

2022 Management Assumptions and Estimates

The preparation of financial statements necessarily includes amounts based on the best estimates and professional judgment of management. Below is a summary of assumptions and estimates impacting the City's financial position and financial results for the year ended December 31, 2022 that were made by management (City Administration) in the preparation of the financial statements.

Revenues

Revenues are accounted for in the year in which events that gave rise to the revenues occurred. An estimate of fees and charges for services provided during the year is recorded, regardless of whether invoices have been prepared and issued.

Subsidiary operations - EPCOR

The regulatory environment that EPCOR operates in often requires amounts to be recorded at estimated values until finalized and adjusted pursuant to subsequent regulatory decisions or proceedings. The City reporting reflects the estimates made by EPCOR's management in preparing their financial statements, as audited by their external auditor, KPMG LLP.

Expenses

Expenses are accounted for in the year in which goods and services are acquired, regardless of when payment takes place.

Assets

Accounts receivable/local improvements receivable/taxes receivable/ debt recoverable:

Financial assets must be valued at the lower of cost or net realizable value. Management estimates the amount of accounts receivable, local improvements receivable, debt recoverable and taxes receivable that will not be collectible and provides an allowance for doubtful accounts. Estimates are based upon such factors as an aging of outstanding balances, collection experience, legal advice and known factors such as customers in bankruptcy.

In the case of property tax forfeitures, information regarding property values (assessment or appraisal) is used to ensure that an allowance is calculated for any

portion of the receivable balance that exceeds the value of the property that the City may ultimately receive in the case of default.

Investments:

Investments are recorded at amortized cost less amounts written off to reflect any permanent declines in market values. The City's treasury and investment staff, with input from the external investment custodian and the respective fund managers, monitor investee companies to determine if any specific securities have been permanently impaired due to delisting or ceasing operations. The City also considered less obvious conditions that may result in the impairment of investments.

Tangible capital assets:

Assumptions regarding the estimated useful lives of tangible capital assets (note 1r), part i)) as well as patterns of asset usage are applied to calculate the appropriate amortization charge to be recognized on an annual basis. Where applicable, engineering estimates are used in the calculations.

Contributed tangible capital asset values are based on the fair market value at the time of contribution.

Land values are stated based upon the lower of cost or net realizable value. At times appraisal estimates are required in order to apply this policy.

Liabilities

Accounts payable and accrued liabilities:

Liabilities are recorded for goods or services received by the end of the year, where payment has not been issued until the following year. In some cases this relates to a portion of an invoice, or includes amounts for which final invoices have not yet been received. Management uses estimation techniques to calculate the appropriate expenses to be recognized, which may involve a proration based on time, consumption, etc. Reliance may be placed on engineering certificates regarding percentage of completion for construction.

Accrued liabilities may result where final decisions/actions have not been completed, but where there is a likelihood of payment and the amount can be estimated. Management records accrued liabilities, including estimates for the

expropriation of municipal lands, based upon a legal and financial assessment of likelihood and anticipated dollar amount.

Liability for Contaminated Sites:

The City is required to record a liability to reflect the best estimate of the amount required to remediate non-productive sites to the current minimum environmental standard of use prior to contamination. Wherever possible, provisions for remediation are based on environmental assessments completed on a site; for those sites where an assessment has not been completed, estimates of the remediation are completed using information available for the site and by extrapolating from the cost to remediate similar sites.

Employee pension and benefit obligations:

The City sponsors four pension plans and a number of benefit plans. Two of the pension plans are active, one is closed to new members and one no longer has any beneficiaries and is in the process of being wound up. Liabilities for future benefits related to the pension plans are calculated by external professional actuaries for calculation of the pension asset (obligation) and to determine the appropriate note disclosure in the financial statements. In performing their work, the actuaries rely on management's estimates regarding the long-term borrowing rates (discount rates), rate of investment return on assets, rate of future salary increases, and inflation rates. Management's long-term assumptions are reviewed against the overall industry framework for reasonableness. The actuaries also apply estimates based upon mortality tables, retirement ages, etc.

A similar process is applied with respect to obligations for benefit plans, including the Income Replacement Plan (a previous City health benefit plan), post-employment benefits, the Long-term Disability Plan and the Supplementary Management Retirement Plan. Estimates based upon historic experience and post year-end results are used to calculate obligations for outstanding claims of major medical and dental benefit plans.

Landfill closure and post-closure care:

Municipalities are required to record an obligation relating to the closure and post-closure care of a solid waste landfill site. The obligation relates to the present value of the future post-closure care costs, based upon engineering estimates and applying a discount factor equal to the actual average long-term borrowing rate.

Contingent assets and liabilities

Contingencies are the result of existing conditions or situations involving uncertainties that will be resolved in the future when one or more events occur or fail to occur. Where the occurrence of future events is considered likely to result in a loss with respect to an existing condition and the amount of the loss can be reasonably estimated, amounts are included in accrued liabilities. Where the resulting losses, if any, cannot be determined or the occurrence of future events is unknown, amounts have not been recorded. Although such amounts are not recorded, information to describe significant contingencies must be disclosed in the financial statements. Management applies judgment as to what is significant. Contingent liabilities have been disclosed in Note 25 to the financial statements with respect to pending litigation and potential environmental obligations.

Contingent assets are not recorded in the financial statements. When the occurrence of future events is considered likely to result in a future asset, the existence of a contingent asset must be disclosed. Contingent assets have been disclosed in Note 26 to the financial statements with respect to outstanding claims against external parties where the upcoming legal proceedings are likely to result in settlement in favour of the City.