

June 28, 2007

**Frequently Asked Questions & Answers  
On the  
Option to Purchase the Salt Pond Golf Course**

**General Information on the Offer**

1. **What is the offer?** The developer (known as Salt Pond Associates or SPA )'has given the Salt Pond Homeowners Association (SPHA) an option to purchase the 18-hole, 59-acre Salt Pond golf course land and business to SPHA for the price of \$2.3 million.
2. **What is included in the golf course purchase price?** SPHA would be purchasing the 59-acre golf course land and ponds, the golf course and pro shop businesses, golf carts, maintenance yard and equipment, driving range, a well for the sprinkler system, and snack bar. The pro shop inventory is not included.
3. **Who is making the offer to SPHA?** The developer of Salt Pond (Salt Pond Associates or SPA )'made the offer to SPHA and the option to purchase the golf course land and business was included in the recently-executed transition documents signed on May 25, 2007. The managing partners of SPA are Rupert Smith and Ken Simpler.
4. **Aside from SPHA, has anyone else been offered an option to purchase the golf course?** SPHA has been given an exclusive option to purchase the golf course land and business, which expires on Nov. 2, 2007.
5. **What are the financial terms of the sale?** SPA has offered to finance the sale over a three-year period. In other words, SPHA would be required to pay one-third of the purchase price of the golf course land and business each year for three years, with an interest rate of 4.5%, which is considerably less than the current interest rate for comparable financing.
6. **Why should owners vote for the purchase?** SPHA owners have a unique opportunity to ensure that the golf course land remains open space, to protect our property values and to sustain the character, ambience and quality of life in the Salt Pond. If SPHA does not purchase the golf course, it is extremely likely that the golf course will be developed.
7. **How much would owners have to pay for the golf course purchase?** The special assessment necessary to pay for the purchase and associated costs, if the option is exercised, would be approximately \$5,000 per lot, home or townhouse unit.

8. **If SPHA doesn't buy the golf course, what are the various possible outcomes?**

We lose the opportunity to control the single biggest threat to this community and to protect this open space and our property values. If the option is not approved, there are many possible outcomes. SPA could continue to operate the golf course as it does today, convert the land to open green space, or sell it to another golf course operator or to a developer. The end result could be development of part or the whole golf course, or management by a golf course operator who does not maintain the course adequately.

**Impact on Property Values**

9. **What percentage of my property value may be attributed to the fact that my property is located in a golf course community?** According to SPHA's financial consultant, between 10 to 20 % of the value of your property is attributable to being in a golf course community. Conversely, if a golf course in a golf course community is developed, the property value could potentially decline by the same 10 and 20%.

10. **What would the potential impact be on the value of a house worth \$500,000 if the golf course were developed?** Fifteen homes sold in the Salt Pond in the first half of 2007 on average for \$536,000. Assuming a 10% impact and a home valued at \$ 500,000, the value of the house could potentially decline by \$50,000. Assuming a 20% impact, the value of the house could potentially decline by \$100,000. In other words, for a \$5,000 special assessment (or 1 % of the property value), owners can protect their property values against a potential decline in value of between 10 and 20 %.

**Requirement for a Special Assessment**

11. **Would owners need to pay the entire \$5,000 at one time?** No, but paying the entire \$5,000 assessment up front will avoid any interest charges. The other option is to pay one-third (approximately \$ 1,667 per year), plus 4.5 % interest charges, so that SPHA can make the annual payment plus interest to SPA. Each owner has numerous options to obtain the cash necessary for these two options for paying the assessment. (See question 12.)

To the extent that owners do not make their assessment payment on time, SPHA will need to take out a bank loan, in order to make the three-year payments to SPA. SPHA will need to cover the costs of borrowing from a bank by charging interest on the balance due on special assessments paid in installments. Details of payment options and the interest rate will be determined after bank loan costs are determined. (Note that in mid-June, the prime interest rate was 8.5%.) This cost would need to be passed on to the homeowners whose payments are delinquent.

12. **What are some options available to owners to come up with the money to pay the special assessment?** The special assessment must be paid on time, either the

full \$ 5,000 up front, or one-third each year for three years. However, the SPHA owners have many options to borrow these funds and spread out the period of repayment these loans. Some options include: borrowing from a second trust, taking out other bank loans or lines of credit, selling stocks, bonds or other assets, borrowing on an insurance policy, etc.

Your Board has set up one option for a home equity line. Wachovia Bank has agreed to provide Salt Pond owners with a prime equity line of credit with no set up or closing costs, a special rate (prime minus .5%), interest only repayment option, and other benefits. The interest rate is above the 4.5% interest rate offered by SPA; however, with this option, the loan payments can be interest only and can be spread out over a period of time selected by each homeowner.

Your Board understands the potential difficulty that some owners may have in paying an assessment of this size and is ready and willing to work with anyone with concerns about paying this special assessment.

13. **When would owners need to pay the special assessment?** If two-thirds of the votes are in favor of purchase and the special assessment, then SPHA would need to levy the special assessment very soon after the option to purchase the golf course is exercised. Payments would be due in time for SPHA to make the first payment to SPA at the settlement on the purchase. In other words, payments would be due approximately 30 to 45 days after 2/3 rds of the votes of SPHA are cast in favor of the purchase and the option is exercised.
14. **What happens if a property owner refuses to pay the assessment levied to buy the golf course?** If 2/3 rds of the SPHA owners vote in favor of the purchase and special assessment and the option to purchase is exercised, the Salt Pond Covenants provide authority for a lien to be imposed on that owner's property. Penalties could also be imposed, in addition to the lien and associated costs.
15. **Does the special assessment for purchase of the golf course impact SPHA owners requirement to pay annual dues assessment?** No. These are two different kinds of assessments. The annual dues are a major source of SPHA's income and pay for operating costs of SPHA. For 2007, annual dues were assessed at \$847 per home and \$423.50 per lot. The special assessment is specifically to pay for the purchase of the golf course land, business, and associated costs, not for normal costs of operating the SPHA.

### **SPA's Three-Year Financing of the Purchase**

16. **Why is SPA providing financing for only 3 years? Why not 5 years or more?**  
This was the deal that SPA offered. The Board felt that this was a good and reasonable offer, particularly since SPA offered to finance the purchase. Banks

would have been unlikely to offer such favorable terms. Obviously, SPA would like to be paid back in a short period of time.

17. **Would obtaining a long-term mortgage from SPA or a bank be preferable to three-year financing by SPA?** SPA's 3-year financing makes the purchase much easier to do than if SPHA tried to get a bank mortgage for the purchase price. In fact, banks traditionally do not like to lend to homeowners associations and do not like to use land, such as the common areas, as collateral. With the recent sub-prime mortgage problems, banks are even less likely to provide a long term mortgage to homeowners associations. In addition, the interest rate of 4.5% is considerably less than SPHA could obtain from a bank. Thus, SPHA gets a better deal with SPA's offer and can pay off the loan in three years.

### **Requirement for a Two-thirds Vote to Approve the Purchase Option**

18. **How will the decision on whether to approve the option be made?** Agreement to purchase requires approval of two-thirds of the votes of the homeowners association. Each member (i.e., property owner) in good standing may cast one vote per home, lot or townhouse unit owned.

19. **What exactly would owners vote on?** Owners would vote on whether 1) to approve the purchase of the golf course land and business and on whether 2) to approve a special assessment to pay for the purchase. To be approved, two-thirds of the total votes eligible to be cast by SPHA owners (i.e., 359 votes) must be in favor of both the purchase offer and the special assessment.

20. **When does the decision need to be made on whether SPHA will purchase the golf course? What is the process to be used?** The recently-executed transition documents include an option to purchase which expires on Nov. 2, 2007. Two homeowners meetings will be held 1) a special information meeting on July 14<sup>th</sup> to discuss the offer and 2) a meeting on August 11th for the vote. By the beginning of July, SPHA will launch a phone campaign to answer owners' questions on the golf course option, assess the support for the purchase, and urge attendance at the July 14<sup>th</sup> meeting. At the July meeting, SPHA's Board, lawyer, financial consultant, and Golf Course Committee will discuss the option and planning for golf course operations, and owners will be able to ask questions. At the end of the meeting, proxies will be handed out, and owners will be able to vote by proxy any time up to the August meeting. Additional small group meetings may occur during July and August, as needed. At the August meeting, the vote on the option to purchase will take place. Owners can vote in person by ballot at that time, or let their proxies stand. If 2/3 rds of the votes are cast in favor of the purchase and special assessment, SPHA will purchase the golf course land and business. Information will also be posted on the SPHA website.

## **Golf Course Financial Information**

### **Valuation of Golf Course Business and Land**

21. **What is the value of the golf course business?** Dr. Bowers appraised the golf course business as a going concern at \$420,000.
22. **What is the value of the golf course land?** Since the option to purchase was offered to SPHA in late May, there has been no formal appraisal. For appraisal purposes, the highest and best use of the land would be if it were developed. From that standpoint, we already know that the purchase price of \$2.3 million for the land and business would be significantly below the appraised value. For example, lots in the Salt Pond are priced well over \$300,000 per lot. If 8 lots were sold for \$300,000, the total price would be \$2.4 million. With 59 acres of golf course land, it is clear that the value of the land for development purposes would be well over the \$2.3 million purchase price. Or, when compared with the 8 acre land sold for \$4.4 million for the Salt Pond Plaza, the golf course purchase price seems very reasonable.

### **Benefits to SPHA Owners**

23. **What special benefits or perks will SPHA owners get as a result of the purchase?** The benefits of the golf course purchase include protecting the value of each SPHA owner's property, as well as retaining the beauty, unique character, and ambiance of the Salt Pond community. These are all quality of life issues. Failure to purchase the golf course will reduce property values in the likely event that development occurs or a new golf course owner does not maintain or operate the golf course adequately.

Since the golf course business is basically a break even business, it is doubtful that perquisites, like free or reduced membership, etc., could be given to SPHA owners. The type of entity to be set up to operate the golf course has not yet been determined. However, since there is little expectation of large profits or dividends to stock holders, establishment of a share-holding corporation is unlikely.

### **Profitability of Golf Course**

24. **Is the golf course operation profitable?** Dr. Bowers, SPHA's financial consultant, determined that the Salt Pond golf course can reasonably be expected to produce a positive cash flow, although a relatively modest one. In other words, her analysis shows that the golf course has been and can continue to be self sustaining.
25. **What is the outlook as to profitability for the golf course in future years?** According to Dr. Bower's analysis, the positive cash flow could range from \$26,000 and \$58,000 in the 4-year forecast period. Of course, these projections

would vary, depending on the economic situation, as well as any changes in the management or marketing of the golf course, the need for new equipment or other capital improvements, demographics, growth in the Bethany area, etc. Most likely a significant amount of this revenue would need to be invested in the business, thus reducing the bottom line cash flow. The main goal is to ensure that the business generates sufficient cash to pay for cash expenses, so that no additional special assessments are necessary in the future.

26. **What happens to the golf course if after we buy it and it is not profitable?**

Based on the financial analysis, the Board has confidence that the golf course can be self sustaining. However, if the golf course operates at a deep and sustained loss, your Board would , with input from the community, consider various options, like maintaining the land as open parkland. Our main objective is to ensure that this open space is not developed.

### **Financial Information on the Golf Course**

27. **What financial information is available to SPHA owners to review?** Dr. Bowers will give a review of her financial analysis at the July 14<sup>th</sup> meeting and answer questions on it. Her analysis will also be provided at that meeting.

28. **Are there recent balance sheets, income statements or other similar documents showing golf course revenues, expenses, liabilities etc. available for viewing?** No. The confidentiality agreement with SPA prohibits release of this information. However, Dr. Bowers has analyzed SPA s' recent financial statements and tax returns and her financial analysis and conclusions are based on SPA s' financial statements.

### **Operations of the Golf Course**

29. **Who will manage and operate the GC?** There are many options and no decisions have been made at this point. Options are being explored and include having the Pro operate the golf course, having SPHA operate it directly, having SPHA hire a manager, or having a golf course management company operate it.

30. **Will the SPA golf course pro shop personnel, golf course superintendent, and maintenance staff work directly for the SPHA?** The management, organization and personnel structure of the entity to operate the golf course has not yet been determined.

### **Liability Issues**

31. **If SPHA buys the golf course, will individual SPHA home and lot owners be liable for losses or lawsuits?** There are numerous ways to shield individual owners from liability and lawsuits (e.g., setting up a separate legal entity and having adequate insurance). Your Board will work with SPHA lawyers to ensure

that adequate protections are in place. In addition, the intention is to operate the golf course with a positive cash flow. If it does not, your Board will be assessing options either to make changes so that it becomes self sustaining or to consider retaining the land as open park land.

### **Due Diligence**

32. **What due diligence is being done on the offer?** Your Board is working with SPHA s'lawyers to ensure that the necessary work is done. In addition to review and analysis of the golf course financial information by Dr. Bowers, a Phase I environmental assessment will be conducted to ensure that there are no environmental hazards or problems associated with the golf course land.