is currently resourced to manage and operate the existing WTCC, with its operations team focused on the delivery of events in the existing facility. Preparing to operate and open a new facility that will offer a more complex mix of events with new technology and processes requires a specialized skill set. Ensuring excellence in service delivery and operational processes is critical to the success of the new convention centre.

TCL has hired a Senior Director of Operations to support operational, event management and food and beverage teams in the planning transition to the new convention centre. This senior manager brings extensive convention centre expertise, and is responsible for developing and executing an operational readiness plan that ensures the effective operations of the new convention centre.

This position is a short-term contract with a primary deliverable to ensure the successful opening of the new Halifax Convention Centre.

Software – Event Management System
A critical component of the new convention centre is the ability to host and support multiple, simultaneous events. This will result in an increased volume of attendees and increase the complexity of event programming and event delivery. TCL's current Event Management System (Delphi v9.5.2) was implemented in 1984 with an upgrade in 2005 and is currently end-of-life. The current system has had no significant upgrades or investments and it is not sufficient to meet the needs of the volume of business expected in the new convention centre.

New functionality and system-supported processes will be required to provide seamless coordination of event operations and sales and allow the organization to implement tighter operating and preventative controls in the new convention centre. Implementation of a new Event Management System, which automates processes, is a critical component of attaining AIPC Quality Standards Certification, which has become a standard in Canada.

Interim Period Costs
In addition to covering part of the operating costs of TCL, $632,000 in 15/16, HRM is covering 50% the Sales and Marketing for the HCC and 50% of the interim period costs. HRM's portion of these costs are:

Item	**14/15**	**15/16**	**16/17**
HCC Sales and Marketing	$640,000	$547,000	$663,000
Event Management System		$332,000	
Operational Readiness – Carried from 14/15		$127,500	
Operational Readiness		$151,600	$315,500
Time and Attendance System			$272,500
Total	$640,000	$1,158,100	$1,250,000

Other operating costs will begin in the 16/17 year, but these will be covered by the Halifax Convention Centre.

<u>Other Issues</u>

Tunnel
TCL has expressed that a tunnel is needed between the existing World Trade and Convention Centre (WTCC) building and the Halifax Convention Centre. This will link the complex to four hotels (Prince George, Barrington Halifax, Delta Barrington, Halifax Marriott Harbourfront) without requiring guests to go outside. TCL maintains that ease of connectivity is important to clients and integral to sales activity for the new centre. One of the requirements of the RFP for the convention centre was that the developer accommodate an entrance to a tunnel for connectivity to the hotel network downtown.

Concept design for the tunnel connection along Grafton Street between the existing enclosed pedestrian system and the new convention center is expensive ($7-10 million). While HRM staff do not agree that a tunnel is a necessary feature, we do acknowledge that the concept of a convenient, weather protected pedestrian connection at street level is a desirable outcome. This issue has a direct connection to the overall issue of streetscaping and the ultimate dispensation of the Nova Centre events plaza. Staff are working on practical and effective alternatives to create weather protected access without the expense and disruption of tunnel.

That being said, a tunnel, with its associated price tag, may end up the preferred solution. HRM would be responsible for some of the cost, but we would be looking for partners, such as the Province, to share this cost.

Argyle St. Streetscaping Efforts
There are two main issues at hand on this topic:

1. The above referenced tunnel and the integration of municipal streetscaping efforts.
2. The timing of streetscaping improvements on Argyle Street relative to the completion of the frontage of the Nova Centre.

Actions on the tunnel are outlined in the section above. The plan for Argyle Street to date is for staff to compete the design and implementation of a pilot project for this summer (2015) followed by the design, funding and implementation of a permanent solution to be completed in spring or fall of 2016 concurrent with the completion of the Nova Centre.

Scotiabank Centre
The current agreement with TCL for the operations of Scotiabank Centre (SBC) is an interim agreement. This was done deliberately knowing there would be a change to TCL, and the ownership of the WTCC building. The current agreement has two parts: 1. for the operation of SBC; and 2. for the allocation of the costs of shared infrastructure (primarily HVAC).

This agreement will need to be replaced with two agreements. One will be with HCC for the operations of SBC. The other will be for the allocation of the costs of shared infrastructure with whoever the eventual owner of the WTCC building is. Staff are currently working on a service agreement for this that the Province can use when they put the property on the market. The agreement will indicate access areas that are critical for the successful operation of SBC as well as recognizing areas where HRM has made significant investments in areas that are part of the WTCC such as the Budweiser King Club.

Ticket Atlantic
TCL operates Ticket Atlantic, which in addition to offering ticket sales for a number of venues, is the box office for Scotiabank Centre. In July 2012, the Auditor General recommended, as a result of an audit, a change to the billing model between Ticket Atlantic and Scotiabank Centre. A subsequent review by Grant Thornton showed that the issue the Auditor General brought to light occurred when there was a year with very high attendance numbers. It is planned that Ticket Atlantic become a part of HCC, and that any change in the billing model be considered in that context. As a part of HCC, any Ticket Atlantic surpluses will contribute to the operations of HCC.

WTCC Building
Under the MOU with the Province, there is a process for determining the eventual disposition of the WTCC.

The Province will advertise it for sale. If a buyer is found, Halifax can match the price and acquire the building. If Halifax does not choose to acquire the building at that time, the purchaser would need to enter into an agreement regarding the infrastructure shared between WTCC and SBC.

If no buyer is found, Halifax will purchase the WTCC on the date the HCC opens for the book value on that date. The book value is expected to be below $1 million.

Exhibition Park
TCL also operates Exhibition Park. Before the windup of TCL, the Province will assess the options for managing this asset.

FINANCIAL IMPLICATIONS

There are no financial implications specific to this report. The financial implications of the project are:

Halifax currently pays $630,000 towards the operation of TCL. This amount increases by inflation each year. It will become a part of the support for HCC when it opens.

Council approved $640,000 for the sales and marketing of HCC in the 14/15 budget. This will decrease to $547,000 in 15/16, but there will be transitional costs of $611,100, for a total increase of $518,100.

The funding model for HCC is that all taxes from Nova Centre are placed in the Convention Centre Reserve, Q326 and this reserve be used to fund Halifax's costs. The reserve has a balance of $1,764,307 at March 31, 2015 and is budgeted to increase by $1,010,243 in 15/16. Although commercial property tax rates have dropped since the decision in 2012, the model remains sound.

COMMUNITY ENGAGEMENT

Not Applicable

ATTACHMENTS

None

A copy of this report can be obtained online at http://www.halifax.ca/council/agendasc/cagenda.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 and Approved by: Original Signed
Greg Keefe, Director of Finance & ICT/CFO, 902.490.6308

Approved as to Form and Authority

Solicitor

THIS AMENDING AGREEMENT made as of the 28th day of March, 2013

BETWEEN:

HER MAJESTY THE QUEEN IN RIGHT OF THE PROVINCE OF NOVA SCOTIA, as Represented by the Minister of Transportation and Infrastructure Renewal

(the "Province")

AND:

HALIFAX REGIONAL MUNICIPALITY, a body corporate, incorporated pursuant to the laws of Nova Scotia, as Represented by the Mayor

("HRM")

WHEREAS the Province and HRM entered into an agreement dated July 11, 2012 (the "**Agreement**"), a copy of which is attached hereto as Schedule "A";

AND WHEREAS the Province and HRM wish to amend the Agreement as hereinafter set out;

NOW THEREFORE THIS AMENDING AGREEMENT WITNESSES THAT for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Province and HRM agree as follows:

1. Clause 5 of the Agreement is hereby amended:

    (a) by deleting the last sentence in clause 5 (a) thereof and substituting therefor the following:

    "The HRM option referred to in this clause 5 (a) is to be exercised by HRM within ninety (90) days from the date on which the Design Construction Agreement and lease agreement are signed by the Developer and the Province, and if it has not been exercised within such time, the HRM option shall expire.";

    (b) by deleting the first sentence in clause 5 (b) thereof and substituting therefor the following:

    "If HRM does not exercise the option set out in clause 5 (a) within the time set out therein, the Province will place the Current WTCC for sale on the open market within ninety (90) days following the date on which the HRM option expired, with an anticipated closing date to coincide with the date the Facility will be ready for occupancy by the Facility Operator."

2. Except as expressly amended pursuant to clause 1 hereof, the terms and conditions of the Agreement remain in full force and effect and unamended.

IN WITNESS WHEREOF the Province and HRM have duly executed this Amending Agreement as of the date set out above.

Her Majesty the Queen in Right of the the Province of Nova Scotia, as Represented by the Minister of Transportation and Infrastructure Renewal

Original Signed

Honourable Maurice Smith

Halifax Regional Municipality as Represented by the Mayor

Original Signed

Michael Savage, Mayor

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SCHEDULE 'A'

APPROVED AS TO FORM
Municipal Solicitor

THIS AGREEMENT made the 11th day of July, 2012

BETWEEN:

HER MAJESTY THE QUEEN IN RIGHT OF THE PROVINCE OF NOVA SCOTIA, as Represented by the Premier of Nova Scotia

(the "Province")

AND:

HALIFAX REGIONAL MUNICIPALITY, a body corporate, incorporated pursuant to the laws of Nova Scotia, as Represented by the Mayor and the Clerk

("HRM")

WHEREAS the Province and HRM agree that the construction of a new Convention Centre ("Facility") in downtown Halifax would have a significant and positive economic and social impact on Halifax and Nova Scotia;

AND WHEREAS Argyle Developments Inc. ("Developer") a wholly owned subsidiary of Rank Incorporated has agreed to design, finance and construct a Facility in downtown Halifax and to lease the Facility to the Province;

AND WHEREAS the Developer has also agreed to construct a hotel, an office tower and a parking garage on the site ("Site") where the Facility will be constructed;

AND WHEREAS the agreement of the Developer hereinabove referred to is subject to the Province and the Developer finalizing the terms and conditions of agreements applicable to the foregoing matters;

AND WHEREAS it is the intent of HRM and the Province that to fully achieve the purpose of HRM and the Province entering into this Agreement, the Facility property taxes attributable to the Facility which are to be cost shared by HRM and the Province hereunder, shall exclude property taxes attributable to the office tower and hotel, and any other buildings to be constructed on the Site notwithstanding that the Facility may be physically integrated with the office tower and/or the hotel or other buildings on the Site;

NOW THEREFORE THIS AGREEMENT WITNESSES THAT in consideration of the mutual covenants and agreements herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Province and HRM covenant and agree as follows:

1. **Equal Cost Sharing by Province and HRM**

(a) Subject to the Government of Canada agreeing to contribute 1/3 of the eligible capital construction costs of the Facility, the Province and HRM shall each contribute equally, on a 50/50 basis, to:

(i) the capital construction costs of the Facility, net of the Government of Canada's 1/3 contribution referred to above, in the amount of $164.2 million which amount is based on the Developer's indicative financing costs as of the date of this Agreement, and based on the foregoing the contribution by each of HRM and the Province will be $56.4 million;

(ii) all lease capital costs;

(iii) Facility maintenance costs, property taxes, operating costs and lifecycle costs during the term of the lease agreement for the Facility and any extensions thereof; and

(iv) the payment of the annual operating deficit of the public sector entity that will operate the Facility ("Facility Operator").

(b) The HRM contributions referred to in clause 1 (a) shall commence effective on the date that the first payment under the lease agreement for the Facility is to be made by the Province.

(c) If on the date that is two (2) years from the date that the first payment under the lease agreement is made (the "Deferral Determination Date"), the aggregate tax revenue to HRM from the Facility and the proposed hotel, office tower, parking garage or other buildings located on the Site does not then exceed the amount of the contributions that HRM is required to make pursuant to clause 1 (a) of this Agreement (the "Shortfall"), HRM may, upon giving prior written notice to the Province and such supporting documentation as may be required by the Province, defer for a maximum period of ten (10) years from the Deferral Determination Date (the "Deferral Period"), either the amount of the Shortfall or an amount equal to twenty-five percent (25%) of the contributions HRM is required to pay pursuant to clause 1(a) hereof, whichever is less (the lesser amount being hereinafter referred to as the "Deferred Amount"), subject to the following conditions:

(i) interest shall accrue during the Deferral Period on both the Deferred Amount and on the accrued interest thereon at an annual rate of interest equal to the Government of Nova Scotia's ten (10) year cost of borrowing rate in effect on the date that the Deferral Period commences, plus one percent (1%);

(ii) the entire Deferred Amount, together with interest accrued on both the Deferred Amount and on the interest accrued thereon, shall be due and payable and remitted by HRM to the Province immediately upon the expiration of the Deferral Period; and

(iii) if at any time during the Deferral Period the aggregate tax revenue to HRM from the Facility and the proposed hotel, office tower, parking garage and other buildings on the Site meets or exceeds the amount of the contributions to be made by HRM in accordance with clause 1 (a) hereof (the "Revenue Balance Date"), HRM's right to defer any portion of the contributions it is to make pursuant to clause 1 (a) shall terminate on the Revenue Balance Date, and HRM shall be required to immediately resume payment to the Province, effective as and from the Revenue Balance Date, of the full amount of HRM's contributions as provided under clause 1(a).

(d) Notwithstanding the provisions of clause 1 (c) (iii), HRM shall not be required to remit payment to the Province, until the expiration of the Deferral Period, of any portion of the Deferred Amount that has been deferred up to the Revenue Balance Date, or any accrued interest determined pursuant to clause 1(c) (i), provided however that interest shall continue to accrue on both the outstanding Deferred Amount and all accrued interest in accordance with the provisions of clause 1 (c) (i) up to the date that payment of all such amounts are remitted by HRM to the Province.

(e) If there is not a Shortfall on the Deferral Determination Date, HRM shall not be entitled to defer any contributions that it is required to make to the Province pursuant to clause 1 (a) hereof.

2. **Facility Operator**

(a) The Facility Operator, a public sector entity, whose primary purpose will be managing the operations of the Facility, will be responsible for the promotion, marketing and hosting of events in the Facility, and will also be responsible for the maintenance of the Facility either directly or through a third party.

(b) The Facility Operator will be governed by a competency based Board of Directors, appointed jointly by the Province and HRM.

(c) The Province and HRM will participate in an overall economic development governance review that will consider the optimal structure of the Facility Operator in order to support economic development in the Halifax region.

3. **Negotiations**

(a) Although negotiations with the Developer will be led by the Province, HRM will be permitted to have up to three active representatives participating in such negotiations.

(b) The Facility will be leased by the Province for a period of 25 years, with two 5 year extension options.

(c) Negotiations with the Developer will include a requirement that there be an option to purchase provision in the lease agreement. The option to purchase provision will include an initial option, exercisable in year 22 of the initial lease period, to purchase the Facility at the expiration of the initial lease period on terms to be negotiated with the Developer, and an option to purchase the Facility for $1.00, exercisable at the end of year 30 of the lease. The exercise of the initial option, including the time at which it would be exercised, and the purchase option terms to be negotiated with the Developer will be subject to the mutual agreement of the Province and HRM. The exercise of the second purchase option will also be subject to the mutual agreement of the Province and HRM.

(d) Negotiations with the Developer will include a requirement that the hotel and the office tower will each be substantially completed to core and shell on the date the Facility is substantially completed.

(e) The design construction agreement for the Facility between the Developer and the Province ("Design Construction Agreement") will contain provisions that require the Developer to remit to the Province prior to receipt of the amount otherwise payable to the Developer upon substantial completion of the Facility:

(i) a letter of credit in the amount of $2.5 million, as security for the requirement to achieve substantial completion of the office tower to core and shell (as defined in the Design Construction Agreement), if it has not been achieved by that date; and

(ii) a letter of credit in the amount of $2.5 million as security for the requirement to achieve substantial completion of the hotel to core and shell (as defined in the Design Construction Agreement), if it has not been achieved by that date.

4. Property Taxes

(a) HRM property taxes payable in respect of the Facility throughout the lease term and any extensions thereof will be treated as a shareable annual cost between HRM and the Province, determined and calculated as follows:

(i) the HRM property taxes to be shared on a 50/50 basis by HRM and the Province in respect of the Facility throughout the lease term and any extensions , will be calculated by multiplying the number of gross square feet in the Facility by the sum of $3.62;

(ii) HRM property taxes in respect of the Facility that are to be shared by HRM and the Province pursuant to clause 4 (a) (i) will commence effective on the date that the Facility is ready for occupancy by the Facility Operator; and

(iii) commencing in fiscal year 2016, and throughout the term of the lease and any extensions thereof, the amount of the HRM property taxes referred to in clause 4 (a) (ii) that are to be equally cost shared by HRM and the Province in respect of the Facility will increase annually by an amount that is equal to the lesser of: A) the annual Nova Scotia Consumer Price Index ("CPI") in the preceding fiscal year; and B) 2% per annum.

(b) Clause 4 (a) applies only to the property taxes to be cost shared by HRM and the Province for purposes of this Agreement and does not alter the calculation of the full property tax liability, including any property taxes payable by the Developer, in respect of the development proposed by the Developer (including the Facility) prior to the date that the Facility is ready for occupancy by the Facility Operator.

5. Disposition of Current WTCC

(a) HRM will have an option to purchase the existing World Trade and Convention Centre ("Current WTCC") on the date the Facility is ready for occupancy by the Facility Operator for an amount that is equal to the greater of the December 31, 2012 market value of the Current WTCC (as jointly established prior to December 31, 2012 by the Province and HRM through their joint retention of a qualified, independent commercial real estate appraiser) and the anticipated book value of the Current WTCC at January 1, 2015. The HRM option referred to in this clause 5 (a) is to be exercised prior to March 31, 2013, and shall expire on that date if it has not been exercised.

(b) If HRM does not exercise the option set out in clause 5 (a) by March 31, 2013, the Province will place the Current WTCC for sale on the open market within ninety (90) days thereafter, with an anticipated closing date to coincide with the date the Facility will be ready for occupancy by the Facility Operator. If the Province receives a qualified offer from a third party to purchase the Current WTCC for an amount greater than the anticipated book value of the Current WTCC at January 1, 2015, which it is prepared to accept, the Province shall first offer the Current WTCC for sale to HRM at the same price and under the same terms and conditions as the qualified offer that was received, and HRM shall have thirty (30) days from such date to accept the Province's offer and to purchase the Current WTCC under those terms, such purchase by HRM to be effective on the date the Facility is ready for occupancy by the Facility Operator. If HRM does not exercise its right to match the qualified third party offer and to submit an offer to the Province within such thirty (30) day period, HRM's entitlement to purchase the Current WTCC on the terms set out in this clause 5 (b) shall thereupon expire, and the Province shall be entitled to accept the qualified third party offer.

(c) In the event that a sale of the Current WTCC does not take place pursuant to clause 5 (a) or clause 5 (b) within the time prescribed therein, HRM will purchase the Current WTCC effective on the date that the Facility is ready for occupancy by the Facility Operator, at its book value on that date.

6. **Binding Obligation**

(a) HRM represents and warrants to the Province that the execution and delivery to the Province of this Agreement has been duly and validly authorized by HRM and constitutes a legal, valid and binding obligation of HRM, enforceable against HRM in accordance with its terms.

(b) The Province represents and warrants to HRM that the execution and delivery to HRM of this Agreement has been duly and validly authorized by the Province and constitutes a legal, valid and binding obligation of the Province, enforceable against the Province in accordance with its terms.

7. **Term of Agreement**

(a) Subject to the terms and conditions set out herein, this Agreement shall remain in effect for a period of one hundred and eighty (180) days from the date that the lease agreement for the Facility expires or is otherwise terminated in accordance with the terms and conditions set out therein.

8. **Conditions Precedent**

(a) Notwithstanding anything to the contrary set out in this Agreement, the obligations of the Province and HRM hereunder are conditional upon and subject to each of the following conditions precedent being met:

(i) the Government of Canada agreeing to fund 1/3 of the eligible capital construction costs of the Facility; and

(ii) the successful negotiation by the Province and HRM with the Developer of all agreements to be entered into for the design, construction and leasing of the Facility, which lease shall include an option to purchase provision substantially in conformance with clause 3 (c) of this Agreement.

9. **Office Tower and Hotel Construction**

(a) The Design Construction Agreement will require that the Developer submit:

(i) a construction schedule for the office tower and the hotel; and

(ii) a monthly update on the status of the construction schedule referred to in clause 9 (a) (i) to the works committee established under the Design Construction

Agreement, setting out the actions being taken by the Developer to achieve construction of the office tower and the hotel to core and shell substantial completion (as defined in the Design Construction Agreement) contemporaneously with the build of the Facility.

(b) HRM will have one representative on the works committee referred to in clause 9 (a) (ii), who will provide updated reports to HRM Council on the status of the construction of the Facility, hotel and office tower.

10. Entire Agreement

(a) This Agreement constitutes the entire agreement between the Province and HRM with respect to the matters described herein, and supersedes and replaces all prior representations, negotiations, agreements and understandings between them, whether oral or written, express or implied, regarding such matters.

11. Notices

(a) All notices and communications between the Province and HRM in connection with this Agreement shall be in writing and addressed as follows:

To the Province:

Jane Fraser, Executive Director
Transportation and Infrastructure Renewal
Johnston Building
1672 Granville Street
Halifax, Nova Scotia B3J 2N2
Facsimile: 902 424-2014

To HRM:

Richard Butts, Chief Administrative Officer
Halifax Regional Municipality
1841 Argyle Street Halifax
Nova Scotia B3J 3A5
Facsimile: 902 490-4012

or to such other address or person as the parties may advise each other in writing from time to time. Such notices and communication shall be deemed to have been received on the date of delivery, if delivered by hand, and on the date of transmittal, if delivered by facsimile transmission. If any notice is delivered by hand or transmitted by facsimile on a day that is not a business day, or after 4:30 p.m. on a business day, it shall be deemed to have been received by the other party on the next business day following such delivery or transmission, as the case may be.

12. **Time of the Essence**

(a) Time shall be of the essence in this Agreement.

13. **Amendments**

(a) Any amendment to this Agreement must be in writing and signed by a duly authorized representative of each of the Province and HRM.

14. **Enurement**

(a) This Agreement shall enure to the benefit of and be binding on the Province and HRM and their respective successors and permitted assigns.

15. **Further Assurances**

(a) The Province and HRM each agree, at their own cost and expense, to do all such things and execute all such further documents and instruments as may be necessary or desirable to give full effect to this Agreement and the intention of the parties in entering into this Agreement.

16. **Governing Law**

(a) This Agreement shall be governed by and construed in accordance with the laws of Nova Scotia and the laws of Canada applicable therein.

17. **Headings**

(a) The headings in this Agreement have been inserted for convenience of reference only and are not to be relied upon in its interpretation.

IN WITNESS WHEREOF the Province and HRM have executed this Agreement the day and year first above written.

Original Signed

Witness

Her Majesty the Queen in Right of the Province of Nova Scotia, as represented by the Premier

Original Signed

Darrell Dexter, Premier

Original Signed

Witness

Halifax Regional Municipality as represented by the Mayor and Clerk

Original signed

Peter Kelly, Mayor

Original Signed

Cathy Mellett, Clerk