

Report of Internal Control

February 24, 2014

To the Board of Directors and Management
The Mediterranean Villas Homeowners Association
Pasco, Washington

Dear Board of Directors:

In planning and performing our audit of the financial statements of The Mediterranean Villas Homeowners Association as of and for the year ended December 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Association's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

The Standards of Field Work

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliability in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

- ***Approval for bad debt write-offs should be recorded in the Board meeting minutes. It was noted that the minutes recorded the fact that the foreclosures had occurred with an approximate amount; however, Board approval of specific write-offs should be documented.***
- ***A balance sheet and income statement that agrees with the general ledger should be provided to the auditor at year-end. The Board should review and approve all financial statements at least quarterly.***
- ***As noted in the prior year, we based our audit of assessment income on the phasing schedule of lots billed during the year. The year-end total lots was less than the amount announced at the November 2013 annual meeting; however, we were assured during the audit process that 216 lots was the correct total of lots to be billed as of the end of the year. The Board should ensure that there are controls in place for billing to be commenced at the proper time based on the Association's governing documents.***

This communication is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than these specified parties.

Bellevue, Washington

Cagidant & Company, CPA