Condominium Home Owners' Association
Serving BC's Strata Property Owners since 1976
Bulletin: 300-471

Condo Smarts
Headline: Managing our Reserve Investments
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Dear Condo Smarts: Our strata corporation is just having our depreciation report completed, and along with our preliminary projected funds for the next 15 years and what we currently have maintained in our reserves, we will soon have 2 million dollars in our reserves. Our strata manager has advised that they will manage and invest our reserve funds on our behalf and provide us with an annual report. Our strata corporation has never filed a tax return so we have several questions. Who is responsible for the management of our reserve funds and do we pay income tax on the revenues? *Carl W. North Vancouver*

Dear Carl: The Strata Property Act permits strata funds to be invested in insured accounts with savings institutions in BC and those permitted by regulation 6.11. The regs give a certain amount of discretion to strata corporations for securities in Canada, a province, the UK , the US or a municipal corporation in a province. Basically the intent is to protect the investments in secured or insured instruments; however, if your strata corporation is considering investments outside of Canada, it may be in your best interest to place such a decision before the owners at a general meeting and seek advice from a qualified investment counselor before you risk your funds. How investments are made, where the funds are held and the term of the investments are the decision of the strata council. The decisions of council are recorded in the council minutes which provide notice to the owners, and the authority necessary for the strata manager or an authorized council member to place the investments. Investments must always be in trust, in the name of the strata corporation. They are not co mingled funds, and any interest earned on the fund becomes part of that fund. If you are paying an investment fee, that fee is shown as a separate expense in the annual financial report of the contingency reserve fund. The introduction of depreciation reports will see a significant rise in reserve funds held by strata corporations, that will eventually generate a substantial amount of interest, which should be considered when calculating the 3 funding models presented by the depreciation planner. Your strata corporation will receive a separate taxation T-5 report form, which you are required to include with your annual tax return. Residential strata corporations are considered to be non taxable associations, but you must still file an annual return. If your strata corporation receives revenues other than annual strata fees, surplus strata fees, interest earned on investments, these are non taxable. Revenues such as lease of property owned by the strata corporation, or licensing for items such as communications towers, are revenues that must be reported and they may be taxable, so be sure to consult with a qualified accountant when completing your returns. In addition to the technical requirements of depreciation reports, strata corporations should establish an investment plan to maximize their investments to reduce long term costs.