

**Condo Smarts**

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**Dear Condo Smarts:** To get ahead of the wave of demand on consultants, our strata complex commissioned our depreciation report in November of last year. The report, which we received in January, has been an eye opener for our community. We suddenly saw all of the building components that are coming up for major repairs or renewals over the next 5-10 years. Basically, if we considered meeting all of our basic funding needs we would literally double our strata fees for the next 10 years. By doubling our fees, we would likely not face any special levies until 2027. While it seems like a long time away, our owners back in 1995 thought 2012 was a lifetime away. Well, here we are. We had two issues that we had to tackle and need your advice. The consultant told us they would provide a number of funding models and we would have to choose one, and then we would have to create a special fund for the administration of depreciation contributions. The second issue is that we need to special levy the owners for the depreciation contributions. Are the contributions not part of our contingency reserve contribution in the annual budget? *John Kennedy, President Cedar Close Strata*

**Dear John:** There is much misinformation being distributed about depreciation reports. Over the next few weeks I am going to try and tackle the myths that have popped up so quickly and created so much confusion for owners, strata councils and managers. As part of the depreciation plan, the consultant must provide the strata corporation with at least 3 cash flow funding models for the contingency reserve fund relating to the maintenance, repair and replacement over the next 30 years. These are only sample models for funding that will show the impact of your decisions. Your strata is not compelled to adopt any of them. If you decide to contribute only 10% of the annual budget, the model should show what will your future costs will be, when they will occur, and when will you be facing special levies, likewise if you decided to increase your contributions to a greater amount. The effect of increases will reduce the impact of special levies and increase the value of your asset. The purpose of providing the models is to ensure the strata owners have credible information to make decisions

when they vote at the AGM. Even if the strata corporation does not increase their funding, it will allow owners to understand future costs so they may make informed decisions on their personal long term financial planning and savings for those future levies. This is not a special levy contribution, and there are no special accounts to set up. All of the funds contributed for any depreciation report future allocations become part of the contingency reserve fund. No one should underestimate the impact of the decisions at the annual general meetings. Owners who do not participate in their strata meetings, are about to have a substantial wake up call. While a proposed budget is sent out with the notice, that budget, including any amount contributed to the contingency reserve fund, may be amended by majority vote at the annual meeting. If you plan on assigning a proxy, be prepared for surprises in strata fee increases. In addition to presenting their report at their AGM, John's strata also amended the budget and approved an increase in the contingency contribution from an average of \$20/month to \$72/ month, raising strata fees by 25% this year. Knowledge of the future allows you to plan. Even small incremental increases will ease the future financial burdens.

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