

Strata Living

Headline: Deficits

Topic: Budgets; deficits

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Dear Tony: We just received notice of our AGM for February, and our financial statements show we had an \$17,500 deficit on a budget that is only a \$65,000 annual budget. We thought the strata corporation was prohibited from exceeding expenses that were greater than 5% of the annual budget. So how do we deal with the deficit?

Kevin B. Cloverdale

Dear Kevin: You are correct that a strata corporation is only permitted to expend up to 5% of the annual budget or \$2,000, whichever is less, on unapproved expenditures. In your case that would be \$2,000; however, emergency expenses may also be spent as they are required to ensure safety or prevent significant loss or damage, whether physical or otherwise from either the operating fund or the contingency reserve fund, if there are sufficient funds available. The strata corporation is required to eliminate the deficit during the next fiscal year. That may be accomplished as either including the amount in the proposed budget for this next fiscal year approved by majority vote and repaying that amount to the operating fund, or it may also include a special levy for the deficit amount, an allocation of a previous operating surplus or reserve funds all which would be ratified by a three quarters (75%) vote at a general meeting. It is up to each strata corporation to determine their best course of action. An

emergency repair may well have been a planned contingency expense in the coming years that was accelerated by a premature failure, or a cost that may be absorbed by an operating line item such as maintenance and repairs. Either way the owners will have to pay the amount in the next fiscal year. A word of caution over using contingency reserves for deficits. You may be depleting your reserves for long term renewals, the reduction in reserve funds will impact your depreciation report information and values reported on a Form B Information Certificates. Consider the impact of your decisions on property value, business operations and long term planning before you consider a method to repay the deficit.

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