

The Corporation of the Town of Petrolia
Financial Statements
December 31, 2017

The Corporation of the Town of Petrolia

Financial Statements

For The Year Ended December 31, 2017

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Independent Auditors' 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, 2017 and the statements of operations and accumulated surplus, change 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 control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 an 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 amounts and disclosures in the financial statements. The procedures selected depend upon 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 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.

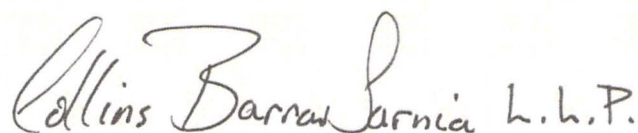
Independent Auditors' Report cont'd...

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation of the Town of Petrolia as at December 31, 2017 and the results of its financial activities, cash flows and change in net financial assets 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, 2017 were audited by another auditor who expressed an unmodified opinion on those statements on June 26, 2017. We were not engaged to audit, review, or apply any procedures to the 2016 financial statements of the Corporation of the Town of Petrolia with respect to any adjustments made in the period and, accordingly, we do not express an opinion on any other form of assurance on the 2016 financial statements taken as a whole.



**Sarnia, Ontario
June 11, 2018**

**Chartered Professional Accountants
Licensed Public Accountants**

Corporation of the Town of Petrolia
Statement Of Financial Position
December 31, 2017

	2017	2016
Assets		
Financial Assets		
Cash (note 3)	\$ 4,455,601	\$ 1,362,822
Taxes and interest receivable	419,849	216,500
Accounts receivable	4,558,664	7,204,525
Land available for sale	144,795	144,795
Long-term receivable (note 4)	150,000	200,000
Investment in Bluewater Power Corporation (note 5)	4,707,191	4,561,536
Total financial assets	<u>14,436,100</u>	<u>13,690,178</u>
Liabilities		
Bank loan	-	4,000,000
Accounts payable and accrued liabilities	3,790,284	5,416,448
Other current liabilities	606,648	501,199
Interest on municipal debt	96,279	25,220
Municipal debt (note 6)	10,233,645	2,813,665
Deferred revenue (note 7)	117,476	124,439
Total liabilities	<u>14,844,332</u>	<u>12,880,971</u>
Net Financial Assets (Debt)	<u>(408,232)</u>	<u>809,207</u>
Non-Financial Assets		
Tangible capital assets (note 8)	86,401,357	75,676,145
Prepaid expenses	114,088	311,598
Total non-financial assets	<u>86,515,445</u>	<u>75,987,743</u>
Accumulated Surplus (note 9)	<u>\$ 86,107,213</u>	<u>\$ 76,796,950</u>

Contingencies (note 10)

Subsequent events (note 17)

On Behalf Of Council



Mayor



Treasurer

The accompanying notes are an integral part of this financial statement.

Corporation of the Town of Petrolia
Statement Of Operations and Accumulated Surplus
For the Year Ended December 31, 2017

	Budget 2017 (note 11)	Actual 2017	Actual 2016
<hr/>			
Revenues			
Taxation	\$ 4,908,796	\$ 4,970,487	\$ 4,988,163
Water and sewage charges	4,206,252	4,342,280	4,307,908
Fees and user charges	2,551,446	2,503,043	2,428,204
Fees and user charges - other municipalities	132,108	179,679	172,208
Grants (note 12)	8,175,211	7,703,280	11,571,536
Other	597,936	1,543,949	599,435
Bluewater Power Corporation, change in equity	<u>110,000</u>	<u>270,006</u>	<u>208,734</u>
Total Revenues	<u>20,681,749</u>	<u>21,512,724</u>	<u>24,276,188</u>
Expenditures			
General government	1,546,174	1,650,767	1,721,363
Protection services	1,532,777	1,511,507	1,512,922
Transportation services	1,790,670	1,471,329	1,581,877
Environmental services	3,139,338	3,532,770	3,066,963
Health services	99,974	214,665	79,013
Recreation and cultural services	4,103,431	4,168,136	3,875,995
Planning and development	<u>291,733</u>	<u>262,163</u>	<u>286,016</u>
Total Expenditures	<u>12,504,097</u>	<u>12,811,337</u>	<u>12,124,149</u>
Annual Surplus of Revenues over Expenditures	8,177,652	8,701,387	12,152,039
Net Assets Assumed	<u>-</u>	<u>608,876</u>	<u>-</u>
Annual Surplus	8,177,652	9,310,263	12,152,039
Accumulated Surplus, Beginning Of Year	<u>76,796,950</u>	<u>76,796,950</u>	<u>64,644,911</u>
Accumulated Surplus, End Of Year	<u>\$ 84,974,602</u>	<u>\$ 86,107,213</u>	<u>\$ 76,796,950</u>

The accompanying notes are an integral part of this financial statement.

Corporation of the Town of Petrolia
Statement of Change in Net Financial Assets
December 31, 2017

	Budget 2017 (note 11)	Actual 2017	Actual 2016
Annual surplus	\$ 8,177,652	\$ 9,310,263	\$ 12,152,039
Amortization of tangible capital assets	2,200,080	2,125,347	2,029,255
Change in prepaid expenses		197,510	(222,341)
Loss on sale of tangible capital assets		9,790	345,378
Proceeds from sale of tangible assets		52,040	31,984
Acquisition of tangible capital assets	<u>(15,928,645)</u>	<u>(12,912,389)</u>	<u>(17,665,025)</u>
Net change in net financial assets	(5,550,913)	(1,217,439)	(3,328,710)
Net financial assets, beginning of year	<u>809,207</u>	<u>809,207</u>	<u>4,137,917</u>
Net financial assets (debt), end of year	\$ <u><u>(5,550,913)</u></u>	\$ <u><u>(408,232)</u></u>	\$ <u><u>809,207</u></u>

The accompanying notes are an integral part of this financial statement.

Corporation of the Town of Petrolia
Statement Of Cash Flows
For The Year Ended December 31, 2017

	2017	2016
Operating Activities		
Annual surplus	\$ 9,310,263	\$ 12,152,039
Items not requiring cash:		
Amortization and non-cash items	2,231,018	2,029,255
Share of net income of Bluewater Power Distribution	(270,006)	(208,734)
Loss on disposal of tangible capital assets	<u>9,790</u>	<u>345,378</u>
	11,281,065	14,317,938
Taxes and interest receivable	(203,349)	(25,685)
Accounts receivable	2,645,861	(4,403,124)
Land available for sale	-	(144,795)
Accounts payable and accrued liabilities	(1,626,164)	3,739,546
Interest on municipal debt	71,059	2,884
Deferred revenue	(6,963)	(40,025)
Prepaid expenses	<u>197,510</u>	<u>(222,341)</u>
	<u>12,359,019</u>	<u>13,224,398</u>
Capital Transactions		
Proceeds from sale of tangible assets	52,040	31,984
Acquisition of tangible capital assets	<u>(12,912,389)</u>	<u>(17,665,025)</u>
	<u>(12,860,349)</u>	<u>(17,633,041)</u>
Investing Transactions		
Repayment of long-term receivable	50,000	50,000
Dividend from Bluewater Power Corporation	<u>124,129</u>	<u>117,760</u>
	<u>174,129</u>	<u>167,760</u>
Financing Transactions		
Proceeds from long-term debt issue	3,750,000	4,000,000
Repayment of municipal debt	<u>(330,020)</u>	<u>(272,111)</u>
	<u>3,419,980</u>	<u>3,727,889</u>
Net change in cash and cash equivalents	3,092,779	(512,994)
Opening, cash and cash equivalents	<u>1,362,822</u>	<u>1,875,816</u>
Closing, cash and cash equivalents	<u>\$ 4,455,601</u>	<u>\$ 1,362,822</u>

The accompanying notes are an integral part of this financial statement.

1. Significant Accounting Policies

The Financial Statements of the Corporation of the Town of Petrolia (the "Town") are the representation of management prepared in accordance with local government accounting standards 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.

Significant accounting policies adopted include:

(a) Basis of Reporting

(i) Reporting Entity

These financial statements reflect the financial assets, liabilities, reserves, surpluses/deficits, changes in investment in tangible capital assets and revenues and expenditures of all municipal organizations and committees which are controlled by Council.

(ii) Government Business Enterprises

The investment in Petrolia Electricity Holdings Inc. and the investment in Bluewater Power Corporation is accounted for on the modified equity basis which reflects the Town of Petrolia's investment in the enterprises 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 the balances of 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; expenditures are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

1. Significant Accounting Policies cont'd....

(b) Basis of Accounting cont'd..

(ii) Cash and Cash Equivalents

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

(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 expenditures, provides the Change in Net Financial Assets for the year.

(iv) Tangible Capital Assets

Tangible capital assets are recorded at cost which includes all amounts that are 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. The useful life of the assets is based on estimates determined by management. The cost, less residual value, of the tangible assets are amortized on a straight-line basis over their estimated useful lives as follows:

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

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

(v) Intangible Assets

Intangible assets, art and cultural and historic assets, and items inherited by right of the Crown, such as Crown lands, forests, water, and mineral resources, are not recorded as assets 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.

1. Significant Accounting Policies cont'd....

(b) Basis of Accounting cont'd...

(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 sets up supplementary tax billings. Assessments and related property taxes are also subject to appeals, vacancy rebates and write-offs if applicable in the year. 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 the 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 and assumptions that affect the reported amounts of assets, liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Due to the inherent uncertainty in making estimates, actual results could differ from management's best estimates as additional information becomes available in the future.

Corporation of the Town of Petrolia
Notes to the Financial Statements
December 31, 2017

2. Operations Of School Boards And The County Of Lambton

Further to note 1(a)(iii), the taxation, other revenues and requisitions of the School Boards and the County of Lambton are comprised of the following:

	School Boards	County	2017 Total	2016 Total
Taxation and user charges	\$ 1,612,398	\$ 2,341,546	\$ 3,953,944	\$ 4,167,361
Share of payments in lieu of taxes	<u>15,364</u>	<u>17,323</u>	<u>32,687</u>	<u>33,402</u>
	\$ <u>1,627,762</u>	\$ <u>2,358,869</u>	\$ <u>3,986,631</u>	\$ <u>4,200,763</u>
Share of taxes written off	25,323	28,607	53,930	17,217
Share of tax rebates and capping adjustments	<u>2,731</u>	<u>3,206</u>	<u>5,937</u>	<u>9,078</u>
	<u>28,054</u>	<u>31,813</u>	<u>59,867</u>	<u>26,295</u>
Amounts transferred	\$ <u>1,599,708</u>	\$ <u>2,327,056</u>	\$ <u>3,926,764</u>	\$ <u>4,174,468</u>

3. Cash and Short-Term Investments

2017

2016

Unrestricted	\$ <u>4,455,601</u>	\$ <u>1,362,822</u>
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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 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. At the end of 2017 - \$150,000 (2016 - \$200,000) was still outstanding. The outstanding principal balance or any portion thereof may be prepaid at any time.

Notes continued on page 11....

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 31, 2000, merged all of their hydro-electrical operations and transferred all of their hydro-electrical assets and liabilities to Bluewater Power Corporation and its subsidiary.

Upon determination of the fair value of assets and liabilities transferred, each municipality received a promissory note from Bluewater Power Corporation's wholly owned subsidiary, Bluewater Power Distribution Corporation, and a proportionate share of the common shares of Bluewater Power Corporation. The fair market value of the assets and liabilities contributed by the Town of Petrolia was determined to be 7.36% (736 common shares) of the fair market value of all of the assets and liabilities contributed by all of the six participating municipalities to Bluewater Power Corporation. 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:

	2017	2016
Promissory note	\$ 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	<u>1,949,114</u>	<u>1,803,459</u>
	<u>\$ 4,707,191</u>	<u>\$ 4,561,536</u>
Continuity of Investment		
Balance, beginning of year	\$ <u>4,561,536</u>	\$ <u>4,470,562</u>
Share of net income for the year	269,784	208,734
Dividends received during the year	<u>124,129</u>	<u>117,760</u>
Net increase in equity during the year	<u>145,655</u>	<u>90,974</u>
Balance, end of year	<u>\$ 4,707,191</u>	<u>\$ 4,561,536</u>

The promissory note due from Bluewater Power Distribution Corporation, bears interest at 6.73%, is unsecured, subordinated and due eighteen months following demand for payment. During 2017, the Town of Petrolia received \$99,557 (2016 - \$91,435) of interest income on the promissory note which is reported in the Statement of Operations and Accumulated Surplus.

Corporation of the Town of Petrolia
Notes to the Financial Statements
December 31, 2017

5. Hydro Investments cont'd...

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

Bluewater Power Corporation - Financial Position

	2017	2016
Assets		
Current assets	\$ 39,256,653	\$ 33,630,344
Property, plant and equipment	66,349,482	61,077,118
Other assets	<u>6,125,605</u>	<u>7,031,258</u>
Total assets	111,731,740	101,738,720
Regulatory balances	<u>2,314,833</u>	<u>2,572,446</u>
Total assets and regulatory balances	<u><u>\$ 114,046,573</u></u>	<u><u>\$ 104,311,166</u></u>
Liabilities		
Current liabilities	\$ 26,678,124	\$ 20,466,249
Long-term liabilities	<u>38,985,929</u>	<u>37,797,675</u>
	<u>65,664,053</u>	<u>58,263,924</u>
Equity		
Share capital	18,032,105	18,032,105
Retained earnings	30,684,797	27,599,833
Accumulated other comprehensive loss	<u>(4,202,268)</u>	<u>(3,096,319)</u>
Total equity	<u>44,514,634</u>	<u>42,535,619</u>
Total liabilities and equity	110,178,687	100,799,543
Regulatory balances	<u>3,867,886</u>	<u>3,511,623</u>
Total Liabilities, Equity and Regulatory Balances	<u><u>\$ 114,046,573</u></u>	<u><u>\$ 104,311,166</u></u>

Bluewater Power Corporation - Results of Operations

Revenues	\$ 132,110,244	\$ 148,739,522
Expenditures	125,160,594	138,839,584
Income tax expense	<u>1,628,000</u>	<u>1,560,000</u>
Net income for the year	5,321,650	8,339,938
Net movement in regulatory balances, net of tax	(334,876)	(3,523,416)
Other comprehensive loss for the year	<u>(1,105,949)</u>	<u>(1,980,470)</u>
Total comprehensive income for the year	<u><u>\$ (1,440,825)</u></u>	<u><u>\$ 2,836,052</u></u>
Town of Petrolia Share of Net Income @ 7.36%	<u><u>\$ 269,784</u></u>	<u><u>\$ 208,734</u></u>
Dividends	<u><u>\$ 1,686,529</u></u>	<u><u>\$ 1,599,994</u></u>
Town of Petrolia, dividend @ 7.36%	<u><u>\$ 124,129</u></u>	<u><u>\$ 117,760</u></u>
Net Increase in Equity During the Year	<u><u>\$ 145,655</u></u>	<u><u>\$ 90,974</u></u>

Notes continued on page 13....

Corporation of the Town of Petrolia
Notes to the Financial Statements
December 31, 2017

6. Municipal Debt

(a) The balance of municipal debt reported on the statement of financial position is made up of the following:

	2017	2016
CMHC loan, bearing interest at 3.99%, repayable in blended annual payments of \$111,269, due November, 2024.	\$ 668,091	\$ 749,457
CMHC loan, bearing interest at 3.97%, repayable in blended annual payments of \$78,174, due December, 2024.	469,728	526,981
Ontario infrastructure debenture, bearing interest at 2.29%, repayable in blended semi - annual payments of \$53,416, due October, 2025.	776,900	864,435
Ontario infrastructure debenture, bearing interest at 3.17%, repayable in blended semi - annual payments of \$37,916, due February, 2027.	617,855	672,792
Ontario infrastructure debenture, bearing interest at 3.27%, repayable in blended semi - annual payments of \$171,283, due October, 2037.	5,000,000	-
Ontario infrastructure debenture, bearing interest at 3.33%, repayable in blended semi - annual payments of \$94,717, due February, 2037.	<u>2,701,071</u>	<u>-</u>
	<u>\$ 10,233,645</u>	<u>\$ 2,813,665</u>

(b) Principal repayments are as follows:

2018	\$ 571,227
2019	590,160
2020	609,736
2021	629,977
2022	650,908
2023 to 2027	2,747,776
Thereafter	<u>4,433,861</u>
	<u>\$ 10,233,645</u>

(c) Total interest charges for the year for municipal debt which is reported on the statement of financial position was \$271,336 (2016 - \$135,828).

(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.

Notes continued on page 14....

Corporation of the Town of Petrolia
Notes to the Financial Statements
December 31, 2017

7. Deferred Revenue	2017	2016
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The deferred revenue is comprised of the following:

Canada gas tax funding	\$ <u>117,476</u>	\$ <u>124,439</u>
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The net change during the year in the deferred revenue balances is as follows:

Balance, beginning	\$ 124,439	\$ 164,464
Gas tax funding received	171,044	168,069
Investment income	<u>4,342</u>	<u>-</u>
	299,825	332,533
Transfer to operations	<u>182,349</u>	<u>208,094</u>
Balance, ending	\$ <u>117,476</u>	\$ <u>124,439</u>

Notes continued on page 15....

Corporation of the Town of Petrolia
Notes to the Financial Statements
December 31, 2017

8. Tangible Capital Assets

Asset Cost 2017

	Land	Land Improvements	Buildings	Equipment	Vehicles	Infrastructure	Assets Under Construction	Total
Balance, beginning	\$ 1,466,783	\$ 1,242,407	\$ 17,914,970	\$ 2,954,575	\$ 1,769,317	\$ 73,173,595	\$ 14,069,422	\$ 112,591,069
Additions	-	72,700	527,602	179,404	91,907	1,568,458	10,472,318	12,912,389
Disposals	-	-	2,101	104,894	163,681	-	-	270,676
Balance, ending	\$ <u>1,466,783</u>	\$ <u>1,315,107</u>	\$ <u>18,440,471</u>	\$ <u>3,029,085</u>	\$ <u>1,697,543</u>	\$ <u>74,742,053</u>	\$ <u>24,541,740</u>	\$ <u>125,232,782</u>

Accumulated Amortization

Balance, beginning	\$ -	\$ 371,033	\$ 5,775,405	\$ 1,881,998	\$ 906,876	\$ 27,979,611	\$ -	\$ 36,914,923
Amortization	-	50,719	352,684	58,079	95,378	1,568,487	-	2,125,347
Disposals	-	-	2,055	-	117,646	89,144	-	208,845
Balance, ending	\$ -	\$ <u>421,752</u>	\$ <u>6,126,034</u>	\$ <u>1,940,077</u>	\$ <u>884,608</u>	\$ <u>29,458,954</u>	\$ -	\$ <u>38,831,425</u>

Net Book

Value	\$ <u>1,466,783</u>	\$ <u>893,355</u>	\$ <u>12,314,437</u>	\$ <u>1,089,008</u>	\$ <u>812,935</u>	\$ <u>45,283,099</u>	\$ <u>24,541,740</u>	\$ <u>86,401,357</u>
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Asset Cost 2016

	Land	Land Improvements	Buildings	Equipment	Vehicles	Infrastructure	Assets Under Construction	Total
Balance, beginning	\$ 1,466,783	\$ 1,138,084	\$ 17,904,952	\$ 2,771,925	\$ 1,524,456	\$ 65,170,811	\$ 5,756,880	\$ 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
Class transfers, (to) from	-	74,983	-	48,137	-	5,009,024	(5,132,144)	-
Balance, ending	\$ <u>1,466,783</u>	\$ <u>1,242,407</u>	\$ <u>17,914,970</u>	\$ <u>2,954,575</u>	\$ <u>1,769,317</u>	\$ <u>73,173,595</u>	\$ <u>14,069,421</u>	\$ <u>112,591,068</u>

Accumulated Amortization

Balance, beginning	\$ -	\$ 324,214	\$ 5,451,939	\$ 1,797,511	\$ 860,745	\$ 26,881,745	\$ -	\$ 35,316,154
Amortization	-	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, ending	\$ -	\$ <u>371,033</u>	\$ <u>5,775,405</u>	\$ <u>1,881,998</u>	\$ <u>906,876</u>	\$ <u>27,979,611</u>	\$ -	\$ <u>36,914,923</u>

Net Book

Value	\$ <u>1,466,783</u>	\$ <u>871,374</u>	\$ <u>12,139,565</u>	\$ <u>1,072,577</u>	\$ <u>862,441</u>	\$ <u>45,193,984</u>	\$ <u>14,069,421</u>	\$ <u>75,676,145</u>
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Assets Under Construction

Assets under construction having a value of \$24,541,740 (2016 - \$14,069,422) have not been amortized. Amortization of these assets will commence when the asset is put into service.

Works Of Art And Historical Treasures

The Town manages and controls art and historical cultural treasures, they are not setup as capital assets or amortized.

Writedown Of Tangible Capital Assets

The writedown of tangible capital assets during the year was \$Nil (2016 - \$Nil).

Notes continued on page 16....

Corporation of the Town of Petrolia
Notes to the Financial Statements
December 31, 2017

9. Accumulated Surplus

2017

2016

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

Surplus

Invested in tangible capital assets	\$ 86,401,357	\$ 75,676,145
Reduce from future taxation	164,604	92,062
Equity in Bluewater Power Corporation	4,707,191	4,561,536
Unfunded	<u>(10,372,027)</u>	<u>(8,650,774)</u>
	\$ 80,901,125	\$ 71,678,969

Reserves set aside for specific purposes by Council for:

Working capital	\$ 875,278	\$ 198,756
Budget stabilization	130,032	130,032
Cemetery	10,200	10,200
Fire	37,898	37,898
General government	8,539	8,000
Health Hub	8,372	155,400
Insurance	50,000	50,000
Library	6,488	6,488
Landfill sale proceeds	150,000	200,000
Other Cultural	303,118	121,277
Parks	(11,761)	(12,261)
Recreation facilities	389,226	267,431
Sewage	2,885,572	2,570,688
Waterworks	<u>530,037</u>	<u>1,374,072</u>
Total Reserves	\$ 5,206,088	\$ 5,117,981
Accumulated Surplus	\$ 86,107,213	\$ 76,796,950

Notes continued on page 17....

10. Contingencies

Federal Grants

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 \$70,000 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.

11. Budget Data

The unaudited budget data presented in these financial statements is based upon the 2017 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 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 the Town's council with the following adjustments.

	2017 Budget Amount
Budgeted deficit for the year	\$ (2,443,967)
Adjustments to budgeted deficit:	
Debt principal repayments	330,020
Capital expenditures	15,928,645
Reserve transfers	(3,436,966)
Amortization	<u>(2,200,080)</u>
Annual budgeted surplus	<u>\$ 8,177,652</u>

Notes continued on page 18....

Corporation of the Town of Petrolia
Notes to the Financial Statements
December 31, 2017

12. Grants	2017	2016
Operating		
Province of Ontario		
Ontario Municipal Partnership Fund	\$ 1,080,400	\$ 1,001,400
Celebrate Ontario	138,196	120,037
Ontario Cultural Attractions Fund	30,000	-
Stewardship Ontario	44,698	20,970
	<u>1,293,294</u>	<u>1,142,407</u>
Government of Canada		
Heritage Program	5,000	5,000
Program Support	18,195	18,343
	<u>23,195</u>	<u>23,343</u>
Total Operating	\$ <u>1,316,489</u>	\$ <u>1,165,750</u>
Capital		
Province of Ontario		
Provincial Gas Tax	\$ 182,349	\$ 204,450
Ontario Community Infrastructure Fund	1,035,534	2,975,096
Small Community Fund	2,584,454	3,613,120
	<u>3,802,337</u>	<u>6,792,666</u>
Government of Canada		
Small Community Fund	2,584,454	3,613,120
	<u>2,584,454</u>	<u>3,613,120</u>
Total Capital	\$ <u>6,386,791</u>	\$ <u>10,405,786</u>
Total Grants	\$ <u>7,703,280</u>	\$ <u>11,571,536</u>

13. Pension Agreements

The Municipality makes contributions to the Ontario Municipal Employees Retirement Fund ("OMERS"), which is a multi-employer plan, on behalf of members of its employees. The plan is a contributory defined benefit plan which specifies the amount of the retirement benefit to be received by employees based on the length of service and rates of pay. Employers and employees contribute jointly to the plan.

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 plan surplus or deficit. The amount contributed to "OMERS" for 2017 was \$164,467 (2016 - \$163,350) for current service. Employers contributions for current service are included as an expense in the consolidated Statement of Financial Activity.

Notes continued on page 19....

14. Trust Funds

Trust funds administered by the Town amounting to \$409,338 (2016 - \$407,492) are not included in the Statement of Financial Position nor have their operations been included in the Statement of Financial Activities.

15. Comparative Figures

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

16. Segmented Information

The Corporation of the Town of Petrolia is a diversified municipal government institution that provides a wide range of services to its inhabitants such as policing, fire protection, water distribution, sewage collection and treatment, waste collection and disposal, recycling services, recreational services, library facilities, 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 reports the revenues and expenses that relate to the governance and operations of the Town and cannot be directly attributed to a specific segment.

Protection to Persons and Property

Protection to persons and property is comprised of police services, fire protection, animal control and building inspections. The police services work to ensure the safety and protection of the inhabitants and their property. The fire department, whose members are all volunteers, is responsible to provide for fighting services, fire prevention programs, training and education. The building inspections provides a number of services including enforcement of building and construction codes and a review of all property development plans through its application process.

Transportation Services

Transportation is responsible for maintenance and construction of the Town's roadways, bridges, parking areas, street lighting and winter control.

Environmental Services

Environmental services consist of providing water treatment and distribution, sanitary sewage collection and treatment and ensuring that the Town's sewer and water systems meet all Provincial standards. In addition, environmental services consists of providing solid waste collection and recycling services.

Notes continued on page 20....

16. Segmented Information cont'd...

Health Services

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

Recreational and Cultural Services

This service provides services to improve health and development of the Town's inhabitants. This is accomplished by the municipality operating and maintaining a performing arts theatre, parks and an arena, a swimming pool and a community centre. The Town also provides recreational programs and library facilities.

Planning and Development Services

The Town is responsible for planning and zoning including the Official Plan. In addition, this area of service includes tourist information, promotion and events, business improvement areas, drainage, and commercial and residential development.

Corporation of the Town of Petrolia
Notes to the Financial Statements
December 31, 2017

16. Segmented Information cont'd...

For the Year Ended December 31, 2017	General Government	Protection Services	Transportation Services	Environmental Services	Health Services	Recreation Cultural	Planning Development	Total
Revenue								
Taxation	\$ 4,970,487	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,970,487
Water and sewer charges	-	-	-	4,342,280	-	-	-	4,342,280
Fees and User charges	9,730	2,535	684	-	60,263	2,399,622	30,209	2,503,043
Fees and User charges Other municipalities	-	152,359	-	-	7,500	19,820	-	179,679
Grants	1,280,944	-	374,606	5,603,534	-	444,196	-	7,703,280
Other	372,142	-	1,537	822,775	-	347,495	-	1,543,949
Bluewater Power	<u>270,006</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>270,006</u>
	<u>6,633,303</u>	<u>154,894</u>	<u>376,827</u>	<u>10,768,589</u>	<u>67,763</u>	<u>3,211,133</u>	<u>30,209</u>	<u>21,512,724</u>
Expenditures								
Salaries and benefits	850,714	214,839	440,770	326,760	45,976	1,809,862	73,377	3,762,298
Materials and supplies	395,416	203,589	372,266	791,908	158,774	1,772,152	158,100	3,852,205
Contracted services	186,555	1,036,135	20,661	1,254,508	-	218,824	-	2,716,683
Interest	1,509	-	49,602	194,770	8,639	16,816	-	271,336
Amortization and loss on disposal of assets	198,768	37,082	587,985	964,824	1,276	305,427	29,986	2,125,348
Other	<u>17,805</u>	<u>19,862</u>	<u>45</u>	<u>-</u>	<u>-</u>	<u>45,055</u>	<u>700</u>	<u>83,467</u>
	<u>1,650,767</u>	<u>1,511,507</u>	<u>1,471,329</u>	<u>3,532,770</u>	<u>214,665</u>	<u>4,168,136</u>	<u>262,163</u>	<u>12,811,337</u>
Annual Surplus (Deficit)	<u>\$ 4,982,536</u>	<u>\$ (1,356,613)</u>	<u>\$ (1,094,502)</u>	<u>\$ 7,235,819</u>	<u>\$ (146,902)</u>	<u>\$ (957,003)</u>	<u>\$ (231,954)</u>	<u>\$ 8,701,387</u>

Notes continued on page 22....

Corporation of the Town of Petrolia
Notes to the Financial Statements
December 31, 2017

16. Segmented Information cont'd...

For the Year Ended December 31, 2016	General Government	Protection Services	Transportation Services	Environmental Services	Health Services	Recreation Cultural	Planning 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	<u>208,734</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>208,734</u>
	<u>6,228,775</u>	<u>154,894</u>	<u>1,179,546</u>	<u>13,555,118</u>	<u>57,664</u>	<u>2,457,359</u>	<u>23,193</u>	<u>24,276,188</u>
Expenditures								
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	-	-	54,877	51,607	-	5,588	17,139	129,211
Amortization and loss on disposal of assets	198,618	53,835	590,395	882,397	1,187	272,837	29,986	2,029,255
Other	<u>148,824</u>	<u>19,025</u>	<u>9,456</u>	<u>193,108</u>	<u>-</u>	<u>45,487</u>	<u>700</u>	<u>416,600</u>
	<u>1,721,363</u>	<u>1,512,922</u>	<u>1,581,877</u>	<u>3,066,963</u>	<u>79,013</u>	<u>3,875,995</u>	<u>286,016</u>	<u>12,124,149</u>
Annual Surplus (Deficit)	<u>\$ 4,507,412</u>	<u>\$ (1,358,028)</u>	<u>\$ (402,331)</u>	<u>\$10,488,155</u>	<u>\$ (21,349)</u>	<u>\$ (1,418,636)</u>	<u>\$ (262,823)</u>	<u>\$12,152,039</u>

Notes continued on page 23....

17. Subsequent Events

On January 22nd, 2018 the Corporation of the Town of Petrolia entered into an agreement with the YMCA's across Southwestern Ontario to have the YMCA take over operations of 'the Centre' known as the Oil Heritage District Community Centre (OHDCC). In taking over the operations of the Centre, the YMCA agrees to manage and operate in accordance with the operating plan and budget approved from time to time by the Council of the Town. The Town acknowledges that it will continue to support the operations of the Centre which will result in annual budgeted support payments made to the YMCA as an operator. In the event of an annual operating surplus for the Centre, the YMCA will reimburse the Town an annual operating payment that was agreed on.

The agreement between the Corporation of the Town of Petrolia and the YMCA for operation of the Centre does not violate the contingency as discussed in note 10 as the Town retains total ownership of the building, land and equipment. The agreement term is for 5 years from the effective date with a renewal option of an additional 5 years based on mutual review and agreement.

**Corporation of the Town of Petrolia
Trust Funds**

**Financial Statements
December 31, 2017**

Independent Auditors' Report

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

We have audited accompanying financial statements of the Corporation of the Town of Petrolia Trust Funds, which comprise the statement of financial position as at December 31, 2017, the statement of continuity 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 control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

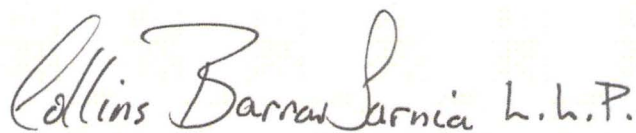
Independent Auditors' Report cont'd...

Opinion

In our opinion, the 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, 2017 and the results of its operations for the year ended in accordance with Canadian public sector accounting standards.

Emphasis of Matter

The financial statements of the Corporation of the Town of Petrolia Trust Funds for the year ended December 31, 2017 were audited by another auditor who expressed an unmodified opinion on those statements on February 10, 2017. We were not engaged to audit, review, or apply any procedures to the 2016 financial statements of the Corporation of the Town of Petrolia with respect to any adjustments made in the period and, accordingly, we do not express an opinion on any other form of assurance on the 2016 financial statements taken as a whole.



**Sarnia, Ontario
June 11, 2018**

**Chartered Professional Accountants
Licensed Public Accountants**

The Corporation of the Town of Petrolia
Trust Funds
Statement of Financial Position
For the Year Ended December 31, 2017

	Total	Care and Maintenance Cemetery	Englehart	Burley Fulton	Colvin
Assets					
Cash	\$ 9,227	\$ -	\$ 950	\$ 4,925	\$ 3,352
Due from the Corporation of the Town of Petrolia	6,282	6,282	-	-	-
Investments	<u>400,110</u>	<u>400,110</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance	<u>415,619</u>	<u>406,392</u>	<u>950</u>	<u>4,925</u>	<u>3,352</u>

The Corporation of the Town of Petrolia
Statement of Continuity
December 31, 2017

	Total	Care and Maintenance Cemetery	Englehart	Burley Fulton	Colvin
Balance, Beginning of year	\$ <u>407,492</u>	\$ <u>398,392</u>	\$ <u>937</u>	\$ <u>4,857</u>	\$ <u>3,306</u>
Receipts					
Care and maintenance	8,000	8,000	-	-	-
Interest earned (net of service charges)	<u>5,842</u>	<u>5,715</u>	<u>13</u>	<u>68</u>	<u>46</u>
	<u>13,842</u>	<u>13,715</u>	<u>13</u>	<u>68</u>	<u>46</u>
Expenditures					
Transfer to the Corporation of the Town of Petrolia	<u>5,715</u>	<u>5,715</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>415,619</u>	<u>406,392</u>	<u>950</u>	<u>4,925</u>	<u>3,352</u>

The Corporation of the Town of Petrolia
Trust Funds
Statement of Financial Position
For the Year Ended December 31, 2016

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

The Corporation of the Town of Petrolia
Statement of Continuity
December 31, 2016

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

Corporation Of The Town of Petrolia
Trust Funds
Notes to Financial Statements
December 31, 2017

1. Accounting Policy

Management Responsibility

The financial statement 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 judgement and review.

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. The expenses are recognized as they are incurred and measurable as a result of the receipt of goods and services and the creation of a legal obligation to pay.

2. 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.