

Condo Smarts

Headline: We have our depreciation report what do we do with it now?
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Dear Condo Smarts: Our strata approved a depreciation report as part of the 2013 budget last fall. Our building is 4 year old, and our plan is to save enough into our contingency funds each year so we won't every hopefully have special levies. We hired an engineering company who did an excellent job, and by starting early enough, our monthly contributions to our contingency are increasing on average from \$42/month to \$87/month. We understand that by starting early and saving the fully funded amount, but other than the plan for contributions, what else is the value of the depreciation report? *Gerrit H. Surrey*

Dear Gerrit: The depreciation report provides a wealth of information for the strata corporation that not only projects future renewals and costs, but provides you with information for annual budget planning, financial investment planning and maintenance and operational planning.

Maintenance and operations planning for annual services is a key to long life and good performance of your building systems. Look at your report and set up a checklist for all the common components and elements that your strata corporation should be inspecting and maintaining annually. That checklist should be a routine part of your council meeting agenda, and provides critical information for budget planning. Whenever we meet with a strata corporation to talk about their facilities & operational management the first questions are: " where are your maintenance schedules and inventory, who is responsible to ensure the components are inspected and maintained according to the schedules, and how are the

work schedules reported in the minutes of the council meetings?" Checklists are an essential part of budget planning. If your strata has a complete inventory and checklist of all of your annual maintenance and service contracts, and an assigned estimate of costs for each item, it is a simple step to plan next year's budget.

What do strata owners want? Housing affordability, predictable strata fees, a protected investment, maintained assets, a reasonably quiet use and enjoyment of their strata lots and minimal disruptions. When building systems are neglected everyone pays the price. Your common property and assets have shorter life expectancies. When you experience failures that result in other damages and losses, they also result in increases in insurance costs and deductibles, disruption to the use of property, and an eventual devaluation of your asset. For many strata corporations now adopting depreciation reports at 20-40 years of use, they are shocked at the coming wave of major projects and financial demands. Whether a strata does a depreciation report or not, these events will still occur. The benefit of the report is the ability to take control of the projects and funding, and not let the projects or the contractors take control of your strata corporation and its finances. A planned roof replacement ensures the strata corporation has the time to hire an independent inspector to set specifications for the project, the time to approve funding for the projected costs, the project tendering, and to ensure the work is scheduled during favorable weather conditions.

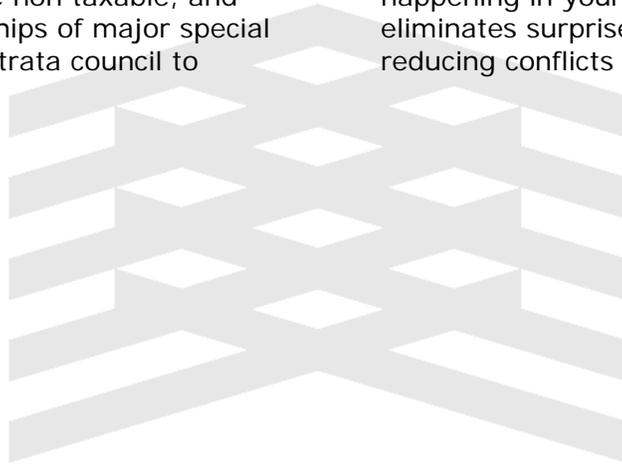
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Financial planning is also an important part of depreciation reports. Whether your strata corporation increases its contributions or not is a decision of the owners, but for the first time, at least the owners now understand when the major projects are likely to occur and what the costs will be so they can start their own savings program. The ideal is for the strata corporation to save in the long term, manage a sound conservative investment plan with interest revenues that are non taxable, and hopefully avoid the hardships of major special levies. This requires the strata council to

effectively manage their reserves. The strata council should be openly discussing financial options, investment options, terms of investments, what types of investments are best suited for your strata corporation, and then council votes on those recommendations giving your manager or treasurer lawful instructions. One final step. Publish your checklists and financial programs in your minutes. Let your owners know what's happening in your strata. Removing secrets eliminates surprises and is a major step to reducing conflicts in your strata corporation.



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