

To: All Sugarwood Homeowners Association Members

From: SHA Board of Directors

Date: September 18, 2009

The Board would like to update the membership on changes in the way the activities of the Stingray Swim Team will be reported, effective January 1, 2010. The Board has a responsibility to conduct the community's business in such a way as to protect SHA's tax-exempt status and also make certain Federal statutes relating to non-profit corporations are followed. Additionally, the Board is responsible to protect the Association's assets with adequate liability insurance and to address situations of unnecessary or imprudent liability passing to the Association. What began as a review by the Board to consider, in part, balancing access to the SHA pool for the 264 SHA members with access to the pool by the Stingray Swim Team, as well as obtaining a written annual agreement between SHA and the Stingray Swim Team, has resulted in obtaining important information about the proper administrative structure and the need to establish a separate legal entity for the Stingray Swim Team separate and apart from the SHA.

The Board has consulted with SHA's attorney, David Long, and SHA's accountant, Viren Lalka. Mr. Long and Mr. Lalka have represented SHA for a number of years, and their representation substantially pre-dates the current board. Mr. Long and Mr. Lalka were contacted because of their knowledge of SHA, as well as SHA's existing relationship with them. (Letters attached)

The following are key points regarding the Board's decision:

- Attorney's and accountant's advice is to have the Stingrays become a separate legal entity. The Board's policy is consistent with the professional advice to SHA.
- With Stingrays being a separate legal entity, they will maintain their own liability insurance; therefore SHA will not be directly liable.
- Under the current status, all Stingray coaches are SHA employees; as such, all employment related liability for Stingray coaches is passed on to the Sugarwood Homeowners Association. Under this policy, Stingray coaches will not be SHA employees. Therefore, employment related liability for Stingray coaches will not pass to SHA.
- Co-mingling of finances between SHA and Stingrays could violate Federal tax laws with respect to tax-exempt corporations. This policy eliminates co-mingling.
- If SHA was determined to have violated to Federal tax laws, this could jeopardize SHA's non-profit, tax-exempt status. This policy addresses the major concern with statute compliance.

- Only 25% of the swim team members live in Sugarwood. In 2009, 27 of 102 total swimmers were Sugarwood residents.
- 5% of Sugarwood's 264 families participate on the swim team. (10-15 each year)
- In 2009, the net financial contribution from the Stingrays to SHA was essentially income neutral for SHA. While SHA processed approximately \$10,000 in gross revenue from the Stingrays, the vast majority just passed through as coaches' salary, insurance, taxes, etc. Money that is passed through should not be confused with a net income contribution to SHA. For 2010, the Board has approved \$2000 (total) as the fee to be paid to SHA by the Stingrays for use of the pool for practice (Mon.-Fri., 6 a.m.-12 noon) and 3 home swim meets. The Stingrays had suggested \$2700 for 2010; the Board's decision was designed to assist the Stingrays with the cost of becoming a separate legal entity.
- There were 12 swim team families from outside Sugarwood who purchased a Non-Resident Recreational Pass for \$325 out of a total of 39 total passes that were purchased. In 2010, the Board projects that we will be in the 30-40 range for Non-Resident Recreational Passes sold. Therefore income from Non-Resident Recreational Passes will not result in a significant financial shortfall in 2010 for SHA.
- The Stingray Parent Committee has expressed a desire to recruit non-resident swimmers and to have non-resident swimmers be charged a reduced fee. This policy puts the discretion on this issue with the Stingrays. The Stingrays will establish swimmer fees.
- Repeated concerns raised at the Annual SHA meetings regarding the difficulty of understanding the co-mingling of finances between SHA and the Stingrays. These concerns are eliminated with this policy.

The Stingray policy issued by the SHA Board on July 21, 2009, is amended to reflect the changes addressed in this correspondence and the September 19, 2009, attached letter to the Stingray Parent Committee. The 2009 SHA Board is supportive of the Stingray Swim Team as past Boards have been. The Board believes that having the Swim Team available to the approximately 300 children in Sugarwood is positive, and the Board is hopeful that more children will participate. The Stingrays becoming a separate legal entity provides an incentive for financially sound operation and planning. It further provides the opportunity to grow, recruit swimmers, and establish a fee structure consistent with the Stingrays' goals. The SHA Board of Directors voted unanimously (7-0) to implement the policy that is outlined in this letter.

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