Condominium Home Owners' Association
Serving BC's Strata Property Owners since 1976
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Condo Smarts
Headline: Surplus or Deficit, do we really know?
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Dear Tony: At the end of last year's fiscal year October 31st, our financial report showed that we had an accumulated surplus of $17,537.00. Our strata corporation is 101 units, so this is a reasonable expectation, as we have benefited from good management in the past. Because our strata corporation has not conducted an audit in over 5 years, we decided it was time to test our financials, and have an audit conducted on the fiscal year ending 2012. We have been shocked to discover that our $17,537 surplus has now converted into a bad debt write off of $75,000. It was explained to us that the financials for 2011 and 2012 included insurance deductibles receivable costs of $50,000 and $25,000, and that these amounts were no longer collectable as the owners of each of the claims have sold their units and the amounts were not collected from those owners responsible at the time. As treasurer I looked at the balance sheet for both years and sure enough, those amounts are shown as receivables. What I find concerning is that no one questioned the surplus, which we carried over to this year's budget, and a surplus carried over to the 2012 budget to offset increases, and now we are in a significant negative position. Is there a better way we would have handled these matters? *Gloria C.*

Dear Gloria: The best advice I could ever impart on strata corporations: do not spend money that you do not have and do not spend money that is based upon an unsecured debt.

Strata fees and special levies and their permitted collection costs are basically secure debts because a strata corporation may lien the owner's strata lot for those amounts, and may even contemplate an application to the courts for an order for sale of the strata lot to cover those costs. There is significant financial danger in relying upon unsecure debts such as bylaw fines, insurance deductibles or damages. They may take a long time to recover or may not even be recoverable because an owner does not have the resources to pay the amount, or the costs to the strata corporation is so excessive that the limitation periods will often run out before the debts are collected. The strata owners rely upon the financial information provided to them at the Annual General Meeting (AGM) so they may approve the next year's financial budget; however, the time period from fiscal year end to notice for the AGM is only 5 weeks at best, so it is unlikely that a strata corporation will be able to secure an audit in that time period. As a result, most of the financial statements are unlikely to be audited or 100% reliable, but should be reviewed by the strata council prior to the AGM to verify accuracy. The financial report and balance sheet should clearly indicate the schedule of receivables, and should also identify the secure and unsecure debts.

By showing the unsecure debts separately, it also provides the strata corporation with the information necessary to plan for court or other actions to recover the unsecured debts. Insurance deductibles can impose overwhelming financial burdens on strata corporations, so immediate action should be taken to attempt to recover the debts.

The amendments to the Limitation Act now limits the ability of the strata to commence an action to 2 years on such costs, which is a very short period of time in the life of a strata community. If you do have an actual cash/real surplus, the strata may by majority vote elect to transfer that amount to the contingency fund, carry it forward as part of the surplus to the next year's revenues, or simple carry it forward as part of the operating surplus. The other option for a surplus is a three quarters vote to spend the funds on a specified purpose. If your strata does experience a deficit at year end it is important to remember that the deficit must be eliminated during the next fiscal year.