

Consolidated Financial Statements of

**THE CORPORATION
OF THE CITY OF WATERLOO**

And Independent Auditor's Report thereon

Year ended December 31, 2022

(Expressed in thousands of dollars)



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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, 2022
- the consolidated statement of operations 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, 2022, its consolidated change in net financial assets, its 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.



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.

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.



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- 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.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font. Below the signature is a single horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants, Licensed Public Accountants

Kitchener, Canada

July 6, 2023

THE CORPORATION OF THE CITY OF WATERLOO

Consolidated Statement of Financial Position

December 31, 2022, with comparative information for 2021
(Expressed in thousands of dollars)

	2022	2021
Financial Assets		
Cash and short-term investments	\$ 78,644	\$ 65,748
Taxes receivable (note 2)	11,869	11,116
Accounts receivable (note 2)	29,115	23,454
Investments (note 3)	140,966	159,874
Investment in Waterloo North Hydro Holding Corporation and affiliates (note 4)	–	108,640
Investment in Enova Energy Corporation (note 4)	219,553	–
	480,147	368,832
Liabilities		
Accounts payable and accrued liabilities	53,725	48,337
Deferred revenue (note 5)	79,887	75,451
Employee future benefits (note 6)	21,642	20,483
Long-term liabilities (note 7)	8,157	10,792
Capital lease obligation (note 8)	37,154	39,754
	200,565	194,817
Total net financial assets	279,582	174,015
Non-Financial Assets		
Tangible capital assets (note 9)	849,333	823,570
Inventory	2,807	2,296
Accumulated surplus (note 10)	\$ 1,131,722	\$ 999,881

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, 2022, with comparative information for 2021
(Expressed in thousands of dollars)

	Budget 2022 (note 16)	Actual 2022	Actual 2021
Revenue:			
Taxation (note 11)	\$ 90,462	\$ 90,708	\$ 86,773
User charges	76,152	74,199	66,206
Grants	2,739	9,031	13,837
Other:			
Development charges and contributions	26,697	20,503	21,029
Investment income	3,080	7,355	5,652
Contributed assets	—	1,536	743
Other	18,625	9,040	8,995
Equity basis net income in Waterloo North Hydro Holding Corporation (note 4)	2,284	9,428	8,646
Gain on amalgamation of Waterloo North Hydro Holding Corporation (note 4)	—	103,828	—
Total revenue	220,039	325,628	211,881
Expenses:			
General government	8,855	10,768	9,888
Protection to persons and property	29,154	29,705	28,245
Transportation services	22,957	32,966	26,032
Environmental services	51,012	55,188	55,452
Health services	1,843	2,122	1,899
Social and family services	1,995	1,476	1,467
Recreation and cultural services	48,429	50,398	43,302
Planning and development	10,220	9,864	8,523
Other	762	1,300	665
Total expenses	175,227	193,787	175,473
Annual surplus	44,812	131,841	36,408
Accumulated surplus, beginning of year	999,881	999,881	963,473
Accumulated surplus, end of year	\$ 1,044,693	\$ 1,131,722	\$ 999,881

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, 2022, with comparative information for 2021
(Expressed in thousands of dollars)

	Budget 2022 (note 16)	Actual 2022	Actual 2021
Annual surplus	\$ 44,812	\$ 131,841	\$ 36,408
Acquisition of tangible capital assets	(117,330)	(54,780)	(64,596)
Amortization of tangible capital assets	–	28,724	27,134
Loss (gain) on disposal of tangible capital assets	–	85	(207)
Proceeds from disposal of tangible capital assets	–	208	348
	(72,518)	106,078	(913)
Change in inventory	–	(511)	(98)
Change in net financial assets	(72,518)	105,567	(1,011)
Net financial assets, beginning of year	174,015	174,015	175,026
Net financial assets, end of year	\$ 101,497	\$ 279,582	\$ 174,015

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, 2022, with comparative information for 2021
(Expressed in thousands of dollars)

	2022	2021
Cash provided by (used in):		
Operating activities:		
Annual surplus	\$ 131,841	\$ 36,408
Items not involving cash:		
Amortization	28,724	27,134
Change in employee future benefits	1,159	517
Equity basis net income in Waterloo North Hydro Holding Corporation	(9,428)	(8,646)
Gain on amalgamation of Waterloo North Hydro Holding Corporation	(103,828)	–
Loss/(gain) on disposal of tangible capital assets	85	(207)
Contributed assets	(1,536)	(743)
Changes in non-cash working capital:		
Taxes receivable	(753)	3,718
Accounts receivable	(5,661)	(2,584)
Accounts payable and accrued liabilities	5,388	(2,076)
Deferred revenue	4,436	(6,663)
Inventory	(511)	(98)
Net change in cash from operating activities	49,916	46,760
Capital activities:		
Cash used to acquire tangible capital assets	(53,244)	(63,853)
Proceeds from disposal of tangible capital assets	208	348
Net change in cash from capital activities	(53,036)	(63,505)
Investing activities:		
Net decrease in investments	18,908	1,011
Dividends received from Waterloo North Hydro Holding Corporation	2,343	2,425
	21,251	3,436
Financing activities:		
Long-term debt repaid	(2,635)	(2,576)
Capital lease obligation repaid, including accrued interest	(2,600)	(2,373)
Net change in cash from financing activities	(5,235)	(4,949)
Net change in cash and short-term investments	12,896	(18,258)
Cash and short-term investments, beginning of year	65,748	84,006
Cash and short-term investments, end of year	\$ 78,644	\$ 65,748

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, 2022

(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.

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, 2022
(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.

(h) Investments:

Investments consist of bonds and debentures and are recorded at amortized cost. Discounts and premiums arising on the purchase of these investments are amortized over the term of the investments. When there has been a loss in value that is other than a temporary decline in value, the respective investment is written down to recognize the loss.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 3

Year ended December 31, 2022
(Expressed in thousands of dollars)

1. Significant accounting policies (continued):

(i) 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.

(j) 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.

(k) 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, 2022
(Expressed in thousands of dollars)

1. Significant accounting policies (continued):

(k) 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.

(l) 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 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, 2022
(Expressed in thousands of dollars)

2. Taxes and accounts receivable:

Taxes receivable are reported net of a valuation allowance of \$1,181 (2021 - \$1,181). Accounts receivable are reported net of a valuation allowance of \$2,637 (2021 - \$2,130).

3. Investments:

The investments in the amount of \$140,966 (2021 - \$159,874) have a market value of \$155,285 (2021 - \$169,007) as at December 31, 2022. Investments are comprised of federal and provincial bonds with yields ranging from 1.0% to 5.18%.

4. Investment in Waterloo North Hydro Holding Corporation and affiliates/Enova Energy Corporation:

Under the provincial government's Electricity Act, 1998, Waterloo North Hydro Holding Corporation, a holding company, along with its affiliate, Waterloo North Hydro Inc., were incorporated on March 1, 2000.

On May 1, 2000, under by-laws passed by the City, the Township of Wellesley and the Township of Woolwich the net assets of the former Hydro-Electric Commission of Waterloo North Hydro were transferred to the new corporations. The City took back a 73.2% share in the common shares of Waterloo North Hydro Holding Corporation and a 73.2% share in the long-term notes payable by the affiliates for the assets transferred.

The investment is comprised of the following:

	2022	2021
Waterloo North Hydro Holding Corporation common shares	\$ —	\$ 18,423
Waterloo North Hydro Holding Corporation Class A special shares	—	1,597
Waterloo North Hydro Holding Corporation senior long-term notes receivable	—	15,244
Waterloo North Hydro Holding Corporation junior long-term notes receivable	—	12,160
Share of net income since acquisition	—	61,216
	\$ —	\$ 108,640

Both notes receivable are unsecured. Waterloo North Hydro Holding Corporation's senior and junior long-term notes bear interest at a rate per annum equal to the interest rate on debt which the Ontario Energy Board or its successor determines is appropriate to pay for rate making purposes in the establishment of distribution rates. These rates may change from time to time with changes in the debt rate approved by the Ontario Energy Board. The interest rates are currently set at 6.00% and 2.85% (2021 - 6.00% and 2.85%) for the senior and junior long-term notes respectively.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 6

Year ended December 31, 2022
(Expressed in thousands of dollars)

4. Investment in Waterloo North Hydro Holding Corporation and affiliates/Enova Energy Corporation (continued):

The following table provides condensed financial information in respect of Waterloo North Hydro Holding Corporation for its 2022 and 2021 fiscal years:

	2022	2021
Current assets	\$ –	\$ 844
Long-term assets	–	144,927
Total assets	–	145,771
Current liabilities	–	1,501
Long-term notes payable	–	33,292
Total liabilities	–	34,793
Total shareholders' equity	\$ –	\$ 110,978

Results of operations:

	2022	2021
Revenues	\$ 14,032	\$ 13,603
Operating expenses	1,152	1,792
Net income	12,880	11,811
City share of net income - 73.2%	\$ 9,428	\$ 8,646

The investment in Waterloo North Hydro Holding Corporation and affiliates is comprised of the following:

	2022	2021
Balance, beginning of year	\$ 108,640	\$ 102,419
City's share of net income	9,428	8,646
Dividends received during the year	(2,343)	(2,425)
Enova Energy Corporation Debt	(27,404)	–
Enova Energy Corporation dividend receivable	(1,944)	–
Enova Energy Corporation common shares	(190,205)	–
Gain on amalgamation	103,828	–
Balance, end of year	\$ –	\$ 108,640

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 7

Year ended December 31, 2022
(Expressed in thousands of dollars)

4. Investment in Waterloo North Hydro Holding Corporation and affiliates/Enova Energy Corporation (continued):

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

	2022	2021
Enova Energy Corporation Debt	\$ 27,404	\$ –
Enova Energy Corporation dividend receivable	1,944	–
Enova Energy Corporation common shares	190,205	–
Balance, end of year	\$ 219,553	\$ –

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 8

Year ended December 31, 2022
(Expressed in thousands of dollars)

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:

	2022	2021
Building permits	\$ 7,600	\$ 8,280
Community benefit charges	7,397	–
Development charges	20,716	22,176
For park purposes	27,266	32,276
For subdivider deposits	13,065	10,436
Federal gas tax	3,843	2,283
	<u>\$ 79,887</u>	<u>\$ 75,451</u>

Continuity of deferred revenue is as follows:

	2022	2021
Balance, beginning of year	\$ 75,451	\$ 82,114
Contributions from Federal gas tax	3,330	6,531
Contributions from Development Charges Act	15,809	7,170
Contributions from developers	7,166	4,569
Interest earned	1,628	1,205
Total contributions and interest	27,933	19,475
Development charges and grants earned	(23,497)	(26,138)
Balance, end of year	<u>\$ 79,887</u>	<u>\$ 75,451</u>

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.

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 9

Year ended December 31, 2022
(Expressed in thousands of dollars)

6. Employee future benefits (continued):

	2022	2021
Accumulated sick leave benefit plan entitlements	\$ 6,004	\$ 6,010
Vacation pay	2,512	2,007
Other post-employment benefits	13,126	12,466
	\$ 21,642	\$ 20,483

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, 2022, are as follows:

	%
Discount rate	2.55
Expected long-term rate of return	6.0
Dental cost	3.0
Health care	6.5

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

	2022	2021
Accrued benefit obligation:		
Balance, beginning of year	\$ (24,681)	\$ (25,385)
Current benefit cost	(1,778)	(819)
Actuarial gain	—	603
Interest	(586)	(816)
Benefits paid	1,906	1,736
Balance, end of year	(25,139)	(24,681)
Unamortized actuarial loss	3,497	4,198
Liability for benefits	\$ (21,642)	\$ (20,483)
Amortization of actuarial loss	\$ (701)	\$ (618)

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 10

Year ended December 31, 2022
(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 \$547 (2021 - \$560).

(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 \$596 (2021 - \$382).

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 \$3,745 (2021 - \$4,041) (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 2022 was \$6,090 (2021 - \$5,882) 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 \$6.7 billion (2022 - \$3.1 billion actuarial deficit), based on actuarial liabilities of \$130.3 billion (2021 - \$121 billion) and actuarial assets \$123.6 billion (2021 - \$118 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 \$513 (2021 - \$449).

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

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 11

Year ended December 31, 2022
(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:

	2022	2021
Loans payable at 1.25%-3.75% repayable in semi-annual payments of principal and interest due 2023	\$ 839	\$ 1,653
Loans payable at 1.15%-3.00% repayable in semi-annual payments of principal and interest due 2024	2,051	3,045
Loans payable at 1.15%-2.35% repayable in annual payments of principal and interest due 2027	2,150	2,556
Loans payable at 2.0%-3.1% repayable in annual payments of principal and interest due 2028	627	721
Loans payable at 1.95%-2.35% repayable in annual payments of principal and interest due 2029	2,490	2,817
Long-term liabilities, end of year	\$ 8,157	\$ 10,792

- (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:

2023	\$ 2,697
2024	1,896
2025	879
2026	900
2017	921
Thereafter	864
	\$ 8,157

- (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 12

Year ended December 31, 2022
(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:

2023	\$	5,365
2024		5,419
2025		5,474
2026		5,530
2027		5,587
Thereafter		22,942
		<hr/> 50,317
Less amount representing interest at 7.35%		13,163
Present value of net minimum capital lease payments	\$	<hr/> 37,154

Interest of \$2,712 (2021 - \$2,888) 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, 2022 is \$44,542 (2021 - \$44,542) and accumulated amortization of leased tangible capital assets at December 31, 2022 is \$24,310 (2021 - \$23,196).

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 13
(Expressed in thousands of dollars)

Year ended December 31, 2022

9. Tangible capital assets:

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 14
(Expressed in thousands of dollars)

Year ended December 31, 2022

9. Tangible capital assets (continued):

2021	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	165,079	44,557	203,329	51,224	414,297	358,604	30,512	1,267,602
Additions	730	4,882	32,612	6,238	8,261	7,887	3,986	64,596
Disposals	—	(67)	—	(2,526)	(469)	(3,071)	—	(6,133)
Balance, end of year	165,809	49,372	235,941	54,936	422,089	363,420	34,498	1,326,065
Accumulated amortization:								
Balance, beginning of year	—	10,296	100,722	31,845	138,011	200,479	—	481,353
Disposals	—	(66)	—	(2,429)	(384)	(3,113)	—	(5,992)
Amortization expense	—	1,744	5,789	4,462	5,855	9,284	—	27,134
Balance, end of year	—	11,974	106,511	33,878	143,482	206,650	—	502,495
Net book value, end of year	165,809	37,398	129,430	21,058	278,607	156,770	34,498	823,570

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 15

Year ended December 31, 2022
(Expressed in thousands of dollars)

9. Tangible capital assets (continued)

(a) Assets under construction:

Assets under construction in the amount of \$40,590 (2021 - \$34,498) have not been amortized. Amortization of these assets will commence when the asset is put into service.

(b) Contributed tangible capital assets:

Contributed tangible capital assets of \$1,536 (2021 - \$743) 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:

	2022	2021
For general reduction of taxation	\$ 3,097	\$ 2,931
Equity in tangible capital assets (note 9)	849,333	823,570
Equity in Waterloo North Hydro Holding Corporation and affiliates (note 4)	—	108,640
Equity in Enova Power Corp (note 4)	219,553	—
Capital fund balance	59,912	71,768
Amounts to be recovered (note 10(c))	(66,953)	(71,029)
	1,064,942	935,880
Total reserves	65,385	62,334
Total reserve funds	1,395	1,667
Total accumulated surplus	\$ 1,131,722	\$ 999,881

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 16

Year ended December 31, 2022
(Expressed in thousands of dollars)

10. Accumulated surplus (continued):

(a) (continued):

	2022	2021
Reserves set aside for specific purpose by Council:		
For acquisition of capital assets:		
Work equipment	\$ 1,202	\$ 1,202
Grey Silo	110	203
Heritage	451	558
For Business licensing	46	40
For Rental Housing	(30)	(5)
For water	16,752	14,539
For sewage	11,228	10,417
For storm water	3,065	3,253
For winter control	719	809
For facilities maintenance	230	174
For elections	90	345
For tax rate stabilization	6,426	6,920
For operating budget contingency	2,933	3,022
For employee development and capacity	2,370	2,782
For RIM Park investment	17,995	16,508
For innovation fund	—	—
For economic development	1,798	1,567
Total reserves	\$ 65,385	\$ 62,334
Reserve funds set aside for specific purpose by Council:		
For acquisition of capital assets:		
Capital infrastructure	\$ 9,165	\$ 10,100
Parking	1,427	2,060
For sick leave	3,843	4,116
For other capital expenditures:		
Capital reserve fund	10,980	11,099
Industrial Land purchases	(31,061)	(30,364)
Library expansion fund	4,986	2,950
OMB Hearings	281	744
Cemetery	1,035	962
Climate action	739	—
Total reserve funds	\$ 1,395	\$ 1,667

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 17

Year ended December 31, 2022
(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, 2022, has been reduced by an amount of \$879 (2021 - \$2,024) and transferred to the various reserves, reserve funds and deferred revenue as authorized by Council.
- (c) The amounts to be recovered of \$66,953 (2021 - \$71,029) in future years, is comprised of the following:

	2022	2021
Long-term liabilities (note 7)	\$ 8,157	\$ 10,792
Capital lease obligation (note 8)	37,154	39,754
Employee benefits and other liabilities (note 6)	21,642	20,483
	\$ 66,953	\$ 71,029

11. Taxation:

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

	2022	2021
Residential and farm taxation	\$ 208,105	\$ 199,151
Commercial, industrial and business taxation and supplementary taxes	94,492	90,659
Taxation from other governments	6,112	6,110
Total taxation levied on behalf of City, Region, and School Board	308,709	295,920
Payments to Region and school boards	(218,001)	(209,147)
Net property taxes and payment-in-lieu available for municipal purposes	\$ 90,708	\$ 86,773

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 18

Year ended December 31, 2022
(Expressed in thousands of dollars)

12. Trust funds:

Trust funds administered by the Municipality amounting to \$12,621 (2021 - \$12,030) 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:

	2022	2021
Cemeteries	\$ 12,082	\$ 11,465
Others	539	565
	<u>\$ 12,621</u>	<u>\$ 12,030</u>

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 12.1% as of May 31, 2022 (11.7% as of May 31, 2021) and any surplus is 10.85% as of May 31, 2022 (11.16% as at May 31, 2021). The pool's surplus at May 31, 2022 is \$5,039 (2021 - \$5,654).

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 19

Year ended December 31, 2022
(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 20

Year ended December 31, 2022

(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 21
(Expressed in thousands of dollars)

Year ended December 31, 2022

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 Statements, page 22
(Expressed in thousands of dollars)

Year ended December 31, 2022

15. Segmented information (continued):

Year ended December 31, 2021

	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	2,066	28,188	17,958	—	(342)	1,282	42,499	6,927	(11,805)	86,773
User charges	624	285	539	57,735	2,155	33	3,011	1,825	(1)	66,206
Grants	4,119	35	1,601	247	—	676	953	907	5,299	13,837
Other:										
Development charges and contributions	—	—	—	—	—	—	—	—	21,029	21,029
Investment income	3,624	—	—	—	—	—	—	—	2,028	5,652
Other	—	—	—	—	—	—	—	—	9,738	9,738
Equity basis net income in Waterloo North Hydro Holding Corporation	—	—	—	—	—	—	—	—	8,646	8,646
Total revenue	10,433	28,508	20,098	57,982	1,813	1,991	46,463	9,659	34,934	211,881
Expenditures:										
Current:										
Salaries, wages and benefits	15,775	22,914	8,504	4,585	1,135	969	18,675	4,737	517	77,811
Materials and services	4,863	2,071	5,345	40,143	539	63	10,055	2,233	48	65,360
Debenture interest	—	—	101	176	—	—	2,928	13	—	3,218
Other	602	25	1	1	40	—	595	587	99	1,950
Amortization	2,365	781	10,090	6,719	126	—	7,040	12	1	27,134
Internal transfers	(13,717)	2,454	1,991	3,828	59	435	4,009	941	—	—
Total expenditures	9,888	28,245	26,032	55,452	1,899	1,467	43,302	8,523	665	175,473
Annual surplus (deficit)	545	263	(5,934)	2,530	(86)	524	3,161	1,136	34,269	36,408

THE CORPORATION OF THE CITY OF WATERLOO

Notes to Consolidated Financial Statements, page 23

Year ended December 31, 2022
(Expressed in thousands of dollars)

16. Budget data:

The budget data presented in these consolidated financial statements is based upon the 2022 operating and capital budgets approved by Council on December 6, 2021. 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	\$ 200,854
Capital budget	171,628
Reserve budget	59,453
Less:	
Transfers from other funds	(211,896)
Total revenue	220,039
Expenses:	
Operating budget	200,854
Capital budget	171,628
Reserve budget	159,692
Less:	
Transfers to other funds	(202,425)
Capital expenses	(149,286)
Debt principal payments	(5,236)
Total expenses	175,227
Annual surplus	\$ 44,812

17. Impact of COVID-19:

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial, market and societal impact. At the time of the approval of these financial statements, the City has experienced the following indicators of financial implications and undertaken the following activities in relation to the COVID-19 pandemic.

The financial impact to the City has included reduced user charges due to closure of certain City facilities, increased expenses for Personal Protective Equipment and increased grant revenue from Federal and Provincial governments to help the City address the financial implications of the pandemic.

18. Comparative Information:

Certain comparative information has been reclassified to conform to the financial statement presentation adopted in the current year.