



Caribbean Developments (Antigua) Ltd.

BOARDS LETTER TO HOMEOWNERS REGARDING COMMUNITY CHARGE AUDITS

In an effort to ensure that property owners are better informed about matters related to the community, I am pleased to present to you the PriceWaterhouseCoopers (PWC) Community Charge audits for the years 2008, 2009 and 2010. These audits are part of CDAL's obligations to you, in providing information on the cost of operating and maintaining Jolly Harbour.

Audits for the years 2011 and 2012 have started and will be published as soon as they have been completed. We will however in the interim be releasing a summary of Community Services costs for the years 2011 and 2012 (management accounts), in an effort to provide information that is as current as possible. These management accounts have been prepared in accordance with the framework applied by PWC for the published accounts.

In preparing these audits we have taken particular care to address some of the difficulties experienced by the 2007 audit. As a general comment, CDAL has for over 20 years provided community services and managed its development activities under one umbrella organization. This fact has meant that persons would spend portions of their time engaged in work related to community services and at other times, work related to the development company. It is perhaps little known or appreciated that the development company has always substantially subsidised the cost of providing community services through the sale of assets or direct cash injections; a process that is inherently unsustainable.

In setting the 2007 community charge rate, the then new owners were conservative in their application of what constitutes community costs. Our initial plans were to substantially increase the number of units within Jolly Harbour as part of our development plans. This proposed construction would have had a substantial impact on the per unit maintenance cost of the development. Taking these matters into consideration and in light that the expanded development would not have met the 80/20 rule requiring that the community cover its operational costs independent of the developer; the decision was made to load more of the costs to the developers accounts. Ultimately the company's intention was that management of the community would eventually be assigned to an independent property management company, leaving the development company free to focus on its property development business.

One of the justifiable concerns of the 2007 audit, was that in attempting to determine what portions of cost should be attributed to Community Services vs the Development Company, a complex system of apportioning and exemptions was utilised. This process in hindsight appeared arbitrary to some and ultimately proved too complex to be of practical use. In an effort to correct this position the 2007 community charge methodology has been abandoned in favour of a much more simple process.

sections of the capping should be replaced as and where damage was clearly visible. The report also stressed that homeowners restrictions on construction that places pressure on seawalls should remain in force and that a further strengthening of these measures should be put in place.

- Jolly Harbour Waste-Water Treatment Plant – A report was compiled by Smith & Loveless Inc and made a number of recommendations to bring the plant in line with new health and safety standards. Since its compilation many of the recommendations were enacted and as such a new report is required. This will be commissioned shortly with the results provided to the community.
- Jolly Harbour Bathymetric Survey – A report examining the navigation channels. This report has been used for the current works scheduled currently underway. There has been a build up over time of sediment in the navigation channel to Jolly Harbour. It was recommended that works to fix this should be undertaken. Under a standing agreement with ECMB, such costs are shared between the marina and CDAL as boat safety is a critical area for both homeowners and visiting yacht's persons alike. These works have already commenced and will be completed over several weeks.

EXECUTIVE SUMMARY OF THE 2008, 2009, 2010 COMMUNITY CHARGE AUDITS¹

Communal expenditure incurred by CDAL in respect to the Jolly Harbour Development consists of the following departments;

Administration – This department is responsible for the general management and administration of Jolly Harbour and is comprised of persons involved in; Human Resources; Accounts; Customer Relations and the office of the General Manager. This department's reported costs also include general and public liability insurance for all staff involved in communal operations.

Maintenance and Infrastructure – This department is responsible for the repair, maintenance and operations of the Jolly Harbour infrastructure and covers among others the operations of the sewage treatment plant; backup generators; electrical and water distribution systems; road and seawall repairs; general maintenance of the compound and the painting of villas. The electrical costs of operating the sewage treatment plant and street and safety lighting is also reflected in this departments accounts.

Security – Providing security for Jolly Harbour, this department operates a force consisting of approximately 55 persons, who provide 24 hour coverage to the community. Its operations include fixed manned positions (officers at security gates et al); a rapid response unit; mobile patrols; a marine patrol; and the monitoring of security cameras. This department also works in close cooperation with the Royal Police Force; the Office of National Drug and Money Laundering Control Policy (ONDPC); and the Customs and Immigration Department; on issues ranging from narcotic and human trafficking; money laundering; and border control in addition to other functions.

¹ As published by PWC

Grounds – With responsibility for maintaining all public areas, the grounds department is responsible for the general upkeep of all communal areas in Jolly Harbour. With a staff complement of approximately 26 persons, this department maintains all easements; common areas; trees and general foliage; pest control; garbage collection (seven times per week) – inclusive of domestic and illegally dumped homeowner commercial waste; the treatment of palms against lethal yellowing disease and; the fogging of the property mosquitoes and the cleaning of the beaches and waterways.

Warehouse Operations – The warehouse is the central store and repository of all equipment utilised for the general upkeep and maintenance of all equipment at Jolly Harbour. Typical items include; water pipes; high voltage electrical cabling; spare pumps used in either the sewage system or potable water distribution; parts for the four standby generators; switching gear; machinery; oils and lubricants; hazardous chemicals; paints; and all other inputs for the general maintenance and operation of the communal services.

Mechanic Shop – The mechanic shop is responsible for the repair and upkeep of all equipment and machinery within jolly Harbour. These services are in addition to repairs and other specialised fabrications that may be required from time-to-time on pumps; sewage lift stations; generators; and/or other equipment.

NOTE: The Commercial Centre and the Jolly Harbour Golf and Country Club are privately owned properties operated by the Development Company. The Golf Club is available to all persons on the payment of applicable green fees. The cost of operating this facility is the sole responsibility of the Development Company and receives no funds from the Community Charge.

The BBR is a commercial facility consisting of a privately run restaurant and sports facility. The sports centre consists of a squash court pool and tennis courts which are made available to both property owners and the general public on commercial terms. Property owners pay for the use of the facility via a nominal monthly charge of approximately EC \$4,600 per month (US \$1,712). All other operating costs of the facility are the sole responsibility of the Development Company.

FINANCIAL RESULTS 2008, 2009, 2010 (PWC AUDITS), 2011, 2012 MANAGEMENT ACCOUNTS

The cost of communal services as per the New Community Charge Methodology in peaked during 2008 at EC\$11.7 million (US\$4.34² million) or US\$453 per month per unit. These costs declined steadily over the last few years decline to EC\$8.1 million in 2012 or approximately US\$304 per month per annum.

Summary of Community Charges 2008-2010 (EC\$)					
	PWC Audit			Management Accounts	
	2008	2009	2010	2011	2012
Maintenance and Infrastructure	\$ 4,277,211	\$ 4,202,568	\$ 4,078,850	\$ 4,504,999	\$ 2,427,273
Security	\$ 3,298,466	\$ 3,202,037	\$ 3,105,522	\$ 2,675,514	\$ 2,240,218
Administration	\$ 1,731,188	\$ 1,603,895	\$ 1,494,707	\$ 1,707,106	\$ 1,399,351
Grounds	\$ 1,529,199	\$ 1,561,557	\$ 1,599,610	\$ 1,498,836	\$ 1,456,124
Warehouse	\$ 497,599	\$ 410,095	\$ 364,409	\$ 302,763	\$ 357,478
Mechanic Shop	\$ 390,974	\$ 309,901	\$ 298,235	\$ 310,465	\$ 277,805
Total Community Costs	\$ 11,724,637	\$ 11,290,053	\$ 10,943,343	\$ 11,001,694	\$ 8,160,261
Number of Community Units	798	799	802	809	809
Required Monthly Charge to Cover Costs EC\$	\$ 1,224	\$ 1,178	\$ 1,137	\$ 1,133	\$ 841
Required Monthly Charge to Cover Costs US\$	\$ 453	\$ 436	\$ 421	\$ 420	\$ 311
2007 Rate Inflation Adjusted 4% per annum	\$ 260.00	\$ 270.40	\$ 281.22	\$ 292.46	\$ 304.16

These reductions represent a concerted effort by CDAL to find means of cutting costs while maintaining services and these latest efforts, supported by CDAL staff, saw a voluntary reduction in salaries by staff (Security Officers 12% and all other staff including management -20%), over the last 6 months. These efforts, significant within their own right, still leaves CDAL with a financing gap as Community Charge rates of US\$250 per month per unit, is clearly insufficient to meet actual operational costs of US\$324 per unit per month.

Changing times and a difficult economy requires that CDAL explore all options in seeking to address the imbalance between real communal costs and real income. Our position is made more difficult by some persons wilfully withholding community charge payments despite the fact that services continue uninterrupted. Other challenges are also experienced by the fact that there are some in our community who face personal financial difficulties and find themselves unable to maintain what for some is a holiday home, while for others Jolly Harbour is their primary residence. We continue to work with all those who have genuine financial difficulties but conversely are prepared to challenge all those who continue to enjoy the benefits of Jolly Harbour while wilfully withholding payments whether in part or in whole.

² Conversion rate US\$1 – EC\$2.7

CONCLUDING REMARKS

CDAL remains committed to the on-going development of Jolly Harbour and to the establishment of relations with property owners that is respectful and beneficial to all parties. Jolly Harbour continues to be a unique development within the Caribbean and continues to enjoy a quality of services that is unparalleled anywhere else within Antigua.

We appreciate there is need for improvement and it is our hope that with the advent of the new services management company, and with the involvement and support of property owners to the Advisory Board, that there will be a greater appreciation of the practicalities of operating Jolly Harbour.

The current community charge cost has remained at a rate that was set in 2007, and as can be seen from the PWC audits, does not cover real communal costs. We have developed a comprehensive restructure plan to align communal costs with actual communal income and will shortly begin implementing many of the necessary measures. These measures will require radical changes in how CDAL has operated in the past, but we give our assurance that such measures are intended to balance the need to provide a safe and secure environment while keeping costs at a minimum.

We caution however that despite the restructure plan, there will be a transitional period and associated costs which will need to be financed. While the current realities will require that the community charge rates for the remainder of the year be adjusted, the saving from the restructure plan will be passed on in full to the community and result (over time) in a gradual decrease in rates. **Where surpluses occur these will be paid into the proposed Sinking Fund, which will be used exclusively for future infrastructure works.**

I am fully aware that this report and the attached documents will raise a number of questions. We will be providing additional information over the coming months as to both our progress and as to measures we are undertaking. All these matters will be tabled before the Advisory Board and it is expected that debate will be both hearty and vigorous. While we welcome such discussions the ultimate goal has to be a Jolly Harbour that is more efficient in providing communal services, and one that builds on what we have and improve the community that we all call home.

The Board