

CAREFREE GENERAL MEETING MINUTES- APRIL 14, 2022 - 1:00 - 3:30 PM

Call to Order -President Nicholas Recanati

Board of Directors: Nicholas Recanati, President; Frank Bracco, Vice President; Marilyn Collichio, Treasurer; Marie Persichilli, Secretary; Steve Jackalow; Joseph Marone; Tony Mingo, Absent/Vacation.

Pledge of Allegiance - Moment of Silence remembering all First Responders, Military and especially Ukraine - Roll Call

Motion not to read March minutes, approved, seconded, all in favor

No Clubs reporting due to the importance of this Shareholders meeting regarding the current financial status of our community.

President Recanati's opened by informing the community of our recently discovered financial shortages and new board business. His presentation is attached and will be in the next Gazette edition.

Treasurer Collichio explained the current status of the financial situation facing our community and the challenges we all face. Her presentation is attached and will be in May's Gazette. It was recommended that we have a forensic audit prior to preparing a 2020 annual budget due to irregularities and un-reconciled financial records. "We are currently interviewing auditors and will start this audit as soon as possible. We will keep the community updated and when the audit is completed the report will be available to all Shareholders".

Secretary Persichilli- "At this point, I do not have anything else to add, everything has been covered by our President and Treasurer. I just want to say that we are united as a board and are working very hard to rectify this situation. We are also shareholders and will feel the same burden as the rest of the community. Please trust us, and we will get through this as a community."

Vice President Bracco- "I am proud to have been chosen as your new Vice President. Understand that this recently discovered financial situation can not be fixed overnight. We will wait for the forensic audit reports findings and look forward to working with our new attorneys. We are exploring ways to cut expenses to help with association due increases. No shooting from the hip, we are taking this very seriously. Please do not panic. Together, we are working diligently for the benefit of our community and we will bring it back, to the way it was, when I moved here 16 years ago. Give us time and I assure you that we will get there."

Director Jakalow- "Due to the financial situation facing our community, the board made the decision not to have life guards this season. This will save our community \$24,900. The pool contract has been awarded to Candlewood. We have checked with our insurance company and not having life guards will not affect our insurance premiums. We have a 25 million dollar liability coverage plan. I will meet with Candlewood this week to ensure that we are up and running for our grand opening."

Director Marone - "I really have nothing to report, except that it has been brought to my attention, that I have mismanaged Carefree community. However, now I am waiting for the accusation that there have been misappropriation of monies. That is why the board removed me as President. Most of what I have been accused of has been going on for years prior to my service. And I just let it go, because it worked that way. Apparently it didn't."

The board requested the assistance of Frank Burbage to prepare a 2020 Annual Budget. After he reviewed our financial records he discovered "irregularities and un-reconciled differences". Based on these findings he recommended "an independent CPA firm qualified for the audit of the books and records of the Corporation". He also recommended that the board implement a "Finance Committee consisting of qualified financially savvy homeowners to work with the Board Treasurer and oversee and present the financial reports to the community". The board took his advice and are currently interviewing auditors and have implemented a Finance Committee. The

Board expresses their gratitude to Mr. Burbage for his expertise, love of our community, his years of commitment which is evident by his help.

Carefree Homeowner Association Funding

The board is responsible for the maintenance and upkeep of the community. In order to fulfill this duty we must ensure that the yearly association dues cover all community operating expenses. Examples-staff, utilities, insurance, maintenance, supplies, etc. In order to complete this task it is necessary to prepare an Annual Budget. Our bylaws, Article III, Section 7, E., require that the Annual Budget must be presented to the Shareholders on or before the January General Meeting. Our community has not had an Annual Budget since 2019.

This years dues are \$400 a year, multiply that by 1610 homes, which gives us \$644,000 a year. These funds must cover all operating expenses including general maintenance costs. Unfortunately, this is not enough money to cover our yearly expenses which puts us in the red.

The Annual Budget is a tally of all upcoming expenses and must be prepared prior to conveying the cost of the yearly dues. When calculating these costs we must figure in inflation costs, unexpected events and that some Shareholders may not pay their dues. That final figure is then divided by the number of homes which calculates your yearly association dues. A budget has not been done for the past 4 years and increases have not been reflected in our dues. The funds which were allocated for the Capital/Reserve fund were used as operating money. This mismanagement of community funds caused our Capital/Reserve funds to be under-funded and substantially overspending of our Operating Budget.

The Capital/Reserve Fund is the community's savings account. It is used for large-scaled projects and improvements and must be maintained in a separate banking account and not co-mingled with operating funds. The primary purpose of this fund is to pay for these expenses without having to raise dues or resort to charging each Shareholder a "special assessment".

In order to ensure that your Capital Reserve Funds are properly funded a Capital Reserve Fund Study is prepared. This study was conducted by Falcon an outside Independent firm in 2019. It assess the community's amenities and prepares a budget of estimated costs so that the community saves enough money to pay for these improvements when they are necessary. These funds are strictly regulated. Spending of these funds must adhere to the community's bylaws. Examples-roof, parking lots, curbs, sidewalks, windows, etc. Over the last four years, our community has not contributed any money into this fund which cased us to be under-funded according to our Capital Reserve Study. Not having proper funds in this account put the community at risk.

Our bylaws, Article III, Section 7, U. Require all Transfer fees and Rental Administration Fees be applied to our Capital Reserve Fund. Transfer fees are the application fee paid to the association when someone purchases a new home. Currently that cost is \$650. The total transfer fee is the number of homes purchased in Carefree times \$650.

Every year the association's budget must start with a 0 dollar balance. All funds not spent in the year they are earned are called "surplus funds" those funds are required to be deposited into our Capital/Reserve fund. It appears, over the last 4 years due to no Annual Budgets these funds remained in the account and carried over to the following year.

Upon review of the last four years of our community's Balance Sheets and Profit & Loss Statements, the transfer fees & rental fees listed below have not been deposited into our

Capital/Reserve funds. These funds have been used as Operating funds. This is a direct violation of our bylaws.

2021 Transfer fees & rental fees =\$ 75,840.00

2020 Transfer fees & rental fees =\$ 95,531.78

2019 Transfer fees & rental fees =\$100,050.00

2018 Transfer fees & rental fees =\$ 80,900.00

Total of funds spent, not saved - \$352,321.78

Our Profit & Loss Statements show gross income and actual operating costs for the year. The following figures are computer generated and may not be completely accurate. The transfer fees & rental fees are deducted from the gross income to give you a more realistic operating income vs. spending.

2021 Gross Income \$621,937.72 Operating Costs- \$745,358.31

2020 Gross Income \$627,195.53 Operating Costs- \$760,467.37

2019 Gross Income \$628,579.46 Operating Costs- \$897,626.99

(*2018 Donation from VA for \$109,689.45 applied to Operating costs for 2019 which is actually \$159,361.08 but the funds were donated in 2018 and spent in 2019)

2018 Gross Income \$723,183.22* Operating Costs- \$722,063.46

(*Gross income includes VA donation of \$109,689.45 which was spent in 2019)

2020 & 2021-Sunken Branch Dam \$73,395-Former President Marone did not get 3 bids

2019 Improvements \$117,102.86-these improvements were paid for by VA see above.

The Profit & Loss Statements list all income and expenses by category and will help all Shareholders to better understand the costs and expenses to operate our community along with the actual funds received by dues, interest, rent, transfer fees, bingo and our clubs. Due to COVID our clubhouse was closed from 3/20/20 - 7/2021. Even though the clubhouse was closed all maintenance and operation remained in function. The only element missing were the Shareholders. We lost funding from Bingo and the clubs. However, our deficient spending started before COVID and continued after we re-opened. As you can see from the above, monies have been co-mingled. The forensic audit will help to identify and provide guidance to correct these issues.

We are approximately \$250,000 over budget for this year. We are working as a team to find ways to reduce expenses. Cutting life guards saved \$24,000. Request for bids for insurance, cleaning contract have been requested and we are exploring other ways to cut expenses. On top of our troubles, we had a blizzard, the board negotiated the snow removal cost down to about \$70,000. After this terrible blow to our community and discovering that we did not have a snow removal reserve, the board will institute one so that we never find ourselves in this position again.

Holiday City Homeowner's Corp vs. Scott Kerico, Ocean County Court, Docket No. C-74-18; New Jersey Appellate Court, Docket No. A-5542-18A[1] A-0199-19. As of February 2022, the itemized cost for the Kerico case was \$43,913.75. We received a total of \$6,268 from 7 other communities. To date Carefree has paid Leodori \$37,645.75 for this case.

Club Fund Raising Donations- All money raised by the community Clubs are deposited into our Operating Budget and used towards community expenses. Thank you to these clubs for all their hard work and dedication to serve our community.

At this time, we apologize that we are unable to provide our Shareholders with the actual yearly association dues. As Board members, we will feel the same financial impact that everyone else will experience. We are working on ways to raise capital and cut expenses to offset these increases. All contracts are being reviewed and we will ensure that there will always be at least 3 bids from all vendors. We are discussing ways to cut our bus contract cost. We need your help with planning upcoming fundraising events to raise funds. All suggestions, ideas and participation

are welcome so we can meet the goals of our community, to ensure that we are fiscally sound and continue enjoying our "Carefree" lifestyle.

The board encourages all Shareholders that have questions to contact us. All records and financial reports are available for your inspection. If interested please contact Marie Persichilli with your written request and she will do her best to provide you with the information requested. We promise complete transparency and honesty to all our Shareholders.

Next meeting is scheduled for May 12, 2022 at 7:00 pm.
Minutes prepared by Marie Persichilli, Secretary
Carefree Board of Directors
April 21, 2022

MP "First of all no one accused anyone of misusing funds. No one has accused anyone of taking money. What we have done is research on the last four years of the Profit and Loss statement and compared them to the actual Balance sheets. I have done cost analysis and statistics and had some assistance from others to help me. This year is \$250,000 over budget, but for the last three years we have been over budget for at least \$100,000 per year. The forensic audit will help to better understand and that is why we are all here today. As a community we will fix this. We are underfunded in our reserves. Reserves are very important and they are also required by law. The reserve fund is put aside for major projects. Remember our community is over 40 years old, our building and amenities are aging. They are in good shape but will require repairs. One of the upcoming major repairs is the parking lot. We are scheduled to have that done by next year, is the life expectancy of the parking lot. That means according to your reserve study that we paid for in 2019, about \$3,500, and no one ever looked at it. It told you how much you needed to fund per year in order to meet your goals for your improvement. The projected amount, your parking lot alone, is about \$300,000. I will answer anyone's questions, I have all supporting documentation. I am big on transparency. You all deserve to know everything that is going on in your community as shareholders. We are not privy to keep any information from you. It is your rights. It is not pretty but we are going to fix it. I promise you all that. I signed up for this job and we have been working very hard. Most of the board are committed and we will work as a team but we also need your help. We really need everybody's help to get through this together. Fire away with your questions and I will do my best to answer all. I will be available to everyone at any time. Call me on my cell phone. When you leave this meeting and then have questions, please ask us. This is a lot of information being thrown at you but for the last 4 weeks we have been working hard, countless hours, my husband probably wants to divorce me at this point because he is sick and tired of me at that computer. But it is for you guys but it is also for me, I have to pay the same dues you have to pay. And I do not want to pay them either. I will work as hard as I can to try to keep them as low as possible."

Barbara Tupper-How much over budget are we? MC-we are under funded by about \$250,000.

Barbara B-Are our fees being raised? Any ballpark \$\$ figure for anticipation. MC We would prefer to wait until the forensic audit, but I promise it will be before the July quarter. Kerico-How much did we spend in legal fees to recoup \$5,000? MC the total cost to date is \$43,000, our cost of \$37,000 to date, and we received contributions from 7 other communities. Terry L-explains the flipper process.

Aida-Estimates for contracts for cameras, grass cutting and snow removal. Has a hold been placed on contracts until after the audit? MC Yes and going forward we will get 3 bids for all

contracts and will be presented to the community. The snow removal invoice was \$79,000 we negotiated it down to \$65,000. We will discuss the option of a snow reserve for next year.

Open floor Meeting

Flippers- Is there an accounting of how many houses were flipped? MP- From this day forward Consent agreements with flippers will be handled by our office, the application fee that was paid to the attorney will be added to our operating budget. We will not be bled by an attorney any longer. MC \$5,000 will be put into an escrow account held by our community. NR \$250 is now ours. MP And we just collected our first \$250 fee.

Do we need Bonds for the new Board members. MC-We have insurance to cover that. -There are allegations of wrong doing by the former president. MC- No, there has not been any allegations. -He said it. And you are having a forensic audit. What exactly happened? MP- We have insurance to cover the association. The forensic audit will be done. We have never had an audit done. It was recommended by a very respected member of our community, a former Treasurer. MC- We have a CPA that does year end taxes and normal business but not an actual audit. MP- Understand, the members of this board are volunteers and we are doing the best that we can. I come to you with 38 years of experience in this type of work but when I came here and was elected to your board, I was not your favorite, and I probably still am not, but I am here to correct and find things to help us move forward. I do not find fault with anyone that has done anything on this board as a volunteer. We are going to do the best we can to clear the issues and put us back in check. There will never be an experience like this again because from this point forward, you are going to have a finance committee that is going to oversee the board. The board is not going to work on its own, right now you have 7 people who are in charge of all your money and everything else that make the decisions. We are not going to operate like that any longer. We will have a watchdog, because we need to be watched also. The finance committee is going to ensure that all the records are done properly and we all work together. It will be an extension of the board. They will be qualified to hold these positions, we have a couple people that have already stepped up that are very interested. I look forward to working with them and our board is looking forward to working with them. I can not tell you what happened prior to me being on the board, I can only speak for what we are doing now. The recommended forensic audit will provide information and guidance on how to fix our irregularities and help us to develop a simpler reporting mechanism for our community's use. This recommendation was made by a well respected member of our community who is a CPA and not a member of our sitting board and we all agreed.

MC-We had no budget and we had nothing figured in for our increases and inflations. We are looking at the wrongs and moving forward to correct them.

Where does the transfer fees go-last year we sold over 200 homes? MP Transfer fees collected, refer to your bylaws, that fee is supposed to go into your reserves because it was used as operating costs. Which was wrong. That is one of the reasons we are under-funded in our reserves. This would help build our reserves. Being this was not done, we are substantially under funded because it was considered income and spent without any consideration of putting anything into our reserves. From this day forth, that money, as it is in your bylaws, will be put into the reserves to help to build that money, so we will have the funds when necessary for capital improvements.

Under funded this year \$250,000 and \$100,000 for the last four years- does that mean we are under funded by over 1/2 million? MP Yes, you are correct. We come to that amount because our

reserves were under-funded. I can't give you an exact number today. Let me explain, the \$250,000 that we are over budget reflects the increases in vendor contracts that we are aware of, from last year. That is how we come up with that figure, with a small % added for inflation into the budget. We were preparing the budget for you, and we were told to stop, until we do the audit, so we do have an idea of where we are. That is how we know we are \$250,000 under funded. The explanation for the under funding from the previous years is because the transfer fees which were allocated for reserves was used for the operating budget. I will share these reports that I used to come up with the totals with any shareholder that is interested. Being we had no annual budget, bills were paid as they came in with no consideration of actual cash balances. Using the transfer fees as income is kinda like robbing Peter to pay Paul. The purpose of allocating the transfer fees to the reserves saved adding additional dollars to your yearly dues towards our reserves. It is an excellent concept to keep down the yearly dues lower, if funded properly. All Homeowner Associations when computing annual dues must add a % for inflation and the recommended amount that the Capital Reserve Study would require each shareholder to contribute. Carefree has never added budgeted reserve money to its yearly dues. I applaud them for implementing this funding mechanism, however, no one followed the rules to fund the reserves.

Total Transparency- As Secretary of the board, it is my job, and required by law, that any information that you want will be provided to you within 10 days. I ask that you put it in writing, so I can ensure that everyone is answered.

Club money- What happens to this money? We work hard to raise this money. MC- It went into the operating fund and supported the community. NR- We really appreciate your hard work and your funds are all used towards our operating fund.

There is a saying that figures do not lie. Some of you people have been on the board, why didn't you know that there was a discrepancy? Now you say we have a big problem. Joe should recuse himself. He was the leader for the last four years. You just come on and find all these problems. MC You must not have listened to any of the speeches, we did not know what was going on. That is why we are having a forensic audit and look at all the facts and figures to help us go forward and rectify everything. We have not had a budget. We still have money in our operating account and bills have to be paid so where do you thing the money comes from? We have money coming in to pay our bills but we will be short due to being under funded. We have curtailed all our spending until the audit is done.

We have been already told that we are having a forensic audit and the findings will be given to us. Hold your questions until we see what it says.

MC- We are interviewing forensic auditors. We do not have a contract for an audit.

MP- We are currently interviewing two different firms and we will chose from one. Please be patient, this just came up, we have been working on the budget and when we hit a snag and we asked for help, all this other stuff came up. This is new. We promised you a budget at the last meeting, and we had every intention of giving you one. Unfortunately, we are unable to do that. The forensic audit will be conducted as soon as we can get one on board. Timing is bad because it is tax time. Two different auditors, two different firms, we do not do any business with either firm. One of those firms will be chosen, when that is done, that report will be open record, your paying for it, I'm paying for it, it is for everyone's view. We are going to be extremely transparent, so that you are aware of everything that is going on. I promise you, as soon as that is done, or even if we are in the middle of the audit, we are given the ok to move forward on the

budget, you will be informed. So you have to understand, we are at a stand still, nothing moves as quick as we would like. It is the same with the attorneys. we have two firms, and you will all know as soon as we finalize our choice. We promise you that there will be no more secrets. A lot of information was kept from other board members, many did not know what was going on. So please understand we are now united and we share everything and everything will be open. This is a real team. Give us a chance. We are working hard.

We welcome all to volunteer to help us, provide us your name and number. NR That finance committee is very important because we will not be able to do anything without their assistance.

I Applaud the new board. Many unanswered questions but we can not answer these questions until the audit is completed.

NR All rules will apply to all shareholders. Everyone will be treated the same. Thank you for taking the time to come to our meeting and your participation.

Meeting adjourned.