

**The Corporation of the Town
of Petrolia
Financial Statements
For the year ended December 31, 2012**

The Corporation of the Town of Petrolia
Financial Statements
For the year ended December 31, 2012

	Contents
Independent Auditor's Report	2
Financial Statements	
Consolidated Statement of Financial Position	4
Consolidated Statement of Operations and Accumulated Surplus	5
Consolidated Statement of Cash Flows	7
Notes to Consolidated Financial Statements	8

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 consolidated financial statements of The Corporation of the Town of Petrolia, which comprise the consolidated statement of financial position as at December 31, 2012 and the consolidated 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of The Corporation of the Town of Petrolia as at December 31, 2012 and its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Emphasis of Matter

The financial statements of The Corporation of the Town of Petrolia for the year ended December 31, 2011, were audited by another auditor who expressed an unmodified opinion on those statements on July 3, 2012.

As part of our audit of the December 31, 2012 financial statements, we also audited the adjustments described in Note 2 that were applied to amend the December 31, 2011 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

We were not engaged to audit, review, or apply any procedures to the 2011 financial statements of the corporation other than with respect to the adjustments and, accordingly, we do not express an opinion on any other form of assurance on the 2011 financial statements taken as a whole.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Ridgetown, Ontario

June 24, 2013

The Corporation of the Town of Petrolia Consolidated Statement of Financial Position


December 31	2012	2011
Financial assets		
Cash (Note 3)	\$ 3,785,738	\$ 4,038,237
Taxes receivable	697,100	638,282
Accounts receivable (Note 4)	1,178,203	1,062,918
Other receivable (Note 5)	90,063	198,401
Long-term receivable (Note 6)	400,000	450,000
Investment in Bluewater Power Corporation (Note 7)	4,040,768	3,870,189
	<u>10,191,872</u>	<u>10,258,027</u>
Liabilities		
Accounts payable and accrued liabilities	771,957	434,115
Other current liabilities	299,911	267,427
Interest on municipal debt	27,451	18,754
Municipal debt (Note 8)	5,046,262	5,926,283
Deferred revenue (Note 9)	266,592	214,627
	<u>6,412,173</u>	<u>6,861,206</u>
Net financial assets	<u>3,779,699</u>	<u>3,396,821</u>
Non-financial assets		
Tangible capital assets (Note 15)	56,003,119	55,117,243
Prepaid expenses	14,380	33,205
	<u>56,017,499</u>	<u>55,150,448</u>
Accumulated surplus (Note 12)	<u>\$59,797,198</u>	<u>\$ 58,547,269</u>

Contingencies (Note 14)

On behalf of Council:



Mayor



Rick Charlebois
Treasurer

The Corporation of the Town of Petrolia

Consolidated Statement of Operations and Accumulated Surplus

For the year ended December 31	Budget 2012 (note 16)	Actual 2012	Actual 2011 restated (note 2)
Revenue			
Taxation	\$ 3,640,486	\$ 3,611,146	\$ 3,428,127
Water and sewer charges	2,911,925	2,885,927	2,630,218
Fees and user charges	2,139,150	2,092,675	1,769,425
Grants	1,757,655	1,273,638	1,568,670
Other	450,132	694,204	557,015
Donations of property	-	788,000	-
Bluewater Power Corporation	-	170,579	144,442
	<u>10,899,348</u>	<u>11,516,169</u>	<u>10,097,897</u>
Expenses			
General government	1,088,381	1,173,598	1,002,541
Protection services	1,334,046	1,319,089	1,241,291
Transportation services	1,632,877	1,356,204	1,531,051
Environmental services	2,458,894	2,598,197	2,738,463
Health services	145,853	127,044	193,685
Recreation and cultural services	3,397,256	3,536,020	3,414,279
Planning and development	175,880	156,088	128,514
	<u>10,233,187</u>	<u>10,266,240</u>	<u>10,249,824</u>
Annual surplus (deficit)	666,161	1,249,929	(151,927)
Accumulated surplus, beginning of year as restated (note 2)	<u>58,547,269</u>	<u>58,547,269</u>	<u>58,699,196</u>
Accumulated surplus, end of year	<u>\$ 59,213,430</u>	<u>\$ 59,797,198</u>	<u>\$ 58,547,269</u>

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

The Corporation of the Town of Petrolia

Consolidated Statement of Changes in Net Financial Assets

For the year ended December 31	Actual 2012	Actual 2011
Annual surplus (deficit)	\$ 1,249,929	\$ (151,927)
Acquisition of tangible capital assets	(3,195,966)	(1,074,995)
Amortization of tangible capital assets	1,882,090	1,858,381
Loss (gain) on sale of tangible capital assets	(110,522)	170,180
Proceeds on sale of tangible capital assets	538,522	-
	<u>364,053</u>	<u>801,639</u>
Net change prepaid expenses	<u>18,825</u>	<u>(10,996)</u>
Net change in net financial assets	382,878	790,643
Net financial assets , beginning of year as restated (note 2)	<u>3,396,821</u>	<u>2,606,178</u>
Net financial assets , end of year	<u>\$ 3,779,699</u>	<u>\$ 3,396,821</u>

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

The Corporation of the Town of Petrolia Consolidated Statement of Cash Flows

For the year ended December 31	2012	2011
Cash provided by (used in)		
Operating activities		
Annual surplus	\$ 1,249,929	\$ (151,927)
Items not involving cash		
Amortization of capital assets	1,882,090	1,858,381
Loss (gain) on sale of capital assets	(110,522)	170,180
Share of net income of Blue Water Power	(258,325)	(223,296)
	<u>2,763,172</u>	<u>1,653,338</u>
 Net change in non-cash working capital items		
Taxes receivable	(58,818)	(9,988)
Accounts receivables	(115,285)	707,182
Other receivable	108,338	90,773
Accounts payable and accrued liabilities	370,326	(646,976)
Interest non municipal debt	8,697	(2,562)
Deferred revenue	51,965	(90,654)
Prepaid expenses	18,825	(10,996)
	<u>384,048</u>	<u>36,779</u>
	<u>3,147,220</u>	<u>1,690,117</u>
 Capital transactions		
Acquisition of tangible capital assets	(3,195,966)	(1,074,995)
Proceeds from sale of tangible capital assets	538,522	-
	<u>(2,657,444)</u>	<u>(1,074,995)</u>
 Investing activities		
Repayment of long term receivable	50,000	50,000
Dividends from Blue Water Power	87,746	78,854
	<u>137,746</u>	<u>128,854</u>
 Financing activities		
Repayment of temporary borrowings	-	(1,240,000)
Repayment of municipal debt	(880,021)	(820,836)
New debt issued	-	899,700
	<u>(880,021)</u>	<u>(1,161,136)</u>
 Net change in cash and cash equivalents	(252,499)	(417,160)
Cash and cash equivalents, beginning of year	4,038,237	4,455,397
Cash and cash equivalents, end of year	<u>\$ 3,785,738</u>	<u>\$ 4,038,237</u>

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

The Corporation of the Town of Petrolia

Notes to Consolidated Financial Statements

December 31, 2012

1. Significant Accounting Policies

The consolidated 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 Canadian Institute of Chartered Accountants as prescribed by the Ontario Ministry of Municipal Affairs and Housing.

(a) Basis of Consolidation

(i) Reporting Entity

The consolidated financial statements reflect the financial assets, liabilities, revenues and expenses of all municipal organizations, committees, and boards which are controlled by Council. All interfund assets and liabilities and revenues and expenses have been eliminated on consolidation.

(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 Consolidated Statement of Financial Position. Taxation raised by the Town on their behalf is reflected as a deduction from total taxation on the Consolidated Statement of Operations and Accumulated Surplus.

(iv) Trust Funds

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

The Corporation of the Town of Petrolia

Notes to Consolidated Financial Statements

December 31, 2012

1. Significant Accounting Policies (continued)

(b) Basis of Accounting

(i) Accrual Basis of Accounting

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.

(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.

(iii) Inventories

Inventory of goods held for resale is recorded at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis.

(iv) 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.

(v) 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	4 - 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.

(vi) 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.

The Corporation of the Town of Petrolia

Notes to Consolidated Financial Statements

December 31, 2012

1. Significant Accounting Policies (continued)

(b) Basis of Accounting (continued)

(vii) Deferred Revenue

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

(viii) Revenue Recognition

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) are 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.

Taxation revenues are recorded when tax rates are set by by-laws and assessment roll is issued by assessment office. Supplementary taxation revenue is recorded once a supplementary assessment roll is received and supplementary tax bills are issued. Tax adjustments as a result of appeals are recorded when the result of the appeal process is known. Interest and penalties on overdue taxes are recorded in the period the interest and penalties are levied.

(ix) 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.

2. Restatement of Prior Period Amounts

a) In the past, the Town has not recorded unbilled water and sewage revenue at the fiscal year end, nor has it recorded the dividend to be received from Blue Water Power. Under an accrual basis of accounting these items would be recorded in the period when earned. As such the Town has applied a retrospective restatement to record unbilled revenue and dividends receivable.

The Corporation of the Town of Petrolia

Notes to Consolidated Financial Statements

December 31, 2012

2. Restatement of Prior Period Amounts (continued)

b) The Town sold land during 2012 and determined that the property had been purchased in a previous year at a cost of \$425,000. When tangible capital assets were added the Town's Statement of Financial Position under changes to public sector accounting standards in 2009, this land cost was not added to the tangible capital assets. The Town has retrospectively restated the tangible capital assets and the amount invested in capital assets within accumulated surplus to include this additional \$425,000 in the opening comparative amounts for 2011.

The restatements have resulted in the following adjustments:

	2011 Previously Reported	2011 Adjustment	2011 Restated
Consolidated Statement of Financial Position			
Accounts receivable	\$ 706,289	\$ 356,629	\$ 1,062,918
Tangible capital assets	54,692,243	425,000	55,117,243
Accumulated surplus	57,765,640	781,629	58,547,269
Consolidated Statement of Operations and Accumulated Surplus			
Revenues	10,177,979	(80,082)	10,097,897
Annual Surplus (Deficit)	(71,845)	(80,082)	(151,927)
Accumulated Surplus, beginning of year	57,837,485	861,711	58,699,196
Accumulated Surplus, end of year	<u>\$ 57,765,640</u>	<u>\$ 781,629</u>	<u>\$ 58,547,269</u>

3. Cash

	2012	2011
Unrestricted	\$ 3,609,209	\$ 4,022,014
Restricted	176,529	16,223
	<u>\$ 3,785,738</u>	<u>\$ 4,038,237</u>

The municipality has internally and externally restricted funds that are segregated and will be used only for specific purposes.

Interest is earned on bank balances at the bank's monthly average prime rate less 2.25%. The municipality's bank accounts are all held at one financial institution.

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

December 31, 2012

4. Accounts Receivable

Included in accounts receivable is an amount of \$ 227,000 related to outstanding HST rebates and refunds that originated in 2010. While the Town is actively pursuing the amounts and believes them to be collectible, it is possible that a portion of the claims will not be allowed by CRA.

5. Other Receivable

Other receivable consists of a surplus in the OMERS pension plan. The employee portion of this surplus has been returned to the affected employees and the remaining balance of the surplus, plus any interest earned, is restricted in that it may only be used by the Town to fund the Town's portion of OMERS pension plan contributions in future years.

6. 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 2012 was \$400,000 (2011 - \$450,000). The outstanding principal balance or any portion thereof may be repaid at any time.

7. 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 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%. 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:

	2012	2011
Promissory Notes - Blue Water Power Distribution 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	1,282,691	1,112,112
	<u>\$ 4,040,768</u>	<u>\$ 3,870,189</u>

The Corporation of the Town of Petrolia

Notes to Consolidated Financial Statements

December 31, 2012

7. Hydro Investments (continued)

Continuity of Investment

	2012	2011
Balance, beginning of year	\$ 3,870,189	\$ 3,725,747
Share of net income for the year	258,325	223,296
Less: Dividends received during the year	87,746	78,854
Net increase in equity during the year	170,579	144,442
	<u>\$ 4,040,768</u>	<u>\$ 3,870,189</u>

The promissory note due from Bluewater Power Distribution Corporation, bears interest at 7.62%, is unsecured, subordinated and due twelve months following demand for payment. Interest received on these notes amounted to \$109,036 (2011 - \$109,036) which is reported in the Consolidated Statement of Operations.

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

Bluewater Power Corporation - Financial Position

	2012	2011
Assets		
Current assets	\$28,620,350	\$ 28,287,879
Property, plant and equipment	57,623,118	48,212,831
Other assets	6,200,062	15,724,078
Total assets	<u>\$92,443,530</u>	<u>\$ 92,224,788</u>

	2012	2011
Liabilities		
Current liabilities	\$17,745,614	\$ 18,512,120
Long-term liabilities	39,237,951	40,570,348
Total liabilities	<u>56,983,565</u>	<u>59,082,468</u>
Equity		
Share capital	18,032,105	18,032,105
Retained earnings	17,427,860	15,110,215
Total equity	<u>35,459,965</u>	<u>33,142,320</u>
Total liabilities and equity	<u>\$92,443,530</u>	<u>\$ 92,224,788</u>

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

December 31, 2012

7. Hydro Investments (continued)

Bluewater Power Corporation - Results of Operations

	<u>2012</u>	<u>2011</u>
Revenues	\$ 85,886,776	\$ 87,639,940
Expenditures	82,125,931	83,734,030
Payment in lieu of income taxes	<u>251,000</u>	<u>872,000</u>
Net income	<u>\$ 3,509,845</u>	<u>\$ 3,033,910</u>
Town of Petrolia share of net income at 7.36%	<u>\$ 258,325</u>	<u>\$ 223,296</u>
Dividends	<u>\$ 1,192,200</u>	<u>\$ 1,071,390</u>
Town of Petrolia share of dividend at 7.36%	<u>\$ 87,746</u>	<u>\$ 78,854</u>
Change in equity	<u>\$ 170,579</u>	<u>\$ 144,442</u>

The Corporation of the Town of Petrolia

Notes to Consolidated Financial Statements

December 31, 2012

8. Municipal Debt

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

	2012	2011
Bank loan, bearing interest at 4.19%, repayable in blended monthly payments of \$53,118, maturing December 2015.	\$ 1,794,017	\$ 2,343,712
Bank loan, bearing interest at 4.60%, repayable in blended monthly payments of \$18,742, maturing October 2015.	596,373	789,008
CMHC loan, bearing interest at 3.99%, repayable in blended annual payments of \$111,269, maturing November 2024.	1,044,876	1,111,785
CMHC loan, bearing interest at 3.97%, repayable in blended annual payments of \$78,174, maturing December 2024.	734,952	782,078
Ontario infrastructure debenture, bearing interest at 3.17%, repayable in blended annual payments of \$37,916 maturing February 2027.	876,044	899,700
	<u>\$ 5,046,262</u>	<u>\$ 5,926,283</u>

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

2013	\$ 941,877
2014	982,104
2015	986,505
2016	186,546
2017	193,555
Thereafter	<u>1,755,675</u>
	<u>\$ 5,046,262</u>

(c) Total interest charges related to the municipal debt are reported in expenses in the Consolidated Statement of Operations and amounted to \$218,357 (2011 - \$228,367).

(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 Consolidated Financial Statements

December 31, 2012

9. Deferred Revenue

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

	2012	2011
Recreational land	\$ 16,158	\$ 16,038
Canada gas tax funding	160,371	186
OMERS pension plan type 3 excess funds	90,063	198,403
	<u>\$ 266,592</u>	<u>\$ 214,627</u>

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

	2012	2011
Balance, beginning of year	\$ 214,627	\$ 305,279
Investment Income	6,525	17,931
Gas tax funding received	160,185	-
	<u>381,337</u>	<u>323,210</u>
Transfer to operations	114,745	108,583
Balance, end of year	<u>\$ 266,592</u>	<u>\$ 214,627</u>

10. Pension Agreements

The Municipality makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), a multi-employer plan, on behalf of 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.

For 2012 the contribution made by the Town to OMERS was \$124,425 (2011 - \$111,911).

11. Public Sector Salary Disclosure

During 2012, no Town employees were paid a salary, as defined in the Public Sector Salary Disclosure Act, 1996, of \$100,000 or more.

The Corporation of the Town of Petrolia

Notes to Consolidated Financial Statements

December 31, 2012

12. Accumulated Surplus

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

	2012	2011
Surplus		
Invested in tangible capital assets	\$ 56,003,119	\$ 55,117,243
Reduce (recover) from future taxation	(155,760)	(186,944)
Equity in Bluewater Power Corporation	4,040,768	3,870,189
Unfunded	(5,076,932)	(5,538,994)
	<u>54,811,195</u>	<u>53,261,494</u>
Reserves set aside for specific purposes by Council for:		
Working capital	594,758	196,584
Fire	29,512	148,937
Recreation facilities	128,928	101,773
Planning and development	785,147	615,425
Capital projects	524,364	574,364
Waterworks	583,044	1,443,083
Sewage	2,308,165	2,169,133
Cemetery	15,504	15,504
Library	3,977	8,368
Other Cultural	12,604	12,604
	<u>4,986,003</u>	<u>5,285,775</u>
Total Reserves		
	<u>4,986,003</u>	<u>5,285,775</u>
Accumulated Surplus	<u>\$ 59,797,198</u>	<u>\$ 58,547,269</u>

13. Classification of Expenditures by Object

The Consolidated Statement of Financial Activities presents the expenditures by function. The following classifies those same expenditures by object:

	2012	2011
Salaries, wages and employee benefits	\$ 2,567,490	\$ 2,589,414
Operating materials and supplies	4,077,805	3,983,341
Contracted services	1,466,990	1,386,145
Interest on long-term debt	252,087	256,378
Amortization	1,882,091	2,028,561
Other	19,777	5,985
	<u>\$ 10,266,240</u>	<u>\$ 10,249,824</u>
Total expenditures by object		
	<u>\$ 10,266,240</u>	<u>\$ 10,249,824</u>

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

December 31, 2012

14. 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. Any 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 line of credit in the form of a bond in the amount of \$106,591 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 (OHDCC)

As part of the condition of receiving the Ontario SuperBuild Corporation grant of \$1,686,000 used in financing the construction of the OHDCC, the Town may not transfer ownership of the OHDCC 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.

The Corporation of the Town of Petrolia

Notes to Consolidated Financial Statements

December 31, 2012

15. Tangible Capital Assets

2012

Cost

	Land	Land Improve-ments	Buildings	Equipment	Vehicles	Infrastructure	Assets Under Construction	Total
Balance - December 31, 2011	\$ 1,343,081	\$ 1,061,964	\$ 23,917,226	\$ 5,934,382	\$ 1,567,634	\$ 49,252,769	\$ 214,407	\$ 83,291,463
Additions	278,000	200,000	1,502,806	463,162	280,774	87,373	383,851	3,195,966
Disposals	(425,000)	-	-	-	(267,643)	-	-	(692,643)
Balance - December 31, 2012	\$ 1,196,081	\$ 1,261,964	\$ 25,420,032	\$ 6,397,544	\$ 1,580,765	\$ 49,340,142	\$ 598,258	\$ 85,794,786

Accumulated Amortization

Balance - December 31, 2011	\$ -	\$ 337,825	\$ 6,591,816	\$ 2,151,253	\$ 1,014,575	\$ 18,078,751	\$ -	\$ 28,174,220
Amortization expense	-	43,876	470,116	224,571	83,857	1,059,670	-	1,882,090
Disposals	-	-	-	-	(264,643)	-	-	(264,643)
Balance - December 31, 2012	\$ -	\$ 381,701	\$ 7,061,932	\$ 2,375,824	\$ 833,789	\$ 19,138,421	\$ -	\$ 29,791,667

Net Book Value

Net Book Value	\$ 1,196,081	\$ 880,263	\$ 18,358,100	\$ 4,021,720	\$ 746,976	\$ 30,201,721	\$ 598,258	\$ 56,003,119
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2011

Cost

	Land	Land Improve-ments	Buildings	Equipment	Vehicles	Infrastructure	Assets Under Construction	Total
Balance - December 31, 2010	\$ 1,325,770	\$ 1,035,416	\$ 23,324,507	\$ 5,904,071	\$ 1,518,894	\$ 48,788,999	\$ 696,232	\$ 82,593,889
Additions	17,311	26,548	592,719	30,311	111,640	778,291	119,567	1,676,387
Disposals	-	-	-	-	(62,900)	(314,521)	(601,392)	(978,813)
Balance - December 31, 2011	\$ 1,343,081	\$ 1,061,964	\$ 23,917,226	\$ 5,934,382	\$ 1,567,634	\$ 49,252,769	\$ 214,407	\$ 83,291,463

Accumulated Amortization

Balance - December 31, 2010	\$ -	\$ 305,290	\$ 6,119,050	\$ 1,929,615	\$ 1,007,143	\$ 17,161,982	\$ -	\$ 26,523,080
Amortization expense	-	32,535	472,766	221,638	68,332	1,063,110	-	1,858,381
Disposals	-	-	-	-	(60,900)	(146,341)	-	(207,241)
Balance - December 31, 2011	\$ -	\$ 337,825	\$ 6,591,816	\$ 2,151,253	\$ 1,014,575	\$ 18,078,751	\$ -	\$ 28,174,220

Net Book Value

Net Book Value	\$ 1,343,081	\$ 724,139	\$ 17,325,410	\$ 3,783,129	\$ 553,059	\$ 31,174,018	\$ 214,407	\$ 55,117,243
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The Corporation of the Town of Petrolia Notes to Consolidated Financial Statements

December 31, 2012

16. Trust Funds

Trust funds administered by the Town amounting to \$385,997 (2011 - \$378,687) are not included in the Statement of Financial Position nor have their operations been included in the Statement of Financial Activities.

17. Budget Data

The unaudited budget data presented in these financial statements is based upon the 2012 budget approved by Council. Budgets are not prepared on a basis consistent with that used to report actual results under Public Sector Accounting Standards. 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 statements of operations and change in net financial assets represent the budget adopted by council with the following adjustments:

	<u>2011</u>
Budgeted surplus (deficit) for the year	\$ -
Add back:	
Debt principal repayments	881,933
Capital expenditures	2,625,948
Reserve transfers	(899,389)
Less:	
Amortization	(1,942,331)
	<hr/>
Annual budgeted surplus	<u>\$ 666,161</u>

18. Comparative Figures

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

The Corporation of the Town of Petrolia

Notes to Consolidated Financial Statements

December 31, 2012

19. 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, disposal and 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. Amounts that are directly attributable to a number of segments have been allocated on a reasonable basis as follows:

Taxation and payments-in-lieu, OMPF grant, net income of government business enterprise and shared other revenue consisting of penalty and interest on taxes, and bank and investment income have been allocated to those segments that are funded by these amounts based on the net surplus for the year.

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.

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.

Sewer and Water

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

Environmental

Environmental services consists of providing waste collection, disposal and recycling to its citizens.

Health

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

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

December 31, 2012

19. Segmented Information (continued)

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 Municipality 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 Consolidated Financial Statements

December 31, 2012

19. Segmented Information (continued)

For the year ended December 31, 2012	General Government	Protection Services	Transportation Services	Environmental Services	Health Services	Recreation and Cultural Services	Planning and Development	Total
Revenue								
Taxation	\$ 3,611,146							\$ 3,611,146
Water and sewer charges				2,885,927				2,885,927
Fees and user charges	18,007			60,182	93,522	1,904,224	69,640	2,145,575
Grants	966,662	235,474		22,439	5,000	44,063		1,273,638
Donations of property	788,000							788,000
Other municipal	590,864	4,650		6,320		39,470		641,304
Other	170,579							170,579
	<u>6,145,258</u>	<u>240,124</u>		<u>2,974,868</u>	<u>98,522</u>	<u>1,987,757</u>	<u>69,640</u>	<u>11,516,169</u>
Expenses								
Salaries and benefits	591,348	112,616	324,757	163,296	25,893	1,329,776	19,804	2,567,490
Materials and supplies	358,341	267,567	439,937	967,189	66,312	1,893,871	84,588	4,077,805
Contracted services		878,680		524,846	34,839	28,625		1,466,990
Interest	28,723		62,882	101,240		37,532	21,710	252,087
Amortization	177,686	60,226	528,628	841,626		243,939	29,986	1,882,091
Other	17,500					2,277		19,777
	<u>1,173,598</u>	<u>1,319,089</u>	<u>1,356,204</u>	<u>2,598,197</u>	<u>127,044</u>	<u>3,536,020</u>	<u>156,088</u>	<u>10,266,240</u>
Annual surplus (deficit)	\$ 4,971,660	\$ (1,078,965)	\$ (1,356,204)	\$ 376,671	\$ (28,522)	\$ (1,548,263)	\$ (86,448)	\$ 1,249,929

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

December 31, 2012

19. Segmented Information (continued)

For the year ended December 31, 2011	General Government	Protection Services	Transportatio n Services	Environmental Services	Health Services	Recreation and Cultural Services	Planning and Development	Total
Revenue								
Taxation	\$ 3,428,127							\$ 3,428,127
Water and sewer charges				2,630,218				2,630,218
Fees and user charges	15,810				39,106	1,662,288	52,221	1,769,425
Grants	1,277,059	120,501		8,183	3,000	159,926		1,568,669
Other municipal	467,837	5,490		5,307		78,382		557,016
Other	144,442							144,442
	5,333,275	125,991		2,643,708	42,106	1,900,596	52,221	10,097,897
Expenses								
Salaries and benefits	578,975	92,062	351,647	134,338	38,879	1,368,909	24,604	2,589,414
Materials and supplies	244,880	266,583	484,019	1,080,934	120,998	1,711,917	74,010	3,983,341
Contracted services		827,308		499,872	33,808	25,157		1,386,145
Interest	25,367		69,193	121,556		40,262		256,378
Amortization	152,369	55,338	626,192	901,763		262,999	29,900	2,028,561
Other	950					5,035		5,985
	1,002,541	1,241,291	1,531,051	2,738,463	193,685	3,414,279	128,514	10,249,824
Annual surplus (deficit)	\$ 4,330,734	\$ (1,115,300)	\$ (1,531,051)	\$ (94,755)	\$ (151,579)	\$ (1,513,683)	\$ (76,293)	\$ (151,927)

**The Corporation of the Town
of Petrolia
Trust Funds
Financial Statements
For the year ended December 31, 2012**



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BDO Canada LLP
211 Main Street E
Ridgetown ON N0P 2C0 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, 2012 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 Consolidated 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 evaluation 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 as at December 31, 2012 and the continuity of the trust funds for the year then ended in accordance with Canadian public sector accounting standards.

Other Matter

The financial statements of Trust Funds of The Corporation of the Town of Petrolia for the year ended December 31, 2011, were audited by another auditor who expressed an unmodified opinion on those statements on July 3, 2012.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Ridgetown, Ontario

June 24, 2013

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

December 31, 2012

Assets	Total	Care and Maintenance Cemetery	Englehart	Burley Fulton	Colvin
Cash	\$ 87,871	\$ 71,006	\$ 8,969	\$ 4,697	\$ 3,199
Due from the Corporation of the Town of Petrolia	18,494	18,494	-	-	-
Investments	279,632	279,632	-	-	-
	\$ 385,997	\$ 369,132	\$ 8,969	\$ 4,697	\$ 3,199
Fund Balance	\$ 385,997	\$ 369,132	\$ 8,969	\$ 4,697	\$ 3,199

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

December 31, 2012

	Total	Care and Maintenance Cemetery	Englehart	Burley Fulton	Colvin
Balance, beginning of year	\$ 378,687	\$ 361,787	\$ 8,955	\$ 4,716	\$ 3,229
Receipts					
Care and maintenance	7,345	7,345	-	-	-
Interest earned (net of service charges)	6,342	6,377	14	(19)	(30)
	13,687	13,722	14	(19)	(30)
Expenditures					
Transfer to the Corporation of the Town of Petrolia	6,377	6,377	-	-	-
Balance, end of year	\$ 385,997	\$ 369,132	\$ 8,969	\$ 4,697	\$ 3,199

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

December 31, 2011

Assets	Total	Care and Maintenance Cemetery	Englehart	Burley Fulton	Colvin
Cash	\$ 101,429	\$ 84,529	\$ 8,955	\$ 4,716	\$ 3,229
Investments	277,258	277,258	-	-	-
	<u>\$ 378,687</u>	<u>\$ 361,787</u>	<u>\$ 8,955</u>	<u>\$ 4,716</u>	<u>\$ 3,229</u>
 Fund Balance	 \$ 378,687	 \$ 361,787	 \$ 8,955	 \$ 4,716	 \$ 3,229

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

December 31, 2011

	Total	Care and Maintenance Cemetery	Englehart	Burley Fulton	Colvin
Balance, beginning of year	\$ 370,852	\$ 354,030	\$ 8,911	\$ 4,695	\$ 3,216
Receipts					
Care and maintenance	7,757	7,757	-	-	-
Interest earned (net of service charges)	5,684	5,606	44	21	13
	<u>13,441</u>	<u>13,363</u>	<u>44</u>	<u>21</u>	<u>13</u>
Expenditures					
Transfer to the Corporation of the Town of Petrolia	5,606	5,606	-	-	-
Balance, end of year	<u>\$ 378,687</u>	<u>\$ 361,787</u>	<u>\$ 8,955</u>	<u>\$ 4,716</u>	<u>\$ 3,229</u>

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

December 31, 2012

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.
