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September 4, 2009

Board of Directors
Sugarwood Homeowners Association, Inc.
205 Candlenut Lane
Knoxville, TN 37934

Re: Mixing of Finances

Ladies and Gentlemen:

This letter addresses the current practice of Sugarwood Homeowners Association, Inc. ("SHA") in co-mingling the financial activities of Sugarwood Stingray Swim Team (the "Swim Team") with the other financial activities of SHA. The co-mingling of funds between the two operations is imprudent from a business perspective and possibly violates federal tax laws relating to non-profit organizations. Accordingly, we recommend that the Swim Team form a separate legal entity (presumably a non-profit corporation) to manage the financial activities of the Swim Team, separate and apart from the other activities of SHA. We feel particularly strong about such a recommendation due to the fact that a majority of the Swim Team members pay a fee to "join" the team and do not live in Sugarwood.

SHA's management of the activities of the Swim Team potentially exposes SHA to significant tort liability, because the Swim Team coaches are currently treated as employees of SHA. Under Tennessee law, SHA could be liable for any personal injury, including wrongful death, resulting from the negligence of its employees. This means that if a child drowns or is severely injured during a swim meet or practice, SHA could be liable for damages resulting from that injury if the injury is ultimately deemed to be due to, in whole or in part, the negligence of the Swim Team coach. This is a risk that could be mitigated by simply forming a separate legal entity for the Swim Team. The new Swim Team entity could then hire its coach as its own employee and pay

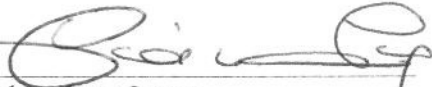
rent to SHA as a fee for pool usage and to cover a portion of the public liability insurance costs of SHA. We further recommend that the Swim Team be required, as a condition to use Sugarwood's pool, to procure and maintain its own public liability insurance coverage, naming SHA as an "additional insured". Such Swim Team insurance would be in addition to the insurance carried by SHA.

Also note that the co-mingling of financial activities between the Swim Team and SHA might violate federal tax laws relating to non-profit organizations, by reason of the Swim Team collecting fees from participants much like a "for profit" arrangement. Continued co-mingling of financial activities could impair the continued non-profit status of SHA. This is an issue which you should also refer to your accountant.

If you have any questions or concerns regarding these matters please feel free to call me or my tax associate Lee Popkin at (865)584-4040.

Respectfully yours,

LONG, RAGSDALE & WATERS, P.C.

By: 
David Wilson Long