

ARROWHEAD LAKE ASSOCIATION

MANAGEMENT LETTER

March 31, 2009



***Siebert Botkin Hickey
& Associates, LLP***

June 4, 2009

Board of Directors
Arrowhead Lake Association
Lake Arrowhead, CA

In planning and performing our audit of the financial statements of Arrowhead Lake Association as of and for the year ended March 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered of Arrowhead Lake 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.

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 Association's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Association's financial statements that is more than inconsequential will not be prevented or detected by the Association's internal control.

A material weakness is a significant deficiency, or a 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 Association's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Any immaterial items noted during the course of our audit are attached to this letter as "Current Findings and Recommendations."

This communication is intended solely for the information and use of management, 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.

Sincerely,

Siebert Botkin Hickey & Associates, LLP

Current Findings and Recommendations

Our engagement disclosed the following areas in which we believe more effective internal control or increased efficiency may be achieved. The items noted below were not of such magnitude that they would significantly affect the fair presentation of the financial statements taken as a whole.

Billing for Dock and Slip Rights

The system for billing docks and slip rights is not adequate. Presently, mandatory docks and slip rights, which are fixed at 2,777, are billed and tracked in the AMI member database and recorded on the cash basis in the Association's accounting system (QuickBooks). Likewise, the remaining receivables for docks and slip rights are not recorded in QuickBooks. During our audit we recommended an adjustment to recognize the ending balance of these receivables in the Association's financial statements.

We recommend the Association record the receivable for mandatory docks and slip rights when billed which will allow for more accurate and timely collections of these receivables. Once set up, the receivable on the Association's balance sheet should be reconciled to the subsidiary ledger in the AMI member database on a monthly basis which will help detect any misappropriations or coding errors.

Asset Inventory

There is presently no connection or reconciliation between the asset inventory listing, reserve study components, and the depreciation schedule. We recommend to you software that combines features allowing you to accomplish all three tasks through a single database, thereby assuring a much higher probability that all Association assets will be accurately accounted for, reserved for, and depreciated.

Internal Network

An internal network system will eliminate the double entry that occurs between the staff and the accountant. With a network system, passwords would need to be implemented for each user to restrict access to sensitive information. The network will also allow information entered from each user to be available in real time.

Disposition of Previous Findings and Recommendations

The below items were recommended as of March 31, 2008

Membership Database

Recommendation: The Association is currently using a customized membership database to record membership information including payments and deposits. The existing membership database system is old, and cumbersome to use, which causes it to not be used consistently, resulting in unreliable management information, especially as it relates to the recording of income. We recommend the Association alter the current system or purchase a new system that will better recognize revenue and produce more useable reports. Given the type of organization, with recreational activities and memberships, software developed for the country club industry may be suitable for the Association.

Disposition: The lack of controls over docks and the AMI member database system continue to leave the Association open to the risk that monies could be misappropriated and not be discovered, as there is no present means of determining what the total billed income should be.

Disposition of Previous Findings and Recommendations (continued)

Internal Network

Recommendation: An internal network system will eliminate the double entry that occurs between the staff and the accountant. With a network system, passwords would need to be implemented for each user to restrict access to sensitive information.

Disposition: No change as of March 31, 2009

Asset Inventory

Recommendation: There is presently no connection or reconciliation between the asset inventory listing, reserve study components, and the depreciation schedule. We have recommended to you a software that combines features allowing you to accomplish all three tasks through a single database, thereby assuring a much higher probability that all Association assets will be accurately accounted for, reserved for, and depreciated.

Disposition: No change as of March 31, 2009