

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:

- **RUMOR: Transfer Fees are used to fund operations.**

FACT: This is correct. The Club generates a pool of funds from dues and initiation fees (transfer fees and membership sales) that it uses in part to fund operations, but also to pay down debt, pay IWDS obligations and fund the Club's capital accounts (pursuant to Article 5.2.1 of the bylaws) for repairs and maintenance. As an example, for 2015, revenues from initiation fees are budgeted at \$7.4 million. The budget also includes capital for repairs and maintenance, including IWDS long-term storage, of \$2.5 million and debt payments to NBA of \$4.9 million, for a total \$7.4 million.

- **RUMOR: Why would the Club take legal action against members who have chosen to walk away from the Club?**

FACT: The Club has taken this step to protect the financial interests of its members. The Club generates income from dues and transfer fees that it uses to support operations, pay debt and fund capital reserves. A reduction in the number of dues-paying memberships will require the existing membership to pay a higher level of dues to replace the funds lost by the Club because of members who have walked away from their dues obligation. To prevent this from happening, outgoing members must be replaced by new members.

To illustrate the financial burden to the existing membership, there have been 17 members who have attempted to relinquish their memberships and who have simply stopped paying dues. The economic impact of this conduct is as follows:

Annual dues for 17 walkaways	\$285,600
Transfer fees for 17 walkaways	\$1,105,000
Sub-total	\$1,390,600
Remaining membership count	1942
Annual dues increase per member to cover 17 walkaways	\$716

Hence, allowing members to simply walk away from their obligations to the Club has a tangible financial impact on all members. For this reason, the Board has instructed Bob Jones and the senior staff to make every reasonable effort to collect the Club's accounts receivable and reviews these efforts on a monthly basis.

The Club is on solid legal ground in taking this position. While there are no guarantees in litigation, the membership agreement is a legal contract between the Club and the member. By executing the membership agreement, the member agrees to abide by all Club governing documents and pay dues and charges as set forth in those governing documents. The Club's governing documents provide several methods in which members can transfer their membership. These methods do not include simply resigning and relinquishing a membership and stopping future payments of dues.

- **RUMOR: By posting the 2015 election petitions for Stephen Clark, Carol Ann Petren, and William Robinson, has the Club inadvertently exposed the individual member names, signatures and member numbers, thereby disclosing confidential member information?**

FACT: No, the Club has not revealed confidential member information. In addressing this issue, it is important for all to understand how the petition process was used in this election. The petitions used to collect the member signatures to support Messrs. Clark and Robinson and Ms. Petren themselves called for the members who signed them to set forth their member numbers. The members who signed the petitions voluntarily provided this information. These petitions are not club forms, but rather were created by the petition candidates or others who support their candidacy.

In signing the petitions and including their member numbers, those members who did so presumably understood that the persons circulating the petitions would continue to do so and that other members who signed the petitions at a later date would be able to see their names and member numbers. There are other occasions in which members are required to sign documents open to public view. One example of such an occasion is the sign-in sheets at the Sonoran Fitness center, which require members to sign in and to include their member number.

The Club has procedures in place to prevent the improper use of a member's Club number. To date, members who have experienced inappropriate charges on their individual monthly Club billing statements (including charges made by others who have inadvertently transposed digits or otherwise have used an incorrect member number) simply need to call the accounting office and identify the incorrect charges. After conducting a simple review of the surrounding facts, the Club has immediately removed the challenged charges. This situation occurs monthly in the accounting department.

While it was not the Board's first choice to post these petitions, the Board felt compelled to do so based on the challenges presented and the rumor mill of misinformation being circulated. The Club determined that, in light of the nature and scope of the issues regarding the petitions, it was necessary to post the petitions with no edits or changes.

To date the Club has received 2 member emails requesting new member numbers be issued to members who have expressed concerns over the posting of their member number. The Club has granted these requests and will provide new member numbers to any member who so requests. Any such requests should be directed to Francine Keller at fkeller@desertmt.com.

- **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. *1) The three sets of petitions were hand delivered by a non-candidate club member, Jerry Strickland.*
2. *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. *3) In a brief review of signatures, the committee recognized that not all of the petitioners were eligible equity voting members.*
4. *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. *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. *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. *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. *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. *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. *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. *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. *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. *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. *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

Annual revenue: Estancia \$6.0million, Desert Mountain \$52.0 million

Desert Mountain, no longer ranked, spends \$216,000 per month per course. Do the 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:

- o Estancia dues are \$1,358 per month or \$16,300 billed annually. Ours are \$1,400 per month. What is the better value?*
- o Estancia has one restaurant. Desert Mountain has nine separate dining facilities.*
 - o 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.*
- o Estancia has an unstaffed workout room as compared to the Sonoran, which is staffed with various health and fitness professionals.*
- o Estancia has one course, clubhouse and maintenance facility.*
- o Desert Mountain has six golf courses and clubhouses, five maintenance facilities and one corporate office.*
- o Estancia had a recent assessment of \$6,000 for greens replacement.*
- o Estancia has a transfer fee of \$30,000 or 20% of the selling price, whichever is higher .*
- o 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 Manger/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.