

Jolly Harbour Sinking Fund Guidelines

May 24, 2018

Background

The creation of a Sinking Fund (SF) was announced in 2014 by CDAL to create a fund for 'future capital items' in association with the 2014/15 budget (Notice of 31st October 2014) as no system or reserves existed to provide for ageing infrastructure replacement.

Funds were to be held by CDAL in a 'dedicated Escrow account', from which members of a newly created Advisory Board (a group consisting of two CDAL staff and eight property owners) would approve expenditure on required/agreed items.

Homeowner SF contributions commenced in January 2015 at a rate of \$10.00USD per property per month and have continued to date. Despite attempts by all concerned at the time to create written guidance on the use of the SF, no formal procedures or guidelines were ever established. The SF monies were not put into a dedicated Escrow account by CDAL, so funds are currently held in CDAL general accounts. CDAL and JHHA agree and have recognised that this situation is unsatisfactory and a process of rectification of this situation is now underway.

These Guidelines are subject to and may be amended, based on the outcome of the recommendations of the Transition Task Force.

New bank Account:

A bank account will be established sufficient to meet the needs of the SF.

Pending the outcome of the recommendations of the TTF, and the potential for property owners to acquire CDAL, we are not forming a new entity, at this time. The new account, in the interim, will be at CDAL's bank. Wim has made progress with the new account, it will be operational end of July, 2018. At that time, 100% of the then current balance of Sinking Fund will be transferred to the new account. The name of the new account will be "CDAL / Property Owners SINKING FUND".

There will be 2 signatures required for a transaction. (transferring funds or signing a cheque). One from CDAL and one from a property owner. These people would be any 2 from a list to be established. In other words, there may be a list of 3 or 4 CDAL people and a list of 3 or 4 property owners. Any one person from CDAL's list, along with any one person from the owners list, together, could transact funds. It is important that these people be full time residents, so that transactions can be executed all year round. Electronic signatures are not accepted by the bank.

Monthly SF bank statements will be posted to the CDAL website, under "CDAL / Property Owners SINKING FUND". The Sinking Fund will incur the cost of maintaining the account, cost of cheques and service charges.

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Definition of Use:

Use of the SF will be for the sole purpose of maintaining/replacing major assets of CDAL (i.e, assets used for the exclusive benefit of JH Property Owners only) which are not funded in the annual CDAL maintenance/operating community budget, nor items under warranty, nor limited warranty, nor items covered by insurance. For clarity, if an item is under limited warranty, and the warranty will cover a portion of the cost, the SF would cover the balance. Any insurance deductible would be covered by the SF. Otherwise, the SF will only be deployed for expenses, as directed by the Approval Committee.

Determination of the level of ongoing Sinking Fund Contributions required.

It is agreed that an independent objective basis is needed to determine the life of assets and the amount of money needed to meet the needs of the SF, and therefore the amount of money needed from each property owner each year. The SF Working group is proposing that Engineering Studies be employed.

Such Engineering Studies, deployed from time to time, will be the independent, objective basis used to determine the forecasted life of assets. The studies will govern the financial needs of the SF and be the basis on which SF amounts are established and charged to property owners. The cost of the Engineering studies will be an expense of the SF.

In the case where the financial requirements to maintain/replace vital assets, exceeds the capacity of the SF, a bank loan may be required or a "Special Assessment" may be applied to SF contributions. Any special assessments will be the responsibility of the property owners.

An example of a Special Assessment might be: a vital asset, perhaps the sewage plant, suffers unexpected damage. Cost 800K EC, SF balance 500K EC. The unfunded balance of 300K EC would be charged and collected equally among the property owners. For clarity, this amount would be in Addition to the regular monthly SF requirements.

An annual review will determine the amount of the SF collected (via monthly invoice to Homeowners), taking into consideration the financial position of the fund, forecast infrastructure replacement costs and or reserves, in which case SF contributions may be increased or decreased.

Sources of Funds:

Amounts specified by the Engineering Studies, for the SF, will be invoiced each month to property owners by the CDAL accounting Department.

Monthly, the collected funds will be transferred / deposited into the SF account. A review process will take place (with CDAL) quarterly to assess non-payments by homeowners, and procedures will be established in the first instance to encourage full contributions to be made by all homeowners, however the SF Approval Committee reserve the right to take remedial actions against long term non payers to ensure that the costs of long term investment in the infrastructure of Jolly harbour is shared equally by all Property Owners .

Any surplus, in any fiscal year, from the annual operating budget, shall become SF revenue, and be transferred to the SF account. Such surplus may result in a decrease in the regular monthly SF amounts required from property owners, in that or following years.

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New Sinking Fund Approval Committee.

The approval of any expenditures from the SF will be decided by a new SF Approval Committee, consisting of 3 members.

The committee will be made up of, one from each of the JHHA Executive, an appointee of CDAL and an independent (appointed jointly by CDAL and JHHA).

These people need not be full time residents, as electronic approval will be acceptable.

By CDAL signing off such proposals, it takes specific responsibility for the delivery of the item in question, to budget and timescale.

The new SF Approval Committee, shall be in place prior to the opening of the new SF account.

Application Procedure for Drawdown to the Approval Committee:

A standard operating procedure will be used:

- A written application shall be completed by CDAL for each proposed SF drawdown.
- The application, (the form of which will be determined), will include the following: a description of the asset repair or replacement, the total cost, including, but not limited to, an estimate of labour hours for work completed by CDAL forces, any third party costs, material, equipment purchase / rental, freight , timescale for completion of work, financing charges, and any other related expenses.
- All expenditures must be backed up with appropriate documentation.

Where practical, 3 competitive quotes, will be required for any equipment or infrastructure repair / replacement or third party costs. The only exception to the application procedure will be in the event of an emergency, where verbal agreement of Approval Committee members is deemed sufficient to act with requisite urgency. In this case reasonable costs will be recorded and submitted post the event.

By CDAL signing off such proposals it takes specific responsibility for the delivery of the item in question to budget and timescale.

Sink Fund Cap:

In the eventuality where the balance of the SF account exceeds the requirements, including any reserves, set out by the governing Engineering Studies, the board may suspend or reduce the monthly SF invoiced to property owners.

Agreed this the 24th of May 2018.

On Behalf of CDAL

On Behalf of JHHA

Wilhelm Berends



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29th MAY 2018