Condominium Home Owners' Association of British Columbia
Leadership, Education and Resources for Strata Owners Across BC
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Condo Smarts

Headline: The basics of accounting
Topic: Contingency Reserve Funds, Finances
Publication / Date: The Province, Feb 1, 2018
Written by: Tony Gioventu

Dear Tony: Our strata council is doing some weird and creative accounting and the owners are concerned we are not getting the real picture. Over the years we have approved a number of expenses from our contingency fund for routine upgrades and repairs. When we approve an amount, the last was for $25,000 of fencing, the strata moved the $25K from the contingency fund to the operating fund. The final amount of the project was $19k. But at year end, our budget was overspent in a number of areas, and our year-end balance had a small surplus of $200. Our council used up the $6K difference as a slush fund for a number of questionable expenses. If we total the past 5 years this has happened we have spent over $50k of our contingency on slush fund expenses never properly accounted to the owners. Is this a normal practice?

Colleen M. Abbotsford

Dear Colleen: There is a basic rule of finances in the *Strata Property Act* and Regulations that many strata corporations seem to selectively ignore: "the operating fund, special levy funds and contingency reserve funds must be accounted for separately." Each of the funds has separate approval procedures, accounting requirements and end of project conditions. The only way to meet those conditions is to annually report to the owners the activity of each account. At the end of each fiscal year, every account requires a separate financial report showing the opening balance, any contributions to that fund, the details of any expenses to that fund, and the closing balance.

The operating fund is approved at an annual general meeting and may be amended by majority vote at the time the budget is considered. The account includes all of the operating expenses for the next fiscal year, and includes the amount approved to be contributed to the contingency fund. These two amounts are shown and calculated separately so each month based on unit entitlement, every owner knows how much of their strata fee goes to the operating budget and the contingency.

The contingency fund is the reserve of the strata used to approve expenses that occur less than once a year. These are for emergencies or insurance deductibles, or resolutions approved either by a 3/4 vote or majority vote of the owners at a general meeting for specific projects. When a contingency fund expense is approved, either by strata council for emergencies or an insurance deductible or by a resolution of the owners, the amount is NOT transferred to the operating fund as a revenue/expense item. The amount approved is for the purpose intended only from the contingency fund and the details of the expense are reported as part of that fund. This prevents strata corporations from abusing and manipulating contingency expenses such as your situation. If the strata had only spent $19k on the fence, the remaining $6k remains in the fund and council does not have discretion to spend the remaining funds on other expenses without the approval of the owners.

Special levy funds must also be accounted for separately. There are many strata corporations that still require special levies because their contingency balances are not sufficient to meet major repairs. Each special levy must be accounted for separately and is not part of either the operating or contingency fund. At the end of a special levy, if any owner is entitled to receive $100 or more in a refund, the remaining balance must be refunded to all owners, and all active special levy accounts in a fiscal year must be reported separately as part of the financial reports of the annual general meeting.