
Condo Smarts

Headline: Interest on Contingency Reserve Funds

Topic: Contingency Reserve Funds

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Dear Tony: Is a strata corporation permitted to use interest from contingency fund investments for the operating account? In our AGM financial report, there is a significant amount of interest shown as revenue in our operating fund. The property manager and treasurer advised the interest was generated from investments of the operating surplus, but we were short on cash this year and had to borrow from the contingency fund to pay our insurance policy. There is no possibility of generating sufficient interest shown on our operating account. The financial report shows we generated \$12,723 in our contingency but it also shows in the operating revenues. Is this normal?

Christina W. Burnaby

Dear Christina, Strata corporations often intermingle their financial reporting between the operating fund contingency fund and any special levy accounts. This is not permitted by the *Strata Property Act* or Regulations.

Strata councils and accounting managers need to look closely at the regulations of the Act which clearly define reporting. The accounts must show the opening and closing balances of the operating fund, the contingency fund and any current special levies within that fiscal year. The Act and Regulations also require that each of these items must be accounted for and reported separately. Interest that is earned on each of the accounts is only deposited back to those accounts.

If the strata corporation approves an amount to be spent from the contingency reserve fund (CRF), that remains a CRF expense and is not intermingled or reported with the operating fund. The same applies to special levies. The reasons are intentional. Depending on the fund, voting thresholds and approvals may be different; and in the case of a special levy fund, any surplus funds where no owner is entitled to \$100 or

more, must be returned to the owners at the completion of that project.

A benefit that is often overlooked by strata corporations is the interest that may be earned on the contingency and special levy funds, which is non taxable, when applied back to those funds. With rising interest rates, this is an ideal window to review your CRF balances for upcoming projects, emergency allocations and unforeseen expenses, and consider investing in 1-3 year terms. The rates are up to 4% and higher for GIC's, and that invested and compounded interest goes a long way to offsetting inflation.

Strata councils should dedicate at least one meeting a year to budget planning and investments. Make decisions and vote to authorize the investment of the funds to enable your property manager, your treasurer and financial planner to complete the investments. Most important, the funds must always be in the name of the strata corporation in trust, and cannot be consolidated with other funds.