

JOSEPH V. MARULLO, SR.

Certified Public Accountant

October 5, 2007

To the Board of Directors
Devonwood Community Association, Inc.

In planning and performing my audit of the financial statements of Devonwood Community Association, Inc. for the period ended July 20, 2007, I considered the internal control in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on internal control. However, I noted certain matters involving internal control and its operation that I consider to be reportable conditions under standards established by the American Institute of Certified public Accountants. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of internal control that, in my judgment, could adversely affect Devonwood Community Association, Inc.'s ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Reportable conditions:

- 1) The Board has transferred \$24,700 of Replacement Funds for Operating Fund expenses.
- 2) The financial statements do not reflect the inter-fund liability at July 20, 2007. Also, there are two reserve components with negative balances. Reserve components: entrance sign & walls \$(10,501) and fence reserves \$(22,144).
- 3) The Board has not adopted a current study to determine the remaining useful lives of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future.
- 4) The certificates of deposit were not available for audit.

Recommendations:

- 1) The Board should utilize Replacement Funds for related costs for major replacements and deferred maintenance.

Recommendations: (cont.)

- 2) The Operating Fund should reimburse the Replacement Fund to the fully funded amount and retain funds at the required level to keep the fund in balance. Alternatives are to: A) Increase regular assessments, B) levy special assessments, and/or C) outside borrowings. The amount needed at July 20, 2007, is \$77,558.
- 3) The Board should obtain a licensed professional engineer to perform a current reserve fund component study to determine the remaining useful lives of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future and fund reserves based on the study.
- 4) The Board should maintain a copy of all certificates of deposit in a safety deposit box or other secured place and have them readily available for audit or other situations.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

My consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. **However, none of the reportable conditions described above is believed to be a material weakness.**

This report is intended solely for the information and use of the Board of Directors and others within the Association and is not intended to be and should not be used by anyone other than these specified parties.