

Consolidated Financial Statements of

**THE CORPORATION
OF THE CITY OF WATERLOO**

And Independent Auditor's Report thereon

Year ended December 31, 2023

(Expressed in thousands of dollars)

**KPMG LLP**

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INDEPENDENT AUDITOR'S REPORT

To the Members of Council and Ratepayers of The City of Waterloo

Opinion

We have audited the consolidated financial statements of The City of Waterloo (the Entity), which comprise:

- the consolidated statement of financial position as at December 31, 2023
- the consolidated statement of operations and accumulated surplus for the year then ended
- the consolidated statement of remeasurement gains for the year then ended
- the consolidated statement of change in net financial assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies (Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2023, its consolidated remeasurement gains, consolidated change in net financial assets, consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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 auditor's report.

We are independent of the Entity 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.



Emphasis of Matter - Prospective Change in Accounting Policy

We draw attention to Note 1 to the financial statements, which describes the Entity's adoption of Canadian public sector accounting standards PS 3450 - Financial Instruments, PS 3401 – Portfolio Investments, PS 2601 - Foreign Currency Translations and PS1201 – Financial Statement Presentation as well as PS 3280 - Asset Retirement Obligations.

Our opinion is not modified in respect to this matter.

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 Canadian public sector accounting standards, 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 the Entity'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 the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity'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 the 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.



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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 the Entity'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 the Entity'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 the Entity 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.
- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Kitchener, Canada

July 12, 2024

THE CORPORATION OF THE CITY OF WATERLOO

Consolidated Statement of Financial Position

December 31, 2023, with comparative information for 2022
 (Expressed in thousands of dollars)

	2023	2022
Financial Assets		
Cash and short-term investments	\$ 93,679	\$ 78,644
Taxes receivable (note 2)	16,281	11,869
Accounts receivable (note 2)	29,109	29,115
Investments (note 3)	123,182	140,966
Investment in Enova Energy Corporation (note 4)	217,609	219,553
	<u>479,860</u>	<u>480,147</u>
Liabilities		
Accounts payable and accrued liabilities	56,918	53,725
Deferred revenue (note 5)	74,765	79,887
Employee future benefits (note 6)	22,249	21,642
Asset retirement obligations (note 17)	917	—
Long-term liabilities (note 7)	5,460	8,157
Capital lease obligation (note 8)	34,307	37,154
	<u>194,616</u>	<u>200,565</u>
Total net financial assets	285,244	279,582
Non-Financial Assets		
Tangible capital assets (note 9)	861,358	849,333
Inventory	2,739	2,807
Total non-financial assets	<u>864,097</u>	<u>852,140</u>
Accumulated surplus and accumulated remeasurement gains	\$ 1,149,341	\$ 1,131,722
Comprised of:		
Accumulated surplus (note 10)	\$ 1,148,487	\$ 1,131,722
Accumulated remeasurement gains	854	—
Accumulated surplus and accumulated remeasurement gains	<u>\$ 1,149,341</u>	<u>\$ 1,131,722</u>

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

THE CORPORATION OF THE CITY OF WATERLOO

Consolidated Statement of Operations

Year ended December 31, 2023, with comparative information for 2022
 (Expressed in thousands of dollars)

	Budget 2023	Actual 2023	Actual 2022
(note 16)			
Revenue:			
Taxation (note 11)	\$ 96,527	\$ 97,040	\$ 90,708
User charges	80,208	81,950	74,199
Grants	6,268	7,574	9,031
Other:			
Development charges and contributions	18,526	13,126	20,503
Investment income	6,659	11,579	7,355
Contributed assets	—	—	1,536
Other	12,041	10,984	9,040
Equity basis net income in Waterloo North Hydro Holding Corporation (note 4)	—	—	9,428
Gain on amalgamation of Waterloo North Hydro Holding Corporation (note 4)	—	—	103,828
Total revenue	220,229	222,253	325,628
Expenses:			
General government	11,578	11,310	10,768
Protection to persons and property	31,068	30,697	29,705
Transportation services	22,311	31,345	32,966
Environmental services	54,969	61,614	55,188
Health services	2,437	2,421	2,122
Social and family services	2,350	2,530	1,476
Recreation and cultural services	47,428	54,004	50,398
Planning and development	10,419	10,907	9,864
Other	759	660	1,300
Total expenses	183,319	205,488	193,787
Annual surplus	36,910	16,765	131,841
Accumulated surplus, beginning of year	1,131,722	1,131,722	999,881
Accumulated surplus, end of year	\$ 1,168,632	\$ 1,148,487	\$ 1,131,722

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

THE CORPORATION OF THE CITY OF WATERLOO

Consolidated Statement of Remeasurement Gains

Year ended December 31, 2023

(Expressed in thousands of dollars)

	2023
Accumulated remeasurement gains, beginning of year	\$ —
Adjustment on adoption of the financial instruments standard	853
Net unrealized gains attributable to investments	1
Total net unrealized gains	1
Total amount reclassified during the year to the Consolidated Statement of Operations	—
Net change in remeasurement gains for the year	1
Accumulated remeasurement gains, end of year	\$ 854

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

THE CORPORATION OF THE CITY OF WATERLOO

Consolidated Statement of Change in Net Financial Assets

Year ended December 31, 2023, with comparative information for 2022
 (Expressed in thousands of dollars)

	Budget 2023	Actual 2023	Actual 2022
(note 16)			
Annual surplus	\$ 36,910	\$ 16,765	\$ 131,841
Acquisition of tangible capital assets	(77,270)	(41,967)	(54,780)
Amortization of tangible capital assets	—	30,366	28,724
Loss on disposal of tangible capital assets	—	166	85
Proceeds from disposal of tangible capital assets	—	288	208
	(40,360)	5,618	106,078
Change in inventory	—	68	(511)
Change in net financial assets	(40,360)	5,686	105,567
Adjustment on adoption of:			
Asset retirement obligations	—	(878)	—
Financial instruments	—	853	—
Net remeasurement gains for the year	—	1	—
Change in net financial assets and net remeasurement gains	(40,360)	5,662	105,567
Net financial assets, beginning of year	279,582	279,582	174,015
Net financial assets, end of year	\$ 239,222	\$ 285,244	\$ 279,582

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

THE CORPORATION OF THE CITY OF WATERLOO

Consolidated Statement of Cash Flows

Year ended December 31, 2023, with comparative information for 2022
 (Expressed in thousands of dollars)

	2023	2022
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 16,765	\$ 131,841
Items not involving cash:		
Amortization	30,366	28,724
Accretion	39	—
Change in employee future benefits	607	1,159
Equity basis net income in Waterloo North Hydro Holding Corporation	—	(9,428)
Gain on amalgamation of Waterloo North Hydro Holding Corporation	—	(103,828)
Loss-on disposal of tangible capital assets	166	85
Contributed assets	—	(1,536)
Changes in non-cash working capital:		
Taxes receivable	(4,412)	(753)
Accounts receivable	6	(5,661)
Accounts payable and accrued liabilities	3,193	5,388
Deferred revenue	(5,122)	4,436
Inventory	68	(511)
Net change in cash from operating activities	41,676	49,916
Capital activities:		
Cash used to acquire tangible capital assets	(41,967)	(53,244)
Proceeds from disposal of tangible capital assets	288	208
Net change in cash from capital activities	(41,679)	(53,036)
Investing activities:		
Net decrease in investments	18,638	18,908
Dividends received from Waterloo North Hydro Holding Corporation	1,944	2,343
	20,582	21,251
Financing activities:		
Long-term debt repaid	(2,697)	(2,635)
Capital lease obligation repaid, including accrued interest	(2,847)	(2,600)
Net change in cash from financing activities	(5,544)	(5,235)
Net change in cash and short-term investments	15,035	12,896
Cash and short-term investments, beginning of year	78,644	65,748
Cash and short-term investments, end of year	\$ 93,679	\$ 78,644

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

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements

Year ended December 31, 2023

(Expressed in thousands of dollars)

The Corporation of the City of Waterloo is a municipality that was created on January 1, 1948 pursuant to the City of Waterloo Act. The City provides municipal services such as fire, public works, planning, parks and recreation, library and other general government operations. Pursuant to Section 149 (1) of the Income Tax Act of Canada a municipality is exempt from taxation.

1. Significant accounting policies:

The consolidated financial statements of The Corporation of the City of Waterloo (the "City") are prepared by management in accordance with Canadian public sector accounting standards as recommended by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada ("CPA Canada"). Significant accounting policies adopted by the City are as follows:

(a) Basis of consolidation:

(i) Consolidated entities:

These consolidated statements reflect the assets, liabilities, revenues and expenses of the reporting entity. The reporting entity is comprised of all committees of Council and the following boards, municipal enterprises and utilities which are under the control of Council:

The Waterloo Public Library Board

The Uptown Waterloo Business Improvement Area Board of Management

The Corporation of the City of Waterloo Waterworks Operations

The Corporation of the City of Waterloo Sewer Operations

Interdepartmental and interorganizational transactions and balances between these entities and organizations have been eliminated.

(ii) Investment in Government Business Enterprises:

Waterloo North Hydro Holding Corporation ("WNHHC") and its affiliates are not consolidated but are accounted for on the modified equity basis, which reflects the City's investment in the enterprises and its share of undistributed net income since acquisition. Under the modified equity basis, the enterprise's accounting principles are not adjusted to conform with those of the City and interorganizational transactions and balances are not eliminated.

Effective September 1, 2022, the City ceased accounting for its investment in WNHHC as a government business enterprise due to WNHHC's amalgamation with Kitchener Power Corp (see note 4).

(iii) Accounting for Region and School Board transactions:

The taxation, other revenues, expenses, assets and liabilities with respect to the operations of the Regional Municipality of Waterloo and the school boards are not reflected in these consolidated financial statements.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 2

Year ended December 31, 2023
(Expressed in thousands of dollars)

1. Significant accounting policies (continued):

(a) Basis of consolidation (continued):

(iv) Trust funds:

Trust funds and their related operations administered by the City are not included in these consolidated financial statements.

(b) Basis of accounting:

The City follows the accrual method of accounting for revenues and expenses. Revenues are normally recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

(c) Government transfers:

Government transfers are recognized in the consolidated financial statements as revenues in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made.

(d) Deferred revenue:

Deferred revenue represents grants, user charges, fees and development charges which have been collected, but for which the related services have yet to be performed. These amounts will be recognized as revenues in the fiscal year the services are performed.

(e) Investment income:

Investment income is reported as revenue in the period earned. Investment income earned on obligatory reserve funds is added to the fund balance and forms part of the deferred revenue balance.

(f) Short-term investments:

Short-term investments include short-term highly liquid investments with a term to maturity of 90 days or less at acquisition.

(g) Inventory:

Inventory is valued at the lower of cost or net realizable value.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 3

Year ended December 31, 2023
(Expressed in thousands of dollars)

1. Significant accounting policies (continued):

(h) Employee future benefits:

The contributions to the Ontario Municipal Employers Retirement System (“OMERS”), a multi-employer defined benefit pension plan, are expensed when contributions are due.

The costs of post-employment benefits are recognized when the event that obligates the City occurs; costs include projected future income payments, health care continuation costs and fees paid to independent administrators of these plans, calculated on a present value basis.

The cost of pensions and other retirement benefits is actuarially determined using the projected benefits method prorated on service and management's best estimate of retirement ages of employees, salary escalation, expected health care costs and plan investment performance. Any actuarial gains or losses from changes in assumptions are amortized over the average remaining service period for active employees.

(i) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(j) Tangible capital assets:

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets is amortized on a straight-line basis over their estimated useful lives as follows:

Asset	Useful Life -Years
Land improvements	15 - 35
Buildings and building improvements	40
Vehicles	8 - 15
Machinery and equipment	3 - 10
Computer hardware and software	3 - 25
Water and wastewater infrastructure	8 - 75
Roads infrastructure	15 - 40

Annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

(i) Contributions of tangible capital assets:

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

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 4

Year ended December 31, 2023
(Expressed in thousands of dollars)

1. Significant accounting policies (continued):

(j) Tangible capital assets (continued):

(ii) Natural resources:

Natural resources that have not been purchased are not recognized as assets in the consolidated financial statements.

(iii) Works of art and cultural and historic assets:

Works of art and cultural and historic assets are not recorded as assets in these consolidated financial statements.

(iv) Interest capitalization:

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

(v) Leased tangible capital assets:

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

(k) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Significant estimates include assumptions used in estimating provisions for accrued liabilities, asset retirement obligations and in performing actuarial valuations of employee future benefits.

In addition, the City's implementation of the Public Sector Accounting Handbook Section 3150, *Tangible Capital Assets*, had required management to make estimates of historical cost and useful lives of tangible capital assets.

Actual results could differ from these estimates.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 5

Year ended December 31, 2023
(Expressed in thousands of dollars)

1. Significant accounting policies (continued):

(I) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Derivative instruments and equity instruments that are quoted in an active market are reported at fair value. All other financial instruments are subsequently recorded at cost or amortized cost.

The City's financial instruments include cash and short-term investments, taxes receivable, accounts receivable, investments, accounts payable and accrued liabilities, deferred revenue, long-term liabilities, and capital lease obligation. With the exception of derivative and equity investments, the carrying value approximates fair value due to the short-term nature of these financial assets and liabilities.

Unrealized changes in fair value of derivative and equity investments are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and any unrealized gain is adjusted through the statement of remeasurement gains and losses.

Financial instruments that are subsequently measured at fair value are classified based on the observability of inputs as follows:

Level 1 - Unadjusted quoted market prices in active markets for identical assets or liabilities;

Level 2 - Observable or corroborated inputs, other than level 1, such as quoted prices for similar assets or liabilities in inactive markets or market data for substantially the full term of the assets or liabilities; and

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

Principal protected notes within investments are measured as level 1 financial instruments.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 6

Year ended December 31, 2023
(Expressed in thousands of dollars)

1. Significant accounting policies (continued):

(m) Asset retirement obligation:

An asset retirement obligation is recognized when, as at the financial reporting date, all of the following criteria are met:

- There is a legal obligation to incur retirement costs in relation to a tangible capital asset;
- The past transaction or event giving rise to the liability has occurred;
- It is expected that future economic benefits will be given up; and
- A reasonable estimate of the amount can be made.

The liability is discounted using a present value calculation, and adjusted yearly for accretion expense. The recognition of a liability resulted in an accompanying increase to the respective tangible capital assets. The increase to the tangible capital assets is being amortized in accordance with the accounting policies outlined in (Note 1 j).

(n) Adoption of new accounting standards:

(i) PS - 3450 Financial Instruments and Related Standards:

On January 1, 2023, the City adopted PS 3450 Financial Instruments ("PS 3450"), PS 2601 Foreign Currency Translation, PS 1201 Financial Statement Presentation and PS 3041 Portfolio Investments. The standards were adopted prospectively from the date of adoption. The new standards provide comprehensive requirements for the recognition, measurement, presentation and disclosure of financial instruments and foreign currency transactions.

Under PS 3450, all financial instruments are included on the Statement of Financial Position and, with the exception of derivatives and equity investments, are measured amortized cost. Derivative and equity investments are included on the Statement of Financial Position at fair value.

In accordance with the provisions of this new standard, as at January 1, 2023, the City assessed that an adjustment of \$853 needed to be recorded to comply with the standard. This adjustment relates to a remeasurement gain to fair value on derivative and equity investments, which resulted in an increase to Investments and remeasurement gains.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 7

Year ended December 31, 2023
(Expressed in thousands of dollars)

1. Significant accounting policies (continued):

(n) Adoption of new accounting standards (continued):

(ii) PS - 3280 Asset Retirement Obligations :

On January 1, 2023, the City also adopted Public Accounting Standard PS 3280 Asset Retirement Obligations ("PS 3280"). The new accounting standard addresses the reporting of legal obligations associated with the retirement of certain tangible capital assets, such as asbestos removal in buildings.

The new accounting standard was adopted on a prospective basis.

On January 1, 2023, the City recognized asset retirement obligations relating to Asbestos removal from buildings owned as well as removal of underground fuel tanks. The City reports liabilities related to the legal obligations to incur costs to retire a tangible capital asset. On adoption the City recorded \$878 to the asset retirement obligation with a corresponding increase to tangible capital assets. (note 17).

2. Taxes and accounts receivable:

Taxes receivable are reported net of a valuation allowance of \$1,181 (2022 - \$1,181). Accounts receivable are reported net of a valuation allowance of \$3,360 (2022 - \$2,637).

3. Investments:

The investments in the amount of \$123,182 (2022 - \$140,966) have a market value of \$127,453 (2022 - \$155,285) as at December 31, 2023. Investments are comprised of bank, credit union, federal and provincial bonds and derivatives with yields ranging from 1.0% to 5.44%. Included within derivative and equity investments are principal protected notes which are valued at fair value. (note 1(l)).

	Carrying Value	Market
Derivative and equity investments	\$ 5,854	\$ 5,854
Other investments	117,328	121,599
	\$ 123,182	\$ 127,453

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 8

Year ended December 31, 2023
(Expressed in thousands of dollars)

4. Enova Energy Corporation

On January 12, 2022, a Merger Participation Agreement ("MPA") was signed between: the Corporation of the City of Kitchener ("Kitchener"); the Corporation of the Township of Wilmot ("Wilmot"); the Corporation of the City of Waterloo ("Waterloo"); the Corporation of the Township of Woolwich ("Woolwich"); the Corporation of the Township of Wellesley ("Wellesley"); Kitchener-Wilmot Hydro Inc.,("KWHI"); Kitchener Energy Services Inc.("KESI"); Waterloo North Hydro Inc.("WNHI"); Waterloo North Hydro Holding Corporation ("WNHHC"); and Alliance Metering Solutions Inc. ("AMS"). WNHHC is the parent company of WNHI and AMS.

The MPA provided the terms and conditions under which KPC and WNHHC would amalgamate (the "MergeCo Amalgamation"), followed immediately by the amalgamation of the KWHI and WNHI ("LDC Amalgamation"). The LDC Amalgamation was subject to the approval of the Ontario Energy Board ("OEB") based on a Mergers, Acquisitions, Amalgamations and Divestitures Application ("MAADs Application") process. The MAADs Application included a request for OEB approval for the continuation of regulated rates and charges of the predecessor LDCs of the Corporation. On June 28, 2022, the OEB issued a Decision and Order approving the LDC Amalgamation.

The MergeCo Amalgamation occurred on August 31, 2022 (the "closing date") and the parent Corporation continues as Enova Energy Corporation, a corporation amalgamated under the laws of Ontario. On September 1, 2022, immediately following the MergeCo Amalgamation, the KWHI and WNHI legally amalgamated and continues as Enova Energy Corporation, a corporation amalgamated under the laws of Ontario.

Until August 31, 2022, the City held 73.2% of the common shares of Waterloo North Hydro Holding Corporation and a \$27,404 long-term notes payable by subsidiaries and investees of Waterloo North Hydro Inc.

Following the merger, the City holds 30.83% of the common shares of Enova Energy Corp. and \$27,404 long-term notes payable of Enova Energy Corp.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 9

Year ended December 31, 2023
(Expressed in thousands of dollars)

4. Enova Energy Corporation (continued):

The investment in Enova Energy Corporation and affiliates is comprised of the following:

	2023	2022
Enova Energy Corporation Debt	\$ 27,404	\$ 27,404
Enova Energy Corporation dividend receivable	—	1,944
Enova Energy Corporation common shares	190,205	190,205
<u>Balance, end of year</u>	<u>\$ 217,609</u>	<u>\$ 219,553</u>

5. Deferred revenue:

A requirement of public sector accounting standards is that obligatory reserve funds be reported as deferred revenue. This requirement is in place as provincial legislation restricts how these funds may be used and under certain circumstances these funds may be refunded. Deferred revenue is made up of the following:

	2023	2022
Building permits	\$ 6,662	\$ 7,600
Community benefit charges	8,882	7,397
Development charges	18,609	20,716
For park purposes	25,720	27,266
For subdivider deposits	10,455	13,065
Canada Community-Building Fund	4,437	3,843
	<u>\$ 74,765</u>	<u>\$ 79,887</u>

Continuity of deferred revenue is as follows:

	2023	2022
Balance, beginning of year	\$ 79,887	\$ 75,451
Contributions from Canada Community-Building Fund	3,474	3,330
Contributions from Development Charges Act	5,497	15,809
Contributions from developers	1,485	7,166
Interest earned	2,498	1,628
Total contributions and interest	12,954	27,933
Development charges and grants earned	(18,076)	(23,497)
<u>Balance, end of year</u>	<u>\$ 74,765</u>	<u>\$ 79,887</u>

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 10

Year ended December 31, 2023
(Expressed in thousands of dollars)

6. Employee future benefits:

The City provides certain employee benefits, which may require funding in future periods. An actuarial estimate of future liabilities has been completed and forms the basis for the estimated liability reported in these financial statements. The Workplace Safety and Insurance Board ("WSIB") liability was determined by an actuarial valuation as at December 31, 2020. Non-vested sick leave was determined by an actuarial valuation as at December 31, 2019. Vested sick leave and other liabilities were determined by an actuarial valuation as at December 31, 2020.

	2023	2022
Accumulated sick leave benefit plan entitlements	\$ 6,276	\$ 6,004
Vacation pay	2,196	2,512
Other post-employment benefits	13,777	13,126
	<hr/> \$ 22,249	<hr/> \$ 21,642

The significant actuarial assumptions adopted in measuring the City's accrued benefit obligations for the accumulated sick leave benefit plan entitlements and other liabilities at December 31, 2023, are as follows:

	%
Discount rate	2.55
Expected long-term rate of return	6.00
Dental cost	3.00
Health care	6.50

Information about the City's benefit plans is as follows:

	2023	2022
Accrued benefit obligation:		
Balance, beginning of year	\$ (25,139)	\$ (24,681)
Current benefit cost	(988)	(1,778)
Actuarial gain	—	—
Interest	(588)	(586)
Benefits paid	1,684	1,906
Balance, end of year	(25,031)	(25,139)
Unamortized actuarial loss	2,782	3,497
Liability for benefits	<hr/> \$ (22,249)	<hr/> \$ (21,642)
Amortization of actuarial loss	\$ (715)	\$ (701)

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 11

Year ended December 31, 2023
(Expressed in thousands of dollars)

6. Employee future benefits (continued):

(a) Workplace Safety and Insurance Board:

The WSIB administers injured worker benefit payments on behalf of the City as a Schedule 2 employer. The expense for the year was \$723 (2022 - \$547).

(b) Sick leave:

Under the sick leave benefit plan, unused sick leave can accumulate and certain employees may become entitled to a cash payment when they leave the City's employment. The expense for the current year was \$379 (2022 - \$596).

A reserve fund has been established to provide for this past service liability and is included in the accumulated surplus balance on the statement of financial position. The balance at the end of the year is \$4,007 (2022 - \$3,843) (note 10).

(c) Pension plan:

The City makes contributions to OMERS, which is a multi-employer plan, on behalf of all permanent, full-time members of its staff. The plan is a defined benefit plan, which specifies the amount of the retirement benefit to be received by the employees, based on the length of service and rates of pay.

Contribution rates for employees earning below the year's maximum pensionable earnings is 9.0% and 14.6% on earnings above the year's maximum pensionable earnings.

The amount contributed to OMERS for 2023 was \$6,595 (2022 - \$6,090) for current service and is included as an expenditure on the consolidated statement of operations.

The OMERS pension plan has a deficit. The last available report for the OMERS plan was on December 31, 2022. At that time the plan reported a \$4.2 billion (2023 - \$6.7 billion actuarial deficit), based on actuarial liabilities of \$136.2 billion (2022 - \$130.3 billion) and actuarial assets \$132.0 billion (2022 - \$123.6 billion). If actuarial surpluses are not available to offset the existing deficit and subsidize future contributions, increases in contributions will be required in the future.

(d) Other liabilities:

The City pays certain health, dental and life insurance benefits on behalf of its retired employees up to the age of 65, if they have at least ten years of service with the City. The expense for the year was \$572 (2022 - \$513).

No reserve fund has been established to provide for this liability.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 12

Year ended December 31, 2023
(Expressed in thousands of dollars)

7. Long-term liabilities:

- (a) The balance of long-term liabilities reported on the consolidated statement of financial position is made up of the following:

	2023	2022
Loans payable at 1.25%-3.75% repayable in semi-annual payments of principal and interest due 2023	\$ —	\$ 839
Loans payable at 1.15%-3.00% repayable in semi-annual payments of principal and interest due 2024	1,036	2,051
Loans payable at 1.15%-2.35% repayable in annual payments of principal and interest due 2027	1,737	2,150
Loans payable at 2.0%-3.1% repayable in annual payments of principal and interest due 2028	531	627
Loans payable at 1.95%-2.35% repayable in annual payments of principal and interest due 2029	2,156	2,490
 Long-term liabilities, end of year	 \$ 5,460	 \$ 8,157

- (b) For the long-term liabilities in (a) of this note, the annual principal payments over the next five years and thereafter are as follows:

2024	\$ 1,896
2025	879
2026	900
2027	921
2028	864
Thereafter	—
 	 \$ 5,460

- (c) The annual principal and interest payments required to service these liabilities are within the annual debt repayment limit prescribed by the Ministry of Municipal Affairs.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 13

Year ended December 31, 2023
(Expressed in thousands of dollars)

8. Capital lease obligation:

In fiscal 2000, the City entered into a 31-year financing agreement to fund the construction of RIM Park.

As a result of the settlement, the “Original Agreement”, which carried an effective annual interest rate of 9.26% compounded semi-annually, was replaced by a “New Agreement” bearing an effective semi-annual rate of 7.35% compounded semi-annually. The revised rate is applicable with effect from February 2002.

The City has accounted for the obligation as a capital lease. The amount of the obligation is calculated as the present value of the payments required under the terms of the New Agreement. The discount rate used by the City in determining the present value of the lease payments is 9.26% up to the date of settlement and 7.35% thereafter.

The payments under the sublease began in 2002 and the last payment is due September 1, 2031.

The annual lease payments over the next five years and thereafter are as follows:

2024	\$ 5,419
2025	5,474
2026	5,530
2027	5,587
2028	5,645
Thereafter	17,297
	44,952
Less amount representing interest at 7.35%	10,645
Present value of net minimum capital lease payments	\$ 34,307

Interest of \$2,519 (2022 - \$2,712) relating to the capital lease obligation has been included in expenses in the consolidated statement of operations.

The cost of leased tangible capital assets at December 31, 2023 is \$44,692 (2022 - \$44,542) and accumulated amortization of leased tangible capital assets at December 31, 2023 is \$25,427 (2022 - \$24,310).

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 14
 (Expressed in thousands of dollars)

Year ended December 31, 2023

9. Tangible capital assets:

2023	Land	Land Improvements	Building and Building Improvements	Vehicles, Machinery and Equipment	Water and Wastewater Infrastructure	Roads Infrastructure	Assets under Construction	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Cost:								
Balance, beginning of year	171,221	55,425	248,511	60,051	432,262	367,544	40,590	1,375,604
Additions	1,103	15,671	5,720	6,125	12,952	9,715	(9,319)	41,967
Adjustment on adoption of Asset Retirement obligations	—	—	696	182	—	—	—	878
Disposals	—	—	—	(2,004)	(844)	(2,998)	—	(5,846)
Balance, end of year	172,324	71,096	254,927	64,354	444,370	374,261	31,271	1,412,603
Accumulated amortization:								
Balance, beginning of year	—	13,813	112,614	37,693	149,211	212,940	—	526,271
Disposals	—	—	—	(1,944)	(495)	(2,953)	—	(5,392)
Amortization expense	—	2,518	6,314	5,599	6,226	9,709	—	30,366
Balance, end of year	—	16,331	118,928	41,348	154,942	219,696	—	551,245
Net book value, end of year	172,324	54,765	135,999	23,006	289,428	154,565	31,271	861,358

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 15
 (Expressed in thousands of dollars)

Year ended December 31, 2023

9. Tangible capital assets (continued):

2022	Land	Land Improvements	Building and Building Improvements	Vehicles, Machinery and Equipment	Water and Wastewater Infrastructure	Roads Infrastructure	Assets under Construction	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Cost:								
Balance, beginning of year	165,809	49,372	235,941	54,936	422,089	363,420	34,498	1,326,065
Additions	5,412	6,172	12,570	6,517	10,539	7,478	6,092	54,780
Disposals	–	(119)	–	(1,402)	(366)	(3,354)	–	(5,241)
Balance, end of year	171,221	55,425	248,511	60,051	432,262	367,544	40,590	1,375,604
Accumulated amortization:								
Balance, beginning of year	–	11,974	106,511	33,878	143,482	206,650	–	502,495
Disposals	–	(108)	–	(1,394)	(270)	(3,176)	–	(4,948)
Amortization expense	–	1,947	6,103	5,209	5,999	9,466	–	28,724
Balance, end of year	–	13,813	112,614	37,693	149,211	212,940	–	526,271
Net book value, end of year	171,221	41,612	135,897	22,358	283,051	154,604	40,590	849,333

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 16

Year ended December 31, 2023
(Expressed in thousands of dollars)

9. Tangible capital assets (continued)

(a) Assets under construction:

Assets under construction in the amount of \$31,271 (2022 - \$40,590) have not been amortized. Amortization of these assets will commence when the assets are put into service.

(b) Contributed tangible capital assets:

Contributed tangible capital assets of \$nil (2022 - \$1,536) have been recognized at fair market value at the date of contribution.

(c) Works of art and historical treasures:

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

10. Accumulated surplus:

(a) Accumulated surplus consists of individual fund surplus and reserves and reserve funds as follows:

	2023	2022
For general reduction of taxation	\$ 3,152	\$ 3,097
Equity in tangible capital assets (note 9)	861,358	849,333
Equity in Enova Power Corp (note 4)	217,609	219,553
Capital fund balance	69,732	59,912
Amounts to be recovered (note 10(c))	(62,933)	(66,953)
	1,088,918	1,064,942
Total reserves	54,278	65,385
Total reserve funds	5,291	1,395
Total accumulated surplus	\$ 1,148,487	\$ 1,131,722

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 17

Year ended December 31, 2023
(Expressed in thousands of dollars)

10. Accumulated surplus (continued):

(a) (continued):

	2023	2022
Reserves set aside for specific purpose by Council:		
For acquisition of capital assets:		
Work equipment	\$ 1,968	\$ 1,202
Grey Silo	150	110
Heritage	482	451
For Business licensing	366	46
For Rental Housing	(57)	(30)
For water	16,455	16,752
For sewage	8,013	11,228
For storm water	1,987	3,065
For winter control	1,163	719
For facilities maintenance	85	230
For elections	87	90
For tax rate stabilization	3,388	6,426
For operating budget contingency	3,266	2,933
For employee development and capacity	2,276	2,370
For RIM Park investment	13,196	17,995
For economic development	1,453	1,798
 Total reserves	 \$ 54,278	 \$ 65,385
 Reserve funds set aside for specific purpose by Council:		
For acquisition of capital assets:		
Capital infrastructure	\$ 11,257	\$ 9,165
Parking	1,242	1,427
For sick leave	4,007	3,843
For other capital expenditures:		
Capital reserve fund	12,194	10,980
Industrial Land purchases	(33,467)	(31,061)
Library expansion fund	6,584	4,986
OMB Hearings	1,026	281
Cemetery	(216)	1,035
Climate action	2,664	739
 Total reserve funds	 \$ 5,291	 \$ 1,395

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 18

Year ended December 31, 2023
(Expressed in thousands of dollars)

10. Accumulated surplus (continued):

- (b) The balance available for general reduction of taxation for the fiscal year ended December 31, 2023, has been reduced by an amount of \$1,865 (2022 - \$879) and transferred to the various reserves, reserve funds and deferred revenue as authorized by Council.
- (c) The amounts to be recovered of \$62,933 (2022 - \$66,953) in future years, is comprised of the following:

	2023	2022
Long-term liabilities (note 7)	\$ 5,460	\$ 8,157
Capital lease obligation (note 8)	34,307	37,154
Employee benefits and other liabilities (note 6)	22,249	21,642
Asset retirement obligation (note 17)	917	-
	\$ 62,933	\$ 66,953

11. Taxation:

Taxation revenue, reported on the consolidated statement of operations, is made up of the following:

	2023	2022
Residential and farm taxation	\$ 226,023	\$ 208,105
Commercial, industrial and business taxation and supplementary taxes	96,948	94,492
Taxation from other governments	7,386	6,112
Total taxation levied on behalf of City, Region, and School Board	330,357	308,709
Payments to Region and school boards	(233,317)	(218,001)
Net property taxes and payment-in-lieu available for municipal purposes	\$ 97,040	\$ 90,708

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 19

Year ended December 31, 2023
(Expressed in thousands of dollars)

12. Trust funds:

Trust funds administered by the Municipality amounting to \$13,110 (2022 - \$12,621) have neither been included in the consolidated statement of financial position nor have their operations been included in the consolidated statement of operations. The trust funds under administration are composed of the following:

	2023	2022
Cemeteries	\$ 12,599	\$ 12,082
Others	511	539
	<hr/> \$ 13,110	<hr/> \$ 12,621

13. Contingent liabilities:

Legal action has been undertaken against the City relating to a number of contract disputes and other matters. The outcome of these actions is not presently determinable. It is management's opinion that the City's insurance will adequately cover any potential liability arising from these contract disputes and other matters. Liability for these claims and lawsuits are recorded to the extent that the probability of a loss is likely and it is estimable.

14. Municipal insurance pool:

In 1998, the City entered into an agreement with members of the Waterloo Region Municipalities to purchase property damage and public liability insurance on a group basis and share a retained level of risk. The members pay an annual levy to fund insurance, pre-fund expected losses and contribute to a surplus. The pool has purchased insurance to fund losses above a pre-determined deductible and any losses above a pre-determined total in any year. The City's share of pool levies is 12.2% as of May 31, 2023 (12.1% as of May 31, 2022) and any surplus is 9.86% as of May 31, 2023 (10.85% as at May 31, 2022). The pool's surplus at May 31, 2023 is \$3,210 (2022 - \$5,039).

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 20

Year ended December 31, 2023
(Expressed in thousands of dollars)

15. Segmented information:

Segmented information has been identified based upon lines of service provided by the City. City services are provided by department and their activities are reported by functional area in the body of the financial statements. Certain lines of service that have been separately disclosed in the segmented information, along with the services they provide, are as follows:

(i) General Government:

The General Government Services segment is comprised of governance and corporate management of the municipality.

(ii) Protective to persons and property:

The Protective to persons and property segment is comprised of the following service areas: fire services including fire suppression, fire prevention programs and fire inspections, by-law enforcement and building permit and inspection.

(iii) Transportation Services:

Transportation Services segment is comprised of the following services: roads maintenance, winter control, parking, street lighting and other transportation services.

(iv) Environmental Services:

The Environmental Services segment is comprised of services such as the engineering and operation of water distribution systems, storm and wastewater collection systems and other environmental services.

(v) Health Services:

The Health Services segment is comprised primarily of cemetery maintenance and management.

(vi) Social and Family Services:

The Social and Family Services segment is comprised primarily of assistance to aged persons.

(vii) Recreation and Cultural Services:

The Recreation and Cultural Services segment is comprised of the following service areas: parks, recreation programs, recreation facilities, golf courses, libraries, museums and other cultural services and activities.

(viii) Planning and Development:

The Planning and Development segment is comprised of planning and zoning, commercial and industrial developments and residential developments.

(ix) Other:

The Other segment is comprised of other services that could not be attributed to a specific segment.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 21

Year ended December 31, 2023
(Expressed in thousands of dollars)

15. Segmented information (continued):

Segmented information has been identified based upon lines of service provided by the City. City services are provided by department and their activities are reported by functional area in the body of the financial statements. Certain lines of service that have been separately disclosed in the segmented information, along with the services they provide, are as follows:

Certain allocation methodologies are employed in the preparation of segmented financial information. Taxation and payment-in-lieu of taxes are allocated to the segments based on the segment's budgeted net expenditure. User charges and other revenue have been allocated to the segments based upon the segment that generated the revenue. Government transfers have been allocated to the segment based upon the purpose for which the transfer was made. Development charges earned and developer contributions received were allocated to the segment for which the charge was collected.

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

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Statements, page 22
 (Expressed in thousands of dollars)

Year ended December 31, 2023

15. Segmented information (continued):

Year ended December 31, 2023

	General Government	Protection to Persons and property	Transportation services	Environmental services	Health services	Social and family services	Recreation and cultural services	Planning and development	Other	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue:										
Taxation	10,968	30,142	19,063	—	550	1,018	37,053	7,919	(9,673)	97,040
User charges	610	893	968	65,625	1,887	378	9,328	2,260	1	81,950
Grants	—	33	2,280	83	—	954	1,047	240	2,937	7,574
Other:										
Development charges and contributions	—	—	—	—	—	—	—	—	13,126	13,126
Investment income	—	—	—	—	—	—	—	—	11,579	11,579
Other	—	—	—	—	—	—	—	—	10,984	10,984
Total revenue	11,578	31,068	22,311	65,708	2,437	2,350	47,428	10,419	28,954	222,253
Expenditures:										
Current:										
Salaries, wages and benefits	19,143	23,696	9,474	5,327	1,376	1,673	23,904	5,326	607	90,526
Materials and services	4,764	3,370	8,606	45,035	729	352	13,301	2,573	54	78,784
Debenture interest	—	12	47	103	—	—	2,546	11	—	2,719
Other	745	36	3	45	42	—	791	1,432	(1)	3,093
Amortization	2,954	732	10,575	7,155	199	—	8,739	12	—	30,366
Internal transfers	(16,296)	2,851	2,640	3,949	75	505	4,723	1,553	—	—
Total expenditures	11,310	30,697	31,345	61,614	2,421	2,530	54,004	10,907	660	205,488
Annual surplus (deficit)	268	371	(9,034)	4,094	16	(180)	(6,576)	(488)	28,294	16,765

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Statements, page 23

(Expressed in thousands of dollars)

Year ended December 31, 2023

15. Segmented information (continued):

Year ended December 31, 2022

	General Government	Protection to Persons and property	Transportation services	Environmental services	Health services	Social and family services	Recreation and cultural services	Planning and development	Other	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue:										
Taxation	7,801	28,500	19,800	—	(470)	1,202	40,338	7,378	(13,841)	90,708
User charges	591	488	522	60,976	2,313	153	6,940	2,217	(1)	74,199
Grants	6	166	2,635	343		640	1,151	625	3,465	9,031
Other:										
Development charges and contributions	—	—	—	—	—	—	—	—	20,503	20,503
Investment income	457	—	—	—	—	—	—	—	6,898	7,355
Other	—	—	—	—	—	—	—	—	9,040	9,040
Contributed assets	—	—	—	—	—	—	—	—	1,536	1,536
Gain on amalgamation	—	—	—	—	—	—	—	—	103,828	103,828
Equity basis net income in Waterloo North Hydro Holding Corporation	—	—	—	—	—	—	—	—	9,428	9,428
Total revenue	8,855	29,154	22,957	61,319	1,843	1,995	48,429	10,220	140,856	325,628
Expenditures:										
Current:										
Salaries, wages and benefits	18,299	23,046	9,098	4,707	1,243	882	22,107	5,009	1,162	85,553
Materials and services	4,823	3,461	10,743	39,578	645	157	13,551	2,404	91	75,453
Debenture interest	—	—	75	141	—	—	2,746	12	—	2,974
Other	769	26	3	2	44	—	(263)	455	47	1,083
Amortization	2,452	748	10,385	6,879	131	—	8,112	17	—	28,724
Internal transfers	(15,575)	2,424	2,662	3,881	59	437	4,145	1,967	—	—
Total expenditures	10,768	29,705	32,966	55,188	2,122	1,476	50,398	9,864	1,300	193,787
Annual surplus (deficit)	(1,913)	(551)	(10,009)	6,131	(279)	519	(1,969)	356	139,556	131,841

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 24

Year ended December 31, 2023
(Expressed in thousands of dollars)

16. Budget data:

The budget data presented in these consolidated financial statements is based upon the 2023 operating and capital budgets approved by Council on February 13, 2023. Amortization was not contemplated on development of the budget and, as such, has not been included. The chart below reconciles the approved budget to the budget figures reported in these consolidated financial statements.

	Budget Amount
Revenues:	
Operating budget	\$ 211,997
Capital budget	98,557
Reserve budget	60,484
Less:	
Transfers from other funds	<u>(150,809)</u>
Total revenue	<u>220,229</u>
Expenses:	
Operating budget	211,997
Capital budget	98,557
Reserve budget	94,500
Less:	
Transfers to other funds	<u>(138,921)</u>
Capital expenses	<u>(77,270)</u>
Debt principal payments	<u>(5,544)</u>
Total expenses	<u>183,319</u>
Annual surplus	<u>\$ 36,910</u>

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 25

Year ended December 31, 2023
(Expressed in thousands of dollars)

17. Asset Retirement Obligation:

	2023	2022
Asbestos	\$ 727	\$ —
Underground fuel storage tank	190	—
	<hr/> \$ 917	<hr/> \$ —

The City's asset retirement obligations, recognized under PS 3280 – Asset Retirement Obligations, is comprised of the following:

Asbestos obligation:

The City owns and operates several buildings that are known to have asbestos, which represents a health hazard upon demolition or renovation of the building. The Occupational Health and

Safety Regulations, 1996 outlines the legal obligation to remove it. Following the adoption of PS3280 – Asset retirement obligations, the City recognized an obligation relating to the removal of the asbestos in these buildings as estimated at January 1, 2023. The costs were based upon the presently known obligations obtained through assessments. The majority of buildings will be remediated at intervals over the next 30 years. These costs were discounted to December 31, 2023.

Underground fuel storage tank obligation

The City owns and operates several storage tanks which represents a risk of ground contamination due to leaks and corrosion. Technical Standards and Safety Act outlines the legal obligation to remove the tanks and clean up the surrounding soil. Following the adoption of PS3280 – Asset retirement obligations, the City recognized an obligation relating to the removal of the tanks and the surrounding soil remediation as estimated at January 1, 2023. The costs were based upon the presently known obligations obtained through assessments. The storage tanks will be remediated at intervals over the next 5 years. These costs were discounted to December 31, 2023.

The cost of asset retirement obligations included in tangible capital assets at December 31, 2023 is \$878 (2022 - \$nil) and accumulated amortization of these costs at December 31, 2023 is \$97 (2022 - \$nil).

A charge, reflected as accretion has been recorded in the statement of operations for the year ended December 31, 2023 amounting to \$39. (2022 – \$nil).

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 26

Year ended December 31, 2023
(Expressed in thousands of dollars)

18. Financial instrument and risk management:

(a) Credit risk:

Credit Risk is the risk that one party to a financial instrument will cause a financial loss of the other party by failing to discharge the obligation. The City is exposed to credit risk from its financial assets including cash and cash equivalents, trade and other receivables, and investments.

The City holds its cash accounts with chartered financial institutions.

Trade and other receivables are primarily from government, corporations, and individuals. The City measures its exposure to credit risk based on how long amounts have been outstanding. As at December 31, 2023, \$235 of accounts receivable and \$16,696 of taxes receivable were more than 90 days past due. Credit risk is mitigated by a highly diversified nature of debtors and other customers which minimizes its concentration of credit risk. In addition, Property taxes are protected by liens on property that take priority over all other mortgages or liens. Valuation allowances for accounts receivable are disclosed in Note 2. An impairment allowance is set up based on historical experiences regarding collections.

The City's investment policy governs the investment of surplus cash, reserves and reserve funds, and trust funds in accordance with Ontario Regulation 438/97 made under the Municipal Act. All investment by the municipality will be subject to Section 167 of the Municipal Act and Ontario Regulation 438/97 made under the Municipal Act. The goal of this policy is to invest all available funds of the Corporation in a prudent manner so as to maximize the rate of return while minimizing the degree of risk and ensuring an adequate level of liquidity under the Act.

(b) Liquidity risk:

Liquidity risk is the risk that the City will not be able to meet all cash outflow obligations as they come due. The City is exposed to liquidity risk from accounts payable and accrued liabilities. The City mitigates this risk by monitoring cash activities and expected outflows through budgeting and monitoring investments that may be converted into cash to maintain sufficient funds for meeting obligations as they come due. Accounts payable and accrued liabilities are generally due within 30 days. The annual repayment obligations for municipal debt are disclosed in Note 7 and 8.

(c) Market risk:

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. Market risk is comprised of currency risk, interest rate risk, and other price risk.

(i) Foreign currency risk:

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The City is not exposed to significant currency risk as amounts held and purchases made in foreign currency are insignificant.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 27

Year ended December 31, 2023
(Expressed in thousands of dollars)

18. Financial instrument and risk management (continued):

(c) Market risk (continued):

(ii) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The City is exposed to interest rate risk through its investments and long-term debt. The City is not exposed to significant interest rate risk as the City invests solely in investments subject to Section 167 of the Municipal Act and Ontario Regulation 438/97 made under the Municipal Act and long-term debt has interest rates fixed for long periods of time with the debt intended to be repaid in accordance with the terms of the respective loans.

(iii) Other price risk:

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than current and interest rate risk). The City is not exposed to significant other price risks.