

HALIFAX

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



Item No. 9.3.1 (i)
Halifax Regional Council
August 17, 2021

TO: Mayor Savage and Members of Halifax Regional Council

SUBMITTED BY: Original Signed

Craig MacMullin, Chair, Halifax Water Board

DATE: August 17, 2021

SUBJECT: Halifax Regional Water Commission Accountability Report

INFORMATION REPORT

ORIGIN

Annual reporting requirement.

LEGISLATIVE AUTHORITY

Section 17(1), of the Administrative Order, as approved by HRM Council on March 20, 2018.

BACKGROUND

In conjunction with the Administrative Order approved by Council on March 20, 2018, the Halifax Regional Water Commission is to prepare an Annual Accountability Report and submit financial statements within three months of the end of the fiscal year. The Accountability Report is to include:

- a) an Accountability Statement.
- b) a message from the Board Chair and the General Manager.
- c) actions taken by the Commission on Strategic objectives through the prior fiscal year and.
- d) Corporate Balanced Scorecard results for the fiscal year showing the Commissions performance and the metrics used to measure such performance, any new or changed measures used to measure performance in the upcoming fiscal year.

DISCUSSION

Accountability Statement

Halifax Water continues to meet all its obligations under the *Halifax Regional Water Commission Act* (HRWC Act) and the *Public Utilities Act*. In addition to Legislation obligations, the utility is also in compliance with all of its operating permits for its water and wastewater systems for the fiscal year ending March 31, 2021.

Achieving compliance in water and wastewater systems, year after year requires the continued dedication and perseverance of our staff. Challenges with respect to source water quality are increasing, as evidenced by the non-toxic occurrence of blue-green algae at Lake Major in the summer of 2020. On a positive note, Halifax Water established a permanent algal monitoring program, and with the new dam at Lake Major completed, there were no supply issues resulting in voluntary water use restrictions as had occurred the prior year. During 2020/21 Halifax Water also developed a Water Supply Enhancement Program (WSEP) that will see the utility spend \$230 million over a ten-year period to enhance and upgrade aging assets and dated treatment processes at the Lake Major Treatment Plant, and the J.D. Kline Treatment Plant in Pockwock. This program will mitigate risk and provide more resilience which will enable the utility to continue to respond to changing source water quality.

With respect to wastewater systems, achieving compliance is an on-going challenge balancing the influences of weather, efficiency of equipment, and customer compliance with Halifax Water Rules and Regulations. Overall, the compliance of the wastewater treatment facilities with Nova Scotia Environment and Climate Change (NSECC) requirements improved in 2020/21 compared to the prior year, and met established performance targets. Halifax Water was pleased to participate in COVID-19 related wastewater research with Dalhousie University; in addition to on-going wastewater research on optimization of the treatment processes at the Harbour Solutions Plants, and mitigation of contaminants of emerging concern.

Halifax Water was able to maintain the same rates for water and wastewater service since April 1, 2016, thanks to cost containment efforts, better than anticipated financial results, and accumulated operating surplus from previous years. Wastewater rates did increase on April 1, 2021. The net operating loss for 2020/21 is \$9.9 million under the Nova Scotia Utility and Review Board (NSUARB) Accounting Handbook, compared to a net loss of \$1.6 million in the prior year. Financial performance during 2020/21 was better than expected however, as the loss of \$9.9 million is significantly better than the budgeted loss of \$15.9 million on a NSUARB Handbook basis. The attached report to the Halifax Water Board on year end financial results explains the financial results in more detail on both an International Financial Reporting Standards (IFRS) basis and NSUARB basis.

Operating Revenues of \$136.6 million were \$2 million less than budgeted and were less than prior year by \$1.1 million. Operating expenses of \$113.7 million are \$4.4 million higher than prior year, but were \$4.4 million less than budgeted. Halifax Water's long-term debt was \$204 million at March 31, 2021; an increase of \$6 million from the previous fiscal year. The debt service ratio for combined water, wastewater, and stormwater services was 20.29% for 2020/21, well below the approved benchmark of 35.0% and slightly less than prior year.

Plant in Service assets, net of Accumulated Depreciation, totals \$1.3 billion. Numerous capital projects were completed during the year, totalling \$51.2 million and including projects such as the Port Wallace Transmission Main (\$5.9 million); the land purchase for the new Operations Facility in Burnside (\$4.8), the Fairview/Clayton Park/Bridgeview Inflow/Infiltration Reduction project \$2.3 million), the Corporate Flow Monitoring Program (\$1.7 million), the Bennery Water Treatment Plant Access Road Upgrade (\$1.5 million), and several wastewater sewer replacements and pump station upgrades. As of March 31, 2021, there was also \$31 million dollars of capital assets under construction compared to the \$18 million that was in progress at that time last year. Capital expenditures were less than planned in 2020/21. Increasing the organizational capacity to deliver an increasing capital program is an on-going challenge that Halifax Water is working on.

In addition to meeting obligations under the *HRWC Act* and the *Public Utilities Act*, Halifax Water is focussed on maintaining a high level of employee and customer satisfaction. The overall rating in the 2020 Employee Survey was a B+, consistent with last year. The overall rating in the 2020 Customer Survey was 96% of customer being very or somewhat satisfied; consistent with prior year. Customer satisfaction with delivery of stormwater service was 84%, a slight increase from 83% in 2019. Halifax Water is pleased to have maintained consistent employee and customer satisfaction when service delivery, customers and employees were all affected by the impact of COVID-19.

Message from the Board Chair and General Manager

The 2020/21 fiscal year saw some significant achievements and challenges for Halifax Water in the pursuit of its mission to provide world class services for our customers and our environment.

The year saw turnover in half of the Halifax Water Board, including the Vice-Chair – the long serving former municipal councillor Russell Walker, who served on the Halifax Water Board for 10 years. Halifax Water ensured that new Board members and new municipal councillors were oriented to Halifax Water governance, services and operational service delivery. The Halifax Water Board and Executive Team demonstrate gender balance and diversity, and Halifax Water is committed to building an increasingly diverse organization that is representative of the customers served.

In 2020/21 the NSUARB released decisions approving Halifax Water's request to not raise water rates until 2021/22; along with the approval of an adjustment to Wastewater rates on April 1, 2021 and Regional Development Charges on May 31, 2021. Halifax Water works hard to balance competing interests such as the need to maintain and upgrade critical infrastructure, meet environmental requirements, and prudently plan for capacity to support further growth, while maintaining high-quality services that are affordable for customers.

Challenges for Halifax Water in 2020/21 included a non-toxic algal bloom at Lake Major, significant water main breaks on the Cobequid Road, and the on-going response to COVID-19. The value of having formalized emergency management and enterprise risk management plans continues to be demonstrated each year at Halifax Water.

Halifax Water's work was recognized by external organizations. In January 2021, Halifax Water was named as one of Atlantic Canada's Top 100 Employers; and in February 2021, it was announced that Halifax Water was awarded the 2021 American Water Works Association (AWWA) Public Communications Achievement Award. The Award recognizes AWWA members and/or organizations for significant accomplishments in communication including educating the public, promoting awareness and understanding of water issues, establishing media relations, implementing community involvement programs, and inspiring others to model behavior with the public that builds trust and credibility. Many utilities compete for this award, but a maximum of 2 are selected in this category to receive the award each year. Halifax Water's win was based on the external and internal communications examples related to Halifax Water's response to our COVID-19 response.

Throughout the response to COVID-19, Halifax Water staff were on the front line maintaining essential services that allows homes, buildings, hospitals, long-term care facilities, breweries and industry to operate, provide water for fire protection, and kept wastewater and stormwater systems running to help protect our environment and public and private property. Staff kept these critical systems running, while working safely and taking steps to benefit and assist our customers.

Although there were challenges, there were also successes in 2020/21 and some new programs and service enhancements were successfully launched, such as an enhanced lead service line replacement program, an enhanced algal monitoring program, a customer portal, and a Water Supply Enhancement Program (WSEP). The WSEP will see the utility spend \$230 million over a ten-year period for asset

replacements and process enhancements and upgrades at the Lake Major and Pockwock Water Treatment Plants. Halifax Water also participated in ongoing research to help identify COVID-19 in wastewater.

A number of significant capital projects including the upgrade of the Caledonia Road Water Transmission Main; and the installation of new water main and storm sewer in the Federal/Romans/McAlpine Avenue area of Halifax. To better serve the growing communities of Bedford South, Bedford West, Royale Hemlocks and Birch Cove North, Halifax Water began construction of a new water reservoir.

Two significant Halifax Water applications were heard by the Nova Scotia Utility and Review Board (NSUARB) – one regarding an application to increase water and wastewater rates, and one regarding an adjustment to Regional Development Charges (RDCs). To ensure the on-going financial sustainability of the utility, ensure costs are allocated equitably between different customer groups and generations of customers, it is necessary to periodically adjust rates and charges.

The application to increase water and wastewater rates recognized the need to balance investments in critical infrastructure and service with customer needs. Rates for water and wastewater service had not increased since April 1, 2016, but the cost of providing those services has increased. Since the last rate increase in April 2016, Halifax Water has invested \$225 million in water, wastewater and stormwater infrastructure. Over 30 years (2019-2049), it is estimated the utility will need to invest approximately \$4 billion (\$2.7 billion in today's dollars). These services are fundamental to the economic well-being of our municipality, the health of residents, and protection of our environment. When the application was put forward it was felt that the utility did not have the ability to absorb all the projected costs without assuming an unacceptable level of risk. COVID-19 prompted Halifax Water to re-assess the timing and amount of rate increases, and to take immediate action to offer temporary customer relief by suspending collection activities, waiving interest, offering flexible payment arrangements and re-connecting disconnected customers. Halifax Water also put forward a strategy to reduce and defer rates increases, committing to hold water rates for 2020/21 and 2021/22, and to defer increasing wastewater rates until April 1, 2021.

As an essential service provider last year, Halifax Water's focus was on safely maintaining services, employment and capital work. Halifax Water employs approximately 500 employees, and the \$96 million dollar capital budget and \$155 million-dollar operating budget in 2020/21 provided significant local economic benefit that in turn benefits Halifax Water customers.

Water, wastewater, and stormwater services are vital to the residents and businesses of our region. With investments now and into the future, we will all benefit from the infrastructure that helps provide the economic and environmental backbone for current and future generations.

Strategic Objectives

The following outlines the strategic priorities for 2020/21 and a status update on their progress:

- Water research program
 - ✓ Research on source lake recovery and geosmin continued with some delay due to COVID-19.
- Continue Lake Major upgrades and initiate Pockwock upgrades
 - ✓ These initiatives were incorporated with the development of a Water Supply Enhancement Program spanning 10 years with and the first projects for Lake Major are underway.
- Assure distribution system water quality during main breaks
 - ✓ New standard operating procedures were implemented (SOPs).
- Implement enhanced lead service line replacement program
 - ✓ NSUARB approval was secured and the enhanced program was launched in March 2021.

- Complete lead service line renewals in conjunction with municipal street renewals
 - ✓ Three streets were planned for 2020/21 – Berlin St., Drummond Court, and Leaman St. Halifax Water replaced 15 public lead service lines and 17 private services on Berlin Street in conjunction with the HRM project. The Berlin St. project served as a valuable learning experience for setting up processes with HRM to complete lead service line replacements. Drummond Court and Leaman Street were deferred by HRM to the 2021/22 construction season.
- Complete dam safety review and develop strategy to address findings
 - ✓ The dam safety review was completed and presented to the Halifax Water Board in November and activities to address the findings are reflected in the business plan and future budgets.
- Complete first year of wastewater research and evaluate
 - ✓ The first year of wastewater research was completed reported to the Halifax Water Board in March. In addition to research on treatment plant optimization, the program was expanded to include COVID-19 related wastewater research.
- Confirm plan for Halifax Harbour Solution Plants (HHSP) upgrades to meet 2040 environmental compliance
 - ✓ Wastewater research focussing on treatment plant optimization was conducted, as well as some plant optimization projects. A terms-of-reference for a wastewater treatment plant facility planning study has been developed and the study will be completed prior to the next Integrated Resource Plan update.
- Complete wet weather management projects and explore private side I&I reduction
 - ✓ Projects in Fairview/Clayton Park areas were completed resulting in I&I reductions of 70 l/sec. Additional capital projects and activities are planned for 21/22 that will result in more private side I&I reduction.
- Develop level of service standard for odour and strategy to achieve it
 - ✓ The level of service and odour strategy was approved by the Halifax Water Board in March 2021.
- Continued coordination with the municipality on the Integrated Stormwater Policy
 - ✓ Halifax Water worked with HALIFAX on some property specific issues as well as commenting and providing support on the Lot Grading By-law and the Halifax Stormwater Management Standards-For Development Activities.
- Evaluate success of doing large cross culvert work in house
 - ✓ Evaluation of Paula Avenue cross culvert replacement confirmed benefit of doing other large cross culvert work in house.
- NSUARB acceptance of 2019 IRP
 - ✓ The IRP was filed, reviewed and accepted as part of the Water and Wastewater Rate Hearing and the Regional Development Charge (RDC) hearing.
- Optimize capital project delivery and improve % of annual capital budget spent
 - ✓ More detailed reporting on the status of capital delivery was introduced for the Halifax Water Board. The scope and requirements were prepared for a Capital Planning & Management Information System (CPMIS); and the organizational capacity to deliver capital is under-review.
- Obtain approvals for East/Central depot consolidation
 - ✓ The Halifax Water Board and NSUARB approved the purchase of land for construction of the Burnside Operations Depot and preliminary design is underway.

- Support HRM Cogswell Area Redevelopment
 - ✓ Halifax Water participated on the Cogswell Steering Committee, worked closely with municipal staff to support the design and construction tender process, and completed some land transactions with the municipality in 2020/21 to enable the Cogswell redevelopment.
 - Delivery of key IT projects (payroll, customer portal, enterprise resource planning (ERP))
 - ✓ The Telus VIP payroll and human capital management system was successfully launched in August 2020. The customer portal was launched in November 2020, with Phase Two enhancements released in January 2021. The ERP project was approved by the Halifax Water Board and the Nova Scotia Utility and Review Board, and the project is underway.
 - GIS update of impervious area
 - ✓ Updated satellite imagery was acquired in 2020/21 and used to update impervious area for stormwater billing.
 - Implement risk-based condition assessment and improved decision-making tools for asset management
 - ✓ An application was made to the NSUARB for approval of an Analytics and Decision Support System, which was recently approved. A capital project evaluation matrix was also developed that will be piloted in the development of the 22/23 capital budget.
 - NSUARB approval of updated Regional Development Charge
 - ✓ In October the NSUARB released a decision approving an updated RDC, as well as the ability for RDCs to be deferred for up to 10 years for affordable housing projects. The changes were effective May 31, 2021.
 - Commence corporate implementation of Environmental Management System (EMS) ISO 14001
 - ✓ A plan was developed to implement EMS corporately over a three-year period, effective April 1, 2021; and organization structure changes were introduced to increase capacity to support implementation.
 - Coordination with HALIFAX in implementation of their new online permitting system within Engineering Approvals
 - ✓ Halifax Water went live in the new permitting system in December 2020. (The preliminary work on this project proved beneficial in continued processing of permits when staff had to work remotely due to COVID-19 in March 2020).
 - Evaluate ISO45001 (safety) certification and complete physical security audit
 - ✓ The ISO45001 evaluation was deferred until 21/22 due to the retirement of the Manager of Safety and Security. The completion of the physical security audit was deferred due to COVID-19.
 - Discuss point of sale disclosures with the NS Real Estate Commission
 - ✓ A concept for a New Service Account, Certification Program was developed to allow for inspections of service laterals when ownership changes. Stakeholder consultation, including the NS Real Estate Commission among others will occur in 21/22.
 - Customer experience – Customer Portal & use of AMI data
 - ✓ Customer portal was launched in November 2020 and AMI data is now being used proactively to notify both portal and non-portal customers about high consumption and possible leaks.
- Billing – possible transition to HRM print shop, monthly billing and improved collections
- ✓ Transition to HRM print shops and monthly billing has been analyzed and will proceed in 21/22. Collections were on-hold for six months in 20/21 due to COVID-19. Improvements to the collections process will occur in conjunction with monthly billing.

- New telephony system and enhanced linkages between Customer Care Centre and operations through CMMS
 - ✓ New telephony system was implemented
- Operational and financial benefits of new enterprise resource planning system (ERP)
 - ✓ A cost benefit analysis regarding replacement of the ERP system was conducted and the Halifax Water Board and NSUARB approved replacement of the ERP. This is a significant two-year project.
- Updated funding strategies
 - ✓ NSUARB public hearing processes were completed for rates for water and wastewater service, and RDCs. Adequacy of other fees and charges were also examined and updated.
- Improved Management and Board reporting
 - ✓ Format for Board meeting agendas and minutes were updated, new capital reporting was introduced, and some additional reporting on the Halifax Water Employees Pension plan was initiated.
- Obtain by-law and approvals for the Cogswell District Energy System (DES)
 - ✓ The NSUARB ruled in May 2020 that the DES would be a regulated utility. The DES by-law was approved by Halifax Regional Council in August 2020.
- Operationalize enterprise risk management
 - ✓ An Enterprise Risk Management Program Manager was hired effective February 2021, an ERM Halifax Water Board Subcommittee was established, and an ERM Steering Committee composed of key Halifax Water managers.
- Update Governance Manual and board reporting
 - ✓ The Governance Manual was updated and approved at the September 2020 Halifax Water Board meeting.
- Train new supervisors and develop skills for all leaders in providing feedback
 - ✓ A new supervisor training program was conducted in 2020/21, and self-paced on-line training was introduced for all manager and supervisors regarding providing feedback.
- Train all employees on psychological health and safety
 - ✓ Mandatory training was conducted for all employees
- Enhance customer communications – a) water and wastewater rate increases and b) stormwater service
 - ✓ Halifax Water implemented communication plans for changes to wastewater rates, the RDC, the enhanced lead service line program, the new customer portal, and updated the stormwater service information on Halifax Water's website.

Corporate Balance Scorecard

Halifax Water has been utilizing a Corporate Balanced Scorecard since 2001 and covers a broad range of critical success factors to support the utility mission. Attached is a full overview of the Corporate Balanced Scorecard results for the 2020/21 fiscal year, as contained in a staff report to the June 2021 Halifax Water Board meeting. The attachment also indicates the targets for the upcoming 2021/22 fiscal year.

Alignment and Cooperation with the Municipality

Halifax Water worked closely with the Municipality on several initiatives this year including HalifACT 2050, the Cogswell Redevelopment Project, the transfer of Provincial roads, Integrated Stormwater Policy and

completion of the Stormwater Management Standards, the continued Regional Plan update and RDC deferral options for affordable housing.

Halifax Water is engaged in the Cogswell Redevelopment project in two distinct areas. Firstly, Halifax Water is proposing the installation and operation of an Ambient Temperature District Energy System (ATDES) within the new Cogswell area; and secondly, Halifax Water has a significant volume of existing and proposed water, wastewater and stormwater infrastructure to be relocated or constructed within the project limits. Halifax Water actively supports this project with a view to ensuring the design is appropriate for future water, wastewater and stormwater requirements, and to ensure continuity of service to existing customers during construction. Halifax Water also leased land at the Halifax WWTF to the municipality, to facilitate additional green public space as part of the Cogswell Redevelopment project.

Alignment of capital programs and delivery of integrated utility/municipal projects occurs every year. Halifax Water also provides technical support to the municipality with respect to possible service extensions. The municipality is responsible for service extensions.

Halifax Water is working closely with the municipality on water, wastewater and stormwater projects as part of integrated projects, and working on full integration of lead service line replacements with municipal street projects.

Halifax Water and HALIFAX exchange services on a regular basis and work cooperatively together. The relationship, and the terms for exchange of services, are detailed in a formal Service Level Agreement. One of the key guiding principles governing the relationship is that there should be no cross subsidization between taxpayers or utility rate payers. Consistent with this principle, in 2019/20 Halifax Water and municipal staff negotiated a three year renewal of the Dividend Agreement (grant in lieu of taxes) that results in some increase revenue for the municipality, and caps the annual increase in the dividend to 1.0%, thus helping ensure there is no rate shock for Halifax Water customers as the amounts paid to the municipality are increased to include additional dividend payments for wastewater and stormwater. In 2020/21, the NSUARB approved the proposed new dividend payments for wastewater and stormwater.

FINANCIAL IMPLICATIONS

Halifax Water is a regulated utility with cost recovery in compliance with the Public Utilities Act.

ATTACHMENTS

1. Report to Halifax Water Board: Corporate Balanced Scorecard - 2020/21 Results, dated June 17, 2021
2. Report to Halifax Water Board: Financial Statements for the year ended March 31, 2021, dated June 17, 2021
3. Report to Halifax Water Board: Halifax Regional Water Commission Employees' Pension Plan Financial Statements for the Year Ended December 31, 2020, dated June 17, 2021

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: Original Signed
Cathie O'Toole, General Manager, Halifax Water, 902.490.4840

Report Approved by: Original Signed
Craig MacMullin, Chair, Halifax Water Board

TO: Craig MacMullin, MBA, CPA, CGA, Chair, and Members of the Halifax Regional Water Commission Board

SUBMITTED BY:

 Digitally signed by Cathie O'Toole
Date: 2021.06.10
16:04:25 -03'00'

Cathie O'Toole, MBA, FCPA, FCGA, ICD.D, General Manager

DATE: June 8, 2021

SUBJECT: Corporate Balanced Scorecard – 2020/21 Results

ORIGIN

Annual Corporate Performance Measurement.

RECOMMENDATION

It is recommended that the Halifax Regional Water Commission Board approve the Organizational Award Program tied to the outcomes of 12 Organizational Indicators, as detailed in the attached presentation.

BACKGROUND

Halifax Water has been utilizing a corporate balanced scorecard (CBS) to measure performance since 2001. With the merger in 2007, Halifax Water developed an expanded CBS to include wastewater and stormwater measurements. As well, this provided an opportunity to refine measurements related to water service delivery. The final 2020/21 results are presented for information.

DISCUSSION

The mission of Halifax Water is *“to provide world-class services for our customers and our environment”*. The statement is simple and recognizes the connection between customers and the environment with the “one-water” mandate. The mission places the responsibility on employees to make Halifax Water a world class utility, a responsibility they take personally and seriously.

The vision statement for Halifax Water is:

- *We will provide our customers with high quality water, wastewater, and stormwater services.*
- *Through adoption of best practices, we will place the highest value on public health, customer service, fiscal responsibility, workplace safety and security, asset management, regulatory compliance, and stewardship of the environment.*
- *We will fully engage employees through teamwork, innovation, and professional development*

The vision statement expanded on the values and principles of a world class utility in fulfilling its mission and captures the medium to long-term aspirations of Halifax Water. With the vision statement developed, staff then selected the Critical Success Factors (CSFs) that support the mission, and through an interactive process, settled on the following:

- 1. High Quality Drinking Water**
- 2. Service Excellence**
- 3. Responsible Financial Management**
- 4. Effective Asset Management**
- 5. Safety and Security**
- 6. Regulatory Compliance**
- 7. Environmental Stewardship**
- 8. Motivated and Satisfied Employees**

There are Organizational Indicators (OIs) established for each CSF to enable performance measurement and establishment of targets. Each year, the OIs are reviewed and refined based on operational objectives and approved budgets.

CBS Results for 2020/21

The following lists the CSFs and corresponding results for the organizational indicators under each category.

High Quality Drinking Water

Organizational Indicators	2020/21 Target	2020/21 Result
High Quality Drinking Water		
Adherence with 5 objectives of Water Quality Master Plan for all water systems - Percentage of sites achieving targets	80 - 100	76
Bacteriological tests - Percentage free from Total Coliform	99.3%	100%
Customer satisfaction about water quality - Percentage from customer survey	80 - 85%	84%

Under the category of High Quality Drinking Water, we are continuing to seek adherence to five key objectives associated with our Water Quality Masterplan. Performance was measured through our ability to maintain a disinfection residual throughout the distribution system, control disinfection byproducts like trihalomethanes (THMs) and haloacetic acids (HAAs), ensure particle removal through our filtration systems, and ensure corrosion control in the distribution system, as measured by the level of lead at the customers' taps. Our results in these five categories scored 0.76, out of a total maximum score of 1.00, a decline from last year's result of 0.82. This year's results were impacted by a combination of the phenomenon of source lake recovery and algal blooms (impacting THM and HAA) and a significant change in customer consumption patterns due to COVID-19 restrictions, namely a decrease in consumption in our Bennery system which serves the airport, and in the Burnside industrial park."

As for water safety, our bacteriological test results continue to be excellent at 100% this year, compared to a target of 99.3% of samples free of total coliform.

Results from our annual customer survey indicate that 84% of customers were satisfied or very satisfied with water quality, down slightly from last year's result of 87%, but within the target range of 80%-85%.

Service Excellence

Organizational Indicators	2020/21 Target	2020/21 Result
Service Excellence		
Customer satisfaction with service - Percentage from customer survey <i>*See Note 1 in the attached Summary</i>	90%	96%
Water service outages - Number of connection hours/1000 customers <i>*See Note 2 in the attached Summary</i>	200	3612.62
Wastewater service outages – Number of connection hours/1000 customers	8	0.92
Average speed of answer – Percentage of calls answered within 20 seconds.	70%	71%

Under the Service Excellence CSF, the annual customer survey indicated that 96% of our customers are satisfied or very satisfied with our overall service, on par with 96% last year and surpassing the target of 90%.

Service reliability on the water side was significantly impacted in 2020/21 by water main breaks at Cobequid Road. Service outages for water were 3,612 connection hours/1,000 customers compared to a target of 200 connection hours. Wastewater results have continued to improve with outages of 0.92 connection hours per 1,000 customers compared to 1.64 connection hours per 1,000 customers last year , and well below the target of 8 connection hours per 1,000 customers.

Customer Care Centre performance is monitored as another important component of Service Excellence. The percentage of calls answered within 20 seconds in 2020/21 was 71%, compared to 32% last year, and the target of 70%. This represents a significant improvement in Customer Care Centre performance which was achieved during a period of great change resulting from Customer Care Centre staff shifting to working remotely due to COVID-19; on-going operational changes that cause increased call volumes such as the general rate hearing; COVID-19 relief measures; the enhanced lead service line program; and the implementation of the customer portal.

Responsible Financial Management

Organizational Indicators	2020/21 Target	2020/21 Result
Responsible Financial Management		
Operating expense/revenue ratio percentage	83.8%	81.5%
Annual cost per customer connection – Water	\$522	\$498
Annual cost per customer connection – Wastewater	\$721	\$724

Under Responsible Financial Management, the expense to revenue ratio, which is a Gateway Indicator for the Organizational Performance Award program, was recorded as 0.815, compared to the benchmark of 0.838 for the fiscal year. Also tied to the theme of Responsible Financial Management is the annual cost per connection for water and wastewater service. For water, the annual cost per connection increased to \$498 compared to \$469 in 2019/20, but was less than the target of \$522.

For wastewater, the annual cost increased to \$724 from \$718 per connection and slightly exceeded the target of \$721.

Effective Asset Management

Organizational Indicators	2020/21 Target	2020/21 Result
Effective Asset Management		
Water leakage control – target leakage allowance of 160 litres/service connection/day <i>*See Note 3 in the attached Summary</i>	160-170	193
I&I reduction - Number of inspections to identify private property discharge of stormwater into the wastewater system <i>*See Note 4 in the attached Summary</i>	450	1316*
Peak flow reduction from wet weather management capital projects <i>*See Note 5 in the attached Summary</i>	34-38 l/sec	70 l/sec*
Percentage of time GIS and Cityworks are available	96-98%	100%
Capital budget expenditures - Percentage of budget spend by end of fiscal year <i>*See Note 6 in the attached Summary</i>	80-90% approved	30.78%

The leakage performance measure for 2020/21 was 193 compared to 176 litres per service connection per day in 2019/20 and was above the target range of 160-170 litres per connection per day. It should be noted that this target was adjusted to be more aggressive in 2018/19, where the previous target was 180 - 190 litres per connection per day. The water loss control program is being reviewed to determine what improvements can be made, and whether the 160-170 target is realistic recognizing there is a point at which there will be diminishing returns as the economic level of water loss control is achieved.

On the wastewater side, reduction of inflow and infiltration is a key measurement of performance. A record number of 1316 inspections were carried out on private property, compared to 1086 inspections on private property last year. The target in 2020/21 was 900 inspections per year. At the March 2020 Halifax Water Board meeting the Board approved lowering this target to 450 inspections as it was anticipated there would be increased difficulty securing appointments due to sensitivity around COVID-19.

In recognition of the importance of keeping extraneous flows out of the wastewater system, a new OI was introduced in 2019/20 targeting peak flow reductions in the Clayton Park/Fairview sewershed where a concerted effort is being made to reduce inflow & infiltration into the wastewater system. The new OI has a target range reduction of 34 – 38 l/sec. This target was exceeded in 2020/21 as peak flow reduction of 70 l/sec were achieved. No results were reported in 2019/20 as the capital project was not approved by the NSUARB in time to implement within that fiscal year.

Updating and maintaining the GIS database is crucial to our Asset Management Program. With the GIS database now considered to be in a mature state, at the March 28, 2019 Halifax Water Board meeting, a new OI was approved based on the percentage of time GIS and CityWorks is in service on a 24/7 operational protocol. The target range was set at 95% - 97%. For 2020/21, GIS and CityWorks were in service 100% of the time, which exceeds the target range

of 95-97%. Having this level of system reliability and availability is critical to assisting operational crews as they undertake daily maintenance and planned or emergency repair activities.

Also under Effective Asset Management is Capital Budget Expenditures, recognizing that we need to maximize spending of the annual funds approved by the NSUARB. The target for this OI is 80%-90%. Halifax Water completed \$51.2 million in capital projects in 2020/21, but the percentage of the 2020/21 capital budget that was spent was only 30.78%. This is a significant decrease compared to prior years and will be a focus area for improvement. \$6.3 million in capital projects were delayed due to HRM related projects; \$8.2 million were associated with delayed NSUARB approvals; \$3 million resulted from protracted land acquisition; \$9.1 million was a result in differences in anticipating planning or timelines; \$8.2 million was as a result of projects being re-scoped; and \$1.3 million was related to delays caused by COVID-19.

Workplace Safety and Security

Organizational Indicators	2020/21 Target	2020/21 Result
Workplace Safety and Security		
Average score on internal safety audits	85-95%	94.5%
NS Labour and Advanced Education compliance - # of Incidents with written compliance orders	0-2	0
Lost time accidents -Number of accidents resulting in lost time per 100 employees	2.0-3.0	0.59
Safe driving - Number of traffic Accidents per 1,000,000 km driven (maximum of 5)	4	5.5
Training - Number of employees trained or recertified before due date <i>*See Note 7 in the attached Summary</i>	80-90%	59%*
Percentage of completed safety talks	80-90%	86%

In recognition that the safety program had reached a more mature and stable state, at the March 28, 2019 Halifax Water Board meeting, a revised OI was approved based on the average score of internal safety audits. The target range for this revised OI is 85% - 95%, and in 2020/21 an average score of 94.5% was achieved, and increase from the 2019/20 average score of 89% on internal safety audits.

Halifax Water had no infractions in 2020/21 resulting in a written warning from NS Labour and Advanced Education, consistent with the prior year and achieving the target range for this OI of 0 - 2.

With regard to lost-time accidents, which is a key indicator for workplace safety, the organization saw 0.59 accidents per 100 employees as compared to a target of 2.0-3.0 per 100 employees. This is an improvement compared to the 2019/20 result of 1.6 lost time accidents per 100 employees. This OI is a Gateway Indicator for the Organizational Performance Award program.

Halifax Water has a large fleet to deliver its services. Accordingly, the organization tracks the number of traffic accidents per million kilometers driven. For 2020/21, 5.5 traffic accidents per million km were recorded, a slight increase compared to the 4.2 recorded in 2019/20 and outside the target range of 4 (maximum of 5). This will be an area of focus for improvement in 2021/22.

Regulatory Compliance

Organizational Indicators	2020/21 Target	2020/21 Result
Regulatory Compliance		
Percentage of public health and environmental regulatory infractions resulting in a summary offense ticket <i>*See Note 8 in the attached Summary</i>	0-2	0
Percentage of WWTFs complying with NSE approval permits (Project for 20/21 at end of February)	95-100%	93%

Under the critical success factor of Regulatory Compliance, there were no public health and environmental regulatory infractions resulting in summary offense tickets.

Also under regulatory compliance, the percentage of wastewater treatment facilities meeting discharge requirements of their operating permits was 93%, an improvement from 91.2% last year but less than the target range of 95-100%. This target was not achieved in 2020/21 due to some on-going process changes and equipment replacement at the Dartmouth Wastewater Treatment Facility and process issues identified at Mill Cove, North Preston and Springfield Lake WWTFs. The target of 95-100% is aggressive, but achievable and demonstrates our level of commitment to stewardship of the environment. Remaining compliant with permits issued by Nova Scotia Environment and achieving federal wastewater system effluent regulations [WSER] for facilities not operating under transitional operating permits is a key aspect of our strategic plan.

Environmental Stewardship

Organizational Indicators	2020/21 Target	2020/21 Result
Environmental Stewardship		
Number of ICI properties inspected by Pollution Prevention each year <i>*See Note 9 in the attached Summary</i>	440 *recommended target	356
Energy management kwh/m3 reduction associated with capital projects	3%	+8%
Bio-solids residual handling - % of sludge meeting bio-solids concentration targets	92-97%	98.6%

During the 2020/21 fiscal year, the Pollution Prevention division of Regulatory Services inspected 356 businesses in the Halifax municipality, a decrease from the 501 inspected in 2019/20, and below the target of 440 inspections. The target number of inspections for 2020/21 was initially 500 and was revised to 440 at the March 2020 Board meeting based on the anticipated impact of COVID-19. The target for 2021/22 is set at 500.

There is also continued focus on energy management associated with our water and wastewater treatment facilities with an energy reduction of 8% achieved in 2020/21. A fabulous result compared to the 4.67% achieved last year and the target of 3%. As one of the Utility’s largest expenses, these on-going energy reductions represent real savings on the capital and operational sides of the business, as well as continued reductions in our environmental footprint. The energy reductions in 2020/21 are primarily as a result of equipment replacement and repairs at wastewater treatment facilities.

Under biosolids residuals handling, 98.6% of the biosolids residuals met the desired solids concentration in 2020/2021, compared to 99.2% last year, and still exceeding the target of 92-97%.

Motivated and Satisfied Employees

Organizational Indicators	2020/21 Target	2020/21 Result
Motivated and Satisfied Employees		
Number of arbitrations divided by total number of grievances	0	0
Percentage of jobs filled with internal candidates	80%	75%
Employee satisfaction survey result	A	B+
Average number of days absenteeism	<7	5.88

There are several organizational indicators under this category, including filling jobs with Halifax Water incumbents. For the 2020/21 fiscal year, 75% of jobs were filled from within, a significant increase from the 65% achieved last year, but less than the target of 80%. The target of 80% has never been achieved and Halifax Water has been working on a new approach to employee development as part of a broader Talent Management initiative. A new employee development guide was introduced in 2020/21 with more information on career planning, career paths, and job profiles to help employees identify what education, competencies and experience are required for various positions. Halifax Water has programs in place to help employees obtain additional training and education to further their career with the utility.

To promote harmonious labour management relations, an organizational indicator was chosen to recognize the number of grievances resulting in arbitrations throughout the fiscal year. The 2020/21 result was 0, and improvement from the 0.07 reported last year, and meeting the target of zero.

The Corporate Balanced Scorecard also includes an indicator of employee satisfaction which is derived from a survey that is carried out in the fall of the year. The 2020/21 survey resulted in a B+ which is consistent with prior year results. The target for this OI is an A-. The response rate was 71%, and a number of metrics reached the highest levels yet, indicating that the target of A- should be achievable with continued focus and concentrated effort.

The number of days of absenteeism for employees is also a measure of satisfaction and motivation. Accordingly, the average number of days that an employee was absent this year stood at 5.88 down from 7.54 in 2019/20 and well beneath the target of less than 7 days. This result is better than most public sector organizations and compares favourably with the private sector.

Organizational Award Program

Consistent with past practice, 12 organizational indicators were incorporated into an Organizational Award Program. The selected organizational indicators are determined to be the most objective and outward looking to the customers and environment we serve.

The following is a summary of our organizational indicators and corresponding award point values for the 2020/21 fiscal year:

ITEM # 6
Halifax Water Board
June 17, 2021

<u>Organizational Indicator</u>	<u>2020/21 Results</u>
Water Quality Master Plan Objectives	0.0
Customer Water Quality Survey Results	0.0
Customer Service Survey Results	1.0
Operating Expense/Revenue Ratio (Gateway Indicator)	1.0
Water Loss Control Reduction	1.0
Inflow & Infiltration Reduction	1.0
Percentage that GIS is Operational	1.0
# of Lost Time Accidents per 100 Employees (Gateway Indicator)	1.0
# of Accidents per 1,000,000 kms driven	0.0
Percentage of WWTFs Compliant with NS Environment Permits	0.0
Energy Management - Water & Wastewater	1.0
Biosolids Residuals Handling	<u>1.0</u>
*TOTAL SCORE	8.00
<i>*The maximum attainable score is 12.0, which equates to a \$1,000 award.</i>	

In accordance with the Organizational Award Program criteria, eligible employees will receive \$700 each in recognition of the exceptional performance.

BUDGET IMPLICATIONS

With the operating expense-to-revenue ratio less than the target, funds were available within the 2020/21 operations budget for the Organizational Award Program.

ATTACHMENT

1. Summary – 2020-21 Corporate Balanced Scorecard – Final Results, June 17, 2021
2. Presentation – Corporate Balanced Scorecard 2020/21 Results – June 17, 2021

Report Prepared by:	[REDACTED]	Digitally signed by Cathie O'Toole Date: 2021.06.10 16:42:19 -03'00'
		Cathie O'Toole, MBA, FCPA, FCGA, ICD.D, General Manager 902-490-4840
Financial Reviewed by:	Montbrun	Digitally signed by Louis de Montbrun Date: 2021.06.10 16:21:25 -03'00'
		Louis de Montbrun, CPA, CA, Director, Corporate Services / CFO 902-490-3685

Organizational Indicators	2020/21 Target	2020/21 Result	2021/22 Target
High Quality Drinking Water			
Adherence with 5 objectives of Water Quality Master Plan for all water systems - Percentage of sites achieving targets	80 - 100	76	80
Bacteriological tests - Percentage free from Total Coliform	99.3%	100%	99.9%
Customer satisfaction about water quality - Percentage from customer survey	85%	84%	85%
Service Excellence			
Customer satisfaction with service - Percentage from customer survey <i>*Note 1</i>	90%	96%	95%*
Water service outages - Number of connection hours/1000 customers <i>*Note 2</i>	200	3612.62	200
Wastewater service outages – Number of connection hours/1000 customers	8	0.92	4
Average speed of answer – Percentage of calls answered within 20 seconds.	70%	71%	70%
Responsible Financial Management			
Operating expense/revenue ratio percentage (<i>gateway indicator</i>)	83.8%	81.5%	82%
Annual cost per customer connection – Water	\$522	\$498	\$543
Annual cost per customer connection – Wastewater	\$721	\$724	\$758
Effective Asset Management			
Water leakage control – target leakage allowance of 160 litres/service connection/day <i>*Note 3</i>	160-170	193	160-170
I&I reduction - Number of inspections to identify private property discharge of stormwater into the wastewater system <i>*Note 4</i>	450	1316*	900
Peak flow reduction from wet weather management capital projects <i>*Note 5</i>	34-38 l/sec	70 l/sec*	5-10 l/sec*
Percentage of time GIS and Cityworks are available	96-98%	100%	96-98%
Capital budget expenditures - Percentage of budget spend by end of fiscal year <i>*Note 6</i>	80-90% approved	30.78%	70-80%
Workplace Safety and Security			
Average score on internal safety audits	85-95%	94.5%	85-95%
NS Labour and Advanced Education compliance - # of Incidents with written compliance orders	0-2	0	0-2
Lost time accidents -Number of accidents resulting in lost time per 100 employees (<i>gateway indicator</i>)	2.0-3.0	0.59	1.5-2.0
Safe driving - Number of traffic Accidents per 1,000,000 km driven (maximum of 5)	4	5.5	4
Training - Number of employees trained or recertified before due date <i>*Note 7</i>	80-90%	59%*	80-90%
Percentage of completed safety talks	80-90%	86%	80-90%

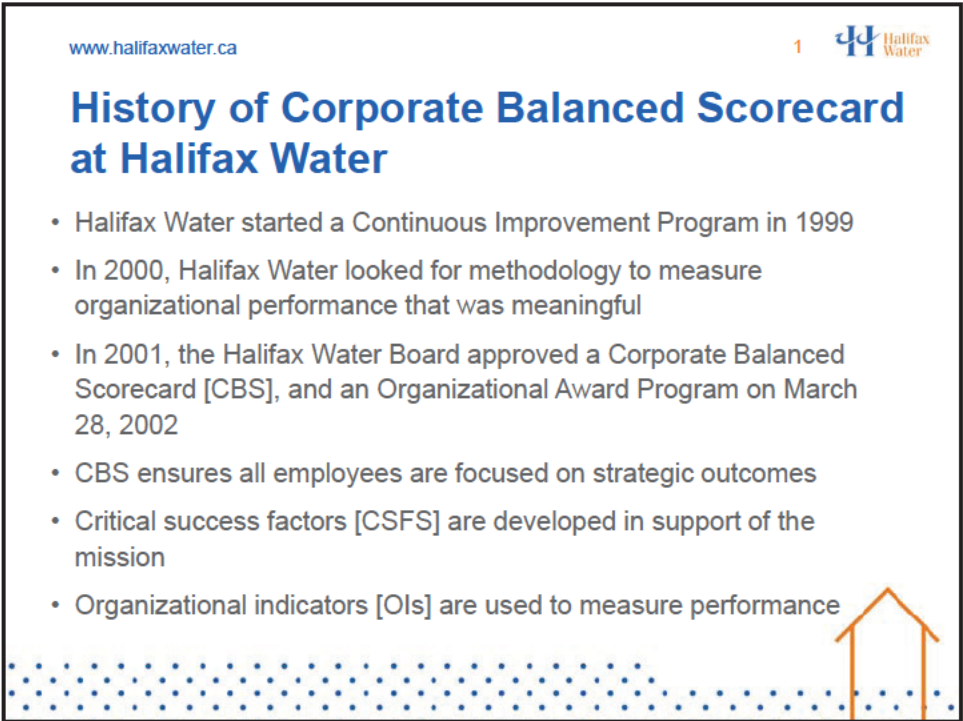
Regulatory Compliance			
Percentage of public health and environmental regulatory infractions resulting in a summary offense ticket <i>*Note 8</i>	0-2	0	0-2
Percentage of WWTFs complying with NSE approval permits (Project for 20/21 at end of February)	95-100%	93%	95-100%
Environmental Stewardship			
Number of ICI properties inspected by Pollution Prevention each year <i>*Note 9</i>	440 <i>*recommended target</i>	356	500
Energy management kwh/m3 reduction associated with capital projects	3%	+8%	3%
Bio-solids residual handling - % of sludge meeting bio-solids concentration targets	92-97%	98.6%	92-97%
Motivated and Satisfied Employees			
Number of arbitrations divided by total number of grievances	0	0	0
Percentage of jobs filled with internal candidates	80%	75%	80%
Employee satisfaction survey result	A	B+	
Average number of days absenteeism	<7	5.88	<7

Notes:


1. The Customer Satisfaction target is recommended to increase from 90% to 95%. Maintaining the current level of customer satisfaction of 96% will be challenged by stormwater service expansion, a cost-of-service hearing, and a potential rate application.
2. Water service outage hours for 2020/21 were exceeded due to the significant Cobequid Road water main breaks in 2020.
3. Water leakage index for 2020/21 was impacted by some significant water main breaks (Cobequid Road) . There was also some additional flushing to maintain water quality in the distribution system in areas where flows were lower than normal due to the impact of COVID-19 on water demand and changed consumption patterns. The COVID-19 related flushing was removed from the final calculation.
4. I&I reduction target was lowered in 2020/21 as it was thought that COVID-19 might impact the number of inspections on private property. This was not the case, and there was a record setting number of inspections of private property discharge of stormwater entering the wastewater system.
5. Peak Flow Reduction 2020/21 Projected Result: The data from WWMP15AB demonstrated a reduction in the range of 70 l/sec (in a significant 6 km portion, of the total 7.4 km lined sections). Data was compromised for 1.4 km of the lined section, therefore that data is not included. 2021/22 New Target: Crescent Ave East 1.5 km Sewershed CIPP Lining – Target 5-10 L/sec peak flow reduction
6. Capital budget expenditures (2020/21) were impacted by the timing of Cogswell redevelopment, deferral of some integrated projects with the municipality; delays in securing land, or necessary approvals.
7. The number of employees trained and re-certified before due date was impacted by availability of training as some training could not be conducted due to COVID-19.
8. The target percentage of public health and environmental regulatory infractions has been simplified to focus on infractions resulting in a summary offense ticket. It formerly included written Ministerial Orders (Warnings or Directives) or Prosecutions. The rule set and process for summary offense tickets is clearly defined.
9. The target for ICI properties inspected by Pollution Prevention was lowered in 2020/21 as it was thought that COVID-19 might impact the number of inspections.



0




1

www.halifaxwater.ca 2 

The Mission & Vision of Halifax Water

Halifax Water’s mission is **to provide world class services for our customers and our environment**; and the vision of how this will be accomplished is threefold:

- We will provide our customers with high quality water, wastewater and stormwater service.
- Through the adoption of best practices, we will place the highest value on public health, customer service, fiscal responsibility, workplace safety and security, asset management, regulatory compliance and stewardship of the environment.
- We will fully engage employees through teamwork, innovation and professional development.



2

www.halifaxwater.ca 3 

Critical Success Factors

- High Quality Drinking Water
- Service Excellence
- Responsible Financial Management
- Effective Asset Management
- Workplace Safety and Security
- Regulatory Compliance
- Environmental Stewardship
- Motivated and Satisfied Employees



3

Organizational Indicators

- The OI's are organizational, not individual measures.
- The OI's provide both a detailed clarification of the CSF and allow a target or goal for performance to be established and tracked.

4

Organizational Performance Award Program

- Based on a subset [12] of our strategic OI's which are the most objective.
- Program pays for itself by meeting operating expense to revenue ratio target; ratio is reduced from approved budget to accommodate the award program potential.
- It is not a given; a threshold of 7.0 in scoring must be reached in a given year, and the gateway indicators must be met.
- To be eligible for the award, employees must work a minimum of nine months during the fiscal year [April 1st to March 31st]

5

CSF: High Quality Drinking Water

Organizational Indicators	2020/21 Target	2020/21 Result
High Quality Drinking Water		
Adherence with 5 objectives of Water Quality Master Plan for all water systems - Percentage of sites achieving targets	80 - 100	76
Bacteriological tests - Percentage free from Total Coliform	99.3%	100%
Customer satisfaction about water quality - Percentage from customer survey	85%	84%



6

CSF: Service Excellence

Organizational Indicators	2020/21 Target	2020/21 Result
Service Excellence		
Customer satisfaction with service - Percentage from customer survey <i>*Note 1</i>	90%	96%
Water service outages - Number of connection hours/1000 customers <i>*Note 2</i>	200	3612.62
Wastewater service outages – Number of connection hours/1000 customers	8	0.92
Average speed of answer – Percentage of calls answered within 20 seconds.	70%	71%



7

CSF: Responsible Financial Management

Organizational Indicators	2020/21 Target	2020/21 Result
Responsible Financial Management		
Operating expense/revenue ratio percentage	83.8%	81.5%
Annual cost per customer connection – Water	\$522	\$498
Annual cost per customer connection – Wastewater	\$721	\$724

- The operating expense/revenue ratio is a gateway indicator. If it is not achieved, no organizational award is paid out.




8

CSF: Effective Asset Management

Organizational Indicators	2020/21 Target	2020/21 Result
Effective Asset Management		
Water leakage control – target leakage allowance of 160 litres/service connection/day <i>*Note 3</i>	160-170	193
I&I reduction - Number of inspections to identify private property discharge of stormwater into the wastewater system <i>*Note 4</i>	450	1316*
Peak flow reduction from wet weather management capital projects <i>*Note 5</i>	34-38 l/sec	70 l/sec*
Percentage of time GIS and Cityworks are available	96-98%	100%
Capital budget expenditures - % of budget spent by end of fiscal year	80-90%	30.78%


9

www.halifaxwater.ca

10 


CSF: Workplace Safety & Security

Organizational Indicators	2020/21 Target	2020/21 Result
Workplace Safety and Security		
Average score on internal safety audits	85-95%	94.5%
NS Labour and Advanced Education compliance – # of Incidents with written compliance orders	0-2	0
Lost time accidents - # of accidents resulting in lost time per 100 employees	2.0-3.0	0.59
Safe driving - # of traffic Accidents per 1,000,000 km driven (maximum of 5)	4	5.5
Training - # of employees trained or recertified before due date <i>*Note 7</i>	80-90%	59%*
% of completed safety talks	80-90%	86%




10

www.halifaxwater.ca


11 

CSF: Regulatory Compliance

Organizational Indicators	2020/21 Target	2020/21 Result
Regulatory Compliance		
Percentage of public health and environmental regulatory infractions resulting in a summary offense ticket <i>*Note 8</i>	0-2	0
Percentage of WWTFs complying with NSE approval permits	95-100%	93%




11


www.halifaxwater.ca 12 

CSF: Environmental Stewardship

Organizational Indicators	2020/21 Target	2020/21 Result
Environmental Stewardship		
Number of ICI properties inspected by Pollution Prevention each year <i>*Note 9</i>	440	356
Energy management kwh/m3 reduction associated with capital projects	3%	8%
Bio-solids residual handling - % of sludge meeting bio-solids concentration targets	92-97%	98.6%




12

www.halifaxwater.ca 13 

CSF: Motivated and Satisfied Employees

Organizational Indicators	2020/21 Target	2020/21 Result
Motivated and Satisfied Employees		
Number of arbitrations divided by total number of grievances	0	0
Percentage of jobs filled with internal candidates	80%	75%
Employee satisfaction survey result	A	B+
Average number of days absenteeism	<7	5.88



13

Organizational Performance Award Program

- Based on a subset [12] of our strategic OI's which are the most objective.
- Program pays for itself by meeting operating expense to revenue ratio target; ratio is reduced from approved budget to accommodate the award program potential.
- It is not a given; a threshold of 7.0 in scoring must be reached in a given year.
- To be eligible for the award, employees must work a minimum of nine months during the fiscal year [April 1st to March 31st].

14

Employees Organizational Award


The highest possible score is 12.0 [1.0 for each OI]. If HRWC performs well, then everyone should be rewarded as follows:

<u>Total OI Score</u>	<u>OP Award Amount</u>
≥11.0	\$1,000
10.0	\$900
9.0	\$800
8.0	\$700
7.0	\$600
< 7.0	\$0

These values will be pro-rated if a score falls between them.

Example: For the total OP Award score of 8.5, each employee will get an organizational award of \$750.


15

www.halifaxwater.ca 16 

Based on 12 OIs which are the most objective:

Organizational Indicator	Max. Score	Result
Water Quality Master Plan Objectives	1.0	0.0
Customer Water Quality Survey Results	1.0	0.0
Customer Service Survey Results	1.0	1.0
Operating Expense/Revenue Ratio <i>[Gateway]</i>	1.0	1.0
Water Loss Control Reduction	1.0	1.0
Peak Flow Reduction	1.0	1.0
Percentage of Time GIS and CityWorks are Operational	1.0	1.0
# of Lost Time Accidents per 100 Employees <i>[Gateway]</i>	1.0	1.0
# of Traffic Accidents per 1,000,000 km	1.0	0.0
% of WWTFs Compliant with NS Environment Permits	1.0	0.0
Energy Management – Water & Wastewater	1.0	1.0
Biosolids Residual Handling	1.0	1.0
TOTAL MAXIMUM SCORE	12.0	8.0

16

www.halifaxwater.ca 17 

Summary

- The track record of the CBS at Halifax Water has been very positive; it drives performance.
- Staff obtains Board approval of the Organizational Award Program on an annual basis.
- Organizational Award Program funding is available by meeting the Operating Expense to Revenue Ratio Target.
- The Organizational Award Program is not a given; the organization must score at least 7.0 to have an award, and the gateway indicators must be achieved.
- Financial targets are based on the approved operating budget.
- CBS results must be submitted to Halifax Council as part of the annual Accountability Report.



17

www.halifaxwater.ca

18




**Questions or
Comments?**



TO: Craig MacMullin, MBA, CPA, CGA, Chair, and Members of the Halifax Regional Water Commission Board

SUBMITTED BY: **Louis de Montbrun** Digitally signed by Louis de Montbrun
Date: 2021.06.10
11:31:24 -03'00'
Louis de Montbrun, CPA, CA, Director, Corporate Services/CFO

APPROVED:  Digitally signed by Cathie O'Toole
Date: 2021.06.10
12:19:29 -03'00'
Cathie O'Toole, MBA, FCPA, FCGA, ICD.D, General Manager

DATE: June 11, 2021

SUBJECT: **Financial Statements for the year ended March 31, 2021**

ORIGIN

Operational and Regulatory Requirement.

RECOMMENDATION

It is recommended the Halifax Regional Water Commission Board approve the financial statements of the Halifax Regional Water Commission for the year ended March 31, 2021.

BACKGROUND

Halifax Regional Water Commission (Halifax Water) is required to submit audited financial statements, approved by the Halifax Water Board, to the Halifax Regional Municipality (HRM) by June 30, 2021 and the Nova Scotia Utility and Review Board (NSUARB) within 180 days of the fiscal year end.

At the June 3, 2021 meeting of the Audit and Finance Committee (the Committee), the Committee reviewed the financial statements and the report by Grant Thornton on audit results. At the meeting, the Committee approved the following motion:

“The Audit and Finance Committee recommend that the Halifax Regional Water Commission Board approve the financial statements, as adjusted, of the Halifax Regional Water Commission for the year ended March 31, 2021.”

DISCUSSION

Attached are the financial statements for Halifax Water for the year ended March 31, 2021, with comparative figures for March 31, 2020. The auditor has indicated that they are prepared to issue an unqualified Auditor's Report.

Halifax Water is a fully regulated government business enterprise, falling under the jurisdiction of the NSUARB. The NSUARB requires that Halifax Water file financial statements and rate applications with them based on the NSUARB Water Utility Accounting and Reporting Handbook (NSUARB Handbook). The Accounting Standards Board (AcSB) requires rate regulated entities to conform to International Financial Reporting Standards (IFRS). Halifax Water maintains the financial records in IFRS for the purposes of the annual audit and consolidation of the financial statements with those of HRM.

The following discussion of the operating results reflect direct operating costs by department and allocations among water, wastewater and stormwater for common costs shared across all the services provided by Halifax Water. The schedules to the financial statements are prepared in accordance with the NSUARB Handbook.

Statement of Financial Position - Page 3 of financial statements

Key indicators and balances from the Statement of Financial Position are provided in the following tables. An analysis of the changes in assets is as follows:

Table 1:

March 31 (in thousands)	2021	2020	From Prior Year	
			\$ Change	% Change
Assets				
Current				
Cash and cash equivalents	\$ 48,228	\$ 49,953	\$ (1,725)	(3.5%)
Receivables				
Customers charges and contractual	17,155	18,405	(1,250)	(6.8%)
Unbilled service revenues	18,246	17,367	879	5.1%
Halifax Regional Municipality	2,711	3,668	(957)	(26.1%)
Inventory	2,003	1,736	267	15.4%
Prepays	1,570	1,002	568	56.7%
	<u>89,913</u>	<u>92,131</u>	<u>(2,218)</u>	<u>(2.4%)</u>
Intangible assets	20,588	18,951	1,637	8.6%
Capital work in progress	30,908	18,104	12,804	70.7%
Utility plant in service	1,280,283	1,281,010	(727)	(0.1%)
Total assets	<u>1,421,692</u>	<u>1,410,196</u>	<u>11,496</u>	<u>0.8%</u>
Regulatory deferral account	2,620	2,812	(192)	(6.8%)
Total assets and regulatory deferral account	\$ 1,424,312	\$ 1,413,008	\$ 11,304	0.8%

- Cash and cash equivalents consist of cash on hand and balances held within financial institutions reduced by outstanding cheques. They have decreased \$1.7 million from the prior year due to lower earnings, lower debt issued in the current year, and payment of payables from the prior year end, offset by lower spend on capital. The details of changes are outlined in the statement of cash flows on page 6 of the attached draft financial statements.
- Customer charges and contractual receivables have decreased \$1.3 million from the prior year. The change in receivables is driven by the timing of billing cycles and increase in the allowance for doubtful accounts.
- Unbilled service revenues have increased \$0.9 million due to the annual stormwater site generated service revenue having been invoiced in full by March 31 of the prior year, but not invoiced in full until after year end. This was primarily due to the finalization of the Stormwater impervious area update.
- HRM receivable has decreased from the prior year \$1.0 million due to an increase in the amount Halifax Water owed HRM for its share of costs for capital projects which is offset by an increase in the Regional Development Charge (RDC) that HRM has collected on behalf of Halifax Water but not yet paid, and invoices Halifax Water had issued HRM for its share of capital project costs.
- Inventory has increased \$0.3 million primarily due to a large purchase of meters in the current year as the vendor indicated their prices were increasing.
- The increase in prepaids of \$0.6 million is a result of a deposit for land purchased to be held until the Burnside facility is completed and a software license for the new payroll system.
- The \$1.6 million increase in intangible assets relates to additions of \$3.5 million less \$1.9 million of amortization. Current year additions to intangible assets consist mainly of the Corporate Flow Monitoring program.
- The \$12.8 million increase in capital work in progress relates to expenditures during the year of \$60.4 million, plus funding received of \$3.6 million, reduced by \$51.2 million transferred to utility plant in service and intangibles. The top five projects remaining in capital work in progress at year end are detailed below:

Table 2:

Capital Work in Progress	
	Cumulative '000
Bedford South Reservoir	\$ 2,988
Romans and Federal Avenues Sewer Separation	2,705
Wastewater System Trenchless Rehabilitation	1,931
Pump Station Control Panel/Electrical Replacement	1,512
Infrastructure and IT Operations Governance	1,309
	10,445
<u>All other projects:</u>	
Water	10,056
Wastewater	9,049
Stormwater	1,358
	20,463
Capital work in progress	\$ 30,908

- Utility plant in service assets total \$1.28 billion, a decrease of \$0.7 million from the prior year. The decrease is a result of total additions of \$47.7 million less depreciation expense of \$48.4 million and disposals during the year. Utility plant in service assets were expected to increase in the current year. Total capital spend was affected by delays in projects integrated with HRM, challenges in acquiring land necessary for projects, timing of NSUARB approvals and project scope and design changes.

The top five projects capitalized during the year are outlined in the following table:

Table 3:

Additions to Utility Plant in Service and Intangibles	
	Cumulative '000
Port Wallace Transmission Main	\$ 5,913
New Operations Facility Land Purchase	4,824
Fairview/Clayton Park/Bridgeview Inflow/Infiltration Reduction	2,263
Corporate Flow Monitoring Program	1,776
Bennery Access Road Upgrade	1,481
	16,257
<u>All other projects:</u>	
Water	16,759
Wastewater	12,746
Stormwater	5,453
	34,958
Total additions	\$ 51,215

ITEM # 4.1
Halifax Water Board
June 17, 2021

The changes in liabilities are presented below:

Table 4:

March 31 (in thousands)	2021	2020	From Prior Year	
			\$ Change	% Change
Liabilities				
Current				
Payables and accruals				
Trade	12,644	21,947	(9,303)	(42.4%)
Non-trade	6,192	5,384	808	15.0%
Interest on long term debt	2,065	2,139	(74)	(3.5%)
Contractor and customer deposits	2,115	1,622	493	30.4%
Current portion of deferred contributed capital	14,580	14,488	92	0.6%
Current portion of long term debt	20,559	21,184	(625)	(3.0%)
Unearned revenue	561	760	(199)	(26.2%)
	<u>58,716</u>	<u>67,524</u>	<u>(8,808)</u>	<u>(13.0%)</u>
Deferred contributed capital	883,916	879,460	4,456	0.5%
Long term debt	204,106	197,962	6,144	3.1%
Employee benefit obligation	73,796	63,365	10,431	16.5%
Total liabilities	<u>1,220,534</u>	<u>1,208,311</u>	<u>12,223</u>	<u>1.0%</u>
Equity				
Accumulated other comprehensive loss	(29,682)	(26,453)	(3,229)	12.2%
Accumulated surplus	233,460	231,150	2,310	1.0%
Total equity	<u>203,778</u>	<u>204,697</u>	<u>(919)</u>	<u>(0.4%)</u>
Total liabilities and equity	<u>\$ 1,424,312</u>	<u>\$ 1,413,008</u>	<u>\$ 11,304</u>	<u>0.8%</u>

- Trade payables and accruals have decreased \$9.3 million as a result of accruals for completion of capital projects being lower than the prior year due to timing of capital spend.
- Non-trade payables and accruals have increased \$0.8 million due to the timing of payroll remittances.
- Customer and contractor deposits have increased \$0.5 million due to an increase for deposits made on new accounts, overpayments on existing accounts, and billing adjustments.
- Current portion of long term debt has decreased \$0.6 million due to no balloon payment required in the coming year and an increase in the payment due next year on new debt.
- Deferred contributed capital increased \$4.5 million due to contributed assets additions of \$7.4 million, collection of RDCs and interest earned on RDC balances of \$16.0 million, offset by amortization of \$18.8 million.

ITEM # 4.1
Halifax Water Board
June 17, 2021

- Long term debt increased \$6.1 million offset by the decrease in the current portion of \$0.6 million. Since March 1, 2020, new debt of \$25.0 million was issued in July 2020 and long term debt repayments have been \$19.5 million. Halifax Water received the fall 2020 debenture issue in the amount of \$20.0 million at the end of May 2021. See Schedule B of the financial statements for additional details.

Table 5:

Net change in Long Term Debt (full fiscal year)				
	Total	Water	Wastewater	Stormwater
New long term debt	\$ 25,000	\$ 12,000	\$ 7,400	\$ 5,600
Long term debt repayments	(19,484)	(4,937)	(13,536)	(1,011)
Change in current portion	625	(425)	1,330	(280)
Change in long term debt	\$ 6,141	\$ 6,638	\$ (4,806)	\$ 4,309

Table 6:

Long Term Debt				
	Total	Water	Wastewater	Stormwater
Opening debt	\$ 220,075	\$ 67,585	\$ 135,656	\$ 16,834
New long term debt	25,000	12,000	7,400	5,600
Long term debt repayments	(19,484)	(4,937)	(13,536)	(1,011)
Less debt issue costs	(926)	(369)	(434)	(123)
Total long term debt	224,665	74,279	129,086	21,300
Less current portion	(20,559)	(5,362)	(13,906)	(1,291)
Closing long term debt	\$ 204,106	\$ 68,917	\$ 115,180	\$ 20,009

- The employee benefit obligation increased \$10.4 million due to a couple of factors:
 - Improvement of the fair market value of plan assets;
 - Decrease in the discount rate used to measure the obligation;
 - Additional information, including the actuarial assumptions adopted in measuring the employee benefit obligation, is described in Note 4 of the financial statements.

Debt servicing ratio is a function of total interest and principal payments (including accrued amounts) plus the amortization of debt issue costs divided by total operating revenue per service. Debt servicing ratio by service as at March 31, 2021 is as follows:

Table 7:

Debt Servicing Ratio by Service		
	2020/21	2019/20
Water	13.12%	11.70%
Wastewater	25.08%	24.14%
Stormwater	27.57%	22.39%
Combined	20.29%	18.91%

- The debt servicing ratio for each service has increased from the prior year as a result of the issuance of new debt and lower revenue growth as a result of the impact of COVID-19.
- The debt servicing ratio of 20.29% is below the maximum 35.0% ratio allowed under the blanket guarantee agreement with HRM.

Statement of Earnings and Comprehensive Earnings - Page 4 of financial statements

Key indicators and balances from the Statement of Earnings and Comprehensive Earnings are provided in the following tables:

Table 8:

Summarized Comprehensive Earnings				
	2020/21	2019/20		
	'000	'000	\$ Change	% Change
Operating revenues	\$ 136,569	\$ 137,750	\$ (1,181)	(0.9%)
Operating expenditures	141,973	139,040	2,933	2.1%
Loss from operations before financial and other revenues and expenditures	(5,404)	(1,290)	(4,114)	318.9%
Financial and other revenues	19,773	20,236	(463)	(2.3%)
Financial and other expenditures	11,867	12,611	(744)	(5.9%)
Earnings for the year before regulatory deferral account depreciation	2,502	6,335	(3,833)	(60.5%)
Regulatory deferral account depreciation	(192)	(192)	-	0.0%
Earnings for the year	2,310	6,143	(3,833)	(62.4%)
Other comprehensive (loss) earnings	(3,229)	14,756	(17,985)	(121.9%)
Total comprehensive (loss) earnings for the year	\$ (919)	\$ 20,899	\$ (21,818)	(104.4%)

- The total comprehensive loss for the year is \$0.9 million, a decrease in the surplus of \$21.8 million from the prior year. The following is a discussion of factors influencing the change.

Operating revenues are presented below, broken down by type:

Table 9:

Operating Revenues					
	2020/21		2019/20		
	'000		'000	\$ Change	% Change
Consumption revenue	\$ 84,539	\$	86,054	\$ (1,515)	(1.8%)
Base charge revenue	33,544		33,399	145	0.4%
Wastewater rebate	(847)		(1,041)	194	(18.6%)
Metered sales total	117,236		118,412	(1,176)	(1.0%)
Stormwater site generated charge	5,127		5,361	(234)	(4.4%)
Stormwater right of way	3,835		3,835	-	0.0%
Public fire protection	7,336		7,074	262	3.7%
Private fire protection	1,001		881	120	13.6%
Other operating revenue	2,034		2,187	(153)	(7.0%)
Operating revenue total	\$ 136,569	\$	137,750	\$ (1,181)	(0.9%)

Operating revenues have decreased \$1.2 million as compared to the previous year. Key items of note include:

- Water consumption is down 1.85% on a volumetric basis as compared to the previous year. This is due to reduced consumption in the industrial, commercial and institutional (ICI) sector affected by the COVID-19 pandemic offset by an increase in the residential sector. Consumption had been budgeted to remain consistent with the prior year. Wastewater discharge is directly correlated to water consumption but is not metered.
- Stormwater site generated charge revenue is \$0.2 million less than the prior year. The decrease relates to an adjustment to revenue billed.
- Public and private fire protection revenue has increased by a combined \$0.4 million from the prior year due to an approved increase by the NSUARB effective October 1, 2020.

Operating expenditures are presented below:

Table 10:

Operating Expenditures					
	2020/21		2019/20		
	'000		'000	\$ Change	% Change
Water supply and treatment	\$ 9,987	\$	9,573	\$ 414	4.32%
Water transmission and distribution	12,031		10,843	1,188	10.96%
Wastewater collection	14,467		13,963	504	3.61%
Stormwater collection	4,762		4,808	(46)	(0.96%)
Wastewater treatment	20,623		20,633	(10)	(0.05%)
Engineering and information services	8,281		8,436	(155)	(1.84%)
Regulatory services	3,981		3,781	200	5.29%
Customer services	5,081		5,167	(86)	(1.66%)
Administration services	7,067		7,044	23	0.33%
Pension services	7,086		8,382	(1,296)	(15.46%)
Depreciation and amortization	48,607		46,410	2,197	4.73%
	\$ 141,973	\$	139,040	\$ 2,933	2.11%

Key items to note:

- Operating expenditures of \$142.0 million are \$2.9 million higher than the prior year.
- Compared to the prior year, expense categories with the largest increases in costs are:
 - Water supply and treatment has increased \$0.4 million due to higher salaries and benefits (\$112k) and an increase in both chemical costs (\$153k) and electricity costs (\$172k).
 - Water transmission and distribution has increased \$1.2 million mainly due to higher salaries and benefits (\$573k), including the creation of a new full time position, and the internal allocation of fleet costs (\$420k).
 - Wastewater collection has increased \$0.5 million mainly due to higher salaries and benefits (\$861k), including the creation of two new full time positions, and an increase in materials and supplies purchases (\$180k) offset by the internal allocation of fleet costs (\$366k) and lower electricity (\$116k).
 - Pension services saw a decrease of \$1.3 million as a result of lower accrued pension expense based on actuarial valuation and the elimination of special contributions by Halifax Water which reduces the overall salary and benefits costs.
 - Depreciation and amortization have increased \$2.2 million as a result of additions to utility plant in service and intangibles.

Table 11:

Salaries and Benefits					
	2020/21		2019/20		
	'000	'000	\$ Change	% Change	
Water supply and treatment	\$ 2,852	\$ 2,740	\$ 112	4.09%	
Water transmission and distribution	7,332	6,759	574	8.49%	
Wastewater collection	7,825	6,964	861	12.37%	
Stormwater collection	2,301	2,459	(159)	(6.45%)	
Wastewater treatment	5,219	5,362	(142)	(2.66%)	
Engineering and information services	5,415	5,333	81	1.53%	
Regulatory services	3,450	3,246	204	6.27%	
Customer services	3,444	3,577	(133)	(3.71%)	
Administration services	4,167	4,075	92	2.27%	
Pension services	7,087	8,382	(1,295)	(15.45%)	
	\$ 49,093	\$ 48,897	\$ 196	0.40%	

The overall increase in salaries and benefits is a result of annual wage rate increases due to union contracts, net three new positions. The increases and decreases in the table above are affected by allocations of staff between services as demonstrated by the decrease in stormwater collections and the larger increase in wastewater collections. This has been offset by the current year decrease in pension expense.

Financial and other revenues are presented below:

Table 12:

Financial and other revenues					
	2020/21		2019/20		
	'000	'000	\$ Change	% Change	
Interest	\$ 215	\$ 512	\$ (297)	(58.00%)	
Amortization of contributed capital	18,810	19,025	(215)	(1.00%)	
Other	748	699	49	7.00%	
	\$ 19,773	\$ 20,236	\$ (463)	(2.00%)	

Key items to note:

- Interest is lower than the previous year due to a lower cash balance and a decrease in interest rates.
- Amortization of contributed capital has decreased due to fewer additions in the current year.
- Other revenues include various un-regulated activities such as tower lease revenues, energy generation revenues, consulting activities and contracted service revenues.

Financial and other expenditures are presented below:

Table 13:

Financial and other expenditures					
	2020/21		2019/20		
	'000		'000	\$ Change	% Change
Interest on long term debt	\$ 7,118	\$	7,144	\$ (26)	0.00%
Amortization of debt discount	209		187	22	12.00%
Dividend/grant in lieu of taxes	5,951		5,078	873	17.00%
Other	(1,411)		202	(1,613)	(799.00%)
	\$ 11,867	\$	12,611	\$ (744)	(6.00%)

Key items to note:

- The dividend/grant in lieu of taxes (dividend) increased \$0.9 million due to additions to utility plant in service and a new 3-year agreement with HRM to also pay a dividend of 0.25% on wastewater and stormwater rate based assets.
- Other expenditures have decreased \$1.6 million over the prior year due to the gain on sale of property sold during the year.

Other Comprehensive Earnings

- Other Comprehensive Earnings (OCI) is a function of the change in the liability for employee benefits, including the Pension Plan. The OCI adjustment at year-end was a loss of \$3.2 million due to the actuarial extrapolation and valuation.

Results under International Financial Reporting Standards as compared to NSUARB Handbook

As a rate regulated utility, the AcSB requires Halifax Water, to report financial results using IFRS. The NSUARB requires Halifax Water to report in accordance with the NSUARB Handbook. The table below reconciles the results between IFRS and the NSUARB Handbook:

Table 14:

Reconcile IFRS to NSUARB			
	2020/21		2019/20
	'000		'000
IFRS comprehensive (loss) earnings	\$ (919)	\$	20,899
Add non-cash pension expense	7,086		8,382
Subtract debt principal payments	(20,379)		(18,719)
Add depreciation expense on contributed assets	18,810		19,025
Subtract amortization of contributed capital	(18,810)		(19,025)
Add various depreciation adjustments	1,100		2,634
Add (subtract) OCI loss (gain)	3,229		(14,756)
NSUARB loss	\$ (9,883)	\$	(1,560)

Operating revenues are the same under both IFRS and the NSUARB Handbook.

The main differences relate to reporting requirements surrounding the recognition of various expenditures as follows:

- Non-cash pension expense represents the accrual of unpaid contributions to the pension plan and is not considered an expense for NSUARB Handbook reporting purposes.
- The principal payments on long term debt are recognized as an expense for NSUARB Handbook reporting purposes but are not an expense under IFRS.
- Depreciation expense on contributed assets is not an expense for NSUARB Handbook purposes, however, it is offset by the removal of the amortization of contributed capital. IFRS requires contributed capital to be treated as a long term liability and amortized, resulting in higher long term liabilities and lower equity on the statement of financial position.
- The various depreciation adjustments include the add back of gains on the disposal of utility plant in service and IFRS requires componentization of assets and shorter useful lives resulting in higher depreciation than under NSUARB Handbook reporting.

Schedule C (pages 25 to 27) of the draft audited statements presents the Statement of Earnings under the NSUARB Handbook and contain the adjustments referenced above.

Table 15:

Operating Results by Service						
	Budget	Actual	Actual	2020/21	2020/21	
	2020/21	2020/21	2019/20	Budget/Actual	Budget/Actual	
	'000	'000	'000	\$ Variance	% Variance	
Water	\$ (4,275)	\$ 495	\$ 5,205	\$ 4,770	(111.58%)	
Wastewater	(7,845)	(7,958)	(5,035)	(113)	1.44%	
Stormwater	(3,833)	(2,420)	(1,730)	1,413	(36.86%)	
Loss	\$ (15,953)	\$ (9,883)	\$ (1,560)	\$ 6,070	(38.05%)	

Key items to note:

- Water Services earnings of \$0.5 million are \$4.7 million more than budget due to the following factors:
 - Current year revenue was \$0.1 million less than budget. Consumption revenue was lower as a result of lower usage by ICI customers and lower late payment and interest charges as a result of COVID-19 relief measures, offset by an increase in fire protection revenue and a new meter reading fee.
 - Lower operating expenditures of \$2.2M due in part to reduction in training costs, deferral of sludge removal services, savings in chemicals resulting from process optimization, and lower depreciation.

- The actual bank balances and interest rates were high than the assumptions used in preparing the budget. As a result, financial and other revenues are higher than budget by \$0.3 million. An increase in energy generation revenues also increased the variance.
- Lower financial and other expenditures of \$2.4 million due to lower debt servicing costs resulting from less debt acquired than budgeted.
- Wastewater Services loss of \$8.0 million is \$0.1 million less than budget due to the following factors:
 - Current year revenue budget was \$1.0 million less than budget. Consumption revenue was lower as a result of lower discharge by ICI customers, lower late payment and interest charges as a result of COVID-19 relief measures, and reduced contract services revenues primarily a result of lesser need for airline effluent treatment.
 - Lower operating expenditures of \$0.2M due to a reduction in training costs, deferral of regular equipment maintenance, reduced flows at facilities resulting in fewer chemicals required, and lower depreciation.
 - Lower financial and other expenditures of \$0.6 million due to lower debt servicing costs resulting from less debt acquired than budgeted.
- Stormwater Services loss of \$2.4 million is \$1.4 million better than budget due to the following factors:
 - Lower stormwater site generated flow revenue of \$0.9 million due to an adjustment to revenue billed for the impervious area update and lower late payment and interest charges as a result of COVID-19 relief measures.
 - Lower operating expenditures of \$2.0M due to a reduction in training costs, deferral of regular equipment maintenance, reduced flows at facilities resulting in fewer chemicals required, offset by higher depreciation.
 - Lower financial and other expenditures of \$0.4 million due to lower debt servicing costs resulting from less debt acquired than budgeted.

To fund the current year deficit for Wastewater Services, the NSUARB approved a transfer of up to \$5.04 million from reserves. These funds were transferred from HRM in 2007 as part of the transfer of Wastewater and Stormwater Services. As per the request from the Audit and Finance Committee, the disclosure in Schedule E of the financial statements was improved to better reflect the use of the reserve and the remaining balance.

Schedule D (pages 28 and 29) of the audited statements presents the Statement of Earnings segregated between Regulated and Unregulated activities in accordance with the NSUARB Handbook.

Table 16:

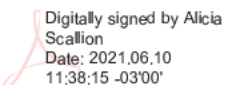
Results by Activity					
	Budget 2020/21 '000	Actual 2020/21 '000	Actual 2019/20 '000	2020/21 Budget/Actual \$ Variance	2020/21 Budget/Actual % Variance
Regulated activities	\$ (16,259)	\$ (10,710)	\$ (2,260)	\$ 5,549	(34.13%)
Unregulated activities	306	827	700	521	170.26%
Loss	\$ (15,953)	\$ (9,883)	\$ (1,560)	\$ 6,070	(38.05%)

Key items to note:

- Regulated activities loss of \$10.7 million is \$5.5 million less than budget due to the factors discussed within the previous sections.
- Regulated activated loss of \$10.7 million has increased from the prior year by \$8.5 million due to the following factors:
 - Decrease in consumption as a result of lower usage by ICI customers.
 - Increase in operating expenditures mainly due to depreciation of new assets and higher salaries and benefits including the creation of new positions.
 - Decrease in financial and other revenues due to lower interest as a result of a lower cash balance and a decrease in interest rates compared to the prior year.
 - Increase in financial and other expenditures due to higher debt servicing costs compared to the prior year and an increase in the dividend/grant in lieu of taxes paid to HRM.
- Unregulated activities include leasing of land for telecommunications and wind turbines and in-line turbines generating electricity in the water system. The most material lines of unregulated business are treatment of septage from waste haulers dealing with private septic systems and treatment of airline effluent. These unregulated activities earned \$0.8 million and have increased \$0.5 million more than budget due to savings in operating costs for the leachate and dewatering facilities as a result of lower usage.
- Unregulated activities earnings have increased \$0.1 million from the prior year due to a decrease in revenue for airline effluent offset by a decrease in operating costs for the leachate and dewatering facilities.

ATTACHMENTS

1. Financial statements for the fiscal year ended March 31, 2021
2. Presentation to the Audit and Finance Committee by Grant Thornton

Report prepared by:	Alicia Scallion 	<small>Digitally signed by Alicia Scallion Date: 2021.06.10 11:38:15 -03'00'</small>
Alicia Scallion, CPA, CA, Manager, Accounting, (902) 497-9785		



Financial Statements

Halifax Regional Water Commission

March 31, 2021



Contents

	Page
Independent auditor's report	1-2
Statement of financial position	3
Statement of earnings and comprehensive earnings	4
Statement of changes in equity	5
Statement of cash flows	6
Notes to the financial statements	7-20
Schedules	
A Schedule of utility plant in service	
Water	21
Wastewater	22
Stormwater	23
B Schedule of long term debt	24
C Schedule of earnings	
Water	25
Wastewater	26
Stormwater	27
D Schedule of earnings	
Regulated activities	28
Unregulated activities	29
E Nova Scotia Utility and Review Board information	30



Independent auditor's report

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

Grant Thornton LLP
Nova Centre, North Tower
Suite 1000, 1675 Grafton Street
Halifax, NS
B3J 0E9

T (902) 421-1734
F (902) 420-1068
www.GrantThornton.ca

Halifax Regional Water Commission

Statement of financial position

March 31 (in thousands)

2021

2020

Assets

Current

Cash and cash equivalents	\$ 48,228	\$ 49,953
Receivables (Note 8)		
Customer charges and contractual	17,155	18,405
Unbilled service revenues	18,246	17,367
Halifax Regional Municipality	2,711	3,668
Inventory	2,003	1,736
Prepays	1,570	1,002
	<u>89,913</u>	<u>92,131</u>

Intangible assets (Note 10)	20,588	18,951
Capital work in progress	30,908	18,104
Utility plant in service (Note 11)	1,280,283	1,281,010
Total assets	<u>1,421,692</u>	<u>1,410,196</u>

Regulatory deferral account (Note 5)	2,620	2,812
Total assets and regulatory deferral account	\$ 1,424,312	\$ 1,413,008

Liabilities

Current

Payables and accruals		
Trade	\$ 12,644	\$ 21,947
Non-trade	6,192	5,384
Interest on long term debt	2,065	2,139
Contractor and customer deposits	2,115	1,622
Current portion of deferred contributed capital (Note 12)	14,580	14,488
Current portion of long term debt (Note 13)	20,559	21,184
Unearned revenue	561	760
	<u>58,716</u>	<u>67,524</u>

Deferred contributed capital (Note 12)	883,916	879,460
Long term debt (Note 13)	204,106	197,962
Employee benefit obligations (Note 4)	73,796	63,365
Total liabilities	<u>1,220,534</u>	<u>1,208,311</u>

Equity

Accumulated other comprehensive loss	(29,682)	(26,453)
Accumulated surplus	233,460	231,150
Total equity	<u>203,778</u>	<u>204,697</u>

Total liabilities and equity	\$ 1,424,312	\$ 1,413,008
-------------------------------------	---------------------	---------------------

Contingent liabilities (Note 3)

Commitments (Note 6)

Approved by the Board

Commissioner

Commissioner

See accompanying notes to the financial statements.

Halifax Regional Water Commission

Statement of earnings and comprehensive earnings

Year ended March 31 (in thousands)	2021	2020
Operating revenues		
Water	\$ 47,631	\$ 47,918
Wastewater	69,605	70,494
Stormwater	8,962	9,196
Public fire protection	7,336	7,074
Private fire protection	1,001	881
Other operating revenue	2,034	2,187
	<u>136,569</u>	<u>137,750</u>
Operating expenditures (Note 14)		
Water supply and treatment	9,987	9,573
Water transmission and distribution	12,031	10,843
Wastewater collection	14,467	13,963
Stormwater collection	4,762	4,808
Wastewater treatment	20,623	20,633
Engineering and information services	8,281	8,436
Regulatory services	3,981	3,781
Customer services	5,081	5,167
Administration services	7,067	7,044
Pension services	7,086	8,382
Depreciation and amortization	48,607	46,410
	<u>141,973</u>	<u>139,040</u>
Loss from operations before financial and other revenues and expenditures	<u>(5,404)</u>	<u>(1,290)</u>
Financial and other revenues		
Interest	215	512
Amortization of contributed capital	18,810	19,025
Other	748	699
	<u>19,773</u>	<u>20,236</u>
Financial and other expenditures		
Interest on long term debt	7,118	7,144
Amortization of debt discount	209	187
Dividend/grant in lieu of taxes	5,951	5,078
Other	(1,411)	202
	<u>11,867</u>	<u>12,611</u>
Earnings for the year before regulatory deferral account depreciation	2,502	6,335
Regulatory deferral account depreciation	<u>(192)</u>	<u>(192)</u>
Earnings for the year	<u>2,310</u>	<u>6,143</u>
Other comprehensive (loss) earnings		
Items that will not be reclassified subsequently to earnings:		
Re-measurement on defined benefit plans	<u>(3,229)</u>	<u>14,756</u>
Total comprehensive (loss) earnings for the year	<u>\$ (919)</u>	<u>\$ 20,899</u>

See accompanying notes to the financial statements.

Halifax Regional Water Commission

Statement of changes in equity

Year ended March 31 (in thousands)

	Accumulated other comprehensive income (loss)	Accumulated surplus	Total
Balance, April 1, 2019	\$ (41,209)	\$ 225,007	\$ 183,798
Earnings for the year	-	6,143	6,143
Other comprehensive earnings	14,756	-	14,756
Comprehensive earnings for the year	14,756	6,143	20,899
Balance, March 31, 2020	\$ (26,453)	\$ 231,150	\$ 204,697
Earnings for the year	-	2,310	2,310
Other comprehensive loss	(3,229)	-	(3,229)
Comprehensive earnings (loss) for the year	(3,229)	2,310	(919)
Balance, March 31, 2021	\$ (29,682)	\$ 233,460	\$ 203,778

See accompanying notes to the financial statements.

Halifax Regional Water Commission

Statement of cash flows

Year ended March 31 (in thousands)

2021

2020

Increase (decrease) in cash and cash equivalents

Operating

Comprehensive (loss) earnings for the year	\$ (919)	\$ 20,899
Depreciation and amortization	31,592	29,183
Employee benefit obligation	10,431	(8,965)
Loss (gain) on disposal of utility plant in service	(1,481)	135
	<u>39,623</u>	<u>41,252</u>

Change in non-cash operating working capital items

Receivables, customer charges and contractual	1,250	(998)
Receivables, unbilled service revenues	(879)	(355)
Receivable from Halifax Regional Municipality	957	(2,805)
Inventory	(267)	321
Prepays	(568)	64
Payables and accruals, trade	(9,303)	4,818
Payables and accruals, non-trade	808	391
Payables and accruals, accrued interest on long term debt	(74)	88
Contractor and customer deposits	493	44
Unearned revenue	(199)	253
	<u>(7,782)</u>	<u>1,821</u>
	<u>31,841</u>	<u>43,073</u>

Financing

Proceeds from issuance of long term debt	26,700	36,500
Contributed capital and interest	15,952	12,712
Debt issue costs	3	(87)
Principal repayment on Halifax Regional Municipality long term debt	(6,500)	(6,500)
Principal repayments on long term debt	(14,684)	(18,208)
	<u>21,471</u>	<u>24,417</u>

Investing

Proceeds from sale of utility plant in service	1,576	203
Purchase of capital work in progress	(23,031)	(13,775)
Purchase of utility plant in service and intangible assets	(33,582)	(55,568)
	<u>(55,037)</u>	<u>(69,140)</u>

Net decrease in cash and cash equivalents	(1,725)	(1,650)
Cash and cash equivalents, beginning of year	<u>49,953</u>	<u>51,603</u>
Cash and cash equivalents, end of year	<u>\$ 48,228</u>	<u>\$ 49,953</u>

See accompanying notes to the financial statements.

Halifax Regional Water Commission

Notes to the financial statements

March 31, 2021 (in thousands)

1. Nature of operations

The Halifax Regional Water Commission (Halifax Water) is a public utility owned and controlled by the Halifax Regional Municipality (HRM). Halifax Water is responsible for the supply of municipal water, Wastewater and Stormwater Services to the residents of HRM. Halifax Water's principal place of business is 450 Cowie Hill Road, Halifax, Nova Scotia. Halifax Water is exempt from income tax.

2. Summary of significant accounting policies

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

The financial statements were authorized for issue by the Board of Commissioners on June 17, 2021.

(b) Basis of measurement

Halifax Water's financial statements are prepared on the historical cost basis, except for certain financial instruments measured at fair value. The financial statements are presented in Canadian dollars and all values are rounded to the nearest thousand. The financial statements are presented in accordance with International Accounting Standards (IAS) 1: Presentation of Financial Statements.

(c) Regulation

In matters of administrative policy relating to customers, rates and other charges, capital expenditures, depreciation rates and accounting matters, Halifax Water is subject to the jurisdiction of the Nova Scotia Utility and Review Board (NSUARB). Rates and other charges charged to and collected from customers are designed to recover the cost of providing the regulated services. Halifax Water is required to prepare submissions in accordance with the Water Utility Accounting and Reporting Handbook issued by the NSUARB. There are differences in the accounting treatment of certain transactions from IFRS including the accounting of principal debt payments, employee future benefits, depreciation and amortization, gains and losses on the disposal of utility plant in service, and accumulated surplus.

Regulatory assets represent costs incurred that have been deferred as approved by the NSUARB and will be recovered through future rates collected from customers. Halifax Water's regulatory assets are disclosed in Note 5.

(d) Utility plant in service

Utility plant in service (Note 11) is recorded at cost, being the purchase price and directly attributable cost of acquisition or construction. Losses or gains related to assets retired, demolished or sold are charged or credited to the statement of earnings.

(e) Leased assets

Halifax Water makes use of lease arrangements for office space and equipment and assesses whether a contract is or contains a lease at the inception of the contract. A lease conveys the right to direct the use and obtain substantially all of the economic benefits of an identified asset for a period of time in exchange for consideration.

At lease commencement date, Halifax Water assess whether the recognition of a right-of-use asset and lease liability would have a material impact on the financial statements.

Halifax Regional Water Commission

Notes to the financial statements

March 31, 2021 (in thousands)

2. Summary of significant accounting policies (continued)

(e) Leased assets (continued)

A right-of-use asset is initially measured at cost, which is comprised of the initial measurement of the lease liability, any initial direct costs incurred, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). A right-of-use asset is subsequently measured at cost less any accumulated depreciation or impairment losses and adjusted for certain re-measurements of the lease liability. A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, Halifax Water's incremental borrowing rate.

Halifax Water has elected to apply the practical expedients available under IFRS 16 for short-term leases and leases for which the underlying asset is of low value. Short-term leases and low value leases are expensed in the period incurred.

Halifax Water maintains very few lease arrangements and management will assess future leases as they arise to determine whether the impact of the recognition of a right-of-use asset and lease liability on the statements of financial position, where Halifax Water is acting as a lessee, is material to the financial statements. All existing leases have been assessed and recognition in the financial statements has been deemed immaterial.

(f) Deferred contributed capital

Contributions for capital expenditures are treated as deferred contributed capital on the statement of financial position and amortized over the estimated useful lives of the assets (Note 12). Deferred contributed capital is initially measured at cost, being the value of contributions received by Halifax Water for the acquisition of utility plant in service. Contributions for capital expenditures are amortized over the estimated useful lives of the assets and show as a reduction in the amortization of utility plant in service.

(g) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and cash balances managed by HRM that are held within financial institutions.

(h) Depreciation of utility plant in service

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

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

Office equipment and furniture and transportation equipment	3 to 10 years
Supervisory control and data acquisition (SCADA) equipment	5 to 25 years
Meters	20 to 25 years
Pumping equipment	5 to 30 years
Tools and work equipment	5 to 30 years
Culverts	25 to 50 years
Purification and treatment equipment	20 to 50 years
Services and laterals	50 to 60 years
Hydrants	50 to 80 years
Structures and improvements	50 to 100 years
Water, Wastewater and Stormwater mains	50 to 100 years

Halifax Regional Water Commission

Notes to the financial statements

March 31, 2021 (in thousands)

2. Summary of significant accounting policies (continued)

(h) Depreciation of utility plant in service (continued)

Depreciation commences in the year an asset is placed into service and ready for its intended use. In the year of acquisition, depreciation is calculated at 50% of the above rates unless a project is significant, in which case depreciation is prorated for the number of months the asset was in use. Halifax Water does not maintain a depreciation fund per regulatory reporting requirements. Halifax Water has received NSUARB approval for exemption from setting up a depreciation fund as long as net depreciable additions to utility plant in service exceed the depreciation charged.

(i) Inventory

Inventory is comprised of direct materials and supplies. Inventory is valued at the lower of cost and net realizable value with cost being determined on the weighted average cost method.

(j) Revenues and expenditures

Halifax Water recognizes revenue in a manner that depicts the transfer of goods or services to customers at an amount that reflects the consideration Halifax Water is expected to be entitled to in exchange for those goods or services rendered.

All revenues and expenditures are recorded on an accrual basis. Revenues relating to supplying water, Wastewater and Stormwater Services are recorded based on cyclical billings and include an accrual for estimated amounts not yet billed. Fire protection revenue is recorded based on approved rates. Other revenues are recorded at the time services are performed, the amount can be measured reliably, and collection is reasonably assured.

(k) Long term debt

Debt issue costs are deferred and amortized over the term of the debt to which they relate.

(l) Use of estimates and critical accounting judgments

In preparing Halifax Water's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenditures during the period. Significant estimates and assumptions include the following:

- At year end, unbilled service revenues from water, Stormwater and Wastewater Services have been earned, but not yet billed due to the timing of the billing cycles. Management estimates the unbilled service revenues accrual based on historic billing trends.
- Management assumptions are used in the actuarial determination of employee benefit obligations, such as standard rates of inflation, mortality, discount rates, and anticipation of future salary increases.
- Useful lives of utility plant in service are reviewed at each reporting date based on expected patterns of usage and historical information.
- Recognition and measurement of provisions and contingencies.

Actual results could differ from these estimates.

(m) Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognized when Halifax Water becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expired.

Halifax Regional Water Commission

Notes to the financial statements

March 31, 2021 (in thousands)

2. Summary of significant accounting policies (continued)

(m) Financial instruments (continued)

Classification and initial measurement of financial instruments

All financial instruments are initially measured at fair value and adjusted for transaction costs, where applicable. Financial instruments are classified as: those measured at amortized cost, fair value through other comprehensive income (assets only), or fair value through profit and loss (FVTPL).

Halifax Water has classified its financial instruments as follows:

<u>Asset/Liability</u>	<u>Classification</u>
Cash and cash equivalents	Amortized cost
Receivables	Amortized cost
Payables and accruals	Amortized cost
Long term debt	Amortized cost
Contractor and customer deposits	Amortized cost

The classification is determined by both the Halifax Water business model for managing the financial instrument and the contractual cash flow characteristics of the financial instrument.

Subsequent measurement of financial assets

Financial assets are measured at amortized cost if the assets meet the following conditions, and are not designated as FVTPL:

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, financial instruments are measured at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

Impairment of financial assets

Impairment requirements use more forward-looking information to recognize expected credit losses, the expected credit loss (ECL) model. Financial assets that are subject to the ECL model include cash and cash equivalents and receivables.

(n) Provisions

A provision is recognized in the statement of financial position when Halifax Water has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the obligation.

(o) Impairments

At the end of each reporting period, Halifax Water reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication of an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of impairment loss, if any. The recoverable amount of any asset is the higher of its fair value less costs to sell and its value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (CGU), which is the lowest group of assets to which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets. Halifax Water has three CGU's (water, Wastewater and Stormwater) for which impairment testing is performed.

Halifax Regional Water Commission

Notes to the financial statements

March 31, 2021 (in thousands)

2. Summary of significant accounting policies (continued)

(o) Impairments (continued)

If the recoverable amount of the asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in earnings. When an impairment loss is subsequently reversed, the carrying amount of the assets is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

(p) Intangible assets

Intangible assets include land rights, water removal rights, studies, and capital master plans. These are recorded at cost less accumulated amortization. Land rights include payment for easements and right of use over land and have an indefinite useful life. Intangibles with finite useful lives are amortized annually over the estimated useful lives. The expected useful lives are as follows:

Intangible assets	10 to 30 years
-------------------	----------------

(q) Employee benefit obligations

Halifax Water accrues annually, the estimated liabilities for pension and other employee benefits.

Pension benefits

Halifax Water provides employment, post-retirement and pre-retirement benefits through defined benefit plans and supplemental retirement plans.

The cost of pension benefits for the supplemental retirement plans are expensed at the time active employees are compensated.

The defined benefit plan sponsored by Halifax Water determines the amount of pension benefits employees will receive on retirement by reference to length of service and salary levels. Obligations associated with the defined benefit plan reside with Halifax Water, even if plan assets for funding the plan are set aside.

The liability recognized in the statement of financial position for the defined benefit plan sponsored by Halifax Water is the present value of the defined benefit obligation at the end of the reporting date less the fair value of plan assets.

Management estimates the defined benefit obligation annually with assistance from an independent actuary using the projected unit credit method. The defined benefit obligation uses estimates for inflation, medical cost trends, mortality, and anticipated salary levels. The discount factor used to present value estimated future cash flows is determined with reference to high quality corporate bonds that have terms to maturity approximating the terms of the related pension liability.

Gains and losses resulting from re-measurements of the net defined benefit liability are charged to other comprehensive income in the period in which they arise. Service costs are recognized immediately into earnings.

Net interest cost related to pension obligations and returns on plan assets are included in salary and benefits on the statement of earnings.

Halifax Water is responsible for funding the employer share of contributions to the HRM pension plan for certain employees that transferred from HRM as of August 1, 2007. HRM administers this defined benefit pension plan and Halifax Water reimburses HRM for the pension costs related to Halifax Water's proportionate share of the employees covered under the plan. Due to the nature of the plan, Halifax Water does not have sufficient information to account for the plan as a defined benefit pension plan; therefore, the multi-employer defined benefit plan is accounted for in the same manner as the supplemental retirement plans. An expense is recorded in the period when Halifax Water is obligated to make contributions for services rendered by the employee.

Halifax Regional Water Commission

Notes to the financial statements

March 31, 2021 (in thousands)

2. Summary of significant accounting policies (continued)

(q) Employee benefit obligations (continued)

Short-term employee benefits

Short-term employee benefit obligations that are due to be settled wholly within twelve months after the end of the annual reporting period in which the employees rendered the related service are measured on an undiscounted basis and are expensed as the related service is provided.

(r) Regulatory deferral account

The regulatory deferral account is recognized and measured at historical cost less depreciation. Management continually assesses the likelihood of recovery of regulatory assets. If recovery through future rates is no longer considered probable, the amounts would be charged to the results of operations in the period that the assessment is made.

3. Contingent liabilities

As a condition of sale in 2004 of a property, Halifax Water indemnified the purchaser from claims or actions resulting from migration of halocarbons. The environmental risk is assessed to be low and the likelihood of any related liability is not determinable.

Halifax Water is currently reviewing environmental risk factors at other owned properties to determine whether there is an obligation for reclamation. As of the date of issue of the financial statements the likelihood of any related liability is not determinable.

Halifax Water has been named in lawsuits that are ongoing and a liability has been accrued for legal fees and the insurance deductible.

There are other active claims against Halifax Water; however, the likelihood of actual liability is not determinable at this time. If Halifax Water's defence of active claims is unsuccessful, the potential exposure would be \$1,000 - \$2,000.

4. Employee benefit obligations

Retirement benefit plan – employees transferred from HRM

For employees that transferred from HRM, Halifax Water records an expense for the employer share of the contributions to the HRM pension plan in the period when Halifax Water is obligated to make contributions for services rendered by the employee. During 2021, Halifax Water funded \$543 (2020 – \$555) in contributions to the plan. The number of employees included in this plan is 55 (2020 – 57) and this number is reducing over time. As former HRM employees retire, they are replaced with employees in the Halifax Water pension plan.

Supplemental retirement plans sponsored by Halifax Water

For employees who participate in the supplemental retirement plans, the cost of pension benefits are expensed at the time active employees are compensated. During 2020, Halifax Water funded \$23 (2020 – \$15) in contributions to the plans. The number of employees included in the plans is 7 (2020 – 5).

Defined benefit plan sponsored by Halifax Water and other long term employment benefits

For all other employees, Halifax Water maintains a defined benefit pension plan and offers post-retirement health and insurance benefits. The defined benefit pension plan provides pensions based upon length of service and best seven years' earnings. The defined benefit pension plan is funded by employer and employee contributions with employees contributing 10.34% of regular employee earnings, and Halifax Water matching employee contributions. The defined benefit pension plan assets are managed by the HRM Pension Committee.

Halifax Regional Water Commission

Notes to the financial statements

March 31, 2021 (in thousands)

4. Employee benefit obligations (continued)

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

Halifax Water has a non-funded pre-retirement benefit that is accrued annually, and is payable on retirement, termination or death of the employee. For individuals who elected to defer receipt of their benefit until the time which they leave employment, their individual benefit equates to approximately three days' pay for each year of completed service.

Completed service for unionized employees was frozen as at June 7, 2019 for the purposes of determining their pre-retirement benefit. Pre-retirement benefits accrue to a maximum of six months' salary and can be taken as a lump sum payment at the time of retirement in lieu of pre-retirement leave.

Information about Halifax Water's plans, based on an actuarial extrapolation of the defined benefit pension plan and pre-retirement benefits and based on actuarial valuation of the post-retirement benefits as at March 31, 2021, is as follows:

	Defined benefit pension plan		Post-retirement benefits		Pre-retirement benefits		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
Change in accrued benefit obligation								
Balance, April 1	\$ 195,904	\$ 198,962	\$ 460	\$ 380	\$ 1,536	\$ 4,195	\$ 197,900	\$ 203,537
Current service cost	11,036	12,197	-	-	91	143	11,127	12,340
Interest cost	7,549	6,891	15	10	57	88	7,621	6,989
Benefit payments	(5,514)	(4,780)	(53)	(50)	(106)	(3,025)	(5,673)	(7,855)
Re-measurements – actuarial (gains)/ losses from changes in financial/experience assumptions	18,597	(17,366)	(27)	120	140	135	18,710	(17,111)
Balance, March 31	<u>227,572</u>	<u>195,904</u>	<u>395</u>	<u>460</u>	<u>1,718</u>	<u>1,536</u>	<u>229,685</u>	<u>197,900</u>
Change in fair value of plan assets								
Balance, April 1	134,535	131,207	-	-	-	-	134,535	131,207
Investment income	5,129	4,486	-	-	-	-	5,129	4,486
Administrative expenses	(69)	(112)	-	-	-	-	(69)	(112)
Actual return on plan assets	15,362	(2,611)	-	-	-	-	15,362	(2,611)
Benefit payments	(5,514)	(4,780)	(53)	(50)	(106)	(3,025)	(5,673)	(7,855)
Contributions: Employee	3,287	3,505	-	-	-	-	3,287	3,505
Employer	3,159	2,840	53	50	106	3,025	3,318	5,915
Balance, March 31	<u>155,889</u>	<u>134,535</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>155,889</u>	<u>134,535</u>
Accrued benefit liability, March 31	<u>\$ 71,683</u>	<u>\$ 61,369</u>	<u>\$ 395</u>	<u>\$ 460</u>	<u>\$ 1,718</u>	<u>\$ 1,536</u>	<u>\$ 73,796</u>	<u>\$ 63,365</u>

Halifax Regional Water Commission

Notes to the financial statements

March 31, 2021 (in thousands)

4. Employee benefit obligations (continued)

Included in the statement of earnings and comprehensive earnings is pension expense of \$10,903 (2020 - \$11,940).

The significant actuarial assumptions adopted in measuring Halifax Water's accrued benefit obligations are as follows:

	2021	2020	2021	2020	2021	2020
	Defined benefit pension plan	Defined benefit Pension plan	Post- retirement benefits	Post- retirement benefits	Pre- retirement benefit	Pre- retirement benefit
Discount rate	3.40%	3.80%	2.75%	3.45%	2.90%	3.60%
Expected return on plan assets	3.40%	3.80%	N/A	N/A	N/A	N/A
Rate of compensation increase	3.75%	3.75%	N/A	N/A	3.75%	3.75%
Expenses for life benefits as a % of claims	N/A	N/A	9.36%	10.00%	N/A	N/A
Health benefit trending per year	N/A	N/A	6.26%	6.50%	N/A	N/A
Dental benefit trending per year	N/A	N/A	4.00%	4.00%	N/A	N/A

The measurement date used to determine the plan assets and the accrued benefit obligation was March 31, 2021. The most recent valuation was completed January 1, 2019. The next review is scheduled for January 1, 2022.

The estimated employer contributions expected to be paid to the pension plans for the next fiscal year are \$3,291.

5. Regulatory deferral account

In 2011, the NSUARB granted Halifax Water approval to defer depreciation charges on certain assets transferred in 2010 from HRM relating to the Halifax Harbour Solutions Project (HHSP). Depreciation of \$2,078 was deferred in each of fiscal 2011 and 2012. As a result, Halifax Water recognized a \$4,156 regulatory deferral account. In absence of rate regulation, this regulatory deferral account would have been expensed as depreciation in fiscal 2011 and 2012. In 2012, the NSUARB granted approval of the depreciation of this deferral account over the remaining useful lives of the underlying assets, beginning in 2014. The expense recognized in 2021 is \$192 (2020 - \$192).

	<u>2021</u>	<u>2020</u>
Balance, April 1	\$ 2,812	\$ 3,004
Depreciation	<u>(192)</u>	<u>(192)</u>
Balance, March 31	<u>\$ 2,620</u>	<u>\$ 2,812</u>

6. Commitments

A new agreement with HRM for the dividend/grant in lieu of taxes (dividend) for fiscal years 2020/21 to 2022/23 was signed during the fiscal year. Dividend payments are approved as part of revenue requirements by the NSUARB. For the Water System, the dividend for fiscal years 2020/21 to 2022/23 is expected to be equal to 1.56% of Halifax Water's rate base assets allocated to the Water System at March 31 of the previous fiscal year. Starting September 1, 2020, for the Wastewater System and Stormwater System, the dividends for fiscal years 2020/21 to 2022/23 are expected to be equal to 0.25% of Halifax Water's rate base assets allocated to the Wastewater System at March 31 of the previous fiscal year, plus 0.25% of Halifax Water's rate base assets allocated to the Stormwater System at March 31 of the previous fiscal year.

For 2021/22, the dividends will be capped at 1% more than the dividend amounts for 2020/21 that would have been payable had the new Wastewater and Stormwater dividends commenced on April 1, 2020. The dividends payable for 2022/23 will be capped at 1% more than the dividends payable in the preceding fiscal year.

Halifax Regional Water Commission

Notes to the financial statements

March 31, 2021 (in thousands)

7. Capital management

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

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

	<u>2021</u>	<u>2020</u>
Long term debt	\$ 224,665	\$ 219,146
Equity	<u>203,778</u>	<u>204,697</u>
Capital under management	<u>\$ 428,443</u>	<u>\$ 423,843</u>

Halifax Water has obtained regulatory approval for all borrowings during the fiscal year. Halifax Water is not subject to financial borrowing covenants other than as outlined in Note 9.

8. Financial instruments and risk management

Halifax Water applies a three-tier hierarchy framework for disclosing fair value of financial instruments, based on whether the inputs into the various valuation techniques are observable or unobservable. Observable techniques reflect market data obtained from independent sources, while unobservable inputs reflect management assumptions. Changes in valuation techniques of financial instruments may result in transfers of assigned levels. The hierarchy of input is as follows:

- Level I Quoted prices in active markets for identical assets or liabilities;
- Level II Inputs other than quoted prices included in Level I that are observable, either directly or indirectly; and
- Level III Inputs that are not based on observable market data.

The carrying values of current assets and current liabilities approximate their fair value due to the relatively short period to maturity of these financial instruments. The fair value of fixed rate long-term debt is assumed to approximate its carrying value given the limitations where Halifax Water can obtain long-term debt.

There were no transfers between classes of the fair value hierarchy during the year.

Halifax Water is exposed to risks as a result of holding financial instruments. Management considers and evaluates those risks on an on-going basis to ensure that the risks are appropriately managed. These potential risks include credit risk, interest risk, market risk and liquidity risk.

Halifax Regional Water Commission

Notes to the financial statements

March 31, 2021 (in thousands)

8. Financial instruments and risk management (continued)

Credit risk

Credit risk arises from the possibility that Halifax Water's customers may experience financial difficulty and be unable to fulfill their obligations. Halifax Water's maximum exposure to credit risk corresponds to customer charges and contractual receivables. However, Halifax Water's customers are numerous and diverse, which reduces the concentration of credit risk.

Halifax Water makes use of a simplified approach in accounting for receivables and records the loss allowance as lifetime ECL. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, Halifax Water uses its historical experience, external indicators and forward-looking information to calculate the ECL using a provision matrix. Halifax Water includes 75% of the balance of closed accounts in the allowance and 1% of active accounts. Halifax Water assesses impairment of receivables on a collective basis. As receivables possess shared credit risk characteristics, receivables have been grouped based on the days past due.

An analysis of Halifax Water's receivables and continuity of Halifax Water's provision for impairment losses on receivables is as follows:

	<u>2021</u>	<u>2020</u>
Receivables		
Customer charges, contractual, and unbilled service revenues	\$ 38,654	\$ 38,464
Less: allowance for doubtful accounts	<u>(3,253)</u>	<u>(2,692)</u>
	<u>\$ 35,401</u>	<u>\$ 35,772</u>

The credit quality of financial assets that are neither past due nor impaired are assessed with reference to historical information and includes the following considerations; new customers, existing customers and payment pattern history.

Interest risk

Interest risk arises from the possibility that changes in interest rates will cause Halifax Water a potential loss. Halifax Water's long term debt has been acquired with a variety of fixed rates and has staggered maturity dates which mitigates the interest rate risk.

Market risk

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

Liquidity risk

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

Halifax Regional Water Commission

Notes to the financial statements

March 31, 2021 (in thousands)

9. Related party transactions

The immediate parent and ultimate controlling party of Halifax Water is HRM.

Halifax Water is obligated to make payments on debt, held in the name of HRM, associated with Wastewater and Stormwater assets which were transferred to Halifax Water in 2007 and subsequent years.

Amounts receivable from HRM have normal credit terms.

Halifax Water had the following related party transactions with HRM:

- Halifax Water recorded revenue for provision of water, Wastewater and Stormwater Services in the amount of \$4,808 (2020 - \$4,943).
- Halifax Water recorded public fire protection revenue \$7,336 (2020 - \$7,074).
- Halifax Water paid a dividend of \$5,951 (2020 - \$5,078).
- Halifax Water paid operating expenses of \$1,694 (2020 - \$1,785).
- The debt issued by Halifax Water was covered by a blanket guarantee from HRM subject to Halifax Water maintaining a debt service ratio of less than 35%. The debt service ratio at March 31, 2021 is 20.29% (2020 – 18.91%).

Compensation of key management personnel

Members of the Board of Commissioners and Executive Management team are deemed to be key management personnel. It is the Board of Commissioners and Executive Management team who have the responsibility for planning, directing and controlling the activities of Halifax Water.

The following is compensation expense for key management personnel:

	<u>2021</u>	<u>2020</u>
Regular compensation and benefits	\$ 1,428	\$ 1,474
Post-employment benefits	<u>163</u>	<u>113</u>
Total compensation	<u>\$ 1,591</u>	<u>\$ 1,587</u>

Halifax Regional Water Commission

Notes to the financial statements

March 31, 2021 (in thousands)

10. Intangible assets	<u>2021</u>	<u>2020</u>
Cost		
Balance, April 1	\$ 25,933	\$ 20,798
Additions	<u>3,565</u>	<u>5,135</u>
Balance, March 31	<u>29,498</u>	<u>25,933</u>
Accumulated amortization		
Balance, April 1	6,982	5,380
Amortization	<u>1,928</u>	<u>1,602</u>
Balance, March 31	<u>8,910</u>	<u>6,982</u>
Net book value, March 31	<u>\$ 20,588</u>	<u>\$ 18,951</u>

11. Utility plant in service

	Land	Structures and improvements	Treatment and network equipment	Distribution and collection network	Tools and work equipment	Total
Cost						
Balance, April 1, 2020	\$ 21,603	\$ 263,360	\$ 271,047	\$ 934,692	\$ 33,892	\$ 1,524,594
Additions	4,386	4,925	5,477	23,981	8,881	47,650
Disposals	-	(49)	(194)	-	(9,281)	(9,524)
Balance, March 31, 2021	<u>25,989</u>	<u>268,236</u>	<u>276,330</u>	<u>958,673</u>	<u>33,492</u>	<u>1,562,720</u>
Accumulated depreciation						
Balance, April 1, 2020	\$ -	\$ 62,646	\$ 71,773	\$ 94,691	\$ 14,474	\$ 243,584
Depreciation	-	10,120	15,104	17,792	5,266	48,282
Depreciation retired	-	(42)	(111)	-	(9,276)	(9,429)
Balance, March 31, 2021	<u>-</u>	<u>72,724</u>	<u>86,766</u>	<u>112,483</u>	<u>10,464</u>	<u>282,437</u>
Net book value, March 31, 2021	<u>\$ 25,989</u>	<u>\$ 195,512</u>	<u>\$ 189,564</u>	<u>\$ 846,190</u>	<u>\$ 23,028</u>	<u>\$ 1,280,283</u>

	Land	Structures and improvements	Treatment and network equipment	Distribution and collection network	Tools and work equipment	Total
Cost						
Balance, April 1, 2019	\$ 21,603	\$ 235,615	\$ 250,944	\$ 896,065	\$ 28,835	\$ 1,433,062
Additions	-	27,745	21,949	38,627	6,001	94,322
Disposals	-	-	(1,846)	-	(944)	(2,790)
Balance, March 31, 2020	<u>21,603</u>	<u>263,360</u>	<u>271,047</u>	<u>934,692</u>	<u>33,892</u>	<u>1,524,594</u>
Accumulated depreciation						
Balance, April 1, 2019	\$ -	\$ 52,737	\$ 58,807	\$ 77,046	\$ 11,032	\$ 199,622
Depreciation	-	9,909	14,474	17,645	4,386	46,414
Depreciation retired	-	-	(1,508)	-	(944)	(2,452)
Balance, March 31, 2020	<u>-</u>	<u>62,646</u>	<u>71,773</u>	<u>94,691</u>	<u>14,474</u>	<u>243,584</u>
Net book value, March 31, 2020	<u>\$ 21,603</u>	<u>\$ 200,714</u>	<u>\$ 199,274</u>	<u>\$ 840,001</u>	<u>\$ 19,418</u>	<u>\$ 1,281,010</u>

Halifax Regional Water Commission

Notes to the financial statements

March 31, 2021 (in thousands)

12. Deferred contributed capital	<u>2021</u>	<u>2020</u>
Balance, April 1	\$ 893,948	\$ 881,648
Assets contributed during the year	7,406	18,613
Contributions and interest	15,952	12,712
Amortization	<u>(18,810)</u>	<u>(19,025)</u>
Balance, March 31	898,496	893,948
Less: current portion	<u>(14,580)</u>	<u>(14,488)</u>
	<u>\$ 883,916</u>	<u>\$ 879,460</u>

Deferred contributed capital is comprised of contributions received by Halifax Water for the acquisition of utility plant in service. Contributions for capital expenditures are amortized over the estimated useful lives of the assets.

13. Long-term debt	<u>Interest rates</u>	<u>2021</u>	<u>2020</u>
Payable to Municipal Finance Corporation (MFC)			
Water	0.678% to 4.221%	\$ 74,648	\$ 67,586
HHSP	2.015% to 2.561%	5,850	6,500
Wastewater	0.678% to 3.614%	97,670	96,657
Stormwater	0.678% to 3.614%	<u>21,423</u>	<u>16,832</u>
		199,591	187,575
Payable to Halifax Regional Municipality			
Wastewater/Stormwater	1.200% to 5.940%	<u>26,000</u>	32,500
		225,591	220,075
Less: debt issue costs		<u>(926)</u>	<u>(929)</u>
		224,665	219,146
Less: amount payable within one year		<u>(20,559)</u>	<u>(21,184)</u>
		<u>\$ 204,106</u>	<u>\$ 197,962</u>

During the year Halifax Water acquired \$25,000 in new debt with a ten year term and twenty year amortization period. Additionally, \$1,700 of debt was refinanced for ten years.

The debentures are repayable in fixed annual principal instalments plus interest payable semi-annually. Interest paid during the year was \$7,118 (2020 - \$7,144). Principal instalments for the next five years are as follows:

2021/22	\$ 20,559
2022/23	\$ 45,272
2023/24	\$ 41,951
2024/25	\$ 32,065
2025/26	\$ 22,417
Thereafter	\$ 63,327

Halifax Regional Water Commission

Notes to the financial statements

March 31, 2021 (in thousands)

14. Operating expenditures by nature	<u>2021</u>	<u>2020</u>
Salaries and benefits	\$ 49,093	\$ 48,897
Training	325	644
Contract services	13,182	13,426
Electricity	6,868	6,535
Operating supplies	10,672	10,974
Professional services	5,650	4,806
Chemicals	5,973	5,742
Depreciation on assets allocated to departments	1,603	1,606
Depreciation and amortization	<u>48,607</u>	<u>46,410</u>
	<u>\$ 141,973</u>	<u>\$ 139,040</u>

15. Impact of COVID-19

In response to the COVID-19 pandemic, Halifax Water did not charge interest on overdue accounts, fees for dishonored payments were waived, and disconnection for non-payment of service was suspended. These measures were in place until August 31, 2020. The impact of COVID-19 on Halifax Water's credit risk has been factored into the estimates for the allowance for doubtful accounts; however, it is not expected to be material to the financial statements. The duration of the COVID-19 pandemic remains unclear at this time.

Halifax Regional Water Commission

Schedule of utility plant in service

Schedule A

Year ended March 31, 2021 (in thousands)

Water

	Land	Structures and improvements	Pumping equipment	Purification equipment	SCADA equipment	Transmission and distribution mains	Services	Meters	Hydrants	Aerotech and small systems	Tools and work equipment	Total
Cost												
Balance, April 1, 2020												
Cost	\$ 16,240	\$ 118,167	\$ 10,686	\$ 27,775	\$ 10,996	\$ 399,537	\$ 41,546	\$ 18,799	\$ 21,497	\$ 10,054	\$ 33,048	\$ 708,345
Additions	2,193	3,546	59	474	375	11,996	1,612	542	493	-	5,712	27,002
Disposals	-	(149)	-	(17)	-	-	-	(194)	-	(6)	(6,598)	(6,964)
Balance, March 31, 2021	18,433	121,564	10,745	28,232	11,371	411,533	43,158	19,147	21,990	10,048	32,162	728,383
Accumulated depreciation												
Balance, April 1, 2020	-	31,504	7,869	18,699	4,405	94,804	8,347	5,082	4,860	3,627	20,393	199,590
Depreciation	-	2,082	298	1,166	526	5,198	734	895	356	337	2,856	14,448
Depreciation retired	-	(14)	-	(2)	-	-	-	(103)	-	(1)	(6,554)	(6,674)
Total accumulated depreciation, March 31, 2021	-	33,572	8,167	19,863	4,931	100,002	9,081	5,874	5,216	3,963	16,695	207,364
Net book value, March 31, 2021	\$ 18,433	\$ 87,992	\$ 2,578	\$ 8,369	\$ 6,440	\$ 311,531	\$ 34,077	\$ 13,273	\$ 16,774	\$ 6,085	\$ 15,467	\$ 521,019
Cost												
Balance, April 1, 2019												
Cost	\$ 16,240	\$ 96,960	\$ 10,503	\$ 26,899	\$ 5,607	\$ 386,320	\$ 39,899	\$ 16,787	\$ 20,638	\$ 10,054	\$ 29,621	\$ 659,528
Additions	-	21,207	183	876	5,389	13,217	1,647	3,409	859	-	4,339	51,126
Disposals	-	-	-	-	-	-	-	(1,397)	-	-	(912)	(2,309)
Balance, March 31, 2020	16,240	118,167	10,686	27,775	10,996	399,537	41,546	18,799	21,497	10,054	33,048	708,345
Accumulated depreciation												
Balance, April 1, 2019	-	29,662	7,576	17,571	4,053	89,784	7,646	5,087	4,524	3,288	19,014	188,205
Depreciation	-	1,842	293	1,128	352	5,020	701	847	336	339	2,291	13,149
Depreciation retired	-	-	-	-	-	-	-	(852)	-	-	(912)	(1,764)
Total accumulated depreciation, March 31, 2020	-	31,504	7,869	18,699	4,405	94,804	8,347	5,082	4,860	3,627	20,393	199,590
Net book value, March 31, 2020	\$ 16,240	\$ 86,663	\$ 2,817	\$ 9,076	\$ 6,591	\$ 304,733	\$ 33,199	\$ 13,717	\$ 16,637	\$ 6,427	\$ 12,655	\$ 508,755

Schedule A is presented in accordance with the NSUARB Water Utility Accounting and Reporting Handbook (NSUARB Handbook).

Utility plant in service under IFRS differs from the NSUARB Handbook due to exclusion of intangible assets, componentization of certain assets and differences in useful lives for depreciation.

Halifax Regional Water Commission

Schedule of utility plant in service

Schedule A

Year ended March 31, 2021 (in thousands)

Wastewater

	Land	Structures and improvements	Pumping equipment	Treatment equipment	SCADA equipment	Collection system	Laterals	Meters	Aerotech and small systems	Tools and work equipment	Total
Cost											
Balance, April 1, 2020											
Cost	\$ 5,329	\$ 194,939	\$ 22,110	\$ 174,761	\$ 15,761	\$ 332,994	\$ 29,258	\$ 8,440	\$ 12,784	\$ 42,137	\$ 838,513
Additions	1,754	1,599	1,340	1,991	193	3,930	2,175	323	-	6,023	19,328
Disposals	-	(130)	(177)	(113)	-	(410)	-	-	-	(2,511)	(3,341)
Balance, March 31, 2021	7,083	196,408	23,273	176,639	15,954	336,514	31,433	8,763	12,784	45,649	854,500
Accumulated depreciation											
Balance, April 1, 2020	-	64,252	8,947	72,195	3,298	70,660	2,966	532	4,402	19,458	246,710
Depreciation	-	4,383	897	8,879	924	4,639	615	431	413	3,650	24,831
Depreciation retired	-	(61)	(30)	(31)	-	(17)	-	-	-	(2,504)	(2,643)
Total accumulated depreciation, March 31, 2021	-	68,574	9,814	81,043	4,222	75,282	3,581	963	4,815	20,604	268,898
Net book value, March 31, 2021	\$ 7,083	\$ 127,834	\$ 13,459	\$ 95,596	\$ 11,732	\$ 261,232	\$ 27,852	\$ 7,800	\$ 7,969	\$ 25,045	\$ 585,602
Cost											
Balance, April 1, 2019											
Cost	\$ 5,329	\$ 190,847	\$ 21,467	\$ 172,769	\$ 10,565	\$ 326,334	\$ 26,535	\$ 5,031	\$ 12,784	\$ 36,377	\$ 808,038
Additions	-	4,092	643	2,441	5,196	6,660	2,723	3,409	-	5,792	30,956
Disposals	-	-	-	(449)	-	-	-	-	-	(32)	(481)
Balance, March 31, 2020	5,329	194,939	22,110	174,761	15,761	332,994	29,258	8,440	12,784	42,137	838,513
Accumulated depreciation											
Balance, April 1, 2019	-	59,838	8,104	63,702	2,488	66,089	2,400	201	3,973	16,406	223,201
Depreciation	-	4,414	843	8,707	810	4,571	566	331	429	3,084	23,755
Depreciation retired	-	-	-	(214)	-	-	-	-	-	(32)	(246)
Total accumulated depreciation, March 31, 2020	-	64,252	8,947	72,195	3,298	70,660	2,966	532	4,402	19,458	246,710
Net book value, March 31, 2020	\$ 5,329	\$ 130,687	\$ 13,163	\$ 102,566	\$ 12,463	\$ 262,334	\$ 26,292	\$ 7,908	\$ 8,382	\$ 22,679	\$ 591,803

Schedule A is presented in accordance with the NSUARB Handbook.

Utility plant in service under IFRS differs from the NSUARB Handbook due to exclusion of intangible assets, componentization of certain assets and differences in useful lives for depreciation.

Halifax Regional Water Commission

Schedule of utility plant in service

Schedule A

Year ended March 31, 2021 (in thousands)

Stormwater

	Land	Structures and improvements	Collection system	Laterals	Aerotech and small systems	Total
Cost						
Balance, April 1, 2020						
Cost	\$ 34	\$ 12,672	\$ 265,896	\$ 5,190	\$ 5,537	\$ 289,329
Additions	439	11	4,779	184	769	6,182
Disposals	-	-	(290)	-	(230)	(520)
Balance, March 31, 2021	473	12,683	270,385	5,374	6,076	294,991
Accumulated depreciation						
Balance, April 1, 2020	-	1,972	54,702	597	2,469	59,740
Depreciation	-	236	6,520	106	731	7,593
Depreciation retired	-	-	(10)	-	(230)	(240)
Total accumulated depreciation, March 31, 2021	-	2,208	61,212	703	2,970	67,093
Net book value, March 31, 2021	\$ 473	\$ 10,475	\$ 209,173	\$ 4,671	\$ 3,106	\$ 227,898
Cost						
Balance, April 1, 2019						
Cost	\$ 34	\$ 10,226	\$ 251,661	\$ 5,046	\$ 4,532	\$ 271,499
Additions	-	2,446	14,235	144	1,005	17,830
Disposals	-	-	-	-	-	-
Balance, March 31, 2020	34	12,672	265,896	5,190	5,537	289,329
Accumulated depreciation						
Balance, April 1, 2019	-	1,761	48,373	495	1,887	52,516
Depreciation	-	211	6,329	102	582	7,224
Depreciation retired	-	-	-	-	-	-
Total accumulated depreciation, March 31, 2020	-	1,972	54,702	597	2,469	59,740
Net book value, March 31, 2020	\$ 34	\$ 10,700	\$ 211,194	\$ 4,593	\$ 3,068	\$ 229,589
Cumulative utility plant in service						
	Water	Wastewater	Stormwater			Total
Net book value, March 31, 2021	\$ 521,019	\$ 585,602	\$ 227,898			\$ 1,334,519
Net book value, March 31, 2020	\$ 508,755	\$ 591,803	\$ 229,589			\$ 1,330,147

Schedule A is presented in accordance with the NSUARB Handbook.

Utility plant in service under IFRS differs from the NSUARB Handbook due to exclusion of intangible assets, componentization of certain assets and differences in useful lives for depreciation.

Halifax Regional Water Commission

Schedule of long term debt

Schedule B

Year ended March 31, 2021 (in thousands)

	<u>Interest rate</u>	<u>Final Maturity</u>	<u>Balance Remaining</u>	
			<u>2021</u>	<u>2020</u>
Payable to Municipal Finance Corporation				
Water				
Debenture 30 A 1	1.330% to 2.979%	2020	\$ -	\$ 175
Debenture 31 A 1	1.630% to 4.221%	2021	150	300
Debenture 32 A 1	1.636% to 3.480%	2022	400	600
Debenture 32 C 1	1.510% to 3.160%	2022	6,440	6,977
Debenture 33 A 1	1.330% to 2.979%	2023	6,573	7,079
Debenture 33 B 1	1.285% to 3.614%	2023	4,818	5,189
Debenture 34 B 1	1.200% to 3.190%	2024	9,571	10,254
Debenture 35 A 1	1.040% to 2.894%	2025	10,100	10,774
Debenture 36 A 1	1.150% to 2.925%	2026	1,200	1,400
Debenture 36 B 1	1.150% to 2.506%	2026	3,471	3,688
Debenture 37 A 1	1.734% to 3.073%	2027	2,975	3,150
Debenture 38 A 1	2.060% to 3.295%	2028	1,100	1,300
Debenture 38 B 1	2.490% to 3.389%	2028	5,400	5,700
Debenture 39 A 1	2.015% to 2.561%	2029	10,450	11,000
Debenture 40 A 1	0.678% to 1.879%	2030	12,000	-
Wastewater				
Debenture 30 A 1	1.330% to 2.979%	2020	-	1,870
Debenture 32 A 1	1.636% to 3.480%	2022	1,438	1,558
Debenture 32 B 1	1.380% to 3.156%	2022	19,200	20,800
Debenture 32 C 1	1.510% to 3.160%	2022	2,757	2,987
Debenture 33 A 1	1.330% to 2.979%	2023	10,959	11,802
Debenture 33 B 1	1.285% to 3.614%	2023	7,080	7,625
Debenture 34 A 1	1.245% to 3.347%	2024	3,898	4,177
Debenture 34 B 1	1.200% to 3.190%	2024	6,010	6,439
Debenture 35 A 1	1.040% to 2.894%	2025	10,583	11,288
Debenture 36 B 1	1.150% to 2.506%	2026	1,450	1,541
Debenture 37 A 1	1.734% to 3.073%	2027	5,185	5,490
Debenture 38 B 1	2.490% to 3.389%	2028	5,760	6,080
Debenture 39 A 1	2.015% to 2.561%	2029	14,250	15,000
Debenture 40 A 1	0.678% to 1.879%	2030	9,100	-
HHSP				
Debenture 39 A 1	2.015% to 2.561%	2029	5,850	6,500
Stormwater				
Debenture 33 A 1	1.330% to 2.979%	2023	351	378
Debenture 33 B 1	1.285% to 3.614%	2023	1,715	1,847
Debenture 34 B 1	1.200% to 3.190%	2024	4,132	4,427
Debenture 35 A 1	1.040% to 2.894%	2025	2,423	2,584
Debenture 36 B 1	1.150% to 2.506%	2026	722	766
Debenture 37 A 1	1.734% to 3.073%	2027	340	360
Debenture 38 B 1	2.490% to 3.389%	2028	2,340	2,470
Debenture 39 A 1	2.015% to 2.561%	2029	3,800	4,000
Debenture 40 A 1	0.678% to 1.879%	2030	5,600	-
			<u>199,591</u>	<u>187,575</u>
Payable to Halifax Regional Municipality				
Wastewater/Stormwater				
Debenture 24 B 1	2.840% to 5.940%	2024	22,000	27,500
Debenture 34 B 1	1.200% to 3.190%	2024	4,000	5,000
			<u>26,000</u>	<u>32,500</u>
			225,591	220,075
Less: debt issue costs			(926)	(929)
			<u>224,665</u>	<u>219,146</u>
Less: amount payable within one year			(20,559)	(21,184)
			<u>\$ 204,106</u>	<u>\$ 197,962</u>

Halifax Regional Water Commission

Schedule of earnings

Schedule C

Year ended March 31, 2021 (in thousands)

Water

	<u>2021</u>	<u>2020</u>
Operating revenues		
Water	\$ 47,631	\$ 47,918
Public fire protection	7,336	7,074
Private fire protection	1,001	881
Other operating revenue		
Bulk water stations	318	300
Customer late payment fees	155	207
Miscellaneous	204	162
	<u>56,645</u>	<u>56,542</u>
Operating expenditures		
Water supply and treatment	9,987	9,573
Water transmission and distribution	12,031	10,843
Engineering and information services	3,654	3,230
Regulatory services	1,091	859
Customer services	2,614	2,520
Administration services	3,620	3,536
Depreciation and amortization	10,879	9,818
	<u>43,876</u>	<u>40,379</u>
Earnings from operations before financial and other revenues and expenditures	<u>12,769</u>	<u>16,163</u>
Financial and other revenues		
Interest	127	222
Other	572	544
	<u>699</u>	<u>766</u>
Financial and other expenditures		
Interest on long term debt	2,028	1,828
Repayment of long term debt	5,331	4,722
Amortization of debt discount	74	64
Dividend/grant in lieu of taxes	5,498	5,078
Other	43	32
	<u>12,974</u>	<u>11,724</u>
Earnings for the year	<u>\$ 494</u>	<u>\$ 5,205</u>

Schedule C is presented in accordance with the NSUARB Handbook.

Halifax Regional Water Commission

Schedule of earnings

Schedule C

Year ended March 31, 2021 (in thousands)

Wastewater

	<u>2021</u>	<u>2020</u>
Operating revenues		
Wastewater	\$ 69,605	\$ 70,494
Other operating revenue		
Leachate and other contract revenue	416	453
Septage tipping fees	486	514
Over strength surcharge	1	14
Airplane effluent	33	98
Customer late payment fees	118	123
Miscellaneous	163	141
	<u>70,822</u>	<u>71,837</u>
Operating expenditures		
Wastewater collection	14,467	13,963
Wastewater treatment	20,623	20,633
Engineering and information services	4,187	4,478
Regulatory services	1,385	1,432
Customer services	2,189	2,277
Administration services	2,965	3,024
Depreciation and amortization	15,019	14,038
	<u>60,835</u>	<u>59,845</u>
Earnings from operations before financial and other revenues and expenditures	<u>9,987</u>	<u>11,992</u>
Financial and other revenues		
Interest	55	191
Other	176	155
	<u>231</u>	<u>346</u>
Financial and other expenditures		
Interest on long term debt	4,405	4,706
Repayment of long term debt	13,242	12,522
Amortization of debt discount	117	110
Dividend/grant in lieu of taxes	386	-
Other	26	35
	<u>18,176</u>	<u>17,373</u>
Loss for the year	<u>\$ (7,958)</u>	<u>\$ (5,035)</u>

Schedule C is presented in accordance with the NSUARB Handbook.

Halifax Regional Water Commission

Schedule of earnings

Schedule C

Year ended March 31, 2021 (in thousands)

Stormwater

	<u>2021</u>	<u>2020</u>
Operating revenues		
Stormwater site generated service	\$ 5,127	\$ 5,361
Stormwater right-of-way service	3,835	3,835
Other operating revenue		
Customer late payment fees	38	81
Miscellaneous	102	94
	<u>9,102</u>	<u>9,371</u>
Operating expenditures		
Stormwater collection	4,762	4,808
Engineering and information services	440	728
Regulatory services	1,505	1,490
Customer services	278	370
Administration services	482	484
Depreciation and amortization	1,512	1,222
	<u>8,979</u>	<u>9,102</u>
Earnings from operations before financial and other revenue and expenditures	<u>123</u>	<u>269</u>
Financial and other revenues		
Interest	<u>33</u>	<u>99</u>
Financial and other expenditures		
Interest on long term debt	685	610
Repayment of long term debt	1,806	1,475
Amortization of debt discount	18	13
Dividend/grant in lieu of taxes	67	-
	<u>2,576</u>	<u>2,098</u>
Loss for the year	<u>\$ (2,420)</u>	<u>\$ (1,730)</u>

Schedule C is presented in accordance with the NSUARB Handbook.

Halifax Regional Water Commission

Schedule of earnings

Schedule D

Year ended March 31, 2021 (in thousands)

Regulated activities

	<u>2021</u>	<u>2020</u>
Operating revenues		
Water	\$ 47,631	\$ 47,918
Wastewater	69,605	70,494
Stormwater	8,962	9,196
Public fire protection	7,336	7,074
Private fire protection services	1,001	881
Other operating revenue	1,061	1,085
	<u>135,596</u>	<u>136,648</u>
Operating expenditures		
Water supply and treatment	9,970	9,541
Water transmission and distribution	12,031	10,843
Wastewater collection	14,421	13,939
Stormwater collection	4,762	4,808
Wastewater treatment	20,060	19,892
Engineering and information services	8,281	8,436
Regulatory services	3,981	3,781
Customer services	5,026	5,128
Administration services	7,029	7,007
Depreciation and amortization	27,392	25,060
	<u>112,953</u>	<u>108,435</u>
Earnings from operations before financial and other revenues and expenditures	<u>22,643</u>	<u>28,213</u>
Financial and other revenues		
Interest	215	512
Other	88	143
	<u>303</u>	<u>655</u>
Financial and other expenditures		
Interest on long term debt	7,118	7,144
Repayment of long term debt	20,379	18,719
Amortization of debt discount	209	187
Dividend/grant in lieu of taxes	5,951	5,078
	<u>33,657</u>	<u>31,128</u>
Loss for the year	<u>\$ (10,711)</u>	<u>\$ (2,260)</u>

Schedule D is presented in accordance with the NSUARB Handbook.

Halifax Regional Water Commission

Schedule of earnings

Schedule D

Year ended March 31, 2021 (in thousands)

Unregulated activities

	<u>2021</u>	<u>2020</u>
Operating revenues		
Septage tipping fees	\$ 486	\$ 514
Leachate treatment and contract revenue	416	453
Airplane effluent	33	98
Other operating revenue	<u>38</u>	<u>37</u>
	<u>973</u>	<u>1,102</u>
Operating expenditures		
Water supply and treatment	17	32
Wastewater treatment	563	741
Wastewater collection	46	24
Customer services	55	39
Administration services	38	37
Depreciation and amortization	<u>18</u>	<u>18</u>
	<u>737</u>	<u>891</u>
Earnings from operations before financial and other revenues and expenditures	<u>236</u>	<u>211</u>
Financial and other revenues		
Other	<u>660</u>	<u>556</u>
Financial and other expenditures		
Other	<u>69</u>	<u>67</u>
Earnings for the year	<u>\$ 827</u>	<u>\$ 700</u>

Schedule D is presented in accordance with the NSUARB Handbook.

Halifax Regional Water Commission Nova Scotia Utility and Review Board information

Schedule E

Year ended March 31, 2021 (in thousands)

Return on rate base	2021	2020
Rate of return on rate base for water Service	1.99%	3.15%
Rate of return on rate base for Wastewater Service	3.09%	3.87%
Rate of return on rate base for Stormwater Service	0.09%	0.50%

Return on rate base is calculated based on earnings from operations before financial and other revenues and expenditures divided by the net book value of funded utility plant in service.

Special purpose reserves

	Wastewater and Stormwater Reserves	Regional Development Charge Water Reserve	Regional Development Charge Wastewater Reserve	Other Capital Reserves	2021 Total	2020 Total
Reserve, April 1	\$ 7,004	\$ 2,350	\$ 36,239	\$ 408	\$ 46,001	\$ 45,150
Contributions and interest	-	775	14,491	200	15,466	12,495
Expenditures	(5,040)	-	(2,371)	-	(7,411)	(11,644)
Reserve, March 31	\$ 1,964	\$ 3,125	\$ 48,359	\$ 608	\$ 54,056	\$ 46,001

Summarized consolidated operating results

	2021	2020
Operating revenues	\$ 136,569	\$ 137,750
Operating expenditures	113,690	109,326
Earnings from operations before financial and other revenues and expenditures	22,879	28,424
Financial and other revenues	963	1,211
Financial and other expenditures	33,726	31,195
Loss for the year	\$ (9,884)	\$ (1,560)

The NSUARB approved a transfer of up to \$5,040 to cover the current year deficit within Wastewater Services. These funds were transferred from HRM in 2007 as part of the transfer of Wastewater and Stormwater Services.

Halifax Regional Water Commission

For the year ended March 31, 2021

Report to the Audit and Finance Committee
Audit results

June 3, 2021

Tom Brockway, CPA, CA
Engagement Partner
T 902 491 7781
E Tom.Brockway@ca.gt.com

Veronica Hunt, CPA, CA
Principal
T 902 490 2064
E Veronica.Hunt@ca.gt.com



Contents

Executive summary	1
Audit risks and results	2
Adjustments and uncorrected misstatements	5
Other reportable matters	6
Technical updates – highlights	7

Appendices

Appendix A – Draft independent auditor’s report
Appendix B – Draft Management representation letter

Executive summary

Purpose of report and scope

The purpose of this report is to engage in an open dialogue with you regarding our audit of the financial statements of Halifax Regional Water Commission ("Halifax Water") for the year ended March 31, 2021. This communication will assist the Audit and Finance Committee in understanding the results of audit procedures and includes comments on misstatements, significant accounting policies, sensitive estimates and other matters.

The information in this document is intended solely for the information and use of the Audit and Finance Committee. It is not intended to be distributed or used by anyone other than these specified parties.

We were engaged to provide the following deliverables:

Deliverable	Timing
Discussions and communications regarding planning	February 12, 2021
Report on the March 31, 2021 financial statements	June 17, 2021
Communication of audit strategy and results	June 3, 2021

Status of our audit

We have substantially completed our audit of the financial statements of Halifax Water and the results of that audit are included in this report.

We will finalize our report upon resolution of the following items that were outstanding as at June 3, 2021:

- Receipt of final updated financial statements (for any final changes after May 27, 2021), if any
- Receipt of legal inquiry responses
- Receipt of signed management representation letter (a draft has been attached in the appendices)
- Approval of the financial statements by the Board of Commissioners
- Final inquiries regarding subsequent events

We have successfully executed our audit strategy in accordance with the plan presented to the Audit and Finance Committee on February 12, 2021.

Additionally, we will complete our final communications to KPMG regarding our role as component auditor for their audit of Halifax Regional Municipality, when required.

Independence

We confirm that there have been no changes to our status with respect to independence since we confirmed our independence to you on February 12, 2021.

Audit risks and results

We highlight our significant findings in respect of COVID-19 impacts on audit risks and responses, significant transactions, accounting practices and other areas of focus.

COVID-19 impact on audit risks and responses

Area of focus	Matter	Our response and findings
Impact of COVID-19	<p>As a result of the COVID-19 pandemic, Halifax Water recommended to the NSUARB that there be no rate increases in water rates for 2 years (fiscal 2020/21 and 2021/22) and no increase in wastewater rates for fiscal 2020/21 in recognition of the impact of the pandemic on the residents of HRM.</p> <p>The application to the NSUARB included planned reduction in operation costs, capital, and other costs as well as a request to cover the expected \$5 million funding deficit for 2020/2021 through the use of special reserves created from the transfer of HRM assets to Halifax Water in 2007.</p> <p>For purposes of IFRS financial reporting, this impact of the application had no impact on the financial statements other than as reflected in the amounts recognized from rates charged and actual costs incurred. The special reserves referenced in the application are presented as deferred contributed capital and recognized in income over the life of the contributed assets.</p>	<p>We examined management's disclosures relating to the impact of the COVID-19 pandemic and considered the impact of the application to the NSUARB on the financial statements and related NSUARB schedules included in the financial statements.</p> <p>We have no findings to report.</p>

Significant transactions

Area of focus	Matter	Our response and findings
Issuance of new debt	In March 2020, Halifax Water participated in the Municipal Finance Commission debenture issue in the amount of \$26.7 million for the purpose of re-financing a balloon payment on a previous debenture and to fund a portion of the 2020/2021 additions to utility plant in service after substantial completion of the projects..	<p>We performed the following:</p> <ul style="list-style-type: none"> • Examined the new debenture agreement; • Confirmed the balances along with all other outstanding debt with Halifax Regional Municipality and the Nova Scotia Municipal Finance Corporation. <p>We have no findings to report.</p>
Capital projects	During the year, Halifax Water had significant capital projects ongoing and approximately \$55 million in purchased additions to ongoing and completed capital projects.	<p>We performed the following:</p> <ul style="list-style-type: none"> • Tested the operating effectiveness of controls over additions to capital assets; • On a test basis, examined invoices or other support for additions incurred during the year. <p>We have no findings to report.</p>

Areas of focus

The following is a summary of areas of focus, and the related matters and findings we would like to communicate to the Audit and Finance Committee.

Area of focus	Matter	Our response and findings
Revenue	There are a significant number of transactions in the billing process which leads to a significant risk from a financial reporting perspective.	<p>We performed the following:</p> <ul style="list-style-type: none"> Tested the operating effectiveness of controls over the accuracy and occurrence of revenue recognized, including customer set up and meter data collection and processing. Performed substantive analytical procedures over revenue recognized to identify fluctuations that may be indicative of error or fraud for further investigation. <p>We have no findings to report.</p>
Utility plant in service	Halifax Water has a significant balance in utility plant and many ongoing capital projects throughout the year. There is a risk involved from a financial reporting perspective as accounting for utility plant in service involves judgments around classification of assets, estimation of useful lives, etc.	<p>We performed the following:</p> <ul style="list-style-type: none"> Tested the operating effectiveness of controls over additions to capital assets, including Work in Progress and Utility Plant in Service. On a test basis, examined invoices or other support for additions incurred during the year. <p>We have no findings to report.</p>
Employee benefit obligations	<p>Halifax Water maintains a defined benefit pension plan and offers post-retirement health and insurance benefits. The pension plan provides pensions based upon length of service and best seven years' earnings. Halifax Water contributes 10.34% of payroll.</p> <p>A full valuation was performed at January 1, 2019 with the results extrapolated as at March 31, 2021.</p>	<p>We performed the following:</p> <ul style="list-style-type: none"> Examined the valuation report prepared by Halifax Water's independent actuary; Verified amounts reported and disclosed in Halifax Water's financial statements are accurate; Assessed reasonability of assumptions used in the valuation as compared to expectations and market information; Performed testing of the data used by the actuary in the performance of their work; and Confirmed the independence of Halifax Water's actuary and their materiality threshold. <p>We have no findings to report.</p>

Adjustments and uncorrected misstatements

Adjustments

There were no adjusted misstatements as a result of our audit procedures.

Uncorrected misstatements

Our audit identified the unadjusted non-trivial misstatements noted below.

Description	Dr. / (Cr.) (in '000s)	Balance sheet			Income effect
		Assets	Liabilities	Equity	Earnings
Impact of adoption of IFRS 16 <i>Leases</i> not reported on the financial statements.	\$ 107	\$ (96)	\$ 6	\$ (17)	

Summary of disclosure matters

Our audit did not identify any unadjusted non-trivial misstatements of disclosure matters.

Other reportable matters

Internal control

The audit is designed to express an opinion on the financial statements. We obtain an understanding of internal control over financial reporting to the extent necessary to plan the audit and to determine the nature, timing and extent of our work. Accordingly, we do not express an opinion on the effectiveness of internal control.

If we become aware of a deficiency in your internal control over financial reporting, the auditing standards require us to communicate to the Audit and Finance Committee those deficiencies we consider significant. However, a financial statement audit is not designed to provide assurance on internal control.

Based on the results of our audit, we did not identify any reportable observations.

Technical updates – highlights

Accounting

There have not been any changes in accounting standards that would have a significant impact on Halifax Water in the current year, except those presented to the Committee as part of the communications on audit planning on February 12, 2021.

The recently issued exposure draft for the amended IFRS 14 Regulatory Deferral Accounts remains open for comments through July 30, 2021 and provides an opportunity for stakeholders, users and others to provide input to the International Accounting Standards Board in their finalization of the standard. The release of the amended standard may also provide an opportunity to engage with the NSUARB to collaborate on potential changes to the reporting requirements and opportunities for alignment.

The revised standard is not expected to come in to effect until two years from the date of the release of the final standard; however, is likely to require retroactive application upon adoption.

Assurance

There have not been any changes in auditing standards that would have a significant impact on Halifax Water in the current year, except those presented to the Committee with the planning report on February 12, 2021.

Appendix A

Draft independent auditor's report

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

Opinion

We have audited the financial statements of the Halifax Regional Water Commission ("Halifax Water"), which comprise the statement of financial position as at March 31, 2021, and the statements of earnings and comprehensive earnings, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of Halifax Water as at March 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

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

Other matter – supplemental schedules

Our audit was conducted for the purposes of forming an opinion on the financial statements taken as a whole as prepared in accordance with IFRS. Schedules A through E are presented in accordance with the Nova Scotia Utility and Review Board Water Utility Accounting and Reporting Handbook. Such information has been subjected to the auditing procedures applied for the purpose of the audit of the financial statements as a whole as at and for the period ended March 31, 2021.

Responsibilities of management and those charged with governance for the financial statements

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

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

Those charged with governance are responsible for overseeing Halifax Water's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Halifax Water's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Halifax Water's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw

attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Halifax Water to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Halifax, Canada
June 17, 2021

Chartered Professional Accountants

Appendix B

Draft management representation letter

June 17, 2021

Grant Thornton LLP
Nova Centre, North Tower, Suite 1000
1675 Grafton Street
Halifax, NS B3J 0E9

Attention: Mr. Tom Brockway, CPA, CA

Dear Sir:

We are providing this letter in connection with your audit of the financial statements of the Halifax Regional Water Commission ("Halifax Water") as of March 31, 2021, and for the year then ended, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of Halifax Water in accordance with International Financial Reporting Standards.

We acknowledge that we have fulfilled our responsibilities for the preparation of the financial statements in accordance with International Financial Reporting Standards and for the design and implementation of internal controls to prevent and detect fraud and error. We have assessed the risk that the financial statements may be materially misstated as a result of fraud, and have determined such risk to be low. Further, we acknowledge that your examination was planned and conducted in accordance with Canadian generally accepted auditing standards (GAAS) so as to enable you to express an opinion on the financial statements. We understand that while your work includes an examination of the accounting system, internal controls and related data to the extent you considered necessary in the circumstances, it is not designed to identify, nor can it necessarily be expected to disclose, fraud, shortages, errors and other irregularities, should any exist.

Certain representations in this letter are described as being limited to matters that are material. An item is considered material, regardless of its monetary value, if it is probable that its omission from or misstatement in the financial statements would influence the decision of a reasonable person relying on the financial statements.

We confirm, to the best of our knowledge and belief, as of June 17, 2021, the following representations made to you during your audit.

Financial statements

1. The financial statements referred to above present fairly, in all material respects, the financial position of the entity as at March 31, 2021 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as agreed to in the terms of the audit engagement.
2. The financial statements have been prepared for the following users: Nova Scotia Utility and Review Board, Members of the Board of Commissioners, Halifax Regional Municipality (HRM) and management. These users will use the financial statements for meeting their financial reporting requirements.

Completeness of information

3. We have made available to you all financial records and related data and all minutes of the meetings of shareholders, directors, and committees of directors, as agreed in the terms of the audit engagement. Summaries of actions of recent meetings for which minutes have not yet been prepared have been provided to you. All significant board and committee actions are included in the summaries.

4. We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
5. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements. The adjusting journal entries which have been proposed by you are approved by us and will be recorded on the books of the entity.
6. There were no restatements made to correct a material misstatement in the prior period financial statements that affect the comparative information.
7. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements.
8. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss.
9. We have disclosed to you all known deficiencies in the design or operation of internal control over financial reporting of which we are aware.
10. We have identified to you all known related parties and related party transactions, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration, as disclosed in note 9 of the financial statements.

Fraud and error

11. We have no knowledge of fraud or suspected fraud affecting the entity involving management; employees who have significant roles in internal control; or others, where the fraud could have a non-trivial effect on the financial statements.
12. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
13. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

14. We believe that the effects of the uncorrected financial statement misstatements summarized in the schedules included in the Report to the Audit and Finance Committee – audit results are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Recognition, measurement and disclosure

15. We believe that the significant assumptions used by us in making accounting estimates, including those used in arriving at the fair values of financial instruments as measured and disclosed in the financial statements, are reasonable and appropriate in the circumstances.
16. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities, both financial and non-financial, reflected in the financial statements.
17. There are no tangible capital assets belonging to Halifax Water that have not already been capitalized or would need to be capitalized in the future.
18. All related party transactions have been appropriately measured and disclosed in the financial statements.
19. The nature of all material measurement uncertainties has been appropriately disclosed in the financial statements, including all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the financial statements.
20. There were no business combinations that occurred during the year.
21. Any intangibles on the books of the entity are evaluated whenever events or changes in circumstances indicated the carrying amount may not be recoverable to determine whether or not they have been impaired, and an appropriate loss provision is provided in the accounts where there has been a permanent impairment.
22. Depreciation and amortization rates have been assessed to ensure they properly reflect the assets' useful lives.
23. Rate regulated assets and liabilities have been approved by the NSUARB and have been appropriately reflected in the financial statements. Refer to note 5 of the financial statements.

24. All outstanding and possible claims, whether or not they have been discussed with legal counsel, have been disclosed to you and are appropriately reflected in the financial statements. Refer to Note 3 in the financial statements.
25. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
26. Long lived assets and finite lived intangibles are reviewed for impairment, when events or changes in circumstances indicate that the carrying amount of the long-lived assets may not be recoverable. Halifax Water assesses if any indicators of impairment are present at each financial reporting year end. No impairments have been recognized for the March 31, 2021 year-end.
27. With respect to environmental matters:
 - a) at year end, there were no liabilities or contingencies that have not already been disclosed to you;
 - b) liabilities or contingencies have been recognized, measured and disclosed, as appropriate, in the financial statements; and
 - c) commitments have been measured and disclosed, as appropriate, in the financial statements.
28. The entity has satisfactory title to (or lease interest in) all assets, and there are no liens or encumbrances on the entity's assets nor has any been pledged as collateral.
29. We have disclosed to you, and the entity has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt. Refer to Schedule B in the financial statements.
30. The Goods and Services Tax (GST) and Harmonized Sales Tax (HST) transactions recorded by the entity are in accordance with the federal and provincial regulations. The GST and HST liability/receivable amounts recorded by the entity are considered complete.
31. Employee future benefit costs, assets, and obligations have been determined, accounted for and disclosed in accordance with the requirements of IAS 19 Employee Benefits of the Chartered Professional Accountants of Canada (CPA Canada) Handbook Part I – Accounting.

32. There have been no events subsequent to the balance sheet date up to the date hereof that would require recognition or disclosure in the financial statements. Further, there have been no events subsequent to the date of the comparative financial statements that would require adjustment of those financial statements and related notes.

Other

33. We have considered whether or not events have occurred or conditions exist which may cast significant doubt on Halifax Water's ability to continue as a going concern and have concluded that no such events or conditions are evident.
34. We have considered the implications of the COVID-19 pandemic and impact on Halifax Water and have provided sufficient disclosures in the financial statements accordingly. There are no other related significant matters arising that we have not disclosed to you.

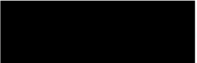
Yours very truly,

Cathie O'Toole, MBA, FCPA, FCGA, ICD.D
General Manager


Louis de Montbrun, CPA, CA
Director, Corporate Services / CFO

Alicia Scallion, CPA, CA
Manager, Accounting

TO: Craig MacMullin, MBA, CPA, CGA, Chair and Members of the Halifax Regional Water Commission Board, as Trustees of the Halifax Regional Water Commission Employees' Pension Plan

SUBMITTED BY:  Digitally signed by Louis de Montbrun
Date: 2021.06.10 14:00:23 -03'00'

Louis de Montbrun, CPA, CA
Director, Corporate Services / CFO

APPROVED:  Digitally signed by Cathie O'Toole
Date: 2021.06.10 12:52:55 -03'00'

Cathie O'Toole, MBA, FCPA, FCGA, ICD.D, General Manager

DATE: June 3, 2021

SUBJECT: **Halifax Regional Water Commission Employees' Pension Plan
Financial Statements for the Year Ended December 31, 2020**

ORIGIN

The Halifax Regional Water Commission Board (the "Board"), as Trustees of the Halifax Regional Water Commission Employees' Pension Plan (the "Plan"), approves the audited financial statements for the Plan annually.

RECOMMENDATION

It is recommended the Board approve the audited financial statements for the Halifax Regional Water Commission Employees' Pension Plan for the year ended December 31, 2020.

BACKGROUND

Annually, the Plan's financial statements are prepared by staff and audited by the Commission's auditors, currently Grant Thornton LLP.

The Audit and Finance Committee of Halifax Water, in its meeting of June 3, 2021, approved the following motion:

“The Audit and Finance Committee recommend that the Halifax Regional Water Commission Board approve the financial statements for the Halifax Regional Water Commission Employees’ Pension Plan for the year ended December 31, 2020.”

DISCUSSION

Attached are the audited financial statements of the Plan for the year ended December 31, 2020, with comparative figures for 2019. Page numbers and notes referenced in this report refer to the audited financial statements.

The auditor has indicated that they are prepared to issue an unqualified auditor’s report. The auditor’s report, on Page 1, indicates that the financial statements present fairly, in all material respects, the financial position of the Plan as at December 31, 2020, the changes in net assets available for benefits, and changes in pension obligations in accordance with Canadian accounting standards for pension plans.

The statement of financial position for the Plan is reported on page 3 of the financial statements, and the highlights are summarized in Table 1 below. The surplus as at December 31, 2020 of \$13.2 million compares favourably to the surplus reported the prior year of \$8.7 million, representing an increase of \$4.5 million. This is the result of higher reported values at year-end for net assets available for benefits relative to pension obligations. Net assets available for benefits as at December 31, 2020 amounted to \$155.0 million compared to \$141.6 million the prior year, an increase of \$13.4 million or 9.4%. Pension obligations increased \$8.9 million or 6.7% to \$141.7 million as at December 31, 2020, up from \$132.8 million in 2019.

Table 1:

Statement of financial position				
December 31				
	2020	2019	Change	
			\$	%
Net assets available for benefits (note 4)	\$ 154,956,157	\$ 141,579,814	\$ 13,376,343	9.4%
Pension obligations (note 5)	141,762,849	132,840,559	8,922,290	6.7%
Surplus	<u>\$ 13,193,308</u>	<u>\$ 8,739,255</u>	<u>\$ 4,454,053</u>	51.0%

The statement of changes in net assets available for benefits are reported on page 4 of the financial statements, with highlights summarized in Table 2 below. As stated previously, net assets available for benefits as at December 31, 2020 are reported as \$155.0 million, compared to \$141.6 million the previous year, representing an increase of \$13.4 million or 9.40%.

Table 2:

Statement of changes in net assets available for benefits				
December 31				
	2020	2019	Change	
			\$	%
Revenue	\$ 12,199,236	\$ 14,083,715	\$ (1,884,479)	<i>(13.4%)</i>
Expenses	5,363,136	5,397,997	(34,861)	<i>(0.6%)</i>
Increase in Net Revenue	6,836,100	8,685,718	(1,849,618)	<i>(21.3%)</i>
Contributions (note 7)	6,540,243	6,435,466	104,777	<i>1.6%</i>
Increase in net assets available for benefits	<u>\$ 13,376,344</u>	<u>\$ 15,121,184</u>	<u>\$ (1,744,840)</u>	<i>(11.5%)</i>

Of the \$13.4 million increase in net assets available for benefits in the current year, net revenue accounted for \$6.8 million, with contributions of \$6.6 million representing the remaining balance. Revenue consists of changes in the fair value of investment assets of \$8.6 million, and net investment income of \$3.6 million. Compared to 2019, the change in the fair value of investment assets was lower by \$2.0 million, and net investment income increased \$0.2 million. Assets of the Plan are invested as part of the Halifax Regional Municipality Master Trust, and represent 6.4% (2019, 6.3%) of the Master Trust's assets. The Plan's gross fund rate for 2020 was 7.7% (2019, 10.4%), and the net fund rate after expenses was 7.4% (2019, 10.1%).

Contributions also factor into the increase in net assets available for benefits. Combined contributions from employees and Halifax Water are reported at \$6.5 million in 2020, representing a net increase of \$0.1 million or 1.6% compared to 2019. The increase is reflective of new hires, as well as associated increases in remuneration of existing employees, either through normal pay increases or movements within individual bands. Required contributions for employees in 2020 and 2019 were 10.34% of pensionable earnings, with Halifax Water matching employees' contributions. Further details with respect to contributions can be found in Note 7 (page 14) of the financial statements.

Expenses reduce net assets available for benefits, with retirement benefit payments being the main driver, representing \$4.6 million of the \$5.4 million reported in 2020. Retirement benefit payments increased \$0.4 million compared to 2019, and is attributed to 3 (2019, 15) new retirements in 2020, in addition to increases with respect to annual indexing. Termination benefit payments are also included in expenses and represent \$0.7 million of reported expenses in 2020, representing a decrease of \$0.3 million compared to 2019. Termination benefits were paid in 2020 to 17 former employees (2019, 14). Termination benefits vary year-over-year, with changes not only related to staff turnover levels, but also the pensionable service of terminating employees.

The statement of changes in pension obligations is reported on page 5 of the financial statements and summarized in Table 3 below. The valuation of pension obligations as at December 31, 2020 was an extrapolation from the actuarial valuation performed January 1, 2019.

Table 3:

Statement of changes in pension obligations				
December 31				
	2020	2019	Change	
			\$	%
Pension obligations, beginning of year	\$ 132,840,559	\$ 124,371,400	\$ 8,469,159	6.8%
Interest accrued on benefits	7,738,600	7,248,500	490,100	6.8%
Benefits accrued	6,413,400	6,407,700	5,700	0.1%
Benefits paid (note 8)	(5,229,710)	(5,187,041)	(42,669)	0.8%
	<u>8,922,290</u>	<u>8,469,159</u>	<u>453,131</u>	<u>5.4%</u>
Pension obligations, end of year	<u>\$ 141,762,849</u>	<u>\$ 132,840,559</u>	<u>\$ 8,922,290</u>	<u>6.7%</u>

Pension obligations increased to \$141.8 million in 2020 compared to \$132.8 million the prior year, an increase of \$8.9 million or 6.7%. Increases to pension obligations came from two (2) sources, benefits accrued of \$6.4 million and interest on accrued benefits of \$7.7 million. Reductions to pension obligations totaled \$5.2 million, and represent expenses related to retirement and termination benefit payments in 2020, described previous in this report. Further details with respect to pension obligations including assumptions can be found in Note 5 (page 13) of the financial statements.

Solvency funding is not required as the Plan received a solvency funding exemption effective June 1, 2015. Currently the ratio of solvency assets to solvency liabilities is greater than the “solvency concerns” threshold of 85%, under Nova Scotia pension legislation. Under legislative effective April 1, 2020, should the solvency ratio fall

below the 85% threshold, a full actuarial valuation report would be required every 3 years, and a cost certificate annually. The Superintendent may require a valuation sooner than the 3 years if deemed warranted. The next actuarial valuation is scheduled for January 1, 2022.

With the outbreak of COVID-19, global equity markets experienced significant volatility and weakness during the first quarter of 2020. The value of the Plan's investment assets declining by approximately 5.1% as at March 31, 2020 as compared to December 31, 2019. Markets recovered steadily during the remainder of 2020, with the Plan's investment assets ending the year at \$155.0 million., During 2020, the Plan did not experience a significant impact to operations, or its ability in making benefit payments.

BUDGET IMPLICATIONS

There are no budget implications associated with the audited financial statements of the Plan. Budget implications arise from the actuarial valuations.

ALTERNATIVES

None

ATTACHMENT

1. Halifax Regional Water Commission Employees' Pension Plan Financial Statements as at December 31, 2020.
2. Report to the Audit and Finance Committee by Grant Thornton.

Report Prepared by:

 Digitally signed by Allan
Campbell
Date: 2021.06.10
12:56:39 -03'00'

Allan Campbell, B. Comm, CPA, CMA
Manager, Finance (902) 266-8655

Financial Statements

Halifax Regional Water Commission

Employees' Pension Plan

December 31, 2020

Contents

	Page
Independent auditor's report	1-2
Statement of financial position	3
Statement of changes in net assets available for benefits	4
Statement of changes in pension obligations	5
Notes to the financial statements	6-18

Independent auditor's report

To the Board of Trustees of the
Halifax Regional Water Commission
Employees' Pension Plan

Opinion

We have audited the financial statements of Halifax Regional Water Commission Employees' Pension Plan, which comprise the statement of financial position as at December 31, 2020, and the statements of changes in net assets available for benefits and changes in pension obligations for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of Halifax Regional Water Commission Employees' Pension Plan as at December 31, 2020, and its changes in net assets available for benefits and its changes in pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Basis for opinion

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

Responsibilities of management and those charged with governance for the financial statements

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

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

Those charged with governance are responsible for overseeing Halifax Regional Water Commission Employees' Pension Plan's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Halifax, Canada

Date

Chartered Professional Accountants

Halifax Regional Water Commission Employees' Pension Plan Statement of financial position

December 31	2020	2019
Assets		
Investment assets	\$ 154,762,753	\$ 141,509,795
Contributions receivable	<u>223,912</u>	<u>97,120</u>
	154,986,665	141,606,915
Liabilities		
Payables and accruals		
Trade	<u>30,508</u>	<u>27,101</u>
Net assets available for benefits (note 4)	154,956,157	141,579,814
Pension obligations	<u>141,762,849</u>	<u>132,840,559</u>
Surplus	\$ 13,193,308	\$ 8,739,255

On behalf of the Board of Trustees

_____ Trustee

_____ Trustee

See accompanying notes to the financial statements.

Halifax Regional Water Commission
Employees' Pension Plan
Statement of changes in net assets available for benefits

Year Ended December 31	2020	2019
Revenue		
Net investment income (note 6)	\$ 3,568,646	\$ 3,441,506
Changes in the fair value of investment assets	<u>8,630,589</u>	<u>10,642,209</u>
	<u>12,199,235</u>	<u>14,083,715</u>
Contributions (note 7)		
Participants	3,310,113	3,463,328
Sponsor	<u>3,230,131</u>	<u>2,972,138</u>
	<u>6,540,244</u>	<u>6,435,466</u>
Expenses		
Benefit payments (note 8)	5,229,710	5,187,041
Administrative (note 9)	<u>133,426</u>	<u>210,956</u>
	<u>5,363,136</u>	<u>5,397,997</u>
Increase in net assets available for benefits	<u>\$ 13,376,343</u>	<u>\$ 15,121,184</u>
<hr/>		
Net assets available for benefits, beginning of year	\$ 141,579,814	\$ 126,458,630
Increase in net assets available for benefits	<u>13,376,343</u>	<u>15,121,184</u>
Net assets available for benefits, end of year	<u>\$ 154,956,157</u>	<u>\$ 141,579,814</u>

See accompanying notes to the financial statements.

Halifax Regional Water Commission
Employees' Pension Plan
Statement of changes in pension obligations

Year Ended December 31	2020	2019
Pension obligations, beginning of year	<u>\$ 132,840,559</u>	<u>\$ 124,371,400</u>
Change in pension obligations		
Interest accrued on benefits	7,738,600	7,248,500
Benefits accrued	6,413,400	6,407,700
Benefits paid (note 8)	<u>(5,229,710)</u>	<u>(5,187,041)</u>
	<u>8,922,290</u>	<u>8,469,159</u>
Pension obligations, end of year	<u>\$ 141,762,849</u>	<u>\$ 132,840,559</u>

See accompanying notes to the financial statements.

Halifax Regional Water Commission

Employees' Pension Plan

Notes to the financial statements

December 31, 2020

1. Description of the Plan

The Halifax Regional Water Commission Employees' Pension Plan (the "Plan") is registered under the Pension Benefits Act of Nova Scotia (Registration Number 0344614). The following description of the Plan is a summary only. For more complete information, reference should be made to the Plan agreement restated as at January 1, 2011 as amended and consolidated, in addition to Amendment #9 and Amendment #10, both effective January 1, 2016, Amendment #11, effective retroactively to June 1, 2015, and Amendment #12, effective retroactively to January 1, 2019.

(a) General

The Halifax Regional Water Commission maintains a contributory defined benefit pension plan for all employees, and participation in the Plan is compulsory for full-time and part-time employees. The pension plan provides pensions based upon length of service and best seven consecutive years' earnings.

The employees who transferred to the Halifax Regional Water Commission on August 1, 2007 with the transfer of the wastewater/stormwater operations have remained members of the Halifax Regional Municipality Pension Plan. The Halifax Regional Water Commission is responsible for funding the employer share of the contributions for these employees. All new employees hired after August 1, 2007 join the Halifax Regional Water Commission Employees' Pension Plan.

(b) Funding policy

Employees' required contributions in 2020 were 10.34% (2019 – 10.34%) of pensionable earnings with the Halifax Regional Water Commission matching employee contributions. Basic contributions from employers and members due to the Plan at the end of the year are recorded on an accrual basis. Pensionable earnings are capped temporarily to a maximum of \$140,945 through 2023 and will be indexed at a rate of 1% per annum thereafter.

In addition, the Plan and the Pension Benefits Act of Nova Scotia require that the Halifax Regional Water Commission, from time to time, make contributions to the Plan of such amounts which are required as special payments in accordance with the provisions of the Plan as determined by the actuary (see note 5).

Halifax Regional Water Commission

Employees' Pension Plan

Notes to the financial statements

December 31, 2020

1. Description of the Plan (continued)

(c) Retirement benefits

Employees are entitled to annual pension benefits of an amount equal to 2.0% of their best earnings averaged over the highest seven consecutive years of earnings for each year of credited service up to the maximum permitted by the Canada Revenue Agency. For credited service prior to January 1, 2016, the best average earnings cannot be less than the best average five consecutive years of earnings paid to an employee prior to 2016.

Benefits are adjusted each year. Adjustments are based on the increase in the Consumer Price Index over the previous calendar year to a maximum of 2% for benefits earned prior to January 1, 2016, and to a maximum of 1% for benefits earned after December 31, 2015.

(d) Disability pensions

Disabled employees continue to accrue credited service without having to continue their contributions. The employer and employees fund the actuarial cost of the pensions for disabled employees annually. Disabled employees are eligible for a pension if they meet the following criteria:

- a) they have completed 10 years of continuous participation in the Plan;
- b) they are not in receipt of a salary continuance benefit under an insured plan to which the Halifax Regional Water Commission contributes; and
- c) they are totally and permanently disabled as certified by a medical practitioner.

(e) Death benefits

In the event a pensioner dies after the commencement of their pension payments, the death benefit will be in accordance with the normal or optional form of pension elected at the time of retirement.

In the event a member dies before their retirement date, a survivor pension is payable to the member's surviving spouse at the rate of 60% of the member's pension credits accrued prior to June 1, 1998. The beneficiary of a single employee who dies before retirement will be entitled to the member's contributions and interest up to the month preceding death during that same period. In respect of pension credits accrued after June 1, 1998, the commuted value of the normal retirement benefits shall be paid to the member's surviving spouse, beneficiary or estate. For pension credits accrued between January 1, 1988 and May 31, 1998 whereby a survivor pension payable to the member's surviving spouse is calculated as the greater of: 1) 60% of the survivor pension, or 2) the commuted value of the normal retirement benefits. The beneficiary or estate of a single employee who dies during this same time period, January 1, 1988 and May 31, 1998, would be entitled to the commuted value of the normal retirement benefits.

Halifax Regional Water Commission

Employees' Pension Plan

Notes to the financial statements

December 31, 2020

1. Description of the Plan (continued)

(f) Termination of employment

Subject to any statutory limitations, Plan members become vested immediately upon joining the Plan. Vesting previously occurred after two years of Plan membership. Members may elect to receive one of the following options upon termination:

- a) a paid-up deferred pension commencing on the member's normal retirement date in an amount equal to the pension accrued to date of termination; or
- b) transfer the value of benefit to the member's new employer's pension plan, a Retirement Savings Plan, or purchase a deferred annuity.

(g) Voluntary contributions

Members of the Plan may make additional voluntary contributions up to the deductible limit provided under the Income Tax Act. The non locked-in additional voluntary contributions may be withdrawn from the Plan by a member prior to termination or retirement, either in the form of a lump sum cash payment or transferred directly to the member's Retirement Savings Plan.

Members of the Plan may transfer non locked-in or locked-in benefits from a previous employer. Non locked-in benefits are administered as outlined in the previous paragraph. Locked-in benefits can be withdrawn within ten years of the normal retirement date. Upon retirement, the locked-in and non locked-in contributions may be used to purchase an annuity.

(h) Income taxes

The Plan is not subject to income taxes since it is a Registered Pension Trust as defined by the Income Tax Act.

Halifax Regional Water Commission

Employees' Pension Plan

Notes to the financial statements

December 31, 2020

2. Statement of compliance with Canadian accounting standards for pension plans and summary of significant accounting policies

The financial statements are presented in accordance with Canadian accounting standards for pension plans in Part IV of the Chartered Professional Accountants of Canada (CPA) Handbook, Section 4600 – Pension Plans. Section 4600 provides specific accounting guidance on pension obligations and investments, with investments complying with international financial reporting standards (“IFRS”) in Part I of the CPA Canada Handbook. For accounting policies that do not relate to either investments or pension obligations, the plan must consistently comply with either IFRS or Canadian accounting standards for private enterprises (“ASPE”) in Part II of the CPA Canada Handbook. The Plan has elected to comply on a consistent basis with ASPE. To the extent that ASPE is inconsistent with Section 4600, Section 4600 takes precedence.

(a) Financial instruments

Financial assets and financial liabilities are recognized when the Plan becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

All financial assets and financial liabilities are initially measured at fair value. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Financial assets and liabilities are subsequently measured as described below:

Investment assets

All investment assets are measured at fair value at the date of the statement of financial position in accordance with IFRS 13: Fair Value Measurement Part I of the CPA Canada Handbook. Fair values of investment assets are determined as follows:

- Pooled funds are valued at the unit value supplied by the Master Trust administrator and which represent the Plan's proportionate share of underlying net assets at fair value determined using closing bid prices.

Transaction costs are not included in the fair value of investment assets either on initial recognition or on subsequent re-measurement. Transaction costs are included in the statement of changes in net assets available for benefits as part of expenses incurred in the period.

Investment income, excluding changes in the fair value of investment assets, is presented in the statement of changes in net assets available for benefits.

Halifax Regional Water Commission

Employees' Pension Plan

Notes to the financial statements

December 31, 2020

2. Statement of compliance with Canadian accounting standards for pension plans and summary of significant accounting policies (continued)

(a) Financial instruments (continued)

Financial liabilities

Financial liabilities are measured subsequently at amortized cost using the effective interest method.

(b) Pension obligations

The Plan is a defined benefit plan established for members. The pension obligations recognized in the statements of financial position are the actuarial present value of accrued pension benefits determined by applying best estimate assumptions and the projected benefit method prorated on services.

(c) Net investment income

Income from investments is recognized on an accrual basis and includes dividend income (recognized on ex-dividend date), interest income, and is net of investment manager fees.

(d) Changes in the fair value of investment assets and liabilities

This includes both realized gains or losses on sale of investments and unrealized gains or losses on investments.

Realized gains or losses on sale of investments are the difference between the proceeds received and the average cost of investments sold.

Unrealized gains or losses on investments represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognized unrealized gains and losses in respect of disposals during the year.

(e) Contributions

Required employee and employer contributions are recorded the month following when the payroll deductions are made. Employee and employer contributions, as well as special payments due to the Plan at the end of the year are recorded on an accrual basis. Cash received from pension plan transfers or members for service purchases are recorded when received.

Halifax Regional Water Commission

Employees' Pension Plan

Notes to the financial statements

December 31, 2020

2. Statement of compliance with Canadian accounting standards for pension plans and summary of significant accounting policies (continued)

(f) Benefits

Benefit payments to retired members, commuted value payments and refunds to former members are recorded in the period paid. Accrued benefits are recorded as part of the accrued pension benefit obligation.

(g) Estimation uncertainty

When preparing the financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, revenue and expenses. The actual results are likely to differ from the judgments, estimates and assumptions made by management and will seldom equal the estimated results. Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, revenue and expenses are discussed below:

Fair value of financial instruments

Management uses valuation techniques in measuring the fair value of financial instruments, where active market quotes are not available. Details of the assumptions used are given in the notes regarding financial assets and liabilities. In applying the valuation techniques, management makes maximum use of market inputs, and uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Pension obligations

Management estimates the pension obligations annually with the assistance of an independent actuary; however, the actual outcome may vary due to estimation uncertainties. The estimate of the pension obligation of \$141,762,849 (2019 - \$132,840,559) is based on assumed rates of retirement, mortality, breaks in service and contributory hours. Discount factors are determined at or near year-end to reflect the long-term expectation of investment returns that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

Halifax Regional Water Commission

Employees' Pension Plan

Notes to the financial statements

December 31, 2020

3. Investment assets

The investment in the Halifax Regional Municipality Master Trust (the "HRM Master Trust") is recorded at its fair value. The Plan's interest in the HRM Master Trust represents 6.39% (December 31, 2019 – 6.32%) of the HRM Master Trust units. The remaining units are held by the Halifax Regional Municipality ("HRM"). The co-mingling of investments does not affect the actuarial liabilities or the net assets available for benefits of the Plan.

The fair value of the investment in the HRM Master Trust is determined as at the date of the statements of financial position as described in note 2(a). The fair value of the investment in the HRM Master Trust is categorized as a Level 2 investment under fair value hierarchy measurement.

Section 67 (3) of the *Pension Benefits Act Regulations* requires disclosure of each investment asset that has a fair value greater than two percent (2%) of the fair value of all the investment assets of the Plan. The following schedule reports all investments having a fair value greater than 2% of the fair value of all investment assets of the Plan.

<u>Investment</u>	<u>Asset Class</u>	<u>Market value</u>
Wellington Management Global Total Return Fund	Foreign Bonds ¹	\$ 7,065,663
Putnam Canadian Fixed Income Global Alpha Fund	Canadian Bonds ¹	4,972,698
Wellington Emerging Markets Local Equity Fund	Emerging Market Equities ¹	4,142,521
UBS (UK) Real Estate Funds Selection Global Ex Canada, L.P.	Limited Partnership	3,667,980
Minto Multi-Residential Income Partners I, L.P.	Limited Partnership	3,544,797
Blackrock Active Canadian Equity Fund	Canadian Equities	3,344,200
Trinetra Emerging Markets Growth Fund	Emerging Market Equities ¹	<u>3,232,962</u>
		<u>\$ 29,970,821</u>

1 – Denotes Pooled Fund

4. Net assets available for benefits

Allocation of net assets available for benefits

	<u>2020</u>	<u>2019</u>
To pension plan	\$ 154,221,503	\$ 140,959,340
To extra voluntary contribution benefits	469,448	373,648
To individual locked in amounts	<u>265,206</u>	<u>246,826</u>
	<u>\$ 154,956,157</u>	<u>\$ 141,579,814</u>

Halifax Regional Water Commission Employees' Pension Plan Notes to the financial statements

December 31, 2020

5. Pension obligations

An actuarial valuation of the Halifax Regional Water Commission Employees' Pension Plan was performed as at January 1, 2019.

The actuarial value of accrued benefits, determined periodically by the Plan's actuary, is the amount that results from applying actuarial assumptions to adjust the Plan benefits to reflect the time value of money between the valuation date and the expected date of payment. The significant actuarial assumptions used include:

- a) 40% of members will retire at the age of 65, and 60% will retire at the earliest date of eligibility for an unreduced pension;
- b) interest rate assumption of 5.80% per annum (2019 – 5.80%);
- c) salary scale assumption of 3.90% per annum (2019 – 3.90%); and
- d) life expectancy of participants based upon the CPM-2014 Combined mortality table, with Scale CPM-B (post retirement), no mortality in pre-retirement.

As a result of the January 1, 2019 actuarial valuation, special payments in respect of going concern liabilities are no longer required. The next actuarial valuation for the Plan is required to be performed no later than January 1, 2022.

6. Net investment income

	<u>2020</u>	<u>2019</u>
Income from investment funds	\$ 3,763,614	\$ 3,644,079
Investment manager fees	<u>(194,968)</u>	<u>(202,573)</u>
	<u>\$ 3,568,646</u>	<u>\$ 3,441,506</u>

Halifax Regional Water Commission

Employees' Pension Plan

Notes to the financial statements

December 31, 2020

7. Contributions	<u>2020</u>	<u>2019</u>
Participants' contributions		
Required	\$ 3,230,131	\$ 3,393,051
Voluntary	<u>79,982</u>	<u>70,277</u>
	<u>\$ 3,310,113</u>	<u>\$ 3,463,328</u>
Sponsor's contributions		
Required	<u>\$ 3,230,131</u>	<u>\$ 2,972,138</u>

8. Benefit payments	<u>2020</u>	<u>2019</u>
Retirement benefit payments	\$ 4,552,474	\$ 4,226,855
Termination benefit payments	<u>677,236</u>	<u>960,186</u>
	<u>\$ 5,229,710</u>	<u>\$ 5,187,041</u>

During 2020, there were 17 termination benefit payments (2019 – 14). Termination benefits are paid out as described in note 1(f).

9. Administrative expenses	<u>2020</u>	<u>2019</u>
Actuarial and consulting fees	\$ 42,143	\$ 118,659
Audit and accounting fees	8,648	8,530
Bank custodian fees	30,479	28,636
Insurance	9,636	8,760
Miscellaneous	16,724	20,610
Professional fees	23,151	23,261
Registration fees	<u>2,645</u>	<u>2,500</u>
	<u>\$ 133,426</u>	<u>\$ 210,956</u>

10. Related party transactions

The Halifax Regional Water Commission, the Plan's sponsor, collects the Plan's contributions and pays certain expenses on behalf of the Plan. These items are then credited or charged back to the Plan.

Halifax Regional Water Commission

Employees' Pension Plan

Notes to the financial statements

December 31, 2020

11. Financial instruments

Financial instruments risk exposure and management

The Plan is exposed to various risks in relation to its investment in the HRM Master Trust, consisting of investment assets. The Plan's financial assets are categorized in Level 2. The main types of risks are market risk, credit risk and liquidity risk.

The Plan's risk management policy is derived from the HRM Master Trust in which the Plan holds units. The HRM Master Trust has formal policies and procedures placed upon it that establish an asset mix among equity and fixed income investments, required diversification of investments within categories, a set limit on the size of exposure to individual investments, and a requirement to use A-rated counterparties.

The Plan does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Plan is exposed are described below:

(a) Market risks

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. For purposes of this disclosure, the Plan segregates market risk into three categories: interest rate risk, currency risk and other price risk.

i. Interest rate risk

Interest rate risk refers to the fact that the value of the Plan's assets is affected by changes in nominal interest rates and equity markets.

ii. Currency risk

The Plan's functional currency is Canadian dollars and all of the Plan's transactions are carried out in Canadian dollars.

iii. Other price risk

Other price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices, other than those arising from interest rate risk or currency risk, whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market.

All investments have a risk of loss of capital. The maximum risk resulting from the investments is determined by the fair value of the instruments, which total \$154,762,753 at December 31, 2020 (2019 - \$141,509,795). A one percent change (1%) in market risk (holding all variables constant) will impact the fair value of these instruments by approximately \$1,548,000 (2019 - \$1,415,000).

Halifax Regional Water Commission

Employees' Pension Plan

Notes to the financial statements

December 31, 2020

11. Financial instruments (continued)

(b) Credit risk

Credit risk on financial instruments is the risk of financial loss occurring as a result of default or insolvency of a counterparty on its obligations to the Plan. The Plan's credit risk is primarily attributable to the underlying assets of the HRM Master Trust. Credit risk is mitigated through the management of the HRM Master Trust assets with generally accepted parameters of safety and prudence, using a diversified investment program. Investments in the HRM Master Trust must adhere to specific limitations as outlined in the Halifax Regional Municipality's Statement of Investment Policies and Procedures for the Defined Benefit Pension Plan ("the Statement of Investment Policies and Procedures").

(c) Liquidity risk

Liquidity risk is the risk of not being able to meet the Plan's cash requirements in a timely and cost-effective manner. Liquidity requirements are managed through income generated from investments and monthly contributions made by members and participating employers. The sources of funds are used to pay pension benefits, make additional investments and fund operating expenses. The Plan's primary future liabilities include the accrued benefit obligation of the Plan. The Plan's main asset, the investment in the HRM Master Trust, is liquid as cash is available to make required payments.

The following are the contractual maturities of financial liabilities:

Payments due year ending December 31, 2020

	<u>Total</u>	<u>Less than 1 year</u>	<u>1 - 3 years</u>	<u>4 - 5 years</u>	<u>After 5 years</u>
Payables and accruals	<u>\$ 30,508</u>	<u>\$ 30,508</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

Payments due year ending December 31, 2019

	<u>Total</u>	<u>Less than 1 year</u>	<u>1 - 3 years</u>	<u>4 - 5 years</u>	<u>After 5 years</u>
Payables and accruals	<u>\$ 27,101</u>	<u>\$ 27,101</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

Halifax Regional Water Commission

Employees' Pension Plan

Notes to the financial statements

December 31, 2020

11. Financial instruments (continued)

Fair value disclosure

The financial instruments recognized at fair value on the statement of financial position must be classified as one of three fair value hierarchy levels. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows:

Financial assets at fair value as at December 31, 2020

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Pooled fund	\$ <u> </u>	\$ <u>154,762,753</u>	\$ <u> </u>	\$ <u>154,762,753</u>

Financial assets at fair value as at December 31, 2019

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Pooled fund	\$ <u> </u>	\$ <u>141,509,795</u>	\$ <u> </u>	\$ <u>141,509,795</u>

There were no transfers between the three levels between December 31, 2019 and December 31, 2020.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

Halifax Regional Water Commission

Employees' Pension Plan

Notes to the financial statements

December 31, 2020

12. Capital management

The Plan defines its capital as the deficiency of the Plan, as determined annually based on the fair value of net assets and actuarial liabilities, provided by the actuarial valuation prepared by the Plan's independent actuary (note 5).

The overall objectives in investing the assets of the Plan are to ensure sufficient liquidity to support its financial obligations, to continue to provide benefits in the best interest of its members, to remain financially self-sufficient and to preserve and enhance the value of capital through adequate diversification in high quality investments and achieve the highest investment return that can be obtained with the assumption of an acceptable degree of risk. The Plan holds units with the HRM Master Trust which has formal policies and procedures that establish asset mix, require diversification within different categories, set a limit on the exposure to individual investments and provides a requirement to use A-rated counterparties.

Halifax Regional Water Commission Employees' Pension Plan

For the year ended December 31, 2020

Report to the Audit and Finance Committee
Audit results

June 3, 2021

Tom Brockway, CPA, CA
Engagement Partner
T 902-491-7781
Tom.Brockway@ca.gt.com

Veronica Hunt, CPA, CA
Principal
902-491-2064
Veronica.Hunt@ca.gt.com



Contents

Executive summary	1
Audit risks and results	2
Adjustments and uncorrected misstatements	3
Other reportable matters and technical updates – highlights	4

Appendices

Appendix A – Draft independent auditor’s report
Appendix B – Draft management representation letter

Executive summary

Purpose of report and scope

The purpose of this report is to engage in an open dialogue with you regarding our audit of the financial statements of Halifax Regional Water Commission Employees' Pension Plan (the "Plan") for the year ended December 31, 2020. This communication will assist the Audit and Finance Committee in understanding the results of audit procedures and includes comments on misstatements, significant accounting policies, sensitive estimates and other matters.

The information in this document is intended solely for the information and use of the Audit and Finance Committee. It is not intended to be distributed or used by anyone other than these specified parties.

We were engaged to provide the following deliverables:

Deliverable	Timing/Status
Discussions and communications regarding planning	February 12, 2021
Communication of audit and results	June 3, 2021
Report on the December 31, 2020 financial statements	June 17, 2021

Status of our audit

We have substantially completed our audit of the financial statements of the Plan and the results of that audit are included in this report.

We will finalize our report upon resolution of the following items outstanding as at June 3, 2021.

- Receipt of final updated financial statements (for any final changes after May 27, 2021)
- Receipt of signed management representation letter (a draft has been attached in the appendices)
- Approval of the financial statements by the Board of Trustees
- Final inquiries regarding subsequent events

We have successfully executed our audit strategy in accordance with the plan presented to the Audit and Finance Committee on February 12, 2021.

Independence

We confirm that there have been no changes to our status with respect to independence since we confirmed our independence to you on February 12, 2021.

Audit risks and results

Areas of focus

The following is a summary of areas of focus, and the related matters and findings we would like to communicate to the Audit and Finance Committee.

Area of focus	Matter	Our response and findings
Pension obligation	<p>A full valuation of the plan was performed at January 1, 2019 with the results extrapolated as at December 31, 2020.</p> <p>As at December 31, 2020 the actuarial valuation reported an unfunded going concern excess of \$11,604,800. Certain adjustments were made to arrive at the surplus of \$13,193,308 reported in the 2020 financial statements.</p> <p>There were no required special payments in respect of going concern liabilities during the year as a result of the most recent valuation completed.</p>	<p>We performed the following:</p> <ul style="list-style-type: none">• Examined the valuation report prepared by the independent actuary;• Assessed the reasonability of assumptions used in the valuation as compared to expectations and market information;• Performed testing of the data used by the actuary in the performance of their work; and• Confirmed the independence and qualifications of the Plan's actuary and materiality threshold. <p>We have no findings to report.</p>
Investments	<p>As at December 31, 2020 the Plan holds and investment balance of \$154,762,753.</p>	<p>We performed the following:</p> <ul style="list-style-type: none">• Agreed amounts to investment statements;• Performed valuation testing of investments;• Verified historical accuracy of balances based on audited HRM financial statements; and• Obtained investment statements subsequent to year end and ensured appropriateness of related disclosures. <p>We have no findings to report.</p>

Adjustments and uncorrected misstatements

Adjustments

We have no adjusted misstatements to report.

Summary of disclosure matters

Our audit did not identify any unadjusted non-trivial misstatements of disclosure matters.

Other reportable matters and technical updates – highlights

Internal control

The audit is designed to express an opinion on the financial statements. We obtain an understanding of internal control over financial reporting to the extent necessary to plan the audit and to determine the nature, timing and extent of our work. Accordingly, we do not express an opinion on the effectiveness of internal control.

If we become aware of a deficiency in your internal control over financial reporting, the auditing standards require us to communicate to the Members of the Audit and Finance Committee those deficiencies we consider significant. However, a financial statement audit is not designed to provide assurance on internal control.

We did not identify any deficiencies in internal control that we are required to communicate.

Accounting

There have not been any changes in accounting standards that would have a significant impact on the Plan in the current year, except those presented to the Committee as part of the communications on audit planning on February 12, 2021.

Assurance

There have not been any changes in auditing standards that would have a significant impact on the Plan in the current year.

Appendix A

Independent auditor's report

To the Board of Trustees of the
Halifax Regional Water Commission
Employees' Pension Plan

Opinion

We have audited the financial statements of Halifax Regional Water Commission Employees' Pension Plan, which comprise the statement of financial position as at December 31, 2020, and the statements of changes in net assets available for benefits and changes in pension obligations for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of Halifax Regional Water Commission Employees' Pension Plan as at December 31, 2020, and its changes in net assets available for benefits and its changes in pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Basis for opinion

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

Responsibilities of management and those charged with governance for the financial statements

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

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

Those charged with governance are responsible for overseeing Halifax Regional Water Commission Employees' Pension Plan's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Halifax, Canada
June 17, 2021

Chartered Professional Accountants

Appendix B

Draft management representation letter

June 17, 2021

Mr. Tom Brockway, CPA, CA
Grant Thornton LLP
Suite 1000, Nova Centre, North Tower
1675 Grafton Street
Halifax, NS B3J 0E9

Dear Mr. Brockway:

We are providing this letter in connection with your audit of the financial statements of **Halifax Regional Water Commission Employees' Pension Plan** for the year ended December 31, 2020 for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, changes in net assets available for benefits and changes in pension obligations in accordance with Canadian accounting standards for pension plans ("ASPP").

We acknowledge that we have fulfilled our responsibilities for the preparation of the financial statements in accordance with Canadian accounting standards for pension plans and for the design and implementation of internal controls to prevent and detect fraud and error. We have assessed the risk that the financial statements may be materially misstated as a result of fraud, and have determined such risk to be low. Further, we acknowledge that your examination was planned and conducted in accordance with Canadian generally accepted auditing standards (GAAS) so as to enable you to express an opinion on the financial statements. We understand that while your work includes an examination of the accounting system, internal controls and related data to the extent you considered necessary in the circumstances, it is not designed to identify, nor can it necessarily be

expected to disclose, fraud, shortages, errors and other irregularities, should any exist.

Certain representations in this letter are described as being limited to matters that are material. An item is considered material, regardless of its monetary value, if it is probable that its omission from or misstatement in the financial statements would influence the decision of a reasonable person relying on the financial statements.

We confirm, to the best of our knowledge and belief, as of June 17, 2021, the following representations made to you during your audit.

Financial statements

1. The financial statements referred to above present fairly, in all material respects, the statement of financial position as at December 31, 2020, and the changes in net assets available for benefits and changes in pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans, as agreed to in the terms of the audit engagement.

Completeness of information

2. We have made available to you all financial records and related data and all minutes of the meetings of trustees and committees, as agreed to in the terms of the audit engagement. Summaries of actions of recent meetings for which minutes have not yet been prepared have been provided to you. All significant trustee and committee actions are included in the summaries.

3. We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
4. We have also made available the plan instrument and any plan amendments thereto, the trust agreement and any insurance contracts entered into during the year, including any amendments to comply with applicable laws. The last amendment to the plan instrument was as of October 7, 2019. As well we have made available all actuarial reports and other reports prepared by the actuary for the plan and the plan sponsor were provided to you.
5. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
6. There were no restatements made to correct a material misstatement in the prior period financial statements that affect the comparative information.
7. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements.
8. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss.
9. We have disclosed to you all known deficiencies in the design or operation of internal control over financial reporting of which we are aware.
10. We have identified to you all known related parties and related party transactions, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration.
11. You provided a non-audit service by assisting us with drafting the financial statements and related notes. In connection with this non-audit service, we confirm that we have made all management decisions and performed all management functions, have the knowledge to evaluate the accuracy and completeness of the financial statements, and accept responsibility for such financial statements.

Fraud and error

12. We have no knowledge of fraud or suspected fraud affecting the plan involving management; employees who have significant roles in internal control; or others, where the fraud could have a non-trivial effect on the financial statements.
13. We have no knowledge of any allegations of fraud or suspected fraud affecting the plan's financial statements communicated by employees, former employees, analysts, regulators or others.
14. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

Recognition, measurement and disclosure

15. We believe that the significant assumptions used by us in making accounting estimates, including those used in arriving at the fair values of financial instruments as measured and disclosed in the financial statements are reasonable and appropriate in the circumstances.
16. For non-readily marketable securities, we are in agreement with the methods used to estimate fair value or the approach used by the appraiser.
17. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities, both financial and non-financial, reflected in the financial statements.
18. All related party transactions have been appropriately measured and disclosed in the financial statements.
19. The nature of all material measurement uncertainties has been appropriately disclosed in the financial statements, including all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the financial statements.
20. All outstanding and possible claims, whether or not they have been discussed with legal counsel, have been disclosed to you and appropriately reflected in the financial statements.
21. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

22. The plan has satisfactory title to (or lease interest in) all assets, and there are no liens or encumbrances on the plan's assets nor has any been pledged as collateral.
23. We have disclosed to you, and the plan has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
24. There have been no events subsequent to the year end date up to the date hereof that would require recognition or disclosure in the financial statements.
25. The plan has complied with the rules and regulations of the Nova Scotia Office of the Superintendent of Pensions and the Canada Revenue Agency to which the plan is subject.
26. We are responsible for the preparation of plan amendments necessitated by changes in laws or regulations, or required by changes in the operation of the plan. All amendments required by such changes have been adopted by the plan.
27. All required filing of the plan (trust) documents with the appropriate agencies have been made.
28. There have been no events subsequent to the balance sheet date up to the date hereof that would require recognition or disclosure in the financial statements. Further, there have been no events subsequent to the date of the comparative financial statements that would require adjustment of those financial statements and related notes.
29. There were no omissions from the participants' data provided to the plan's actuary for the purpose of determining the actuarial present value of accumulated plan benefits and other actuarially determined amounts in the financial statements.
30. We agree with the actuarial methods and assumptions used by the actuary for funding purposes and for determining accumulated plan benefits and have no knowledge or belief that such methods or assumptions are inappropriate in the circumstances. We did not give any instructions, nor cause any instructions to be given, to the plan's actuary with respect to how the valuation should be calculated from the underlying data, and we are not aware of any matters that have impacted the independence or objectivity of the plan's actuary.

31. The defined benefit obligation of the pension plan is appropriately measured as the actuarial present value of accrued pension benefits determined by applying best estimate assumptions and the projected benefit method prorated on services in accordance with Section 3462 Employee Future Benefits.
32. There have been no changes in:
 - (a) the actuarial methods or assumptions used in calculating amounts recorded or disclosed in the financial statements;
 - (b) plan provisions between the actuarial extrapolation date and the date of this letter.
33. We have no intentions to terminate the plan.

Other

34. We have considered whether or not events have occurred or conditions exist which may cast significant doubt on the plan's ability to continue as a going concern and have concluded that no such events or conditions are evident.
35. We have considered the implications of the COVID-19 pandemic and impact on Halifax Water and have provided sufficient disclosures in the financial statements accordingly. There are no other related significant matters arising that we have not disclosed to you.

Yours very truly,

Cathie O'Toole, MBA, FCPA, FCGA, ICD.D
General Manager

Louis de Montbrun, CPA, CA
Director Corporate Services / CFO

Allan Campbell, B.Comm., CPA, CMA
Manager, Finance