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The Accounting Environment
Most strata corporations are managed by property management companies who collect strata fees, deposit the fees and write cheques to pay for expenses on behalf of the owners. The *Strata Properties Act and Regulations* requires a monthly accounting of the collection and use of these funds. To facilitate this process, property management companies hire accountants, most of them accounting students, and install them as strata property accountants. A designated accountant or a senior student is then hired to be their supervisor.

To be successful, the strata property accountant has to be familiar with the *Strata Properties Act* and with fund accounting, especially the contingency reserve fund. Also working closely with the treasurer of the strata council and the property manager assigned to the strata, the accountant must make a commitment to keep abreast of the activities at the various meetings: AGM, SGM and, of course, the regular council meetings.

The work of these strata property accountants is a high pressure, high volume affair five days a week. A typical accountant in these environments has a portfolio of twenty or more strata corporations that require financial statements prepared monthly, and delivered on an assigned day and time.

<u>The Profit and Loss Budget Comparison Report</u>
The most recognizable statement in the strata corporation's financial environment is also the most important. The profit and loss budget comparison report (P & L budget comparison report) lists all the budgeted and non-budgeted revenue sources and expenses for the fiscal year. Columns displayed include, current month's data, year-to-date data, the annual approved budget, and the variance from budget.

Common Errors
Common errors associated with the P & L budget comparison report include:

1. The listing of special assessment levies and expenses. This practice overstates operating revenues and expenses. For example, strata fees budgeted for the year may be set at $390,000. A special assessment to fix the roof may be set for $100,000. By including the special levy on the profit and loss statement, the total revenue becomes $490,000 instead of 390,000. This creates a misleading picture for unsophisticated users of the statement. All special assessment levies should be reported on the balance sheet under the equity section (see later part of this article). This will ensure clarity and transparency.
2. The *Strata Properties Act and Regulations* require that each year-end operating deficit be recovered in the subsequent fiscal year through a special levy. It is a common practice for strata property accountants to include this deficit recovery as a line item on the P & L
3. Budget comparison report. Again this overstates revenues. The deficit recovery should be reported on the equity section of the balance sheet.

The Balance Sheet
This statement could be very problematic if not kept simple. The balance sheet represents a cumulative record of the financial affairs of the strata corporation. There is an **Assets** section that records everything the strata owns; cash, investments, accounts receivable, vehicles, inventory, etc.

There is a **Liabilities** section that records everything the strata owes to other people or organizations. This includes accounts payable to vendors and suppliers, money owed to banks and credit unions, strata fees paid in advance. Strata fees paid in advance are considered liabilities of the strata corporation because the month for which the fees apply has not yet arrived. Which technically means the owners of the money can ask for it back.

Finally there is the **Equities** section that is basically the total of all assets minus the total of all liabilities. The contingency reserve fund and special assessment funds are located in this section. Note that the bank accounts that hold the contingency reserve money and the special assessment reserve money are located in the assets section.

Common Errors

1. The equity section of the balance sheet is regularly misunderstood. The balance in the contingency reserve fund found in the equity section represents what the fund has left in it. Naturally you expect to look at the asset section of the bank account called contingency reserve and find this amount sitting in the bank. However, it is frequently not so. Quite often the balances in these two accounts are different and that creates friction between strata owners and the property manager.

   For example the contingency reserve fund in the equity section may have a balance of $100,000 while the contingency reserve bank may have a balance of $20,000. The question always is: what happened to the $80,000? Frequently the answer to this question is the money was spent repairing the building because there was no money in the operating bank account.

The next question then is who authorized the spending of the $80,000? If it is in the minutes of the AGM or SGM or even council meeting minutes that the $80,000 be spent as emergency funds to repair the building, then there is no problem. If there is no record that the $80,000 was authorized to be spent then we get a lot of angry owners demanding answers. My recommendation to property managers regarding the contingency reserve funds is always make sure authorization for spending is in the minutes before you spend it.

Conclusion
Awareness of some of the common errors and how they can be avoided helps both educate the strata owner and provide suggestions to the strata property accountant to keep the accounting process simple and transparent.