

Condo Smarts

Headline: Surplus Funds Crisis

Topic: Budgets

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Dear Condo Smarts: Our strata corporation is 144 units in Burnaby. Our annual budget is 750,000 this year, and with close monitoring we manage a surplus most years. We have historically carried over our surplus to the next year's budget as revenue to offset strata fee increases. Unfortunately this year we had a deficit of \$39,000 and we have been informed by our accountant that we have to write off almost \$65,000 in receivables. That means we have a \$104,000 deficit in our operating budget. The receivables that we are writing off track back to revenues for fines, damages and insurance deductibles that we have accumulated over the past 10 years. When our accountant reviewed our minutes and records, they could not find any verification of the receivable accounts to determine how and when these charges arose, or whether the council had ever executed legal instructions about. Our manager has been advising us for the past 5 years to avoid carrying over accrued revenues that were not lienable amounts, such as strata fees and interest permitted under our bylaws. So here we are with a major deficit, pretty much no way of collecting all of these receivables other than past due strata fees, and facing a very hostile ownership. Do you have any recommendations that may help strata corporations better execute financial planning. *Kevin S.*

Dear Kevin: Strata corporations are given four options to deal with a surplus in the annual budget. The strata corporation may transfer the amount to the contingency reserve fund, carry it forward as part of the operating surplus, carry it forward as revenue to the next year's budget to offset strata fee increases, or by three quarter's vote, approve the funds to be used for another purpose. If the surplus is a secured amount, each of the options may be feasible; however, when the strata corporation is dealing with those items that are not necessarily secure, the strata corporation should not use the surplus, as revenue to offset strata fees. With the introduction of the new Limitation Act in June 2013, time periods for collections and claims are going to be reduced to a much shorter period of two years for most receivables. It is also

important for strata corporations to understand why there was a surplus. If it was a result of scheduled work not completed, then the following year will simply generate the same services, and you may be at risk of facing a deficit the following year. Strata corporations who hold their AGM before they have their final financial statement, also face the risk of basing their decisions on projected information. The Strata Property Act requires that a strata corporation must hold their AGM no later than 60 days after their fiscal year end, so there is little time for the 20 day notice of the AGM if you wait for the completed financials. Avoid placing your strata corporation in this awkward situation of an operating deficit, which you would have to pay back in the following year in any case. Adopt best practices for collections. Strata council should routinely review all receivables, and they should be documented and booked. When a fine is imposed, council decides to collect an insurance deductible, or late payments of fees or levies those items are recorded on a published receivables list that council address at their regular meetings. Don't wait to collect an insurance deductible or damages. These items cannot be included on a *Form F Payment Certificate* when someone is selling their strata lot, and your strata corporation may lose the ability to collect a significant amount. Receivables shown on the monthly and annual balance sheet must also have supporting documentation identifying each receivable. This also makes it much easier for the lawyer representing the strata corporation if there is an application to the courts for an order for sale proceeding of unpaid strata fees or special levies. Avoid carrying over surplus funds into next year's revenue. With the introduction of depreciation reports, and the growing financial demands of aging buildings, a surplus provides an excellent opportunity to save for the future. Educate your strata council. Knowledgeable council members will be better equipped to make prudent decisions and recommendations to the owners. CHOA's Spring Seminars, including the Basics of Strata Accounting, start province wide on March 2, 2013 and are open to the public. For more information, go to www.choa.bc.ca and select Seminars or call 1-877-353-2462.

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