FROM THE STRATA EXPERTS

Q&A

On Reserve Fund Planning and Reporting

Reserve Fund Planning

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1 What is the difference between an Operating Expense and a Reserve Fund Expenditure?

An operating expense is reported on the operating income statement. It is a cost requiring revenue before the end of the fiscal-year. The monthly cost for electricity is considered to be an operating expense. Major repair and replacement reserve fund expenditures occur every two fiscal-years or more, and over the life of the development. Reserve fund expenditures reduce common asset liabilities, and are reported on the reserve fund statement. While windows major repair/replacement expenditures do not occur every fiscal-year, each fiscal-year's contributions to the reserve fund are based on a fiscal-year measure of the windows' annual depreciation.

2 What does the Strata Council Do with a Depreciation Report?

Based on fiscal-year critical dates, a strata council meets with a certified reserve fund planner to review its operating and reserve fund budget items etc. – often reducing the Repair and Maintenance line item amount and increasing the reserve fund contributions amount, without raising strata fees. This is done before the strata council's annual budget meeting, and before the AGM. Active reserve fund planning results in DRs that reflect a strata council's optimal risk management of operating expenses and reserve fund expenditures. While increasing reserve fund contributions does not require a separate resolution – assuming that a component is in a DR's inventory and is planned for – a series of 50 percent vote resolutions are required to manage each fiscal-year's draws out of the reserve fund.

3 Why are Reserve Fund Planning and Depreciation Reports Necessary?

Each fiscal-year, during the annual budget meeting, a strata council's reserve fund planning sets the course for reserve fund regular, and planned special contributions, if any, as well as proposed expenditures for the next fiscal year. The fiscal-year historical record provides stakeholders with a development specific performance record of actual renewal costs and project dates. The prescriptive replacement costs that come with quotes, opinions of probable costs, and maintenance plans cannot do this. Only REIC CRP standard DRs summarize all other reports into a reserve fund's current requirments and optimized regular contributions to draw on Owners, so they pay their fair-share of their use of the common assets, one fiscal-year at a time. Reserve fund planning equips decision-makers for a review of allocations and draws, and DRs establish the position profile of a reserve fund – useful when stakeholders want to compare two lots in two developments. ■

J.-F. Proulx is the President of Constructive Condo Reporting Corp. He has worked as a trade, contractor and consultant to construction, engineering and appraisal firms – fostering depreciation report divisions along the way, as well as providing warranty review reports, specification writing, Form B information certificate reviews, and other consulting services.

He believes that best-practice reserve fund planning can elevate all stakeholders' standards, improve strata living, and lead to better personal and condo/strata financial decision-making.

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