Condominium Home Owners' Association
Serving BC's Strata Property Owners since 1976
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Condo Smarts
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Dear Condo Smarts: Our strata corporation of 114 units in a high rise in Burnaby are just in the process of having our depreciation report produced. We hired an engineering company who have undergone the site inspection of our building components. Had we prepared better we could have saved some time and money, because our strata corporation did not have any prints, plans or drawings that addressed the building systems or the electrical and mechanical systems of the building. Producing some of these documents has certainly added additional costs. So a tip for other strata corporations, get as many of your records and documents together as soon as you can. We do have one challenge coming up. The engineer who is doing our planning has asked us what type of financial models we would like to see, and we're unsure how to respond. The regulations require at least 3 financial models but we cannot find any samples of those models or the purpose of the models. Could you provide us with some examples. Gordon *W, Carriage Lane*

Dear Gordon: Here is what the regulations require: "*6. 2 (3) e) at least 3 cash-flow funding models for the contingency reserve fund relating to the maintenance, repair and replacement over 30 years, beginning with the current or previous fiscal year of the strata corporation, of the items listed in subsection (2 (b).*" Once the depreciation planner has completed their assessment of the asset conditions, they are also required to review the current financial position of the strata. They will include the current value of the reserve funds and operating surpluses, to calculate the future requirements. They are going require the involvement of the strata corporation as well to establish the assumptions on predicted future growth of the funds, with respects to how the reserve funds are managed. Are the funds being actively invested into the permitted insured instruments set out by the Strata Act & Regulations, or will they simply be in minimal interest bearing savings accounts? The successful financial administration of your long term funds, especially if there is any significant amount of money in the fund, will greatly influence the balance of your CRF funds. The more you have, the lower likelihood of special levies. Think of it as 3 options for your retirement plan. Remember, interest earned on contingency reserve investments for residential strata corporations is non taxable, and must be compounded back into that fund. Make sure you understand how the models are calculated and what assumptions are being made.

Here is one simple model that calculates contribution requirements over time. Let's assume a 55 unit strata is 11 years old. Your report indicates at this time (the report has to be updated every 3 years) you will require 2.1 million dollars staggered over the next 30 years to meet your renewals. That averages out per unit to a projection of $38,181 over 30 years, or $1,272 per year or $106 per month per unit if you choose to fully fund the report to meet the future renewal costs and avoid special levies. The model will take into consideration inflation rates and investments would show what the monthly contribution is for each strata lot each month. The amount , approved on an annual basis as part of the annual budget, would then be applied to the fund monthly. Other models could include a current funding rate of 10% of the annual budget, anticipating large projected special levies. Another model may be 50% funding of the report with smaller special levy projections, or borrowing options. There are many options, and the decision of your strata eventually impacts your property values and marketability. In addition to property condition, buyers, mortgage providers and insurers are now looking at actual reserve balances and future costs.