



HAMPSTEAD

Thursday, October 1, 2009

Mayor and Councillors,

The Town of Hampstead's Finance department has recently reviewed a document tabled at the September 8th Council meeting. This document claims that the Town is in questionable financial health. As responsible and dedicated finance professionals, we have prepared this report to address the issues raised in this document.

Financial Statements

All municipalities must use external auditors to produce annual financial statements. The Town's auditors are *Goudreau Poirier*, a well respected firm with many years of experience auditing municipalities. They are the auditors for over 40 municipalities. They apply Generally Accepted Accounting Principles (GAAP) in accordance with the standards and rules mandated by the Quebec government.

All municipalities in Quebec must follow the same rules when producing their statements, which are different from the private industry. The Chief Auditor, Jocelyne Goudreau, has been a CA for 27 years and is the current president of the Municipal Administration of the Quebec Order of CA. Mme Goudreau was also a member of the Québec Municipal Affairs Ministry's Municipal Finance Committee; she was responsible for the 1998-2003 Municipal Audit Guide and edited the *Manual de l'assurance de la qualité* for the Québec Municipal Auditors' Association.

Debt Level

Hampstead's debt consists of inherited debt and debt taken on by the current administration to finance infrastructure repairs and reconstruction.

- Of the \$7.582 M debt inherited from the borough as of December 31st, 2005, an additional \$1.642 M was subsequently assumed for items relating to pre-demerger commitments. These included the historical debt for the water infrastructure, the Borough purchase of a heavy vehicle and the 2005 Transition Committee (CTAM) expenses. In effect, a figure of \$9.24 M accurately represents the opening debt liability at the reconstitution of the Town;
- The projected debt at the end of 2009 will be \$13.72 M. Of this, 55% of the debt incurred from local operations was in the form of a Québec Government guaranteed Interest Free loan, on which we will repay only the capital over the next twenty (20) years. We estimate that we should save about \$3.3 M in interest cost over the life of the loan;
- Based on the latest financial profiles available on the *Ministère de affaires municipales et des régions et l'occupation du territoire* (MAMROT) web site, Hampstead's debt service is at 8.8%. This rate is 30% lower than the average for comparable sized towns across Quebec. Using another comparison, Hampstead has the 4th lowest debt service with respect to 14 demerged Towns on the Island of Montreal (see table 1).

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Surplus / Deficit

With reference to the document tabled at the September 8th Council meeting, we are of the opinion that certain figures were presented out of context. Therefore, the interpretations based on the extractions require clarification.

For instance, the figures quoted for the supposed operational deficit (Re: Page 9 of the 2008 financial statements) are in fact extracted from a sub-total half-way down the page, where the «financing» needed to offset the investment expenses was omitted. Without these figures the reader has the impression that the Town was in a deficit position. In reality the Town has had a surplus every year since 2006.

Looking at Page 11 of the 2008 Financial Statements will show that there is a current operational surplus of \$996 K for the year 2008.

The tabled document uses the numbers from the middle of page 9 to suggest that Hampstead has a total deficit of \$3.75 M. The audited balance sheet clearly shows a total accumulated surplus of \$2.1 M at the end of 2008.

The surplus may be used to pay operational expenses and/or to pay down debt.

Debt Service

The schedule of capital repayments found in the 2008 financial statements shows a decrease in yearly debt service over the next few years.

Important investments have been incurred since 2006 for infrastructure rehabilitation and repairs to address the main problem areas. In the future, new government grants of between \$1.5 M to \$2 M will continue to finance a majority of the remaining projects. The Town will have no difficulty meeting the reimbursement of the existing debt.

Conclusions

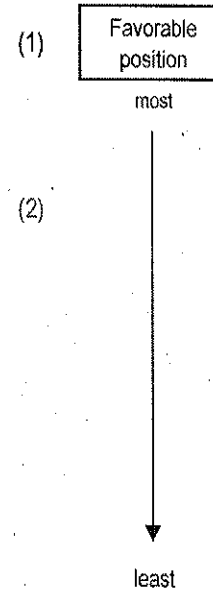
- Hampstead's annual debt service is manageable and is significantly lower than that of most demerged suburbs in Montreal;
- The Town has built up a cash surplus and does not have a deficit today;
- The Town Administration and the Finance Department will continue to work to deliver services of the best quality and to provide full and transparent reporting to the community.

Charles Ohayon, CGA
Treasurer & Director of Finance

Armin Klaus
Assistant Treasurer

TABLE 1

Municipality	Debt service
Senneville	1.56%
Westmount	5.60%
Côte Saint Luc	7.96%
Hampstead	8.80%
Baie d'Urfé	13.07%
Beaconsfield	13.26%
Ste-Anne de Bellevue	15.17%
Dollard des Ormeaux	15.22%
Montreal West	15.26%
Mont-Royal	16.30%
Dorval	16.60%
Montreal East	25.22%
Kirkland	28.92%
Pointe Claire	31.00%



Notes

- (1) Latest figures available from the Quebec government website > www.mamrot.gouv.qc.ca
- (2) 30% lower than the average of 12.54% for 288 Towns across Quebec in a comparable 2000 to 10,000 population range.