



March 11, 2015

Dear Fellow Member:

In the past several weeks, members have submitted numerous questions by follow-up email and in person during the two Meet the Candidates sessions held on Thursday, February 26 and Friday, March 6. A number of the questions resulted from the current election to fill four seats on the Desert Mountain Board of Directors. These questions concern club operations/management, the Charles Schwab Cup Championship, future capital projects, the golf courses and miscellaneous other topics.

At the same time, several provocative rumors have begun circulating around the club about several other subjects including staffing levels, membership decline and a cynical comparison of Desert Mountain with The Estancia Club. To provide you with accurate answers to your questions and to quell these rumors that may be of concern to you, please click on the appropriate links below.

If of interest, you can also access the audio recordings from the two Meet the Candidates sessions. We encourage all members to take the time to either vote online or complete the paper ballot you recently received in the mail. Voting ends Monday, March 23 at 5:00 p.m. and all ballots must be received by then. Your Board sees this as the most important election since turnover and we strongly encourage you to vote - the last vote you submit will be the one that is counted.

To access:

- Rumors - Addressed ([click here](#))
- FAQ's - Asked & Answered ([click here](#))
- Audio from Meet the Candidates Sessions, February 26 and March 6, 2015, ([click here](#))
- Election Information and Electronic Ballot, ([click here](#))

We hope these links will provide you with answers to many of your questions, the information needed to understand the operations of the Desert Mountain Club and to make an informed decision when casting your vote for the four director seats. Thank you for your input and support.

Sincerely,

Desert Mountain Club
Board of Directors

www.desertmountain.com



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The following is provided for your information in order to dispel the recent outbreak of gossip, misinformation and rumors circulating within the club that is creating unnecessary anxiety for our members:

- Much discussion and debate amongst the membership has occurred resulting from the current election for the Board of Directors specific to the petition process chosen by three of the nine candidates. Upon receipt of their nominating petitions, the Nominating Committee determined it was necessary to verify that all three sets of petitions met the 75-signature threshold required by our club bylaws. This was the first time in our brief history that candidates submitted petitions for nomination. Unfortunately, all three candidates have publicly stated that the Board of Directors and its Nominating Committee have accused them of fraud and the validation process has called their integrity into question. They believe they are owed a public apology. Why was all this necessary?

The following is a recap of what led to the decision to verify the signatures appearing on the submitted petitions:

- 1) *The three sets of petitions were hand delivered by a non-candidate club member, Jerry Strickland.*
- 2) *Each petition package included some signature pages which did not contain original signatures but were photocopies. Upon examination, it also appeared that some pages were photocopies of the same signature page with a different candidate's name on the photocopy. This made it unclear whether the petitioner intended to sign for a single candidate or for all three candidates. It appears that in one case, white-out was used to change the name of the candidate on a photocopied page. Names were submitted more than once on different pages. Altered faxed and photocopied pages were also used. Consequently, it was necessary to verify if a signature was in support of one or more of the three candidates' petitions.*
- 3) *In a brief review of signatures, the committee recognized that not all of the petitioners were eligible equity voting members.*
- 4) *Most, if not all, public companies as well governmental agencies including the State of Arizona, Maricopa County and the City of Scottsdale all have petition rules for their elections including referendums and recalls. All of these require signature verification at some level, so our decision to validate the petitions was not out of the ordinary.*
- 5) *The committee consulted with the club's independent auditor to determine what level of verification would be needed for the petitions as presented. Due to the lack of original signatures on some of the pages, a statistical sampling could not be used for verification.*
- 6) *The independent auditor was hired to verify the signatures in order to confirm that the petitions met the 75 equity member petitioner threshold.*

- 7) Club counsel and the independent auditor composed and sent a confirmation letter by email to an initial sample of petitioners (email addresses were provided by the club for this purpose).
- 8) In order to minimize cost to the club and the constraints of the election calendar, the auditor requested a short turnaround time for the responses (3 days). Respondents could reply via email, phone or fax.
- 9) Once the auditor verified the required number of petitioner signatures, the confirmation process was stopped.

Based on the auditor's review, all of the petitions met the 75-signature threshold. However, there were many irregularities in the petitions and the process by which the petitioner signatures were obtained is a concern to both the Nominating Committee and the Board.

- 1) Under common petition procedures, a petition candidate is required to sign each signature page indicating they have reviewed and confirmed the signatures as authentic and properly obtained. It was acknowledged that the petition candidates were assisted in gathering petitioner signatures by others and, thus, it is not specifically known who collected the signatures.
- 2) Four signers were non-equity members of the club, eight signers were not the primary voting members and one signer had sold his membership.
- 3) Two of the petitions contained the signature of Gary Moselle who has not been a club member since turnover and maintains a website claiming that equity members are free to walk away from the club without further obligation, thus causing financial damage to the club and remaining equity members.
- 4) In response to the auditor's confirmation request, one petitioner wanted his name removed from all petitions, one petitioner wanted to sign all three petitions and one was returned to the primary equity member for signature (the petition was signed by the non-voting spouse).
- 5) Finally, the independent auditor also indicated that he received threatening feedback from his confirmation request – that he would be "hearing from an attorney", subpoenaed or fired as the club's auditor and that he and his firm's reputation would be intentionally damaged.

In light of this regrettable controversy, the Board of Directors believes that this information should be disclosed to all members and, if desired, the petitions are available for review by ([clicking here](#)). The Nominating Committee will be evaluating and implementing more defined rules and regulations for use of the petition nominating process in future elections. Please ([click here](#)) to view Rauch, Hermanson, Everroad & Rentschler's audit letter of the petition verification process.

- **RUMOR:** Based upon a review of tax filings for 2013 it has been rumored that over 900 people are employed by the club.

FACT: This assertion was apparently the result of a member's reading of the club's tax filing for that year. While the club did issue 958 W-2's to people who were employed for any period of time during that year, the club staffed a high of 635 during the spring, our busiest time, and a low of 421 during the summer months in 2013. In addition to part-time employees, the 958 number included the impact of employee turnover during the year. The club does not employ nine hundred plus people.

- **RUMOR:** The Board of Directors voted YES for all the club's unissued and/or returned memberships held in inventory in order to insure passage of the Sonoran Renovation Project.

FACT: With all votes brought before the membership, only equity members in good standing were able to cast a ballot for the Sonoran Renovation Project as was previously reported to the membership in the February 2, 2015 mid-year letter. Treasury memberships were not voted.

- **RUMOR:** Our membership numbers have declined since turnover and we are losing members faster than we can replace them. The club has no marketing plan to increase our membership.

FACT: The total active equity membership count at turnover on December 30, 2010 was 2,155 versus the present day total of 2,024, a decrease of 131. This is due to a variety of reasons. These include members who were terminated because they did not pay the turnover assessment and were delinquent and/or in collection prior to turnover, terminations due to post-turnover foreclosure, bankruptcy or account delinquency and 13 for other reasons. The total number of all active memberships is 2,127 which includes the remaining 103 non-equity members. As an additional note, the club policy since turnover has been that no treasury memberships held by the club have been issued as all new incoming members are replacing exiting members on a 1:1 ratio either through the previous Surrender List Program or now through the current Membership Resale Program (MRP) that was approved by 92% of all equity members who voted for that bylaw change last July.

Because of our size, approximately 100-120 members exit the club annually. This is consistent with the industry average for normal private club turnover of 5-6%. Since turnover we have been able to replace these exiting members in order to hold our membership rolls steady. Club management does have a well thought out Sales & Marketing plan and they are executing it with oversight from the Board's Membership Committee. It includes focused advertising in key markets including Canada, the northern U.S. and California. We have approximately 50,000 prospect names in our sales data base and do more than 18 club tours a month with approximately 60% of those resulting in a membership sale. We also market within our community to non-club property owners with no membership and have been able to successfully convert those

residents into equity members. Finally, our Ambassador Program for new members is aimed not only in welcoming them to the club but assisting them in referring their friends and associates to visit and tour our facilities.

- **FICTION:** The following verbatim email attachment comparing The Estancia Club to Desert Mountain has recently been circulated within the club. The e-mail was presented as follows:

"Estancia is the top rated course in Arizona. They have golf, tennis, swimming, gym and restaurants. There is a waiting list to join, no penalty to resign

ESTANCIA COMPARISON TO DESERT MOUNTAIN SPENDING data from public information IRS form 990 non for profit reporting

	<u>ESTANCIA</u>	<u>DESERT MOUNTAIN</u>
YEAR REVENUES	6.0million \$	52.0 million \$
SPENDING PER COURSE	6.0million \$	8.6 million \$
SPENDING PER MONTH	\$500,000	\$716,000

DESERT MOUNTAIN, no longer ranked, spends \$216,000 per month per course... does that members deserve an explanation?

IS THIS JUST LOTS OF GRASS SEED, OR BAD MANAGEMENT?????"

FACT: While The Estancia Club is a first-class, top-tier, member-owned private club, it does not offer the depth and breadth of amenities available at Desert Mountain. This is a misleading and silly comparison containing incorrect information. According to the Platinum Clubs of America Club Leaders Forum in the category of Top 125 Country Clubs for 2014 – 2016, Desert Mountain is ranked number 27 as compared to The Estancia Club which is ranked number 96 (<http://www.platinumclubsofamerica.com/pcoa/platinumClubsAmerica2014.html>).

In addition:

- *Estancia dues are \$1,358 per month or \$16,300 billed annually. Ours are \$1,400 per month. What is the better value?*
- *Estancia has one restaurant. Desert Mountain has nine separate dining facilities.*
- *Estancia has three tennis courts with no tennis staff, compared to the Desert Mountain tennis complex with 9 tennis courts and 2-3 full-time tennis professional staff.*
- *Estancia has an unstaffed workout room as compared to the Sonoran, which is staffed with various health and fitness professionals.*

- Estancia has one course, clubhouse and maintenance facility.
- Desert Mountain has six golf courses and clubhouses, five maintenance facilities and one corporate office.
- Estancia had a recent assessment of \$6,000 for greens replacement.
- Estancia has a transfer fee of \$30,000 or 20% of the selling price, whichever is higher.
- The Desert Mountain Membership Resale Program (MRP) is identical to the Estancia program.

It is not our intent to disparage The Estancia Club as both clubs enjoy mutual respect as well as members who belong to both clubs. We are simply presenting the facts and refuting the circulated exhibit.

- **RUMOR: Our General Manager/Chief Operating Officer Bob Jones has a ten-year 'no-cut' employment agreement.**

FACT: Bob Jones does not have a 'no-cut' contract. The Board of Directors may terminate Bob with or without cause at any time during the term of his employment. By way of background, Bob entered into a three-year employment agreement with the member-owned club at turnover that expired on December 31, 2013. In early 2014 the Board unanimously gave Bob a vote of confidence and it was decided to amend his contract to provide certainty and compensation that was comparable to General Managers/Chief Operating Officers of other top-tier clubs. The Board then appointed a Compensation Committee composed of three Board members to study and recommend to the Board an appropriate level of compensation and revised contract terms that were mutually acceptable. The recommendation was based upon a 2014 analysis of peer group compensation for the position of General Manager/Chief Operating Officer prepared annually by the firm of Kopplin & Kuebler. In addition, we consulted with an independent compensation professional regarding all contract revisions. The analysis included compensation statistics from top-tier clubs such as Addison Reserve, Atlanta Athletic Club, Baltusrol, Congressional, Frenchman's Creek, John's Island, Southern Hills and Westchester Country Club. As a result of the Compensation Committee's recommendation, the Board approved a restated and amended employment contract that assures Bob of being fairly compensated within a range of his peers at similar top-tier clubs. Although Bob is not the highest compensated private club General Manager/Chief Operating Officer, he oversees the largest private club in terms of revenue, employee headcount and total size and scope of amenities and facilities in the country. Through his current employment agreement, the Board has provided Desert Mountain for the foreseeable future with the continuity and expertise of a highly qualified senior executive who is widely recognized in the private club industry as one of the best in the business.

Bob has been and continues to be recruited as a senior executive, has been contacted by several headhunters and offered jobs at three premier private golf clubs within the past twelve months. Bob is passionate about serving Desert Mountain and its' members. He has expressed the desire to remain at Desert Mountain to serve our members and your

Board of Directors has no desire to see him leave for greener pastures. As always, your Board has acted in what it believes to be in the best interests of the club.

- **RUMOR:** Someone identifying themselves as a Desert Mountain member contacted Troon Golf Management seeking information regarding their services and costs estimates for managing Desert Mountain.

FACT: Senior executives at Troon Golf Management have confirmed that they had been contacted by a Desert Mountain member and a marketing brochure was sent to the caller. At this time the name of the caller has not been identified. The Board believes this unauthorized solicitation is detrimental to the club and demoralizing to all employees, particularly the senior management team. In addition, this type of activity encourages recruiters to contact our employees for other job opportunities at other private clubs.

Board of Director Responses to Frequently-Asked Questions

The following FAQ's are presented in no particular order to respond to the questions and concerns recently submitted to the Board of Directors by our members:

- **When submitting a vote online, who has access to it? Is the vote confidential or is it known to staff or Board members of Desert Mountain? Is there some check and balance to assure the accuracy and validity of the voting for this current election?**

When a member casts a vote online, the submission goes to a secure database on the member website. The independent accounting firm of Rauch, Hermanson, Everroad & Rentschler, Ltd. has the secure log-in to the website to access the database. No Desert Mountain staff member receives any vote information or results and therefore the vote remains confidential. A weekly report is run to verify staff has not attempted to access the vote database.

- **How much does the club owe on its mortgage debt?**

At the time of turnover the debt necessary for the purchase of the club was \$47 million. Through the end of 2014, it has been reduced to \$38 million, a reduction of 19%.

- **What is the average age of the membership?**

The average age of all members is 65. The average age for new members joining the club in 2014 is 58.

- **What projects should we undertake in the next 10 years?**

Any large capital projects that will be undertaken in the next 10 years are those that our members express an interest in and will be approved by you voting for or against them. One of the tools for listening to what you want are member surveys. The last one was conducted in 2012 and another is scheduled in two months. We will use this survey to determine what members are currently interested in and feel is important to them. The Board will incorporate these ideas into our strategic plan and eventually create proposals for consideration. Then through member-based steering committees, focus groups and informational meetings, we will test and adjust the proposal(s) to reflect member input. These will then be voted on by our equity members.

- **What additional assessments do you think will be required (e.g. repair the roads) in the next 10 years?**

The roads example cited is the responsibility of the Desert Mountain Master Association and the club cannot speak on their behalf. However, the club's 20-year long-range capital roadmap provides for maintaining all of our club assets at a high level and our projections show it to be possible to do so without assessments while continuing to pay down debt. This will be presented as an overview at the 2014 Annual Meeting and in more detail at a separate Town Hall/focus group session.

- **Some members think the courses have deteriorated. What is the truth about the course conditions at Desert Mountain? What do we need to do that we are not doing and what would it cost?**

The courses have not deteriorated in the opinion of our Director of Agronomy, Shawn Emerson, and our world-renowned agronomy consultants Dr. James Beard and Dr. Fred Yelverton. The status of our courses was most recently reviewed at the February 19 agronomy focus group which is available for viewing on our member website. We continue to adhere to a long-term sustainable agronomy strategy. The storm damage in August/September, while severe, has been fully repaired and all courses have now recovered.

- **What are the total man hours to maintain each golf course annually?**

In 2014, 60,000 hours were spent to maintain each course, which is 4,000 more than in previous years due to extensive course repairs from two summer monsoon storms, the agronomic plan and the tournament schedule to accommodate the Charles Schwab Cup Championship.

- **How many rounds of golf are played on all six courses? Are rounds up or down?**

Golf rounds are up. In 2014, 142,317 rounds were played, an increase of more than 10,000 rounds over 2013. Twenty thousand of those rounds were played on Outlaw, which is a club record. There is every indication that rounds will continue to rise in 2015.

- **Is it feasible to maintain six green golf courses all year round?**

There is no type of turfgrass that can survive both summer and winter conditions in Arizona. Therefore we must overseed our courses with rye grass in the winter and allow the underlying bermuda grass that was dormant to grow back for summer/early fall play. Constant overseeding eventually degrades the bermuda, so it is necessary to rotate each course through a dormant cycle with no overseeding in order for the weakened bermuda to recover. Based on recommendations from our agronomy consultants, one course per year is chosen not to be overseeded which allows the agronomy team to spray out (kill) any poa annua infestation and foster bermuda recovery.

- **With so few people playing in the summer, why worry about the summer conditions?**

Thirty-two percent (32%) of our members play golf nine or more months a year, and are here for some portion of the summer wanting to play golf. That is approximately 650 members. We do not view "just not worry about the summer conditions" as an acceptable option.

- **What is the cost of having a green golf course versus a dormant course?**

The cost of fully overseeding a course is approximately \$400,000 and partially overseeding (where the rough is dormant) is approximately \$275,000. There are a number of different cost components, the largest being seed, fertilizer, water and labor.

- **What is the proposed plan for keeping golf courses open in the future?**

As presented at the recent agronomy focus group session, the current program is 4-1-1, i.e. 4 fully overseeded, 1 partially overseeded with dormant rough and 1 fully dormant as explained above. This plan creates a reasonable balance between winter and summer golf while allowing one course annually to recover its bermuda base. With such a large and diverse membership, there is no one model that is universally embraced and no foolproof plan as weather conditions can always cause disruption as the rainstorms did in 2014.

- **What are Desert Mountain's risks for future water shortages?**

Desert Mountain has an agreement with the City of Scottsdale for an assured reclaimed effluent water supply. If for some reason, there is a failure in the water line or if delivery is interrupted, Desert Mountain is contracted to receive potable water within 72 hours at the appropriate contracted rate. The entire system is a

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closed loop effluent irrigation supply system that was designed and constructed to not use any ground water.

- **What are the greatest threats to maintaining our Club and community's sustainability and protecting our lifestyle?**

The greatest long-term threat is the steady ongoing decline in golf participation, a core amenity of most clubs. New members are becoming scarcer, and buyers are sophisticated and wary. A great many private club membership levels are down 25-40% from earlier high points. According to the National Golf Foundation (NGF), over 800 private clubs no longer exist since the NGF reported a peak of 4,800 private clubs in the 1995-2005 time period. Today, approximately 150 golf clubs continue to close their doors every year.

After an initial loss at turnover of 80 members who did not pay the \$16,500 turnover assessment, we have held steady at about 2,000 members for the last three years. This requires us to recruit a new member on a pace of every three days while most clubs are fortunate to recruit that many in a quarter. Thanks to our brand-building efforts, marketing program and well-trained, hard-working sales team, we continue to hold our own.

- **Are members and their guests utilizing the other amenities?**

The answer is yes. Last year 246,539 meals were served at Desert Mountain's nine restaurants and grills. In comparison, 236,913 meals were served in 2013. The average total spend by members at the club rose from \$7,859 in 2013 to \$9,059 in 2014. Catering revenue was up 45% in 2014 with \$2.0m in revenue compared to \$1.4m in 2013, in part due to the successful Schwab Cup tournament activity.

Tennis activity is up 29% in 2014 with 3,120 point-of-sale transactions compared to 2,427 in 2013. Fitness activity is up 7% in 2014 with 20,150 point-of-sale transactions compared to 18,771 in 2013.

- **Do you believe the current Board and management are not acting on the real input from the members?**

The Board and club receive dozens of emails from members each month. We read and answer them all. We hold office hours every month for any interested members and listen to their suggestions. Last year we held over 30 open focus groups, informational sessions and town hall meetings, attended by about 500 members. We factor all that input into our decision-making. The member survey is a major input tool to help us understand how satisfied our members are with the club and what they want in the future. Finally, the ultimate input tool is the

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voting result on every major proposal put before the membership to date.

Examples:

95% Voted to buy the club and accept the necessary dues increase

92% Voted for the revised market-based membership resale program

65% Voted for the proposed sale of Parcel 19*

64% Voted to proceed with the renovation of the Sonoran Clubhouse

**Note, the same was not consummated as the buyer elected to not proceed.*

- **Do you believe the quality of the food and dining experience warrants the prices and increase in the food minimum?**

Yes, however there is always room for improvement. The club has recently hired a new Executive Chef who we believe will elevate our dining experience to a new level.

- **There are claims that dues have doubled in the last 10 years. How does the club create and manage its budget to control costs?**

We cannot speak to what occurred and the decisions made prior to turnover on December 30, 2010. However, monthly dues in 2010, the last year prior to turnover, were \$850. We do know the annual operating budget of the club prior to turnover was heavily subsidized by real estate sales. Monthly dues in 2011, the first year after turnover, were set at \$1,190, the amount needed to operate the club, build modest capital reserves and service the debt required for the purchase. Dues increases since that time have averaged 4.2%. We employ a rigorous zero-based budgeting process every year that also includes a management mandate to search for and implement cost reduction opportunities that do not negatively affect our brand and service levels. We hold management accountable for achieving the budget and managing costs. In addition, we monitor the budget on a monthly basis in order to avoid surprises that would result in cost overruns. This has enabled us to achieve our budget every year since turnover.

- **What are the losses incurred by the Charles Schwab Cup Championship? Are there costs incurred but not accounted for?**

The club has published a full Schwab Cup report to the members that can be found on the member website. The club provided a full breakdown of our costs and incremental revenues using our standard accounting procedures. All related costs and incremental revenue were accounted for and reviewed in the annual audit.

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- **Why should we continue to host the Charles Schwab Cup Championship?**

We are contractually committed to host the event for two more years (2015 – 2016). The post-turnover Board of Directors determined that the tournament was a cost-effective way to re-introduce Desert Mountain into the marketplace after many years of stagnation by the developer. No talks have occurred with the PGA to continue hosting the event beyond 2016 and an analysis of the pros and cons of doing so will be conducted in the event the PGA requests an extension of the current contract. Any continuation of the tournament beyond 2016 would be the subject of a town hall/focus group session with the membership to gauge interest for such a renewal.

- **Did you support the purchase of Parcel 19? What does the Board think the club should do with Parcel 19?**

Parcel 19 was included at turnover in the assets we acquired from the developer and was not purchased in a separate transaction. The Board continues to explore all opportunities and uses for this parcel, including possible sale, in order to maximize value for the club. Whatever is decided upon by the Board will be submitted for a vote of the membership.

- **Do you believe the Board has been open and honest with the members? How can the Board be more transparent?**

Why would the answer provided be anything but yes? There is absolutely no reason for the Board to be disingenuous with the membership. The Board consists of nine of your fellow members all with diverse backgrounds (several with Certified Public Accountant licenses at risk) who have nothing to gain by being dishonest and non-transparent. The Board currently offers a number of ways for members to ask questions and provide direct input on all club issues. The Board also uploads all Board meeting minutes and quarterly financials on the member website under the Board of Directors tab.

- **Some members believe having non-resident members will create a significant divergence of priorities in the membership that might negatively affect the residents. Is this the case and what are the solutions to it?**

At turnover, the decision was made to offer memberships to non-property owners in order to kick start membership sales. Many residential private clubs were doing off-property sales at the time of turnover; however, the trend is reversing itself. Requiring all property owners to hold some type of membership is an initiative that is currently being evaluated and discussed by both the club Board

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and Desert Mountain Master Association (HOA). However, any such requirement would require a vote of all HOA members.

- **Should members who do not live in Desert Mountain hold positions on the Board?**

Currently, there is no distinction in the bylaws between members who own property or do not own property in the community. All equity members in good standing are eligible to serve on the club Board. We understand the different interests of those two segments of our membership and evaluating all aspects of the issue as noted above. All Board members since turnover have been real estate owners in the community.

- **Why should the membership trust the Board to conform to the rules, respect the membership and follow through on its promises?**

The Board is composed of your peers who are willing to invest a large amount of their time and effort to make sure the club satisfies and properly serves their fellow members' wants and needs, remains fiscally healthy and appealing to prospective members. All Board members must sign a Code of Conduct and failure to adhere to this policy subjects a Board member to removal from the Board and/or disciplinary action up to and including expulsion from the club. Any conjecture that Board members are not hard-working, honest and always working towards the best interests of the club and its members is illogical. Some of us would find this claim offensive, based on the countless volunteer hours served for the benefit of all members.