To The Apache Wells Homeowners,

I am writing this letter in regards to the past election we had on the new building complex. My name is Don DeRosier. My wife, Nancy and I have a home on Hermosa Vista behind the 16th tee on the golf course. We’ve lived there 11 years and have seen many interesting happenings in that time frame. Before I get into the nuts and bolts of this letter, I would like to tell you a little about us. We own several commercial properties. One is a multi-million dollar Senior Housing Facility, which we built seven years ago. Another project is a commercial milk processing plant where we process and bottle our own organic milk, cheese, butter, ice cream etc. The creamery is a joint venture with our son and daughter-in-law right on the farm. We operate 700 acres of organic crops. We also own a trucking firm. We own and operate 4 semi trucks. We have been somewhat successful for the last 40 years without any outside help. These businesses have given us a very good understanding of financing, interest rates, maintenance, replacements, taxes, marketing, advertising, insurance, etc. We feel we have a little insight into this $8.5 million dollar proposed complex. This letter is not intended to offend anyone or group. It is being written to inform all of the homeowners that the election was not represented properly.

Under no circumstances could I find out about the Country Club’s finances. The homeowners are entitled to know everything about them since we are supplying the security and the money for this new building. We need to know if they are able to handle their responsibilities.

- 11 years ago the golf course was run to my observation, at 100% capacity. In the last few years, it seems to have diminished to somewhere around 40% capacity. This has been observed by other people also. This would appear to be a management issue.

- Another question that comes up is the fact that the Country Club leases most of their equipment. In the past they owned their equipment. Leasing is mainly used as a legal tax write off for companies that need tax loop holes. However it is a temporary fix to a problem of lack of maintenance or management. This temporary fix will come back to haunt them with possibly more assessments for Country Club members.

- The reasons I have these questions is because of the lack of maintenance on the present buildings they own. There are other buildings in the park as old or older. Such as the condo’s and they are in good condition which tells me that the Country Club may not be able to take care of the new building. The Homeowners are the bankers for this project and are entitled to full financial disclosure, which I could not get.

- I could not find out anything about the lease of the complex to the Country Club. When I asked about it at one of the “coffee meetings”, the lady just walked away and said she had to go. There are rumors about $1.00 per year.
I could not verify this at all and it is a vital part of the election and the solvency of this project.

- As far as the restaurant, it just plain cannot work. I asked at a “coffee meeting” about the economics of it. I was told, “it is a service to Apache Wells residents.” The restaurant will break the Homeowners budget within 7 years. In the past 11 years we have seen several Apache Wells restaurant managers come and go. None of them left very well off. I talked personally to the one that is there now. I asked him if a new restaurant could make a profit there. He said, “Possibly during 3 winter months but cannot make it all year.” What will happen when the new restaurant managers have to answer to the Apache Wells board, good luck!

At a coffee meeting I asked to see the long range planning committee’s Proforma. The lady gave me a very distraught look and walked out the door. That was the time I realized the long range planning committee was in way over their head and the Country Club election was only days away. No way could the right information get out to the people of Apache Wells. A proforma consists of the following. This is a general proforma that we use.

1. The first page is a Real Estate proforma and includes:
   A) A description of the project:
   B) Total construction cost: general conditions, buildings being built, building cost, contingencies, all fees.
   C) Total land cost:
   D) Soft cost: Architect, furnishings, start up capital, soil borings and survey, builders risk insurance.
   E) Bond cost: bond printing registration fees, fiscal services, legal opinion, discount factor, capitalized interest, debt reserve.
   F) Total finance cost: Construction loan interest, conventional financing cost.

2. The second page breaks down the project financing.
   A) Terms: % of total to be financed, amount to be financed, interest Rate, term, debt service.
   B) Income Analysis: Lease, restaurant income.
   C) Other Income: Rent of the hall, restaurant parties.

3. Third page has the operating cost analysis:
   A) Taxes, insurance, lawn maintenance, trash removal, utilities, replacement reserve, repairs and maintenance.
   B) Management fees, Salaries, benefits, advertising, legal and accounting, supplies, telephone, miscellaneous.
   C) Expenses rise at 5% per year.

4. The fourth page shows your cash flow analysis.
   A) Estimated income, effective gross income, estimated expense, net
operating income, debt service payment, cash flow after financing, cumulative cash flow, debt service ratio, expense ratio.

Homeowners you better wake up, because we are going to go broke in about 6 years. There will be a minimum maintenance cost of 2.5% of the construction cost. This should be the average for the first 10 years, after that the % of maintenance will go up more as the building gets older. Construction cost:

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\begin{align*}
\text{Construction cost:} & \quad 8,500,000.00 \\
& \times 0.025 \\
& = 212,500.00 \\
\end{align*}
\]

$212,500.00 per year all of which will have to come out of our $38.00 a month association fees.

Some people will read this and say, Don you’re nuts! Just for a moment lets look at the pool. The budget this year is $90,000.00 maintenance. If $90,000 was the 2.5% of construction cost, that would mean the pool would have been $3,575,000.00. We all know that the pool was built for a lot less than that. But that is the real maintenance cost of it today. Look at the new library, it came in over budget. A proforma for the library would have spelled out all of the permits required, the expenses, and would have made it very easy to incorporate all of the volunteer labor.

In summary, this vote was misrepresented because of the lack of commercial construction knowledge. This will only become correct with a complete overhaul including a new vote. There was no point in getting the information gathered before the Country Club’s vote because we may not even have had to vote if the Country Club would have voted no. No feasibility study could be obtained; no market survey or financial disclosers from the Country Club could have been gotten. A restaurant feasibility study would have failed. There is no way to justify a large restaurant facility that cannot pay for itself. The Apache Wells Homeowners are entitled to have all of the information so they are able to make a more informed decision on how they want to vote. Eight and a half MILLION dollars is a lot of money any way you look at it!

All facts and figures in this letter have been obtained from commercial architects, engineers, consulting firms, property management firms and our own commercial facilities. They can all be verified. With permission from Vern Broll, the owner of Sylvia Hills Architects, P.A. in Annandale, MN, I would like to quote him; “Any one who builds commercial property of any size without a proforma has either too much money and is ignorant or just plain stupid!”

Thank you,

Don & Nancy DeRosier
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Osceola, WI
Farmer