

Arcadia AGM at 23. May 2017

Control Board Report of the year 2016-2017

Status at AGM Last year at 17. May 2016

At the time when we were assembled last year for the AGM the Control Board (CB) was rather positive about the future situation of Arcadia.

Our premises were in good shape. Garden and Pool were maintained well and we were satisfied with our Property Manager (PM) and the staff. Also, finances were under control and important decisions were made at the AGM 2016 to be in even better control in the future. Base Budget was approved and investments in front gate, staff shed, and security cameras were approved.

So the future looked pretty bright at that time.

Social insurance inspection 6. June 2016

At the 6th of June 2016 an inspector from Social Insurance (SGK) showed up at Arcadia. The inspection was unannounced and the purpose was to assure that the PM of Arcadia had reported and paid Social Insurance correctly. The punishment for false reporting of staff assignment to avoid Social Insurance is very high (30 - 40.000 TL for minor violations).

Therefore the CB has asked Mete Tanis several times for evidence of correct reporting and payments. Mete Tanis informed the CB that it was difficult to document because the money should be paid by cash into one of the national banks, and our bank, AKBANK, is not such a bank.

When Arcadia was inspected at 6. June 2016 a report was written and signed by Mete Tanis, and everything was believed to be correct. A copy of the SGK report is attached. And in the mail from Mete Tanis at 12. June 2016 Mete confirms:

"I confirm that social insurances from 01.07.2015 are paid excepting June 2016".

Unfortunately Mete had not reported that one of our staff member started in June 2015. He reported that he started in late August. So we were billed about 1.500 TL less. When SGK found out, Arcadia was receiving a fine of about 38.000 TL.

The Control Board sought advise at our lawyer, Mr. Karakoc, and he appealed the case. Until now this dispute has not been settled.

Revision of the Yearly Financial Statements in July 2016

In early July 2016 (4 – 6. July) the CB and Mete Tanis held several meetings to solve the dispute of account balance. The CB had a calculated cash amount of 13.578 by 1. July 2016 (Yearly result) and Mete claimed that there was no money in his "cigar box". The deposit in AKBANK was 11 TL.

The main dispute was that Mete claimed that he was never paid during the whole year (12.000 TL in management fee). The CB claimed that he could pay himself out of the calculated cash amount: 13.578 TL minus 12.000 TL = 1.578 TL in remaining cash. The CB insisted that all expenditures had to be documented or in some way made plausible. Mete refused to understand the arguments of the CB and said that he could not afford to lose 12.000 TL.

Mete was at that time responsible for 12 months of income and expenditures. When those two figures were deducted, we had the calculated liquidity (sum of credit in Akbank and deposit in Mete's "cigar box").

After this dispute the Control Board felt, that Mete was not in control of the accounts.

But that was only the beginning of bad news.

Mete was given a "Last Warning" on 7. July 2016

Because the CB had lost trust in Mete's financial reporting and at the same time he made it very difficult to audit the CB decided to give Mete a written "Last Warning" for gross contract violations. In this "Warning Letter" the CB focused on four items:

- a. All cash payments are deposit in our bank account within three bank days
- b. PM will cooperate seriously with the Control Board members and stop "off-hooking" their influence
- c. That no expense outside the budget and over 500 TL is initiated without written approval from two Control Board members
- d. That fee collection is handled seriously and bringing down the amount of outstanding fees.

Afterwards the "Last Warning" was written into the Decision Book and signed by Notary in Manavgat.

Serious violation of agreement after last warning was signed

After the "Warning Letter" and CB bank access was implemented the CB urged homeowners to make their payments and several thousand came in the days after. Then Gerard discovered that Mete Tanis had emptied the account on the 15. July where he withdrew 3.900 in cash for no reason, and again the 19. July he withdrew 1.650 TL in cash for no reason. This was a gross violation of the agreement just made. Mete Tanis said it was for paying staff two weeks later, but when staff should be paid by the end of the month they were not paid timely.

In addition B10 made a cash payment of 2.040 in early July and Mete Tanis was urged to deposit this amount into AKBANK as agreed, but this was never done.

For a long time we had been informed that the former owner of D2 had paid his debts to our lawyer but the money never showed up at the account. When the CB contacted the lawyer direct without informing Mete Tanis we discovered that 2.820 TL was transferred from the lawyer's account to another account – not belonging to Arcadia back in April 2016. This was never reported by Mete Tanis in his account report to the homeowners. Actually it was not included in the approved accounts at the AGM 2016 at 17. May 2016.

Now the CB started to think: What else had been taken from Arcadia's account without reporting it to CB and homeowners?

CB informs all homeowners 31. August 2016

The CB discussed how to get things under control again and it was decided that both Fritz (B6) and Gerard (D6) would make an extraordinary trip to Arcadia by the end of September to get things under control. In the meantime some homeowners visiting Arcadia were very helpful to support the staff and handle the daily problems like buying chemicals to the pool.

The CB has the responsibility of informing all homeowners when gross violations are happening, and Gerard formed an information letter which he sent out to all homeowners at 31. August 2016.

The CB visit at Arcadia by the end of September 2016

The CB found that Mete Tanis had totally neglected his duties for several weeks. The staff informed the CB that Mete was ill. So the CB started to solve the practical problems at Arcadia and tried to book a meeting with Mete Tanis to find out what to do. Fortunately a meeting was arranged with Mete at Arcadia at 1. October 2016. At this meeting Mete claimed that he was sick and could not perform normally. Mete did not want to continue as PM if a solution could be found. A separation agreement was discussed among the parties and formed in writing.

In this termination letter Mete promised to:

1. Resign from all three Arcadia accounts in ASKBANK*
2. Immediately turn over all Arcadia possessed artifacts and documents and cash money
3. Not have any claims against the Arcadia Homeowners or Control Board after this date.
4. Make this separation peacefully.

Bad News – SGK Social Insurance was never paid

When we contacted SGK in start of October 2016 in order to pay Social Insurance for the last two months, we discovered that Mete had not paid the reported social insurances. Mete has stated several times both verbally and in writing that all social insurances were paid up to July 2016, but SGK claims that we owe them about 25.000 TL and that we might be fined by 40.000 TL because Mete's reports to SGK could not be confirmed by the SGK inspector when he unannounced turned up at Arcadia 6. June 2016.

The Control Board regard this matter as a serious threat against Arcadia and we have consulted our lawyer (Av. Mehmet Birim Karakoc) on behalf of the homeowners, to seek advises on handling this situation. Our lawyer is still evaluating our situation but he informed us for sure that we should pay immediately to reduce the risk of being fined by 40.000 TL in addition to the 25.000 that we owed to SGK.

Of course Mete Tanis was responsible as PM of Arcadia, but the SGK will go after Arcadia as a legal entity, and then we can try to get the money from Mete Tanis afterwards. That's his legal advice so far.

We are continuing to work with Av. Mehmet Birim Karakoc to evaluate how to go on with this case.

In the meantime B6 has lent Arcadia 5.770 Euro plus 5.351 TL.

- 5.351,50 TL was paid to SGK for July – September 2016 at 2. November 2016

- 18.333,60 TL was paid to SGK for the period before 1. July 2016 was paid at 24. November 2016

The Euro loan from B6 remains in Euro and will be converted to TL at the time B6 has no more advanced money on his Arcadia account.

The 5.351 TL loan was later converted to Advanced Payments on the Arcadia account.

Damage Control started late September 2016.

From end September to end October the CB performed several actions to get things under control. Time was important and severe actions needed. It was a “Damage Control” situation.

1. The CB terminated the contract with Mete after written warning and still gross contract violation
2. The CB worked closely together with our lawyer, Mr. Karakoc, on all legal matters
3. The CB asked four homeowners to make huge advanced payments of about 30.000 TL to pay staff and unpaid bills. Mete never returned his “cigar box” where the CB had calculated the sum to be about 19.000 TL.
4. The CB contacted Dursun Gül, the Property Manager of Citrus Garden, to get help on practical matters
5. The CB called the Arcadia homeowners for an extra ordinary homeowner meeting
6. The extra ordinary homeowner meeting was held mid October 2016 and Dursun Gül was elected as temporary Property Manager. This was urgent because staff needed daily guidance and monthly payments.
7. One of the staff from the time, when Mete was the PM, made lot of trouble and claimed that he had not been paid for several months. Mete did not deliver all office paper back to us as promised in writing, so we had to settle this matter and that costed us an extra 4 thousand TL. A replacement staff was employed and we are satisfied with his performance.
8. Our new PM, Dursun, started to get office papers in order and to handle the neglect of daily work at Arcadia. This took some weeks.

New front gate with fob

In November 2016 a new front gate with a fob was installed for three reasons:

1. It was decided at the AGM 2016 in May 2016
2. It provided extra security
3. It allowed staff to work on other duties (gardening, pool maintenance etc.) in day time

If you need more than one fob, you can purchase some extra from the PM.

Staff shed and security cameras

At the AGM 2016 it was decided to invest in staff shed and security cameras. Unfortunately our financial liquidity was suffering from the loses by Mete and all collected fees was spent on daily necessities.

Those investments are presented on the agenda at the AGM 2017.

End year 2016 status

The CB is very satisfied with the performance of our new Property Manager, Dursun Gül. He was very efficient in October 2016, when we were in deep trouble.

We saw afterwards that staff again became satisfied with Arcadia as employer, and our premises returned to the high standard that we are paying for.

Dursun Gül is not doing the accounts himself, but giving all financial documentation to an external accountant in Manavgat (Ayse Ünal Muhasebe). This accountant company works with a fiscal year being the same as a calendar year. So they made the yearly report just after year end.

The CB recommend that Arcadia in the future work with the following procedure:

- Arcadia fiscal year is from 1st of January to 31th December
- The AGM will be kept in May when most homeowners plan their holiday at Arcadia
- The Property Manager and the budget continues to be from 1st July to 30th June.

Spring 2017 status

Not very much to report from this period. Things are quite normal at Arcadia.

- Staff are doing their work and are paid on time
- Our premises are kept in good order
- Repairs are done when needed
- Bills are paid on time
- Most homeowners are paying their fees on time

In general things are back to normal again, but we have a huge liability that we have to pay the fine to SGK in the near future.

Status on Legal cases

At the moment we have several legal cases in process or in preparation:

1. Appeal case because of the SGK fine of 38 thousand TL (proceeding)
2. Case against Mete Tanis for criminal performance (proceeding)
3. Civil Case against Mete Tanis for 19 K social insurance and the SGK fine (in preparation)
4. Civil Case against SPM (Mete employer) for 19 K social insurance and the SGK fine (in preparation)
5. Civil Case against Mete Tanis for 21 K stolen from us in 2016 after 1st July (in preparation)
6. Handling of Arcadia homeowners not paying (one active case by now)

Our lawyer Mr. Karakoc will explain at the AGM 2017 meeting what the status are at each case.

Conclusion on the whole year 2016 – 2017 (Lessons Learned)

During last year we have learned several lessons:

- Don't trust a single person. Trust is good, but control is better

- Look for evidence and don't listen to explanations
- Turkey is not Europe. Turkey has its own business culture
- Cash payments are hard to control. No trail of evidence is possible afterwards
- Don't be patient with non-payers. Give them to the lawyer and use legal
- The employer is responsible for documentation of all staff payments. If a staff has not signed a cash receipt then the staff can ask to be paid again for the same work.

Recommendations for future policies will be presented in the AGM 2017 agenda:

- Arcadia must be managed by a Management Board where at least two persons are mutually responsible for bank transactions and budget control.
- Use an external company to do the accounts (separation of duties)
- Continue to have a control board that are skilled with account control and general management
- Insist that all fee payments are done through the bank to have evidence
- If fee is paid in cash then get a receipt and keep it safely for later evidence
- Do all payments for staff, social security, water and electricity etc. through bank
- Small bills may be paid in cash, but always get a signature for receipt
- All staff and relief staff salaries must be done through bank or receipt must be signed
- Be very accurate on reporting and paying to SGK for social security of employees
- We must change from Akbank to a state bank like Garantibank to pay social insurance by transfer
- Don't tolerate non-payers. Give them to the lawyer for handling
- Separate Base Budget and Investment Budget. It is easier to control.

Best Regards

Fritz (B6) and Gerard (D6)