

**The Corporation of the Town
of Petrolia
Financial Statements
For the year ended December 31, 2016**

The Corporation of the Town of Petrolia

2016

Town Council

Mayor	John McCharles
Councillors	Tim Brown
	Joel Field
	Mary-Pat Gleeson
	Ross O'Hara
	Grant Purdy
	Liz Welsh

Town Administration

CAO/Clerk	Manny Baron
Director of Corporate Services/Treasurer	Rick Charlebois
Director of Town Marketing	Laurissa Ellsworth
Director of Facilities/Community Services	Dave Menzies
Deputy Clerk/Operations Clerk	Mandi Pearson
Director of Cultural Services	Richard Poore
Director of Operations	Mike Thompson
Fire Chief	Lawrence Swift

The Corporation of the Town
of Petrolia
Financial Statements
For the year ended December 31, 2016

	Contents
Independent Auditor's Report	1
Financial Statements	
Statement of Financial Position	2
Statement of Operations and Accumulated Surplus	3
Statement of Changes in Net Financial Assets	4
Statement of Cash Flows	5
Notes to the Financial Statements	6
Trust Funds Financial Statements	25
Trust Funds Independent Auditor's Report	26
Trust Funds Balance Sheet - December 31, 2016	27
Trust Funds Statement of Continuity - December 31, 2016	27
Trust Funds Balance Sheet - December 31, 2015	28
Trust Funds Statement of Continuity - December 31, 2015	28
Trust Funds Notes to the Financial Statements	29



Tel: 519 352 4130
Fax: 519 352 2744
www.bdo.ca

BDO Canada LLP
555 Richmond Street
Suite 301
Chatham ON N7M 1R2 Canada

Independent Auditor's Report

To the Members of Council, Inhabitants and Ratepayers of The Corporation of the Town of Petrolia

We have audited the accompanying financial statements of The Corporation of the Town of Petrolia, which comprise the statement of financial position as at December 31, 2016 and the statements of operations and accumulated surplus, changes in net financial assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Corporation of the Town of Petrolia as at December 31, 2016 and its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants, Licensed Public Accountants

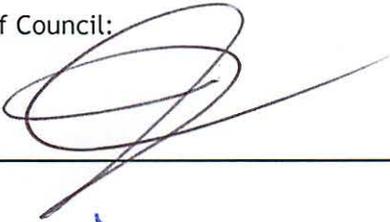
Chatham, Ontario
June 26, 2017

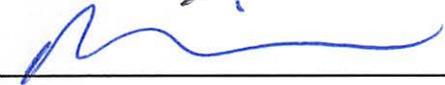
The Corporation of the Town of Petrolia Statement of Financial Position

December 31	2016	2015
Financial Assets		
Cash (Note 3)	\$ 1,362,822	\$ 2,875,816
Taxes receivable	216,500	190,815
Accounts receivable	7,204,525	2,801,401
Land available-for-sale	144,795	-
Long-term receivable (Note 4)	200,000	250,000
Investment in Bluewater Power Corporation (Note 5)	4,561,536	4,470,562
	13,690,178	10,588,594
Liabilities		
Loan payable (Note 6)	4,000,000	1,000,000
Accounts payable and accrued liabilities	5,416,448	1,550,502
Other current liabilities	501,199	627,599
Interest on municipal debt	25,220	22,336
Municipal debt (Note 7)	2,813,665	3,085,776
Deferred revenue (Note 8)	124,439	164,464
	12,880,971	6,450,677
Net Financial Assets	809,207	4,137,917
Non-Financial Assets		
Tangible capital assets (Note 9)	75,676,145	60,417,737
Prepaid expenses	311,598	89,257
	75,987,743	60,506,994
Accumulated Surplus (Note 10)	\$ 76,796,950	\$ 64,644,911

Contingencies (Note 11)

On behalf of Council:


 _____ Mayor


 _____ Treasurer

**The Corporation of the Town of Petrolia
Statement of Operations and Accumulated Surplus**

For the year ended December 31	Budget 2016	Actual 2016	Actual 2015
	(Note 12)		
Revenue			
Taxation	\$ 4,550,574	\$ 4,988,163	\$ 4,326,523
Water and sewer charges	4,282,608	4,307,908	4,200,307
Fees and user charges	2,420,425	2,428,204	2,365,202
Fees and user charges - other municipalities	185,247	172,208	171,352
Grants (Note 13)	12,098,018	11,571,536	3,203,490
Other	360,335	599,435	484,681
Bluewater Power Corporation (Note 5)	110,000	208,734	204,620
	<u>24,007,207</u>	<u>24,276,188</u>	<u>14,956,175</u>
Expenses			
General government	1,548,539	1,721,363	1,433,734
Protection services	1,506,100	1,512,922	1,469,906
Transportation services	1,734,337	1,581,877	1,466,524
Environmental services	3,168,392	3,066,963	3,074,592
Health services	82,873	79,013	82,330
Recreation and cultural services	3,781,735	3,875,995	3,722,672
Planning and development	326,175	286,016	256,625
	<u>12,148,151</u>	<u>12,124,149</u>	<u>11,506,383</u>
Annual surplus	11,859,056	12,152,039	3,449,792
Accumulated surplus, beginning of year	<u>64,644,911</u>	<u>64,644,911</u>	<u>61,195,119</u>
Accumulated surplus, end of year	<u>\$ 76,503,967</u>	<u>\$ 76,796,950</u>	<u>\$ 64,644,911</u>

**The Corporation of the Town of Petrolia
Statement of Changes in Net Financial Assets**

For the year ended December 31	Budget 2016	Actual 2016	Actual 2015
	(Note 12)		
Annual surplus	\$ 11,859,056	\$ 12,152,039	\$ 3,449,792
Acquisition of tangible capital assets	(21,191,922)	(17,665,025)	(5,101,423)
Amortization of tangible capital assets	2,029,255	2,029,255	1,978,869
Loss on sale of tangible capital assets	-	345,378	4,066
Proceeds on sale of tangible capital assets	-	31,984	309,471
	(7,303,611)	(3,106,369)	640,775
Net change prepaid expenses	-	(222,341)	(21,860)
Net change in net financial assets	(7,303,611)	(3,328,710)	618,915
Net financial assets, beginning of year	4,137,917	4,137,917	3,519,002
Net financial assets, end of year	\$ (3,165,694)	\$ 809,207	\$ 4,137,917

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

The Corporation of the Town of Petrolia Statement of Cash Flows

For the year ended December 31	2016	2015
Cash provided by (used in)		
Operating activities		
Annual surplus	\$12,152,039	\$ 3,449,792
Items not involving cash		
Amortization of capital assets	2,029,255	1,978,869
Loss on sale of capital assets	345,378	4,066
Share of net income of Bluewater Power Corporation	(208,734)	(204,620)
	<u>14,317,938</u>	<u>5,228,107</u>
Net change in non-cash working capital items		
Taxes receivable	(25,685)	320,953
Accounts receivables	(4,403,124)	(1,520,015)
Land available-for-sale	(144,795)	-
Accounts payable and accrued liabilities	3,739,546	1,052,743
Interest on municipal debt	2,884	1,855
Deferred revenue	(40,025)	152,941
Prepaid expenses	(222,341)	(21,860)
	<u>(1,093,540)</u>	<u>(13,383)</u>
	<u>13,224,398</u>	<u>5,214,724</u>
Capital transactions		
Acquisition of tangible capital assets	(17,665,025)	(5,101,423)
Proceeds from sale of tangible capital assets	31,984	309,471
	<u>(17,633,041)</u>	<u>(4,791,952)</u>
Investing activities		
Repayment of long-term receivable	50,000	50,000
Dividends from Bluewater Power Corporation	117,760	200,066
	<u>167,760</u>	<u>250,066</u>
Financing activities		
Long-term debt advances	-	950,000
Repayment of municipal debt	(272,111)	(986,505)
	<u>(272,111)</u>	<u>(36,505)</u>
Net change in cash and cash equivalents	(4,512,994)	636,333
Cash and cash equivalents, beginning of year	1,875,816	1,239,483
Cash and cash equivalents, end of year	\$ (2,637,178)	\$ 1,875,816
Comprised of:		
Cash	\$ 1,362,822	\$ 2,875,816
Loan payable	(4,000,000)	(1,000,000)
	<u>\$ (2,637,178)</u>	<u>\$ 1,875,816</u>

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

The Corporation of the Town of Petrolia

Notes to the Financial Statements

December 31, 2016

1. Significant Accounting Policies

The financial statements of The Corporation of the Town of Petrolia (the "Town") are the representations of management prepared in accordance with accounting principles established by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada as prescribed by the Ontario Ministry of Municipal Affairs and Housing.

(a) Basis of Reporting

(i) Reporting Entity

These financial statements reflect the financial assets, liabilities, reserves, surpluses/deficits, revenues and expenses of all municipal organizations and committees which are controlled by Council.

(ii) Government Business Enterprises

The investment in Petrolia Electricity Holdings Inc. and its investment in Bluewater Power Corporation is accounted for on the modified equity basis which reflects the Town's investment in the enterprise and its share of net income since acquisition. Under the modified equity basis, the enterprise's accounting principles are not adjusted to conform with those of the municipality and inter-organizational transactions and balances are not eliminated.

(iii) Accounting for County and School Board Transactions

The taxation, other revenues, expenditures, assets and liabilities with respect to the operations of the school boards and the County of Lambton are not reflected in these financial statements except to the extent that any amounts due to or from are reported on the Statement of Financial Position. Taxation raised by the Town on their behalf is reflected as a deduction from total taxation on the Statement of Operations and Accumulated Surplus.

(iv) Trust Funds

Trust funds and their related operations administered by the Town are not reflected in these financial statements, but are reported separately on the Trust Funds Statement of Continuity and Balance Sheet.

(b) Basis of Accounting

(i) Accrual Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they become available and measurable; expenses are recognized as they are incurred and measurable as a result of the receipt of goods or services and the creation of a legal obligation to pay.

(ii) Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and short-term investments with maturities of three months or less and are stated at cost.

The Corporation of the Town of Petrolia

Notes to the Financial Statements

December 31, 2016

1. Significant Accounting Policies (Continued)

(b) Basis of Accounting (Continued)

(iii) 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. The change in non-financial assets during the year, together with the excess of revenues over expenses, provides the Change in Net Financial Assets for the year.

(iv) Tangible Capital Assets

Tangible capital assets are recorded at cost less accumulated amortization. Cost includes all costs directly attributable to acquisition, construction, development or betterment of the asset. Contributed tangible capital assets are recorded at their fair value at the date of contribution. Where fair market value cannot be reasonably determined, contributed tangible capital assets are recorded at a nominal amount. Amortization is provided over the estimated useful life of the assets, using the straight line method. The useful life of the assets is based on estimates determined by management. The following useful lives are used:

Land improvements	75 years
Buildings	50 years
Equipment	3 - 15 years
Vehicles	7 - 20 years
Road infrastructure	30 - 75 years
Environmental infrastructure	45 - 60 years

Assets under construction are not amortized until the asset is available for productive use.

(v) Intangible Assets

Intangible assets, art and historic treasures, and items inherited by right of the Crown, such as Crown lands, forests, water, and mineral resources, are not recognized in these financial statements.

(vi) Deferred Revenue

Revenue restricted by legislation, regulation or agreement and not available for general municipal purposes is reported as deferred revenue on the Statement of Financial Position. The revenue is reported on the Statement of Operations and Accumulated Surplus in the year in which it is used for the specified purpose.

The Corporation of the Town of Petrolia

Notes to the Financial Statements

December 31, 2016

1. Significant Accounting Policies (Continued)

(b) Basis of Accounting (Continued)

(vii) Revenue Recognition

Property tax billings are prepared by the municipality based on assessment rolls issued by the Municipal Property Assessment Corporation ("MPAC"). Tax rates are established annually by Town Council, incorporating amounts to be raised for local services, the requisition made by the County of Lambton in respect of County services and amounts the Town is required to collect on behalf of the Province of Ontario in respect of education taxes. A normal part of the assessment process is the issue of supplementary assessment rolls which provide updated information with respect to changes in property assessment. Once a supplementary assessment roll is received, the town determines the taxes applicable and renders supplementary tax billings. Assessments and related property taxes are also subject to appeal. Each year management provides a best estimate of the affect of supplementary assessments and tax appeals on taxation revenue.

The Town is entitled to collect interest and penalties on overdue taxes. This revenue is recorded in the period the interest and penalties are levied.

User fees and other revenues are recognized when related goods or services are provided and collectability is reasonably assured.

Investment income earned on surplus funds (other than obligatory reserve funds) is reported as revenue on the daily accrual basis. Investment income earned on obligatory reserve funds is recorded directly to each fund balance.

Conditional grant revenue is recognized to the extent the conditions imposed on it have been fulfilled. Unconditional grant revenue is recognized when the monies are receivable. Grants for the acquisition of tangible capital assets are recognized in the period in which eligible expenditures are made.

(viii) Use of Estimates

The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

The Corporation of the Town of Petrolia

Notes to the Financial Statements

December 31, 2016

2. Operations of School Boards and the County of Lambton

Further to note 1(a)(iii), the taxation, other revenues and requisitions for the school boards and the County of Lambton are comprised of:

	County of Lambton	School Boards	Total
Taxation and user charges	\$ 2,377,538	\$ 1,789,823	\$ 4,167,361
Share of payments in lieu of taxes	17,684	15,718	33,402
	<u>2,395,222</u>	<u>1,805,541</u>	<u>4,200,763</u>
Share of taxes written off	10,270	6,947	17,217
Share of tax rebates	3,469	5,609	9,078
	<u>13,739</u>	<u>12,556</u>	<u>26,295</u>
Amounts transferred	<u>\$ 2,381,483</u>	<u>\$ 1,792,985</u>	<u>\$ 4,174,468</u>

3. Cash

	2016	2015
Unrestricted	<u>\$ 1,362,822</u>	<u>\$ 2,875,816</u>

Interest is earned on bank balances at the bank's monthly average prime rate less 2.00%.

4. Long-term Receivable

In 2000, the Town reached a settlement with regards to royalties to be paid for waste deposited in the landfill site formerly owned by the Town. Under the terms of the settlement, the Town received a settlement of \$5,000,000, of which \$4,000,000 was paid during the fiscal year 2000 and the remaining \$1,000,000 is to be paid without interest over 20 years with an annual payment of \$50,000 per year commencing January 1, 2001. The balance outstanding at the end of 2016 was \$200,000 (2015 - \$250,000). The outstanding principal balance or any portion thereof may be repaid at any time.

The Corporation of the Town of Petrolia

Notes to the Financial Statements

December 31, 2016

5. Hydro Investments

In recognition of the requirements of Bill 35 (The Energy Competition Act, 1998) the Town, along with the City of Sarnia, Township of Warwick, Village of Point Edward, Village of Oil Springs and Village of Alvinston, effective October, 2000, merged their hydro-electrical operations and transferred all of the their hydro-electrical assets and liabilities to Bluewater Power Corporation and its subsidiary.

In consideration of the transfers, each municipality took back a proportionate share of the common shares of Bluewater Power Corporation and promissory notes of its wholly owned subsidiary, Bluewater Power Distribution Corporation. The Town's proportionate share of the investment amounted to 7.36% (736 common shares). A wholly owned subsidiary, Petrolia Electricity Holdings Inc. was incorporated to hold the common share portion of the investment.

The investment is composed of the following:

	2016	2015
Promissory Notes - Blue Water Power Corporation	\$ 1,430,914	\$ 1,430,914
Petrolia Electricity Holdings Inc. - common shares	1,327,163	1,327,163
Share of net income since acquisition, net of dividends received	1,803,459	1,712,485
	\$ 4,561,536	\$ 4,470,562

Continuity of Investment

	2016	2015
Balance, beginning of year	\$ 4,470,562	\$ 4,466,008
Adjustment to equity due to change in accounting policy	-	(76,779)
	4,470,562	4,389,229
Share of net income for the year	208,734	281,399
Less: Dividends received during the year	117,760	200,066
Net increase in equity during the year	90,974	81,333
	\$ 4,561,536	\$ 4,470,562

The Corporation of the Town of Petrolia

Notes to the Financial Statements

December 31, 2016

5. Hydro Investments (Continued)

The promissory note due from Bluewater Power Corporation, bears interest at 6.73%, is unsecured, subordinated and due eighteen months following demand for payment. Interest received on these notes amounted to \$91,435 (2015 - \$91,435) which is reported in the Statement of Operations and Accumulated Surplus.

The following tables provide condensed financial information for the municipality's government business enterprises.

Bluewater Power Corporation - Financial Position

	2016	2015
Assets		
Current assets	\$ 33,630,344	\$ 32,798,683
Property, plant and equipment	61,077,118	55,279,649
Other assets	7,031,258	7,775,288
Total assets	101,738,720	95,853,620
Regulatory balances	2,572,446	6,660,625
Total assets and regulatory balances	\$ 104,311,166	\$ 102,514,245
	2016	2015
Liabilities		
Current liabilities	\$ 20,466,249	\$ 22,046,594
Long-term liabilities	37,797,675	35,592,704
Total liabilities	58,263,924	57,639,298
Equity		
Share capital	18,032,105	18,032,105
Retained earnings	27,599,833	24,383,305
Accumulated other comprehensive loss	(3,096,319)	(1,115,849)
Total equity	42,535,619	41,299,561
Total liabilities and equity	100,799,543	98,938,859
Regulatory balances	3,511,623	3,575,386
Total liabilities, equity and regulatory balances	\$ 104,311,166	\$ 102,514,245

The Corporation of the Town of Petrolia Notes to the Financial Statements

December 31, 2016

5. Hydro Investments (continued)

Bluewater Power Corporation - Results of Operations

	2016	2015
Revenues	\$ 148,739,522	\$ 136,449,483
Expenses	138,839,584	133,687,739
Income tax expense	1,560,000	1,351,000
Net income for the year	8,339,938	1,410,744
Net movement in regulatory balances, net of tax	(3,523,416)	2,449,358
Other comprehensive loss for the year	(1,980,470)	(36,741)
Total comprehensive income for the year	\$ 2,836,052	\$ 3,823,361
Town of Petrolia share of net income at 7.36%	\$ 208,734	\$ 281,399
Dividends	\$ 1,599,994	\$ 2,718,282
Town of Petrolia of dividend at 7.36%	\$ 117,760	\$ 200,066
Net increase in equity during the year	\$ 90,974	\$ 81,333

6. Loan Payable

The loan payable represents advances on an Ontario Infrastructure debenture to be used to upgrade the Town's waste water treatment plant. The loan has been approved to a maximum of \$7,000,000. Currently the advances bear interest at the Canadian dollar offered rate (CDOR) and will be converted to municipal debt, payable over 20 years, once the loan is fully advanced.

The Corporation of the Town of Petrolia

Notes to the Financial Statements

December 31, 2016

7. Municipal Debt

- (a) The balance of municipal debt reported on the Consolidated Statement of Financial Position consists of the following:

	2016	2015
CMHC loan, bearing interest at 3.99%, repayable in blended annual payments of \$111,269, maturing November 2024.	\$ 749,457	\$ 827,701
CMHC loan, bearing interest at 3.97%, repayable in blended annual payments of \$78,174, maturing December 2024.	526,981	582,048
Ontario infrastructure debenture, bearing interest at 3.17%, repayable in blended semi-annual payments of \$37,916 maturing February 2027.	672,792	726,027
Ontario infrastructure debenture, bearing interest at 2.29%, repayable in blended semi-annual payments of \$53,416 maturing October 2025.	864,435	950,000
	\$ 2,813,665	\$ 3,085,776

- (b) The following schedule shows the principal repayments of long-term debt expected on the loans that have been disbursed to date.

2017	\$ 281,091
2018	290,381
2019	299,994
2020	309,941
2021	320,234
Thereafter	1,312,024
	\$ 2,813,665

- (c) Total interest charges related to the municipal debt are reported in expenses in the Consolidated Statement of Operations and amounted to \$135,828 (2015 - \$105,463).
- (d) 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 and Housing.

The Corporation of the Town of Petrolia

Notes to the Financial Statements

December 31, 2016

8. Deferred Revenue

Provincial legislation restricts how certain funds may be used. Deferred revenue related to these funds is comprised of the following:

	2016	2015
Recreational land	\$ -	\$ 3,644
Gas tax funding	124,439	160,820
	<u>\$ 124,439</u>	<u>\$ 164,464</u>

The net change during the year in the deferred revenue balances is as follows:

	2016	2015
Balance, beginning of year	\$ 164,464	\$ 11,523
Investment income	-	911
Gas tax funding received	168,069	160,066
	<u>332,533</u>	<u>172,500</u>
Transfer to operations	208,094	8,036
	<u>\$ 124,439</u>	<u>\$ 164,464</u>

The Corporation of the Town of Petrolia
Notes to the Financial Statements

December 31, 2016

9. Tangible Capital Assets

2016

	Land	Land Improve- ments	Buildings	Equipment	Vehicles	Infrastructure	Assets Under Construction	Total
Cost								
Balance - December 31, 2015	\$ 1,466,783	\$ 1,138,085	\$ 17,904,952	\$ 2,771,925	\$ 1,524,456	\$ 65,170,809	\$ 5,756,881	\$ 95,733,891
Additions	-	29,340	148,353	196,793	313,369	3,532,485	13,444,685	17,665,025
Disposals	-	-	(138,335)	(62,280)	(68,508)	(538,725)	-	(807,848)
Transfer (to) from other classes	-	74,983	-	48,137	-	5,009,024	(5,132,144)	-
Balance - December 31, 2016	\$ 1,466,783	\$ 1,242,408	\$ 17,914,970	\$ 2,954,575	\$ 1,769,317	\$ 73,173,593	\$ 14,069,422	\$112,591,068
Accumulated Amortization								
Balance - December 31, 2015	\$ -	\$ 324,214	\$ 5,451,939	\$ 1,797,511	\$ 860,745	\$ 26,881,745	\$ -	\$ 35,316,154
Amortization expense	-	46,819	347,967	135,562	88,288	1,410,619	-	2,029,255
Disposals	-	-	(24,501)	(51,075)	(42,157)	(312,753)	-	(430,486)
Balance - December 31, 2016	\$ -	\$ 371,033	\$ 5,775,405	\$ 1,881,998	\$ 906,876	\$ 27,979,611	\$ -	\$ 36,914,923
Net Book Value	\$ 1,466,783	\$ 871,375	\$ 12,139,565	\$ 1,072,577	\$ 862,441	\$ 45,193,982	\$ 14,069,422	\$ 75,676,145

The Corporation of the Town of Petrolia
Notes to the Financial Statements

December 31, 2016

9. Tangible Capital Assets (Continued)

2015

	Land	Land Improve- ments	Buildings	Equipment	Vehicles	Infrastructure	Assets Under Construction	Total
Cost								
Balance - December 31, 2014	\$ 1,516,783	\$ 707,643	\$ 17,897,660	\$ 2,581,643	\$ 1,668,808	\$ 64,254,262	\$ 2,606,425	\$ 91,233,224
Additions	-	55,414	226,641	190,282	40,857	621,524	3,966,705	5,101,423
Disposals	(50,000)	(136,991)	(225,000)	-	(188,765)	-	-	(600,756)
Transfer (to) from other classes	-	512,019	5,651	-	3,556	295,023	(816,249)	-
Balance - December 31, 2015	\$ 1,466,783	\$ 1,138,085	\$ 17,904,952	\$ 2,771,925	\$ 1,524,456	\$ 65,170,809	\$ 5,756,881	\$ 95,733,891
Accumulated Amortization								
Balance - December 31, 2014	\$ -	\$ 343,627	\$ 4,982,055	\$ 1,528,288	\$ 967,993	\$ 25,802,541	\$ -	\$ 33,624,504
Amortization expense	-	52,835	500,090	269,223	77,517	1,079,204	-	1,978,869
Disposals	-	(72,248)	(30,206)	-	(184,765)	-	-	(287,219)
Balance - December 31, 2015	\$ -	\$ 324,214	\$ 5,451,939	\$ 1,797,511	\$ 860,745	\$ 26,881,745	\$ -	\$ 35,316,154
Net Book Value	\$ 1,466,783	\$ 813,871	\$ 12,453,013	\$ 974,414	\$ 663,711	\$ 38,289,064	\$ 5,756,881	\$ 60,417,737

The Corporation of the Town of Petrolia Notes to the Financial Statements

December 31, 2016

10. Accumulated Surplus

Accumulated surplus consists of the following individual fund surplus and reserves as follows:

	2016	2015
Surplus		
Invested in tangible capital assets	\$75,676,145	\$ 60,417,737
Reduce (recover) from future taxation	92,062	79,570
Equity in Bluewater Power Corporation	4,561,536	4,470,562
Unfunded	(8,650,774)	(3,583,675)
	71,678,969	61,384,194
Reserves set aside for specific purposes by Council for:		
Working capital	198,756	410,779
Budget stabilization	130,032	50,460
Cemetery	10,200	8,354
Fire	37,898	37,898
General government	8,000	4,000
Health Hub	155,400	-
Insurance	50,000	50,000
Landfill sale proceeds	200,000	250,000
Library	6,488	6,488
Other cultural	121,277	46,039
Parks	(12,261)	3,979
Recreation facilities	267,431	197,797
Sewage	2,570,688	2,318,805
Waterworks	1,374,072	(123,882)
	5,117,981	3,260,717
Total Reserves	5,117,981	3,260,717
Accumulated Surplus	\$76,796,950	\$ 64,644,911

The Corporation of the Town of Petrolia

Notes to the Financial Statements

December 31, 2016

11. Contingencies

Federal Grant

Under the terms of an agreement with the Government of Canada with respect to a \$350,000 grant received for the restoration of Victoria Hall, the Town must operate and maintain Victoria Hall in its restored state for a period of 42 years, commencing from 1992. If Victoria Hall is damaged by fire and not restored to its original condition, then the Town must repay the grant to the Government of Canada. Repayments, if any, will be recognized as an expense in the year of repayment.

Line of Credit

The Town approves a line of credit for Actors' Equity whereby a stand by letter of credit in the amount of \$70,000 is to be issued on behalf of Actors' Equity. This bond is to insure payment to the actors performing at the Victoria Playhouse Theatre. Any payments required under this bond will be recognized as an expense in the year payment is made.

Oil Heritage District Community Centre (OHGCC)

As part of the condition of receiving the Ontario SuperBuild Corporation grant of \$1,686,000 used in financing the construction of the OHGCC, the Town may not transfer ownership of the OHGCC until March 31, 2027 unless the Town receives the prior written consent of the Ministry of Tourism and Recreation (Ministry). As a condition of its consent, the Ministry may specify any conditions including the requirement that the Town repay some or all of the Ontario SuperBuild Corporation grant. The repayment amount, if any, is to be determined by the Ministry and to be repaid within a time period specified by the Ministry.

Litigation

The Town has been named defendants in various legal actions. The ultimate outcomes are indeterminable at December 31, 2016 as litigation is still in progress. The Town's management is of the opinion that the Town has adequate insurance coverage to offset the amount of any claims and related costs, if any. Consequently, no provision for potential loss, if any, is reflected in these financial statements.

The Corporation of the Town of Petrolia Notes to the Financial Statements

December 31, 2016

12. Budget Data

The unaudited budget data presented in these financial statements is based upon the 2016 budget approved by Council. Budgets are not prepared on a basis consistent with that used to report actual results under Public Sector Accounting Standards which is allowable as per Ontario Regulation 284/09 of the Municipal Act. Budgets anticipate using surpluses (or deficits) accumulated in previous years to reduce current year expenditures in excess of revenues to nil. In addition the budget expensed all tangible capital assets rather than capitalizing them and recording amortization expense. The budget also expenses principal payments on debt and reserve transfers. As a result, the budget figures presented in the Statement of Operations and Accumulated Surplus represent the budget adopted by council with the following adjustments:

	<u>2016</u>
Budgeted surplus (deficit) for the year	\$ (1,990,245)
Adjustments for:	
Debt principal repayments	272,111
Capital expenditures	21,191,922
Reserve transfers	(5,585,477)
Amortization	<u>(2,029,255)</u>
 Annual budgeted surplus	 <u>\$11,859,056</u>

The Corporation of the Town of Petrolia Notes to the Financial Statements

December 31, 2016

13. Grants

	2016	2015
Operating		
Province of Ontario		
Ontario Municipal Partnership Fund	\$ 1,001,400	\$ 920,300
Celebrate Ontario	120,037	101,025
Ontario Cultural Attractions Fund	-	35,000
Stewardship Ontario	20,970	38,327
	1,142,407	1,094,652
Government of Canada		
Heritage Canada	5,000	5,000
Program support	18,343	11,616
	23,343	16,616
Total Operating	1,165,750	1,111,268
Capital		
Province of Ontario		
Provincial gas tax	204,450	-
Ontario Community Infrastructure Fund	2,975,096	1,175,096
Small Community Fund	3,613,120	414,782
IESO Energy Incentive	-	87,562
	6,792,666	1,677,440
Government of Canada		
Small Community Fund	3,613,120	414,782
Total Capital	10,405,786	2,092,222
Total Grants	\$11,571,536	\$ 3,203,490

14. Pension Agreements

The municipality makes contributions to the Ontario Municipal Employees' Retirement System (OMERS), which is a multi-employer plan, on behalf 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. The OMERS Administration Corporation Board of Directors, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of the benefits. OMERS provides pension services to more than 461,000 active and retired members and approximately 990 employers.

The Corporation of the Town of Petrolia

Notes to the Financial Statements

December 31, 2016

14. Pension Agreements (Continued)

Each year an independent actuary determines the funding status of OMERS Primary Pension Plan (the Plan) by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date. The most recent actuarial valuation of the Plan was conducted at December 31, 2016. The results of this valuation disclosed total actuarial liabilities of \$86,959 million (2015 - \$81,924 million) in respect of benefits accrued for service with actuarial assets at that date of \$81,239 million (2015 - \$74,947 million) indicating an actuarial deficit of \$5,720 million (2015 - \$6,977 million).

Because OMERS is a multi-employer pension plan, any pension plan surpluses or deficits are a joint responsibility of the Ontario municipal organizations and their employees. As a result, the municipality does not recognize any share of the OMERS pension surplus or deficit. The amount contributed to OMERS for 2016 was \$163,350 (2015 - \$146,567) for current service. The OMERS Board rate was 9.0% to 14.6% depending on income level for 2016 (2015 - 9.0% to 14.6% depending on income level).

15. Trust Funds

Trust funds administered by the Town amounting to \$407,492 (2015 - \$401,633) are not included in the Statement of Financial Position nor have their operations been included in the Statement of Financial Activities.

16. Comparative Figures

Some of the prior year figures have been reclassified to conform to the current year's presentation.

17. Segmented Information

The Corporation of the Town of Petrolia is a diversified municipal government institution that provides a wide range of services to its citizens such as police, fire, building inspection, sewer, water, waste collection, waste disposal, recycling, recreational, library and planning. Distinguishable functional segments have been separately disclosed in the segmented information.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

The nature of the segments and the activities they encompass are as follows:

General Government

This item reports the revenues and expenses that relate to the governance and operations of the Town itself and cannot be directly attributed to a specific segment.

The Corporation of the Town of Petrolia

Notes to the Financial Statements

December 31, 2016

17. Segmented Information (Continued)

Protection to Persons and Property

Protection is comprised of police services, fire protection, conservation authority, emergency measures, animal control and building and structural inspection. The police services work to ensure the safety and protection of the citizens and their property. The fire department is responsible to provide fire suppression service, fire prevention programs, training and education. The members of the fire department consist of volunteers. The building department provides a number of services including maintenance and enforcement of building and construction codes and review of all property development plans through its application process.

Transportation

Transportation is responsible for construction and maintenance of the Town's roadways, bridges, parking areas and streetlighting.

Environmental

Environmental services consists of providing waste collection, waste disposal and recycling to its citizens as well as sewer and water services.

Sewers are responsible for collecting and cleaning the sewage. Water collects, treats and distributes the Town's drinking water. They ensure the Town's sewer and water systems meet all Provincial standards.

Health

Health services include provision of a health team building and the operations of the local cemetery.

Recreational and Cultural Services

This service area provides services meant to improve the health and development of the Town's citizens. The municipality operates and maintains a performing arts theatre, parks, an arena, a swimming pool and a community centre. The Town also provides recreational programs and library facilities.

Planning and Development

This department is responsible for planning and zoning including the Official Plan. This service area also includes tourist information, promotion and events as well as business improvement area, weed control, and drainage.

**The Corporation of the Town of Petrolia
Notes to the Financial Statements**

December 31, 2016

17. Segmented Information (Continued)

For the year ended December 31, 2016	General Government	Protection Services	Transportation Services	Environmental Services	Health Services	Recreational and Cultural Services	Planning and Development	Total
Revenue								
Taxation	\$ 4,988,163	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,988,163
Water and sewer charges	-	-	-	4,307,908	-	-	-	4,307,908
Fees and user charges	12,135	2,890	-	-	57,664	2,332,322	23,193	2,428,204
Fees and user charges - other municipalities	-	146,681	267	-	7,500	17,760	-	172,208
Grants	1,019,743	-	1,179,546	9,247,210	-	125,037	-	11,571,536
Other	296,074	5,200	-	720	-	252,706	44,735	599,435
Bluewater Power Corporation	208,734	-	-	-	-	-	-	208,734
	\$ 6,524,849	\$ 154,771	\$ 1,179,813	\$13,555,838	\$ 65,164	\$ 2,727,825	\$ 67,928	\$24,276,188
Expenses								
Salaries and benefits	\$ 877,126	\$ 207,994	\$ 468,168	\$ 272,451	\$ 50,891	\$ 1,806,208	\$ 70,483	\$ 3,753,321
Materials and supplies	431,006	183,264	437,770	701,025	26,935	1,665,875	167,708	3,613,583
Contracted services	65,789	1,048,804	21,211	966,375	-	80,000	-	2,182,179
Interest on long-term debt	-	-	54,877	51,607	-	5,588	17,139	129,211
Amortization	198,618	53,835	590,395	882,397	1,187	272,837	29,986	2,029,255
Other	148,824	19,025	9,456	193,108	-	45,487	700	416,600
	\$ 1,721,363	\$ 1,512,922	\$ 1,581,877	\$ 3,066,963	\$ 79,013	\$ 3,875,995	\$ 286,016	\$12,124,149
Annual surplus (deficit)	\$ 4,803,486	\$(1,358,151)	\$(402,064)	\$10,488,875	\$(13,849)	\$(1,148,170)	\$(218,088)	\$12,152,039

**The Corporation of the Town of Petrolia
Notes to the Financial Statements**

December 31, 2016

17. Segmented Information (Continued)

For the year ended December 31, 2015	General Government	Protection Services	Transportation Services	Environmental Services	Health Services	Recreational and Cultural Services	Planning and Development	Total
Revenue								
Taxation	\$ 4,326,523	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,326,523
Water and sewer charges	-	-	-	4,200,307	-	-	-	4,200,307
Fees and user charges	11,255	4,157	-	-	53,198	2,281,529	15,063	2,365,202
Fees and user charges - other municipalities	-	128,897	17,055	-	7,000	18,400	-	171,352
Grants	1,019,478	-	1,175,096	867,891	-	141,025	-	3,203,490
Other	342,448	2,840	-	720	5,487	90,771	42,415	484,681
Bluewater Power Corporation	204,620	-	-	-	-	-	-	204,620
	\$ 5,904,324	\$ 135,894	\$ 1,192,151	\$ 5,068,918	\$ 65,685	\$ 2,531,725	\$ 57,478	\$14,956,175
Expenses								
Salaries and benefits	\$ 780,960	\$ 167,295	\$ 418,365	\$ 308,615	\$ 42,825	\$ 1,566,446	\$ 47,043	\$ 3,331,549
Materials and supplies	352,159	164,612	426,942	892,427	38,318	1,663,454	160,402	3,698,314
Contracted services	87,059	1,060,641	21,370	988,726	-	151,420	-	2,309,216
Interest on long-term debt	-	-	52,991	23,704	-	8,546	18,494	103,735
Amortization	197,061	58,257	546,856	861,120	1,187	284,402	29,986	1,978,869
Other	16,495	19,101	-	-	-	48,404	700	84,700
	\$ 1,433,734	\$ 1,469,906	\$ 1,466,524	\$ 3,074,592	\$ 82,330	\$ 3,722,672	\$ 256,625	\$11,506,383
Annual surplus (deficit)	\$ 4,470,590	\$(1,334,012)	\$ (274,373)	\$ 1,994,326	\$ (16,645)	\$(1,190,947)	\$ (199,147)	\$ 3,449,792

**The Corporation of the Town
of Petrolia
Trust Funds
Financial Statements
For the year ended December 31, 2016**



Tel: 519 352 4130
Fax: 519 352 2744
www.bdo.ca

BDO Canada LLP
555 Richmond Street
Suite 301
Chatham ON N7M 1R2 Canada

Independent Auditor's Report

To the Members of Council, Inhabitants and Ratepayers of The Corporation of the Town of Petrolia

We have audited the accompanying trust fund financial statements of The Corporation of the Town of Petrolia, which comprise the balance sheet as at December 31, 2016 and the statement of continuity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these trust fund financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the trust fund financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the trust fund financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the trust fund financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the trust fund financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the trust fund financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the trust fund financial statements present fairly, in all material respects, the financial position of The Corporation of the Town of Petrolia trust funds as at December 31, 2016 and the continuity of the trust funds for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants, Licensed Public Accountants

Chatham, Ontario
June 26, 2017

**The Corporation of the Town of Petrolia
Trust Funds
Balance Sheet**

December 31, 2016

Assets	Total	Care and Maintenance Cemetery	Englehart	Burley Fulton	Colvin
Cash	\$ 9,100	\$ -	\$ 937	\$ 4,857	\$ 3,306
Due from the Corporation of the Town of Petrolia	5,750	5,750	-	-	-
Investments	392,642	392,642	-	-	-
	\$ 407,492	\$ 398,392	\$ 937	\$ 4,857	\$ 3,306
Fund Balance	\$ 407,492	\$ 398,392	\$ 937	\$ 4,857	\$ 3,306

**The Corporation of the Town of Petrolia
Trust Funds
Statement of Continuity**

December 31, 2016

	Total	Care and Maintenance Cemetery	Englehart	Burley Fulton	Colvin
Balance, beginning of year	\$ 401,633	\$ 392,642	\$ 926	\$ 4,799	\$ 3,266
Receipts					
Care and maintenance	5,750	5,750	-	-	-
Interest earned (net of service charges)	11,628	11,519	11	58	40
	17,378	17,269	11	58	40
Expenditures					
Transfer to the Corporation of the Town of Petrolia	11,519	11,519	-	-	-
Balance, end of year	\$ 407,492	\$ 398,392	\$ 937	\$ 4,857	\$ 3,306

**The Corporation of the Town of Petrolia
Trust Funds
Balance Sheet**

December 31, 2015

Assets	Total	Care and Maintenance Cemetery	Englehart	Burley Fulton	Colvin
Cash	\$ 8,991	\$ -	\$ 926	\$ 4,799	\$ 3,266
Due from the Corporation of the Town of Petrolia	3,706	3,706	-	-	-
Investments	388,936	388,936	-	-	-
	\$ 401,633	\$ 392,642	\$ 926	\$ 4,799	\$ 3,266
Fund Balance	\$ 401,633	\$ 392,642	\$ 926	\$ 4,799	\$ 3,266

**The Corporation of the Town of Petrolia
Trust Funds
Statement of Continuity**

December 31, 2015

	Total	Care and Maintenance Cemetery	Englehart	Burley Fulton	Colvin
Balance, beginning of year	\$ 394,586	\$ 385,692	\$ 912	\$ 4,750	\$ 3,232
Receipts					
Care and maintenance	6,950	6,950	-	-	-
Interest earned (net of service charges)	6,528	6,431	14	49	34
	13,478	13,381	14	49	34
Expenditures					
Transfer to the Corporation of the Town of Petrolia	6,431	6,431	-	-	-
	6,431	6,431	-	-	-
Balance, end of year	\$ 401,633	\$ 392,642	\$ 926	\$ 4,799	\$ 3,266

**The Corporation of the Town of Petrolia
Trust Funds
Notes to Financial Statements**

December 31, 2016

1. Significant Accounting Policies

(a) Management Responsibility

The financial statements of The Corporation of the Town of Petrolia (the "Town") Trust Funds are the representations of management. Precise determination of some assets and liabilities may be dependent upon future events and estimates and approximations. These estimates and approximations have been based upon the available information, using careful judgment and review.

(b) Basis of Accounting

Investment income is reported on a cash basis.

Other revenues and expenditures are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they become available and measurable; expenses are recognized as they are incurred and measurable as a result of the receipt of goods or services and the creation of a legal obligation to pay.

(c) Investments

Investments are recorded at cost unless there has been a decline in the market value which is other than temporary in nature in which case the investments are written down to market value.
