



Hampstead's 2011 Financial Statements: A Brief Overview

Presented by Councillor Jack Edery (Finance)

Below you will find a reconciliation between the amount the Town recognizes as our operating Surplus for the year ending Dec 31 2011 and the Operating Surplus as per our audited financial statements. In order to be as clear, honest and transparent as possible we do not want residents reading the summary of our financial statements and concluding that our operating surplus is higher than it actually is.

The first reconciliation arises from a decades old law suit that was brought by Foster Wheeler against the City of Montreal. We have kept a contingency account on our books in case the City lost, representing our portion of the case. The City eventually won the case and we reversed most of our contingency account, moving it to surplus. This amount shows on our financial statements as income and increases our surplus. We do not consider this as part of our operating surplus. Strictly speaking it is not a part of our operations. It is however part of our accumulated surplus.

The second reconciliation is more common among municipalities. In 2011 we appropriated funds from our accumulated surplus. Part of these funds, along with other financing, was used for capital projects. As per reporting requirements the unused portion that we appropriated from surplus shows up on our financial statements as an additional source of financing other than regular income in 2011, and as a result increases our operating surplus on the financial statements by that amount. We do not consider funds that were appropriated from our accumulated surplus and then returned to it as operational revenue in the following year. To do so is in my opinion misleading.

Finally, as regards our accumulated surplus. Here our reconciliation with the official financial statements lies with the treatment of our working fund. The working fund is an amount that council decides at its own discretion to segregate from our accumulated surplus. This amount is intended for short term capital projects. The purpose is to use funds from this account and repay the funds to the account through an interest-free loan made to ourselves. The official financial statements do not consider the working fund as part of our unappropriated accumulated surplus. Given that we have the option of closing the working fund and moving all the proceeds back to the surplus at any time, we consider this amount as part of our accumulated surplus.

Below you will find three sets of figures;

The 1st set of figures gives a breakdown of our reconciliation regarding the 2011 surplus. To the right you will find the page and line number referred to in our 2011 financial statements. \$ 601,929 is our operating surplus per the financial statements. This amount is

made up of \$ 192,329 regarding Foster Wheeler, \$ 153,571 that was appropriated from surplus and \$ 256,029, which we consider our actual operating surplus.

The second set of figures is the derivation of the \$ 153,571 above (the unused appropriation from surplus). Again the right hand column details where the figures can be found in our financial statements. In 2011 we spent \$ 952,732 in capital assets (net of PRECO-related closed projects that were capitalized in that year). This amount was paid for from our appropriation from surplus, our interest free loan and our working fund. The amount that was left over was \$ 153,571. This amount was returned to our accumulated surplus. Again, as mentioned above, we do not consider this amount as part of our operating surplus, since its source of financing was not derived from current operational revenues.

The last set of figures outlines our accumulated surplus. Per our financial statements our accumulated surplus is \$ 1,589,840. We add \$ 128,697, which is the balance in our working fund, for a total accumulated surplus of \$ 1,718,537.

Our goal is to be as honest, clear and transparent as possible. A cursory reading our financial statements will lead to erroneous conclusions. I would recommend such reconciliations as standard procedure to all municipalities in Quebec.



HAMPSTEAD

2011 Operating surplus

| Amount | Details | F/S ref |
|----------------|--|----------------------|
| 192 329 | Accrual reversal for Foster Wheeler terminated legal action (incl.in «other».rev.) | p.S27-7 line 211 |
| 153 571 | Unused appropriations returned to accum.surplus (see details below) | |
| 256 029 | 2011 operational surplus | |
| 601 929 | | p.S15 line 27 |

| | | |
|------------------|--|-------------------------|
| <i>(952 732)</i> | <i>Capitalized assets from operations (3,515,032 less PRECO projects of 2,562,300)</i> | <i>p.S22-7 line 144</i> |
| 290 000 | Surplus appropriated for 2012 budget | p.S15 line 21 |
| 350 000 | Surplus reserved for Int-free loan | see below |
| 299 000 | Final borrowing for Int-free loan | p.S15 line 16 |
| 167 303 | Working fund | see below |
| 153 571 | Unused appropriations returned to accum. surplus | |
| | <i>(952,732) plus 350,000 plus 167,300 less recog.of 19K for UMQ quote part</i> | p.S15 line 19 |

2011 Accumulated surplus

| Amount | Details | F/S ref |
|------------------|---|-----------------|
| 1 487 911 | Jan-1, 2011 opening balance | p.S46-1 line12 |
| 601 929 | 2011 operating surplus per above | p.S15 line 27 |
| -150 000 | Appropriation for supplementary pension deficit contribution | p.S46-1 line 5 |
| -350 000 | Appropriation from previous year's surplus reserved for Int-free loan | p.S46-1 line 6 |
| 1 589 840 | Unappropriated balance | p.S46-1 line 12 |
| 128 697 | Working fund balance unused (approp.) | p.S23-1 line 27 |
| 1 718 537 | Full surplus (approp. + unapprop.) | |