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June 29, 2023

To the Management and Board of Managers of
Mountain Side Condominium Association

We have audited the financial statements of Mountain Side Condominium Association (the "Association"), for the year ended December 31, 2022, and have issued our report thereon dated June 29, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated February 16, 2023. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Association are described in Note 2 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended December 31, 2022. We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

Note 7: A study is conducted and reviewed annually by management and the Board to estimate the remaining useful lives and the replacement costs of the common property components. The Board is funding major repairs and replacements over the remaining useful lives of the components based on the study's estimates of current and future replacement costs and considering amounts previously accumulated in the Reserve/MCR fund.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has been given all adjusting journal entries.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 29, 2023.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Associations' financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants. Furthermore, we have no reason to believe that such a consultation is necessary.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Associations' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Supplementary Information Accompanying the Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Required Supplementary Information

With respect to the supplementary information required by the Financial Accounting Standards Board, we applied certain limited procedures to the information, including inquiring of management about their methods of preparing the information; comparing the information for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements; and obtaining certain representations from management, including about whether the required supplementary information is measured and presented in accordance with prescribed guidelines.

In addition, we did discuss the following recommendations with management to improve internal controls within the Association.

Board Oversight

We recommend that the Board of Managers continue to take an active role in the accounting process including involvement in preparing and reviewing the annual budget, reviewing financial statements, selecting contractors for major projects, and reviewing bank statements and bank reconciliations.

Property, Equipment, and Depreciation

During the audit, we noted that no depreciation expense was recorded against property and equipment. Often, associations track property and equipment through the reserve study and do not capitalize these expenditures. We recommend that the Association either records depreciation expense on a GAAP basis or expense these costs through an expenditure from the Reserve/MCR Fund.

Excess Membership Income Taxation

If the Association have membership income in excess of related membership expenses in the upcoming year, such excess will be subject to taxation in addition to the net non-membership income. In that event the Association must: 1) pay tax on the excess; 2) refund the excess to the membership (Rev. Rule. 75-370); or 3) make an election under Rev. Rules. 70-604, 75-371, and IRC section 118, to apply the net membership income to the following year's dues.

The election to apply excess membership income to the subsequent year should be made by members in the form of a resolution. The resolution should be approved by the full membership, not just the board of managers, and should be documented in the minutes. A sample resolution is attached. If the resolution is not made, the excess membership income could be subject to income taxes at regular corporate tax rates.

When the excess membership income is to be carried over one year to the next, the subsequent year's budget should have an excess of anticipated expense over expected revenues large enough to absorb the excess income from the prior year. In order to accomplish this, the Association may need to reduce the subsequent year's dues or increase the Reserve/MCR fund contribution.

This information is intended solely for the use of the Board of Manager and management of Mountain Side Condominium Association and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in blue ink that reads "McNurlin, Hitchcock & Associates, P.C." The signature is written in a cursive, flowing style.

McNurlin, Hitchcock & Associates, P.C.

RESOLUTION OF MOUNTAIN SIDE CONDOMINIUM ASSOCIATION

RE: EXCESS MEMBERSHIP INCOME APPLIED TO THE FOLLOWING YEARS'S DUES

WHEREAS, Mountain Side Condominium Association is a Colorado Association duly organized and existing under the laws of the State of Colorado; and

WHEREAS, the members desire that the Association shall act in full accordance with the rulings and regulations of the Internal Revenue Service;

NOW, THEREFORE, the members hereby adopt the following resolution by and on behalf of Mountain Side Condominium Association:

RESOLVED, that any excess of membership income over membership expenses as defined in IRS Reg. 1.277-1 for the year ended December 31, 2023, shall be applied against the subsequent tax year member dues as provided by IRS Revenue Ruling 70-604.

This resolution is adopted and made a part of the minutes of the meeting of Mountain Side Condominium Association.

BY: _____
President

ATTESTED: _____
Secretary