CHARTERED PROFESSIONAL ACCOUNTANTS ONTARIO

Accounting, Auditing and Tax Guidelines for Ontario Condominium Corporations

Prepared by:
The Committee on Accounting, Auditing and Tax Guidelines for Ontario Condominium Corporations
October 2013

Members of the Committee on Accounting, Auditing and Tax Guidelines for Ontario Condominium Corporations

John Warren, CPA, CA - Chair Adams & Miles LLP TORONTO	
Stephen Chesney, FCPA, FCA Parker Garber & Chesney LLP RICHMOND HILL	Tony P. Gatto, CPA, CA Tony P. Gatto Professional Corporation HAMILTON
Peter K. Harris, CPA, CA, ACCI, FCCI Harris & Chong LLP TORONTO	Park Thompson, CPA, CA, ACCI Furlong and Company LLP TORONTO
Chartered Professional Accountants of Ontario **(The Institute of Chartered Accountants of Ontario) ("CPA Ontario")** Louis Kan, CPA, CA, CFE Associate Director of Technical Services TORONTO	

These Guidelines suggest accounting principles, reporting practices, audit procedures and tax considerations specific to Ontario condominium corporations as well as recommendations for best practices that are in addition to the requirements of the *CPA Canada Handbook* and the *Condominium Act, 1998*. They update the guidelines issued by the Committee on Accounting and Auditing Guidelines for Ontario Condominium Corporations (the Committee) in November 2008.

They reflect the *Condominium Act, 1998* (the Act), Part III - Canadian accounting standards for not-for-profit organizations of the *CPA Canada Handbook - Accounting* (Handbook) and Canadian Auditing Standards (CAS) of the *CPA Canada Handbook – Assurance* (Handbook), all as of October, 2013. (The *CICA Handbook* published by the Chartered Professional Accountants of Canada (CPA Canada), which was formerly known as the Canadian Institute of Chartered Accountants (CICA), is changing its name to the *CPA Canada Handbook* effective November 1, 2013.)

I wish to thank my fellow Committee members who have given extensively of their time and efforts to this project so that we can ensure that the public and all other users of condominium financial statements will be well served by our profession.

Finally, our thanks for the assistance and support provided by Louis Kan of CPA Ontario during preparation of these Guidelines. His insights and guidance were most helpful.

John Warren, Chair

DISCLAIMER

These Guidelines represent the collective views of the Committee members. Individual members may hold alternate views on a number of matters or interpretations such as on financial statements presentation and note disclosure, depending on the particular facts and circumstances of the engagement. These Guidelines do not constitute an official Chartered Professional Accountants of Ontario position.

These Guidelines are provided for general information and educational purposes only, and do not constitute legal or professional advice. It is the responsibility of each auditor to be fully informed of the particular circumstances of each engagement and assistance provided by these Guidelines shall not be substituted for the auditor's obligation to exercise due diligence and professional judgment.

These Guidelines provide guidance as of October, 2013, but readers are cautioned that subsequent amendments to, or interpretations of accounting and auditing standards may affect the validity or applicability of the comments in these Guidelines.

References to the *CPA Canada Handbook*, to our CPA Ontario's *Member's handbook*, and to the *Condominium Act, 1998* and related regulations are not all-inclusive. Readers should refer to the complete texts to obtain an understanding of all applicable standards and ethical and other requirements.

INDEX

INTRODUCTION

Financial statements

Section 66 of the Act and related regulations specify that the corporation shall prepare its financial statements in accordance with the accounting principles contained in the Handbook and further that certain reserve fund information shall be disclosed therein. The Committee has concluded that general-purpose financial statements that comply with Canadian accounting standards for not-for-profit organizations as set out in Part III of the Handbook and that meet the disclosure requirements of the Act should be prepared for presentation to owners at the Annual General Meeting.

Auditors

An auditor who accepts an appointment under Section 67 of the Act accepts three responsibilities, as set out in more detail in the section on audit considerations. Briefly, they are:

- To make an examination in accordance with Canadian Auditing Standards (CAS).
- Under CAS 700, to add one or more paragraphs to the audit report after the opinion paragraph when the corporation's financial statements are not in accordance with the requirements of the Act and the Regulations, and;
- Under CAS 700, to add a paragraph to the audit report after the opinion paragraph when the statement of reserve fund operations and other prescribed information contained in the financial statements do not fairly present the information contained in the reserve fund studies the auditor has received.

Auditors should obtain a copy of the Act and Regulations and review in detail Sections 60 to 71 and Regulation 48/01 Sections 16 and 27 to 33 relating to auditors, financial statements and reserve fund studies. Certain of the significant sections of the Act and Regulations are referenced later in these Guidelines.

History of condominiums

The condominium concept is not new; the existence of housing arrangements similar to condominiums is reported by scholars in early civilizations. For example, the Romans, from whose language the word condominium was derived, used this form of housing. Condominium living later appeared in medieval Europe, found its way to South America and in the last century gained strong support in Europe and North America. Historically, condominiums have gained popularity when the cost of urban land has risen disproportionately, generally as a result of increases in population density arising from migration to cities.

Condominiums came into existence in Ontario in the latter half of the 20th century. They are corporations created by developers through legally registered declarations pursuant to enabling provincial statutes. The first Ontario statute in 1967 basically allowed for a form of land registration. It was less than 15 pages in length and contained few requirements as to how a condominium should be operated. Amendments were made in 1970, 1972, 1973 and 1974, and the first mention of financial statements and auditors appeared in the 1978 Act. The need for modernization led to major reform of the legislation culminating in proclamation of the Condominium Act, 1998 on May 5, 2001.

These Guidelines apply to the following types of condominiums: Standard, Common Elements, Leasehold and Vacant Land.

Concept and operation of condominiums

The condominium concept is one of individual ownership of occupancy and, often, parking and storage units within an indivisible whole property. The owners of the units in the property are tenants in common of the remainder of the property, referred to as the "common elements", in which they have an undivided interest. The declaration of each condominium corporation contains a legal description of the units which defines the boundaries between the unit owner's property and the common elements. The owners are all the members of the condominium corporation.

A condominium is a self-governing community with many of the attributes of a city-state; its declaration is the constitution, its bylaws and rules are the statutes, and its budget and assessments are the tax system. Often there are shared facilities, recreational amenities, convenience stores, clubs, meeting halls and, for policing, security guards. There can be private roadways with privately maintained fire hydrants and fire hose systems. Humanity being less than perfect, there is occasional vandalism, encroachment on the rights of neighbours and other problems which need resolution. All these require coordination and supervision and the corporation's board of directors (board) performs these governance functions.

Directors and management

The board is responsible for the preparation of financial statements and for operation of the condominium and maintenance of the common elements. The Act and the Declaration regulate the performance of their duties by requiring a majority for decisions, declaration of conflicts of interest and they set out necessary qualifications and provide requisites for calling meetings.

The board has statutory power to govern operations by creating bylaws and rules (subject to ratification by the owners), and the board is required to oversee adherence by the condominium corporation and its owners and residents to the Act, declaration, bylaws and rules that govern operations of the corporation and the use of the common elements and units. The day-to-day conduct of the affairs of a condominium is generally delegated to officers elected by the board from their number, usually including at least a president, a secretary and a treasurer.

The board often appoints outside management or hires management staff to assist them. Professional managers perform many of the functions of the board, generally being responsible for the collection of assessments, staff supervision, payment of expenses, inside and outside maintenance and repair, assisting owners in resolving matters relating to the affairs of the condominium and accounting for financial transactions. Managers operate under the authority of the board and are responsible to it, but management activities do not relieve the board of their responsibilities.

Owners

Owners have the right to elect directors to manage the affairs of the corporation and to appoint its auditors.

Owners are responsible to comply with the requirements of the Act, declaration, bylaws and rules of the corporation as well as applicable requirements of other government bodies and for contributing to the common expenses in the proportions specified in the declaration.

Users of financial statements

The owners are the principal users of condominium financial statements. It is their funds received by way of periodic assessments that finance operations of the condominium. The financial statements, being a record of stewardship, form part of the information used by owners to evaluate directors' performance. Accordingly, it is important for owners to be provided with uniform and clear financial information so they can best understand the financial performance of their corporation. Owners include a wide spectrum of the population and many of them are not familiar with financial statements and accounting terminology. The presentation and wording used should take this into account as much as possible to assist owners to best understand the financial statements.

Other users of the financial statements include managers and external third parties such as potential purchasers, real estate lawyers, reserve fund study consultants, trade creditors, mortgagees, commercial lending institutions and government agencies. These users will be more familiar with financial statement presentation and expect a reasonable degree of uniformity and clarity of presentation.

ACCOUNTING CONSIDERATIONS

Statutory financial statements

The responsibilities of the board under the Act in the preparation of financial statements are set out in Section 66 and related regulations as follows:

- Section 66(1) stipulates that "A corporation shall have its financial statements prepared in the prescribed manner and in accordance with generally accepted accounting principles as are prescribed." Regulation 48/01, Section 16 states that "a corporation shall have its financial statements prepared in the manner and in accordance with the accounting principles specified in the Handbook of the Canadian Institute of Chartered Accountants."
- Section 66(2) stipulates that "the financial statement shall include,
  a) a balance sheet (now statement of financial position);
  b) a statement of general operations (now statement of operations and changes in fund balances – operating fund);
  c) a statement of changes in financial position (now statement of cash flows);
  d) a statement of reserve fund operations;
  e) prescribed information relating to the reserve fund study and the operation of the reserve fund;
  f) an indication of the aggregate remuneration paid to the directors in that capacity and the aggregate remuneration paid to the officers in that capacity; and
  g) the additional statements or information that the regulations made under this Act require. (Currently there are none).

The Committee recommends that financial statement names be updated to reflect current usage.

Fund accounting

The Act requires that condominium corporations must have at least two funds, an operating fund and a reserve fund. Therefore fund accounting as set out in Part III, Section 4400 of the Handbook may be an appropriate method of presentation. Expenses for the major repair and replacement of the common elements and assets of the corporation should only be charged to the reserve fund.

The Committee also strongly recommends that a fund be set up to reflect the equity in capital assets, if any, so that owners do not conclude that the total operating fund is available to be contributed to the reserve fund or to offset future assessment increases. Additional funds are also common, such as contingency or other funds set up at the discretion of the board for specific purposes and funds related to debt and capital lease obligations, as discussed below.

Banking and investments (Act Section 115)

A corporation must have at least two bank accounts; an operating account and a reserve fund account. Both accounts must be in the name of the corporation and must be located in Ontario.

The board may invest operating and reserve funds only in "eligible securities", defined in Section 115(5), as bonds, debentures, guaranteed investment certificates, deposit receipts, certificates of deposit, term deposits or similar instruments that:

1. Are issued or guaranteed by the government of Canada or the government of any province of Canada; or
2. Are issued by an institution located in Ontario insured by the Canada Deposit Insurance Corporation or the Deposit Insurance Corporation of Ontario; or
3. Are securities of a prescribed class (currently there are no securities of a prescribed class).

No other securities are "eligible securities". In particular, bankers' acceptances and money market mutual funds are ineligible.

Investment of the corporation's operating monies must be cashable within 90 days of request. Investment of reserve monies is not subject to this restriction.

The corporation may hold securities with an investment advisor if they are held in a segregated account under the name of the corporation by a member of the Investment Dealers Association of Canada and are insured by the Canadian Investor Protection Fund.

Before investing any part of its reserve funds, the board must develop an investment plan for its reserve cash and investments, taking into account the anticipated cash requirements according to the reserve fund study. The committee recommends that investment plans be in writing and approval by the board of directors should be recorded in the minutes. The investment plan is separate from the plan for future funding of the reserve fund, which lists the amount of owners' assessments to be allocated to the reserve fund annually over the ensuing 30 years.

Owners' receivables and lien rights (Act Sections 85, 86)

The corporation has priority lien rights for collection of owners' assessments if a lien is registered within 90 days of the date on which assessments are due. If registered in time, the lien provides priority in collection over every registered and unregistered debt of the owner with only a few exceptions, such as municipal property taxes, and accordingly collectability is assured.

First year deficit recovery (Act Section 75)

The corporation is to notify the declarant of the amount of a first year deficit within 30 days of receiving the audited financial statements and the declarant then has 30 days to pay the deficit. Reimbursement in this time frame almost never happens; first year deficits are typically not paid by the developer for considerable periods of time and often are not reimbursed in full.

A first year deficit recovery should not be set up as a receivable unless collection is certain, generally evidenced by payment.

Capital assets

Condominiums may limit the application of Handbook Part III Section 4431 if the average of annual gross revenue for the current and preceding period is less than $500,000. Corporations with gross revenue below the threshold may choose not to capitalize. The disclosure requirements of Section 4431.38 would then apply, as follows:

- Disclosure of the accounting policy followed for capital assets;
- Information about major categories of capital assets not recorded in the statement of financial position, including a description of the assets; and
- If capital assets are expensed when acquired, the amount expensed in the current period.

Expenses for the major repair or replacement of the common elements of the corporation are not capital costs of the corporation and should be charged to the reserve fund.

As discussed above, when assets are capitalized, the Committee recommends that a Capital Asset Fund (or other name descriptive of the assets) be established to reflect the equity in these assets and that amortization of these assets, if any, be charged to this fund.

Capitalization

Real property directly associated with the units

The entire property built by the developer, both units and undivided interest in the common elements and assets, were purchased by the first owners. Each successive purchaser acquires that undivided interest in the common elements. As the units and common elements built by the developer have never been owned by the corporation, it follows that they should not be capitalized.

Real property directly associated with the units includes land, buildings including shared facilities, landscaping, roads, fences and similar features, but does not include residential, commercial, service or superintendent and guest suite units.

The Committee recommends that expenditures made after the date of registration for real property directly associated with the units also not be capitalized, but instead be expensed.

Real property not directly associated with the units

Real property not directly associated with the units such as superintendent, guest suites and other units should only be recognized as capital assets when the condominium corporation:

- Has paid for the property; and
- Has title or other evidence of ownership of the property; and

- Can dispose of the property with the approval of the board, or where required, the approval of the owners, for cash or claims to cash and can retain the proceeds.

Common personal property

Common personal property acquired subsequent to the date of registration, such as furnishings, recreational equipment, maintenance equipment and work vehicles should be recorded as capital assets, when material. Replacement of these items, when required, should be charged to the reserve fund.

Purchased units and amortization

It is common practice in new condominiums for the first purchase agreement to contain a requirement that the corporation purchase superintendent and guest suites or other service units. These units should be recorded at cost.

Amortization is determined by Handbook Section 4431, which states that “the cost, less any residual value, of a capital asset with a limited life should be amortized over its useful life in a rational and systematic manner…” Section 4431.06(f) defines residual value to be “the estimated net realizable value of a tangible capital asset at the end of its useful life to an organization”.

The board should take the following factors into account when deciding whether the amortization policy of the superintendent and guest suites or other service units is appropriate:

- The Act requires that units (which are common elements) be maintained;
- The estimated residual value of the building should take into account that the units are continually maintained and market values may be expected to increase over the expected life of the building.

As circumstances may change, auditors should annually evaluate the reasonableness of the board’s application of this accounting policy.

Auditors should also review annually the reasonableness of the board’s assessment of whether a write-down of the carrying amount is required in accordance with Handbook Section 4431.26.

Government remittances payable

Handbook Section 1510.15 requires the separate disclosure of the amounts payable at the end of the period in respect of government remittances other than income taxes. Section 1510.16 provides examples of government remittances, including HST, payroll taxes, health taxes and workers’ safety insurance premiums.

Reserve fund (Act Sections 93, 95)

Purpose

Sections 93(2) and 95(1) of the Act specify that the reserve fund shall be used solely for the major repair and replacement of the common elements and assets of the corporation. Section 93(6) provides that the amount collected shall be the amount that is reasonably expected to provide sufficient funds for the major repair and replacement of common elements and assets of the corporation, calculated on the basis of the expected repair and replacement costs and the life expectancy of the common elements and assets of the corporation.

The purpose of the reserve fund is to set aside monies on an annual basis to provide sufficient funds for the major repair and replacement of the common elements when those expenses are necessary. The reserve fund portion of the owners' annual assessments may be thought of as the wear and tear cost of usage and ownership. Without such a fund, the corporation would have to seek financing for needed repairs and replacements or raise the required money through increases in assessments or by special assessment on owners. For example, if the expected life of a roof is 30 years, funds should be set aside annually so that by year 30 there are adequate funds to cover the cost of the roof replacement. The owners at the time the roof is replaced will not have to bear the entire cost as the reserve fund provides a mechanism to share the cost amongst all owners from year one to year 30.

Though seemingly simple, there is considerable uncertainty as to which expenses are major and whether all replacements, no matter how small, may be charged to the reserve fund. Boards should rely on professional advice, legal interpretation and the spirit of the Act to define which expenses to charge to the reserve fund.

Minor repairs, annually recurring items, preventive maintenance and additions, alterations or improvements to the common elements may not be charged to the reserve fund. Repairs should be major in nature and in no circumstance should they be general maintenance items. Monthly maintenance contracts may not be charged to the reserve fund. The board should define the nature of major repairs and replacements as distinct from minor repairs and maintenance and follow this definition consistently. The most common method is to set a dollar amount below which all repairs and replacements are charged to the operating fund.

The Committee recommends that major categories of expenses disclosed in the statement of reserve fund be classified, to the extent possible, using the expense categories in the reserve fund study to enable reserve fund study providers to accumulate the information they need as efficiently as possible.

Reserve fund debt and additional reserve fund

Corporations without sufficient funds in the reserve fund to pay for major repair or replacement projects (e.g. as a result of an unforeseen event) may choose to borrow the necessary funds instead of levying a special assessment on owners. This loan is recorded as a liability on the statement of financial position. If these major repair or replacement costs were charged to the reserve fund, it would create a deficit balance in that fund which may not be easy for owners to understand and reconcile to the reserve investments held to fund planned reserve expenditures contained in the reserve fund study. As the Act permits the creation of more than one reserve fund, to avoid this confusion, the Committee recommends that the corporation set up an additional reserve fund which is charged with these costs. This fund will carry an initial debit balance after the payment of these reserve costs.

Subsequent to payment of these reserve costs, the corporation's budget and statement of operations of the operating fund should include a separate line allocating to this additional reserve fund an amount from owners' assessments equal to the total annual debt payments, including interest and principal (this disclosure may be required by the lender). As debt payments are made, the interest portion is charged to the statement of operations of this additional reserve fund and the principal portion reduces the debt. The deficit balance in the fund will be reduced over time by the allocations from the operating fund, net of the interest component.

Mortgage debt and related fund

It is common practice that new condominiums are required to purchase superintendent and guest suites or other units which are capitalized. These assets are always financed by way of mortgage loans which are recorded as liabilities on the statement of financial position. The Committee recommends that the board establish a separate fund called equity in guest suite and/or superintendent suites fund (or other appropriate description) to account for the equity in these assets as the mortgage loans are repaid.

Subsequent to the acquisition of the units, the corporation's budget and statement of operations of the operating fund should include a separate line allocating to this fund an amount from owners' assessments equal to the total annual mortgage payments, including interest and principal (this disclosure may be required by the lender). As debt payments are made, the interest portion is charged to the statement of operations of this fund and the principal portion reduces the debt.

Capital lease obligations and related fund

It is also increasingly common in new condominiums that purchase agreements contain a requirement that the corporation lease energy efficiency and/or mechanical equipment. These leases typically meet the requirements of a capital lease; if so, the lease obligation should be recorded as a liability on the statement of financial position. The equipment purchased/leased forms part of the common elements directly associated with the units and therefore should be expensed, not capitalized. The Committee recommends that the corporation set up a separate leased equipment fund to record this expense. The fund will carry an initial deficit balance.

Subsequent to the initiation of the capital lease, the corporation's budget and statement of operations of the operating fund should include a separate line allocating to this fund an amount from owners' assessments equal to the total annual lease payments, including interest and principal (this disclosure may be required by the lessor). As lease payments are made, the interest portion is charged to the statement of operations of the leased equipment fund and the principal portion reduces the capital lease obligations. The deficit balance in the fund will be reduced over time by the allocations from the operating fund, net of the interest component.

Changes to common elements and assets (Act Sections 97, 98)

Changes to common elements and assets, described in the Act as additions, alterations or improvements, may not be charged to the reserve fund; they must be charged to the operating fund or any other fund created for this purpose. However, after acquisition, provision for major repair and replacement of these additions, alterations and improvements should be included in subsequent reserve fund studies and those costs should be charged to the reserve fund.

Examples of different treatments for paving costs are provided below:

- Annual patching repairs to parking areas would be expensed in the operating fund;
- Re-paving all or a significant portion of the parking areas would be expensed in the reserve fund;
- The removal of a landscaped area and creation of a new parking area in that space would be an addition or alteration to the common elements directly associated with the units, which would be expensed in the operating fund or to a fund created for that purpose, but not to the reserve fund;
- Paving an asphalt parking lot with interlocking bricks would be an improvement. The cost to replace with asphalt would be expensed in the reserve fund. The additional cost of interlocking brick would be expensed in the operating fund or to a fund created for that purpose, but not to the reserve fund.

The Act is not entirely clear as to what constitutes an addition, alteration or improvement. Section 97(1) sets out the criteria for items deemed not to be an addition, alteration or improvement as follows: “If the corporation has an obligation to repair the units or common elements after damage or to maintain them and the corporation carries out the obligation using materials that are as reasonably close in quality to the original as is appropriate in accordance with current construction standards, the work shall be deemed not to be an addition, alteration or improvement to the common elements or a change in the assets of the corporation for the purpose of this section.”

“Reasonably close in quality to the original as is appropriate in accordance with current construction standards*”* is generally taken to mean that charges to the reserve fund may include some changes from the original materials, for example, a change from original single glaze windows to double glaze windows commonly used today would not be an improvement, but triple glaze windows, which are seldom, if ever, used in condominium construction would. Where there is a significant change in the nature of the materials used from the original materials, only the cost of original materials may be charged to the reserve fund; any excess has to be funded from the operating fund or another fund such as a contingency fund.

There is debate as to whether the cost of legislated changes to the common elements constitutes an addition, alteration or improvement. Some professionals believe that a legislated change, for example, installation of roof anchors where there were none, means that these items are part of current construction standards and thus the costs are eligible to be charged to the reserve fund; others disagree.

The Committee recommends that, where there is doubt, the board should consider seeking advice from the corporation's reserve fund study provider or legal counsel on these matters.

Reserve fund study (Act Section 94)

Reserve fund studies are required by the Act and form part of the information used by directors to determine the allocations to the reserve fund contained in the Notice of Future Funding of the Reserve Fund. Section 94 of the Act and Regulation 48/01 Sections 27-33 set out the types, content and frequency of studies, as well as the qualifications and independence of the preparer of the study.

The cost of the reserve fund study is a common expense; however, the Act permits this cost to be charged to the reserve fund, and this is the general practice.

Timelines

A condominium is required to conduct a reserve fund study at least every three years.

Within 120 days of receiving the study, the board must, in accordance with subsection 33(1) of Regulations 48/01 of the Act, propose a funding plan for the reserve fund which will ensure that the fund will be adequate, in the fiscal year following completion of the reserve fund study, to provide for future major repairs and replacements. Condominiums registered before May 5, 2001 (in recognition that reserve funds of many older condominiums were substantially deficient) have up to 18 years after May 5, 2001 to become adequate.

Within 15 days of proposing the funding plan, the board must issue to the owners a Notice for Future Funding of The Reserve Fund containing a summary of the study, the proposed funding plan, and a statement showing any differences between the study and the proposed funding plan. A copy of the study, the proposed plan, and the notice sent to the owners must also be sent to the auditor. After giving notice to the owners, the board then has 30 days to implement the plan.

Condominiums have to conduct a study within the first year after registration. Until that study is performed, they have to contribute the greater of 10 per cent of the budgeted amount required for contributions to the common expenses exclusive of the reserve fund allocation, or the amount that is reasonably expected to provide sufficient funds for the major repair and replacement of the common elements and assets of the corporation over the thirty year term required to be covered by the Act. This is normally the amount included in the developer's first year budget.

Methodology

All existing common elements and assets must be considered in the reserve fund study. The common elements are defined by the Act as “all the property except the units”. The declaration defines the unit boundaries and by exclusion, the corporation’s common elements and assets. Each declaration may also impose upon owners the responsibility for repair and replacement of specific common elements such as doors and windows. Such items, if so defined, should not be included in the reserve fund study. Common element components generally include:

- Land, landscaping, fences, walkways and roadways;
- Foundations, walls, roofs, windows, stairways, hallways and other parts of the structure;
- Mechanical, plumbing and electrical equipment;
- Recreational and other facilities.

Notice of Future Funding of The Reserve Fund

The board is responsible for developing and implementing a plan for the future funding of the reserve fund that will ensure that the fund will be adequate, and for issuing a Notice of Future Funding of The Reserve Fund to communicate their plan to the owners. The funding plan is normally provided by the reserve fund study consultant. Section 94(8) of the Act does not stipulate that the board must follow any of the funding plans provided in the reserve fund study; however, they must ensure that any funding plan they implement ensures that the reserve fund will be adequate within the times set out above.

Where the board decides not to follow any of the funding plans contained in the study, the financial statements must disclose this fact in the notes, and include a statement of differences between the reserve fund study and the Notice of Future Funding of the Reserve Fund.

Reserve fund disclosures

Regulation 48/01, Section 16 of the Act requires that the corporation’s annual financial statements disclose a comparison between the actual reserve fund allocations to, and expenses from, the reserve fund and the comparable amounts contained in most recent Notice of Future Funding of the Reserve Fund distributed to owners.

The Committee recommends that the financial statements also disclose the year-end balance of the reserve fund contained in the Notice of Future Funding of The Reserve Fund and a comparison to the actual year-end balance. It is also common practice to disclose proposed future allocations to the reserve fund.

Reserve fund interest and other income (Act Section 93)

Section 93(7) of the Act stipulates that interest and other income earned from investing reserve funds shall be credited to the reserve fund.

Restrictions on the use of operating and reserve funds (Act Section 84)

Section 84(2) of the Act specifies that the operating fund surplus in a corporation must either be applied against future common expenses or paid into the reserve fund, but shall not, except on termination of the condominium, be distributed to the owners. Section 95(3) of the Act specifies that reserve funds shall not be distributed to owners except on termination of the corporation.

Since the distribution of operating and reserve funds to owners is specifically prohibited by the Act, using terminology such as "owners' equity" or "members' surplus" should be avoided. The Committee recommends the terms "operating fund balance" and "reserve fund balance".

Budgets

Budgets promote planning, and are a reflection of the level of service that owners may expect. They also promote communication both at the board and owner levels. Budgets are the responsibility of the board and represent an approved plan of financial resource allocation. They provide a means for the owners to evaluate stewardship, and are useful tools for the board to evaluate performance on a month-to-month basis.

Owners are concerned with the budget and the information it provides because it determines the amounts to be assessed and paid by the owners and also sets out the proposed basis of operations for the ensuing fiscal period. The financial statements reflect the actual performance which may be evaluated against the budget. The Committee recommends that audited year-end financial statements include, for comparison purposes, the budget figures for the year being reported upon.

First year budget (Act Section 72)

If the declarant's first year budget contains a clause that an inflation factor is to be applied to owners' assessments in the event registration is delayed beyond a specific date, this should be disclosed in the notes, along with an indication of whether or not the budget figures were adjusted.

Owners' assessments

Use of the term "contributions" in the Act has led to confusion. Owners' assessments, though referred to as contributions in the Act, do not meet the definition of contributions contained in Handbook Section 4410. A "contribution" for the purpose of the Handbook is defined as a "non-reciprocal transfer" of cash or other assets. Owners' assessments fail to meet that definition as owners expect to receive full personal value for every dollar they provide to the corporation. To avoid confusion, financial statements should not use the term "contribution", notwithstanding that this term is used in the Act.

As owners' assessments do not meet the Handbook definition of "contributions", the deferral or restricted fund method of accounting for contributions is not relevant to condominiums and it is not appropriate for the notes to financial statements to refer to these accounting principles.

Special assessments

It is generally held that special assessments are levied in the year to which they relate and not all in the year in which plans for a series of special assessments are announced. Subsequent years' assessments, being subject to change by the board, are not revenue nor a receivable to be recorded, but rather a series of projected future assessments to be disclosed in the notes to financial statements. The Committee has concluded that revenue and a receivable should only be recorded when assessments are levied and legally enforceable and subject to the lien provisions of the Act.

Reserve allocation in excess of budget

The Committee recommends that allocations to the reserve fund in excess of the budgeted amount should be shown as a transfer from the operating fund to the reserve fund, and not as a part of the reserve allocation deducted from current year owners' assessments in the statement of operations of the operating fund. This is to clearly segregate the effect of additional allocations decided upon by the board from the excess or deficiency of revenue over expenses for the year.

Schedules to financial statements

Owners expect more detail in the financial statements than is typically provided on the statements of operations and fund balances, and accordingly the Committee recommends that details of significant expense categories should be provided in schedule(s) to financial statements.

Remuneration of directors and officers (Act Section 56)

Remuneration of directors and officers is uncommon. Prior to paying such remuneration, a corporation must have a bylaw in place, the term of which must not exceed three years. Remuneration may be paid by various means, the most common being by cheque; however, it may also be in the form of waived owners' assessments. The financial statements should record waived assessments by including them in both owners' assessments and compensation expense.

The Act requires disclosure of the aggregate remuneration paid to directors acting in their capacity as directors and the aggregate remuneration paid to officers acting in their capacity as officers.

The corporation should also be aware of its obligations as an employer when paying remuneration to officers and directors, including the obligation to deduct and remit taxes and other employment related amounts.

Notes to financial statements

The Committee recommends that, in addition to other Handbook requirements (some of which are repeated below and some which have been included elsewhere in these Guidelines), the following information be disclosed in the notes to the financial statements:

- The date of registration of the corporation and total number of dwelling or other units;
- A description of the functions of the corporation including the name, not-for-profit status, and date of registration;
- A description of the fund accounting policies adopted by the corporation;
- Reserve fund information prescribed by the Act, including a comparison of actual reserve fund allocations and expenses to the planned amounts according to the latest Notice of Future Funding of the Reserve Fund issued to owners;
- Details of any cost sharing or reciprocal agreements (if not otherwise covered by related party transaction disclosure requirements).

This list is not intended to be exhaustive. Other disclosures may also be required. The board should carefully review the financial statements to ensure that all required disclosures are made.

Conflict of interest disclosure (Act Section 40)

Section 40 of the Act requires directors and officers to disclose material conflicts of interest to the corporation. For transparency, the Committee recommends that directors should disclose all conflicts, whether or not material, in the notes to the financial statements. Further guidance is available in Handbook Section 3840.

Shared facilities

Many condominium developments consist of more than one corporation and they share facilities such as the recreational facilities, driveway, parking garage, certain amenities and other services. Operation of these facilities is typically governed by a committee comprised of members representing all participants. A separate agreement or bylaw sets out what costs are shared, who is responsible, and the cost sharing ratios. As these shared assets are part of the common elements owned jointly by the unit owners of the corporation in conjunction with the unit owners of the other condominium corporation(s), they are not reflected in the condominium corporation's financial statements. The corporation's shared facilities costs are recorded monthly based on the shared facilities' annual budget and are almost always adjusted at year end to reflect the corporation's share of the shared facilities' surplus or deficit.

Separate audited financial statements are usually prepared for these shared facilities entities although in some smaller shared arrangements, the activities of the shared facilities may not be accounted for in a separate statement. In these instances, invoices may be paid by one corporation and charged back to the other(s) or split with each condominium paying its share directly to each supplier.

AUDIT CONSIDERATIONS

Statutory audits

The statutory responsibilities of the auditor are set out in Section 67 of the Act as follows:

- Section 67(1) stipulates that "the auditor shall, every year, make the examination that is necessary in order to make an annual report on the financial statements to the corporation on behalf of the owners".
- Section 67(3) sets out that "the auditor's report shall be prepared in the prescribed manner and in accordance with generally accepted auditing standards as are prescribed"; the prescribed standards being those "specified in the Handbook of the Canadian Institute of Chartered Accountants".
- Section 67(4) stipulates that "The auditor shall include in the report the statements that the auditor considers necessary if the corporation's financial statements are not in accordance with the requirements of this Act and the regulations made under it".
- Section 67(5) stipulates that "The auditor shall state in the report whether the statement of reserve fund operations and any other prescribed information relating to the operation of the reserve fund and contained in the financial statements do not fairly present the information contained in the reserve fund studies that the auditor has received".
- Regulation 48/01 Section 16 sets out the prescribed information being:
    - a comparison between, the amount of contributions to the reserve fund that the corporation has collected, and the amount that, according to the board's plan for funding of the reserve fund under subsection 94 (8) of the Act, the corporation was required to collect as contributions to the reserve fund; and
    - a comparison between, the amount of expenditures from the reserve fund that the corporation has made, and the amount of proposed expenditures that, according to the board's plan for funding of the reserve fund under subsection 94 (8) of the Act, the corporation was to have made from the reserve fund".

Simply put, auditors are required to conduct their audits in accordance with CAS and to report to the owners whether, in their opinion, the financial statements are presented fairly in accordance with Canadian accounting standards for not-for-profit organizations (Part III of the Handbook) and to report whether the requirements of the Act have been met (CAS 700 and other CASs as appropriate).

An audit is required for all condominium corporations with one exemption. Condominiums with less than 25 units can be exempt from the audit requirement provided all owners consent in writing each year.

If the financial statements include supplementary schedules that are unaudited, they should be clearly marked as such.

Dating of Auditor’s Report

CAS 700 requires that the auditor’s report be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor’s opinion on the financial statements, including evidence that:

- Financial statements, including related notes, have been prepared; and
- Those with the recognized authority have taken responsibility for those financial statements.

In addition, since written representations are necessary audit evidence, the auditor’s opinion cannot be expressed, and the auditor’s report cannot be dated, before the date of the written representations.

For condominium corporations, this generally means that the auditor should not date the auditor’s report before the date of the receipt of the financial statements signed by at least two board members and the signed representation letter.

Report on other legal and regulatory requirements (Condominium Act, 1998 requirements)

The auditor, in addition to meeting the reporting requirements of the Handbook, must include statements in his or her audit report when the information in the financial statements contravenes the requirements of Sections 67(4) and 67(5) of the Act or does not fairly present the required information on the reserve fund as set out in Regulation 48/01, Section 16. These additional statements do not necessarily imply a requirement to qualify the auditor’s standard report unless the matters would require qualification under CAS. Additional paragraphs, when required, should be presented after the opinion paragraph.

Paragraph 38 of CAS 700 allows for alternate titles to the additional paragraph in the audit report; the Committee recommends the title “Condominium Act, 1998 Requirements”.

The Committee has concluded that in order for the financial statements to be in accordance with Sections 67(4) and (5) and related regulations, the following conditions have to be met:

- The corporation must have at least two bank accounts, one designated as an operating account and one as a reserve account. (Section 115(2));
- Bank accounts must be solely in the name of the corporation. (Section 115(2));
- Bank accounts must be held with eligible institutions located in Ontario. (Section 115(3))
- Owners’ assessments must not be commingled prior to being deposited into a bank account in the name of the corporation. (Section 115(4));
- Investments must be “eligible”. (Section 115(5));
- Operating investments must be convertible to cash within 90 days of request. (This requirement is not applicable to reserve investments). (Section 115(6) and (7));
- The total of reserve cash, reserve investments and reserve interest receivable must be equal to or greater than the reserve fund balance. (Section 115(4));

- The reserve allocation in the statement of operations and fund balances – operating fund must be at least the amount for that year in the Notice of Future Funding of The Reserve Fund issued to owners. (Section 94(8));
- The corporation must have an investment plan for reserve monies. (Section 115(8));
- Reserve fund studies must be updated every three years. (Section 94(1) and Regulation 48/01 Section 31);
- Future reserve fund allocations in the Notice of Future Funding of The Reserve Fund must be sufficient so that the projected balance at any year end is not negative. (Section 94(1));
- Reserve fund expenses must qualify as major repairs or replacements. (Section 93(2));
- The corporation's officers must disclose material conflicts of interest (Sections 40 and 41);
- The corporation must pass a bylaw prior to paying remuneration to directors and officers and the bylaw may not exceed three years (Section 56(2));
- The corporation must pass a bylaw prior to incurring debt (Section 56(3)).

Suggested wording for common deficiencies that may require an additional paragraph are provided below. Changes should be made to the wording as appropriate to the circumstances of each audit.

No reserve bank account

As required by Section 67(4) of the Condominium Act, 1998, we report that the corporation does not have a reserve bank account to deposit monies received from owners and allocated to the reserve fund. This is not in accordance with the requirements of Section 115(4) of the Act which requires such an account.

Bank/investment accounts not solely in name of corporation

As required by Section 67(4) of the Condominium Act, 1998, we report that the corporation's (bank and/or investment accounts or certificates) are in the name of [the name on the banking or investment documents]. This is not in accordance with the requirements of Section 115(2) of the Act which prohibits accounts in any name other than that of the corporation.

Ineligible investments

As required by Section 67(4) of the Condominium Act, 1998, we report that the corporation has investments in [a description of the securities] which are not eligible securities under the requirement of Section 115(5) of the Act as they are not guaranteed by Canada, a Province or insurable under the Canada Deposit Insurance Corporation [as applicable].

Deficient reserve cash/investments

As required by Section 67(4) of the Condominium Act, 1998, we report that the corporation has not deposited all monies received from owners to be allocated to the reserve fund into a reserve bank account or reserve investments and, as a consequence, has $__________ in its reserve bank and investments which is less than the amount necessary to fund the reserve fund of $__________. This is not in accordance with the requirements of Section 115(4) of the Act.

Ineligible reserve expenses

As required by Section 67(4) of the Condominium Act, 1998, we report that the corporation has charged the reserve fund with [a description of the charges] which do not qualify as reserve expenses as they are not for major repair and replacement of the common elements or assets of the corporation. This is not in accordance with the requirements of Section 93(2) of the Act.

No [or Late] Notice of Future Funding of The Reserve Fund

As required by Section 67(5) of the Condominium Act, 1998, we report that the corporation has not conducted a reserve fund study within three years of the preceding study and has not issued a Notice of Future Funding of The Reserve Fund within the prescribed times. This is not in accordance with the requirements of Section 94 of the Act and Regulation 48/01 Section 31 related thereto.

Not following Notice of Future Funding of The Reserve Fund

As required by Section 67(5) of the Condominium Act, 1998, we report that the corporation has conducted a reserve fund study and issued a Notice of Future Funding of The Reserve Fund indicating that an allocation to the reserve fund of $_________ will be provided in the fiscal year ended ______________. The reserve allocation provided in the Statement of Operations and Fund Balances – Operating Fund is $__________ which is less than the amount contained in the plan. This is not in accordance with the requirements of Section 94(8) of the Act and Regulation 48/01, Section 33 related thereto.

No investment plan

As required by Section 67(4) of the Condominium Act, 1998, we report that the corporation has not developed an investment plan for reserve investments. This is not in accordance with the requirements of Section 115(8) of the Act.

Inadequacy of reserve fund

As required by Section 67(4) of the Condominium Act, 1998, we report that the board of directors issued a Notice of Future Funding of the Reserve Fund that does not provide sufficient funds to pay for expected future major repair and replacement costs during the period covered by the notice as the [years involved] year end balances are negative.

Audit risks

Some audit risks to consider for condominiums include:

Unrecorded liabilities

Some suppliers to the condominium industry, even large suppliers, do not invoice on a timely basis. Care should be taken to ensure all liabilities are recorded, including construction holdbacks.

Accounts receivable collection

Owners' assessments supported by a properly registered lien enjoy priority in collection and are generally collectable. Auditors should evaluate the collectability of owners' assessments outstanding greater than 90 days without a properly registered lien. Other receivables, such as charge-backs to owners, may not enjoy priority lien rights and collectability should be evaluated in the normal manner.

Contributed assets

Occasionally, settlement of the corporation's claim for reimbursement of the first year deficit may consist, at least in part, of a transfer to the corporation of assets such as parking or locker units for which fair market value may or may not be readily determinable. Auditors should review Handbook section 4431 for guidance on the accounting methods available and the determination of fair value if recorded.

Capital asset impairment loss

The auditor should review, on an annual basis, the reasonableness of the board's assessment of whether a write down of the carrying amount is required. Where impairment is the case, the auditor should ask the board to calculate and record an impairment loss.

Long term payables

The Act states that a corporation shall not borrow money unless the owners have passed a borrowing bylaw. The auditor should consider if this requirement applies to indebtedness such as a contractor providing extended payment terms, or to a capital lease. If in doubt, the board should obtain a legal opinion to ensure the corporation is in compliance with the Act.

Co-mingling owners' assessments

Section 115(1) of the Act requires the person who receives money on behalf of or for the benefit of the corporation to hold the money in trust. Certain management companies have concluded that this allows them to accumulate preauthorized payments of owners' assessments for all the condominiums they manage in one bank account in the name of the management company and to subsequently transfer the amount due to each condominium to a bank account in that condominium's name. This arrangement is often promoted as reducing costs, as bank charges that would be charged to each condominium are levied only on this one account and are typically absorbed by the management company.

This arrangement increases the risk of fraud as the corporation has no control over its funds until they are transferred into bank accounts in its name. This arrangement is also subject to abuse if funds are not transferred on a timely basis as interest, if any, will not earned by the condominium until funds are transferred into a bank account in its name.

Section 115(4) of the Act requires the person who receives money on behalf of or for the benefit of the corporation to pay the money into a general account or a reserve fund account of the corporation. The Committee has concluded that the intent of this section is that condominium funds should be deposited solely into bank accounts that are in the name of the corporation, and that any co-mingling of funds contravenes the requirements of the Act (as well as being an indication of weak internal controls).

Auditors should determine whether such an arrangement exists and if so, to expand their audit procedures as appropriate to respond to the increased risk. Auditors should consider disclosure of this contravention of the requirements of the Act in an additional paragraph to their audit report after the opinion paragraph.

Reserve fund adequacy

The Act contains a number of references to the "adequacy" of the reserve fund. The Committee has concluded that an adequate reserve fund does not have deficits at any year end in the 30 year time period covered by the Notice of Future Funding of The Reserve Fund issued to owners.

As happens occasionally, where the Notice for Future Funding of The Reserve Fund distributed to owners contains a funding plan that includes a negative balance in a future year, the Committee has concluded that the requirements of Section 93(6) have not been met and the auditor should disclose this contravention of the requirements of the Act in an additional paragraph to their audit report after the opinion paragraph.

Reserve fund study preparer

Persons who conduct reserve fund studies are experts engaged by the corporation who provide information to be used as audit evidence. Auditors should ensure they meet the requirements of CAS 500.

Engagement letter

While CAS 210 does not require the auditor to obtain a new audit engagement letter each period, changes in circumstances may make it appropriate to revise the terms of the audit engagement or remind the entity of existing terms. In the case of condominium corporations, auditors should consider obtaining a new audit engagement letter when there is a change in board composition.

Representation letter

The board is responsible for the governance of the corporation and for financial reporting though they normally delegate many of their day-to-day responsibilities to a manager or management company, including responsibility for financial statement preparation. Although receipt of a representation letter does not relieve the auditor of his or her responsibilities, its signing reminds the board and management of their responsibility for the financial statements and accounting policies and provides them with the opportunity to raise questions and to reflect on events of the accounting period under audit that may require disclosure.

As much of the accounting and administration is normally delegated to management, the Committee strongly recommends that representatives of both the board and management sign the representation letter.

In addition to other requirements in CAS 580, auditors may wish to include additional paragraphs, when applicable, as follows:

- The corporation has complied with all requirements of the Condominium Act, 1998 and the corporation's declarations, bylaws and rules;
- Management, in addition to fees, is reimbursed for office costs and charges owners, purchasers and others for issuing statutory notices;
- The corporation is following the Notice of Future Funding of The Reserve Fund issued to owners on______________[date];
- All disbursements from the reserve fund are for the major repair and replacement of the common elements and assets of the corporation and are properly charged to the reserve fund;
- Owners' assessments amount to $___________for the year as contained in the budget for the year approved by the directors on______________[date].

Communications with those charged with governance

The board is charged with governance under the Act and auditors should communicate directly with the board. Management is often the point of contact and auditors should be aware of the possibility that the board may not receive all communications from management.

CAS 260 sets out the auditor's responsibilities relating to effective two-way communications with those charged with governance, in this case the board of directors of the condominium corporation. These communications should be in writing. CAS 260 refers to other CAS that may affect the matters to be communicated. Auditors should review those CAS to ensure compliance. In particular, auditors should ensure they communicate all matters set out in CAS 260 paragraphs 14 to 17 and that directors be required to acknowledge receipt of all documents sent.

Audit committee

Though not often encountered in practice, Section 68 of the Act permits boards of directors with more than six members to select an audit committee. The auditor has the right to appear at any meeting of the audit committee and can cause a meeting to be convened to consider matters he or she believes should be brought to the attention of the committee. The audit committee can require the attendance of the auditor at any meeting.

Where there is no audit committee, the board is deemed to be the audit committee.

Turnover audit (Act Section 43)

The Act requires that financial statements be prepared and audited as at the month end following the turnover meeting for all condominiums, without exception. The condominium corporation is responsible for the cost of this audit.

Budget information

Budget amounts should be included in the financial statements, as discussed in the accounting section of these Guidelines. Disclosure of budget amounts is important to enable owners and others to assess the performance of the board and management and refusal to disclose budget amounts should heighten the skepticism with which the auditor approaches the audit, and should be cause to evaluate the integrity of the board and management, and to evaluate whether or not to seek re-appointment.

The auditor should ensure that budget amounts are marked "unaudited" or that the unaudited nature of budget amounts is disclosed in a note to financial statements.

Minutes

Minutes of directors' and owners' meetings should be read to identify: conflicts of interest, commitments, special assessments, legal issues, large contracts and expense authorizations, and remuneration that may require disclosure.

Presentation at Annual General Meetings

Auditors are often asked to discuss the financial statements and to answer related questions at Annual General Meetings (AGM) of condominium corporations because they are generally seen as an independent voice. Directors and property managers may lack advanced accounting knowledge and their explanations may be viewed by some owners as lacking objectivity.

Auditors should clearly communicate their independence to the owners at the AGM and that auditors do not act as representatives of the board and/or management. They should provide factual information only and should not discuss the "how" and "why" of amounts in the financial statements as these are properly the responsibility of the board and management. When making comments at the AGM, auditors must ensure they meet the requirements of the Independence Rule of Professional Conduct (Rule 204 of the CPA Ontario's *Member's handbook*).

TAX CONSIDERATIONS

Non-profit status

Canada Revenue Agency (CRA) in technical bulletin IT-304R2 states that, subject to unique factual circumstances, residential condominium corporations will be considered not-for-profit organizations (NPO) for the purposes of paragraph 149(1) (l) of the Income Tax Act. It further advised that where there is minor commercial ownership within a small portion of the condominium property, the same principles would apply as if the entire project were residential.

CRA has thus far been silent on the subject of commercial condominium corporations. It is the view of most professionals that if the sole purpose of the commercial condominium corporation is to deal with the common expenses of the owners and is not accumulating large surpluses beyond those funds appropriate to enable it to carry out its functions, it too should be characterized as an NPO for tax purposes.

Accordingly, all investment income earned would not be subject to taxation unless the funds invested are held at unreasonably high levels.

CRA has recently been auditing NPOs, including condominium corporations, to determine whether they meet the requirements to be an NPO under the Income Tax Act. CRA is looking at "other" types of income that condominiums earn such as rentals of their common elements to third parties for day care operations, tuck shops and roof-top communication antennas. CRA has issued reporting letters with warnings where condominium corporations do not meet their interpretation of the requirements of paragraph 149(1) (l) and has indicated that these activities may disqualify the condominium as an NPO. The Committee is not aware of any assessments for income tax on these revenues at the time of these Guidelines.

Auditors should monitor developments in this area and adjust audit procedures accordingly.

Filing requirements

All condominium corporations must file a T-2 Corporate Income Tax Return annually within six months after year end.

T-1044 Non-Profit Organization Information Returns must be filed within 6 months after year-end when:

- The corporation earned or received dividends, interest, rentals, or royalties of more than $10,000 in the current year; or
- The corporation has total assets greater than $200,000 at the end of the immediately preceding fiscal year; or
- A Form T-1044 was filed at any time previously.

Failure to file the T-1044 return within the six-month deadline may result in penalties of $25 for each day late to a maximum penalty of $2,500. Interest may also be charged. These penalties are regularly imposed by CRA, increasingly without relief for first time late filers.

Harmonized sales tax (HST)

A condominium corporation (residential or commercial) that qualifies as an NPO under paragraph 149(1) (l) of the Income Tax Act is required to register for HST only if its taxable supply exceeds the small supplier threshold for NPOs of $50,000.

Owners' assessments applicable to the occupancy of a residential unit are considered an exempt supply and HST does not apply. Activities that may be considered a taxable supply include fees for the provision of status certificates, the rental of commercial space or charges with respect to advertising, guest suite rental or rental of roof-top facilities for communication towers.

Condominium corporations comprised of commercial and/or industrial units normally decide to register for HST purposes so that owners can claim input tax credits on their owners' assessments. Care should be taken in situations of mixed use, where there are both residential and non-residential units, as the calculation of input tax credits is more complex.

ADDITIONAL RESOURCES

While these Guidelines provide guidance as to best practices as of October 2013, accounting and auditing standards continue to evolve. Accordingly, readers are encouraged to avail themselves of other publications, especially those from Chartered Professional Accountants of Canada (formerly the Canadian Institute of Chartered Accountants or 'CICA') that are updated on a periodic basis.

Other reference publications specific to condominium corporations include:

- The *Condominium Act, 1998* and *Regulation 48/01*.
- *Condominiums in Ontario – A Practical Analysis of the New Legislation* by Harry Herskowitz, LLB and Mark F. Freedman, LLB, FCCI - published by the Law Society of Upper Canada, Department of Education;
- *The Condominium Act, 1998 A Practical Guide* by J. Robert Gardiner, LLB, ACCI, FCCI – published by Canada Law Book Inc.
- *Condominium Handbook (Ontario) for Directors, Managers, Owners and Purchasers (Seventh Edition)* by Gerry Hyman Q.C., LL.M, F.C.C.I. - published by the Canadian Condominium Institute;
- *The Condominium Act: A User's Manual, 3rd Edition* by Audrey Loeb, LL.M – published by Carswell, a Thomson Company.

As well, auditors should consider joining the local chapter of the Canadian Condominium Institute (CCI) and the Association of Condominium Managers of Ontario (ACMO) as their services and publications are useful to auditors of condominium corporations.

CPA CANADA HANDBOOK REFERENCES

These Guidelines include the following CPA Canada* Handbook references.

Accounting - Part II - Accounting Standards for Private Enterprises

1510 – Current assets and current liabilities
3051 – Investments
3856 – Financial instruments

Accounting - Part III – Accounting Standards for Not-for-Profit Organizations

3840 – Related party transactions
4400 – Financial statement presentation by not-for-profit organizations
4410 – Contributions – revenue recognition
4431 – Tangible capital assets held by not-for-profit organizations

Assurance - Canadian Audit Standards

CAS 210 – Agreeing to terms of audit engagements
CAS 260 – Communication with those charged with governance
CAS 500 – Audit evidence
CAS 580 – Written representations
CAS 700 – Forming an opinion and reporting on financial statements

***** The *CICA Handbook* is changing its name to the *CPA Canada Handbook* effective November 1, 2013.

Additional Audit Considerations for Condominium Corporations

The following list covers certain issues or audit procedures common to condominiums. Use of this list does not constitute documentation of all audit procedures required by CAS. Auditors must ensure they comply with the requirements of all relevant CAS whether or not included below.

OWNERS' ASSESSMENTS
1. Were owners' assessments:
(a) reconciled to the budget?
(b) assessed in the proportions in Schedule D to the declaration?
2. In assessing the realizable value of owners' assessments receivable, are amounts over 90 days supported by liens?
RESERVE FUND
1. Was all income earned from reserve fund assets retained in the fund?
2. Has the corporation established a separate bank account for its reserve monies in accordance with section 115 of the Condominium Act?
3. Do reserve investments comply with the requirements of Section 115 of the Act?
4. Has an investment plan been prepared as required by Section 115 of the Act?
5. Were reserve fund assets:
(a) used exclusively for the purposes for which the fund was established?
(b) sufficient to fund the reserve at year-end?
6. Do reserve fund allocations for the current year agree with the Notice of Future Funding of the Reserve Fund?
7. Do the financial statements appropriately disclose the information required by Regulation 48/01 Section 16 with respect to funding and expenses of the reserve fund?
8. Has the corporation updated its reserve fund study within the 3-year requirement?
9. Does the opening balance in the reserve fund study agree to the fund balance in the financial statements on which it is based? (Reserve fund study providers sometimes begin their analysis with the reserve investments and this is incorrect).
10. If the ending balance in the reserve fund study is significantly different from the balance in the fund, consider disclosure of the nature of the difference.

INSURANCE
1. Did the corporation maintain:
(a) insurance against major perils to the units and common elements ? (Act Section 99)
(b) liability insurance? (Act Section 102)
INCOME AND OTHER TAXES
1. Have the requirements for HST registration been considered?
2. Have the following been prepared:
(a) T-2 Federal Income Tax Return?
(b) T-1044 Non-Profit Organization Information Return, if applicable?
OVERALL CONSIDERATIONS
1. Has the effect on the corporation's financial statements been considered for:
(a) its declarations, bylaws and rules?
(b) the most recent status certificate?
(c) the Act and any deviations from its requirements?
2. (a) Has the aggregate remuneration of directors and officers, if any, been disclosed in the financial statements?
(b) Is directors' remuneration supported by a bylaw under Subsection 56(2) and does the period specified therein include the year under audit?
(c) Has management been included in the disclosure of related parties?
3. Does the corporation follow a sealed bid procedure in awarding major contracts? If not, suggest this procedure to the board.
4. Have minutes of directors' meetings, the Annual General Meeting, other owners' meetings and any property manager's reports been read?
5. Has the effect of reciprocal and/or shared facilities agreements been considered and has the corporation's percentage of any shared operating fund been appropriately recorded?
6. Has a letter of representations been obtained that is signed by:
(a) A director?
(b) A representative of management?

Excerpts from the Condominium Act, 1998 and Regulations

These excerpts contain only those sections of the Act and Regulations that the Committee considers most important and that are not outlined elsewhere in these guidelines. They do not include all sections relevant to the financial statements and the audit.

The Committee recommends that auditors of condominium corporations obtain a copy of the Act and its Regulations and review them in detail to ensure that all relevant provisions have been considered.

Section	Wording and comments
17(1) Objects	The objects of the corporation are to manage the property and the assets, if any, of the corporation on behalf of the owners.
17(2) Duties	The corporation has a duty to control, manage and administer the common elements and the assets of the corporation.
17(3) Compliance	The corporation has a duty to take all reasonable steps to ensure that the owners, the occupiers of units, the lessees of the common elements and the agents and employees of the corporation comply with this Act, the declaration, the by-laws and the rules.
37(1) Standard of care	Every director and every officer of a corporation in exercising the powers and discharging the duties of office shall, (a) act honestly and in good faith; and (b) exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.
37(3) Director liability	A director shall not be found liable for a breach of duty mentioned in subsection (1) if the breach arises as a result of the director`s relying in good faith upon, (a) financial statements of the corporation that the auditor in a written report, an officer of the corporation or a manager under an agreement for the management of the property represents to the director as presenting fairly the financial position of the corporation in accordance with generally accepted accounting principles; or (b) a report or opinion of a lawyer, public accountant, engineer, appraiser or other person whose profession lends credibility to the report or opinion.
43(7) Turnover audit	The declarant shall deliver to the board within 60 days after the meeting audited financial statements of corporation prepared by the auditor, on behalf of the owners and at the expense of the

corporation, as of the last day of the month in which the meeting is held.

45(2) Meetings — The board shall hold a general meeting of owners not more than three months after the registration of the declaration and description and subsequently within six months of the end of each fiscal year of the corporation.

56(2) Remuneration — A by-law relating to the remuneration of directors shall fix the remuneration and the period not exceeding three years for which it is to be paid.

56(3) Borrowing — A corporation shall not borrow money for expenditures not listed in the budget for the current fiscal year unless it has passed a by-law under clause (1) (e) specifically to authorize the borrowing.

Sections 60 to 84 - Auditors and Financial Statements

67(4) Content of report — The auditor shall include in the report the statements that the auditor considers necessary if the corporation's financial statements are not in accordance with the requirements of this Act and the regulations made under it.

67(5) Same, reserve fund — The auditor shall state in the report whether the statement of reserve fund operations and any other prescribed information related to the operation of the reserve fund and contained in the financial statements do not fairly present the information contained in the reserve funds studies that the auditor has received.

80(5) Occupancy fees — If the declarant charges the purchaser a monthly occupancy fee for interim occupancy of a proposed unit for residential purposes for longer than six months and the monthly occupancy fee includes a projected contribution to the reserve fund of the corporation, then, with respect to the occupancy fee for each month after the sixth month, the declarant shall hold in trust and remit to the corporation upon registering the declaration and description the portion of the monthly occupancy fee that represents the projected contribution to the reserve fund.

84(2) Common surplus — A common surplus in a corporation shall be applied either against future common expenses or paid into the reserve fund, and except on termination, shall not be distributed to the owners or mortgagees of the units.

Sections 93 to 97 - Reserve fund

93(2) Purpose of fund	A reserve fund shall be used solely for the purpose of major repair and replacement of the common elements and assets of the corporation.
95(3) No distribution	The amount of a reserve fund shall constitute an asset of the corporation and shall not be distributed to the mortgagees of the units or, except on termination of the corporation, to the owners of the units.
97(1) Changes	If the corporation has an obligation to repair the units of common elements after damage or to maintain them and the corporation carries out the obligation using materials that are as reasonably close in quality to the original as is appropriate in accordance with current construction standards, the work shall be deemed not to be an addition, alteration or improvement to the common elements or a change in the assets of the corporation for the purpose of this section.

Section 115 - Money and investments

115(2) Corporation accounts	A corporation shall maintain one or more accounts in its name designated as general accounts and one or more accounts in its name designated as reserve fund accounts.
115(4) Deposit of money	Subject to subsections (6) and (7), the person who receives money on behalf of or for the benefit of the corporation shall pay the money, together with interest and other proceeds earned from investing it, into, (a) a general account of the corporation, if the money was not received as contributions from owners to the reserve fund; or (b) a reserve fund account of the corporation, if the money was received as contributions from owners to the reserve fund.
115(5) Eligible securities	In subsections (6) and (7), “eligible security: means a bond, debenture, guaranteed investment certificate, deposit receipt, deposit note, certificate of deposit, term deposit or other similar instrument that, (a) is issued or guaranteed by the government of Canada or the government of any province of Canada, (b) is issued by an institution located in Ontario insured by the Canada Deposit Insurance Corporation, or (c) is a security of a prescribed class”.

ONTARIO CONDOMINIUM CORPORATION NO. XX

Financial Statements
Year ended June 30, 20X1

Note: These sample financial statements are for illustrative purposes only and represent only one of the formats available for financial statement presentation. They should not be used as a substitute for referring to the relevant disclosure standards and interpretations.

INDEPENDENT AUDITOR'S REPORT

To the Owners of:
Ontario Condominium Corporation No. XX

We have audited the accompanying financial statements of Ontario Condominium Corporation No.XX, which comprise of the statement of financial position as at June 30, 20X1, the statement of operations and changes in fund balances of the reserve, superintendent and guest suites, leased equipment, contingency, and operating funds, the statement of cash flow, and the schedule to the financial statements for the year then ended, and a summary of significant accounting policies and explanatory information.

Management and Directors' Responsibility for the Financial Statements

Management and directors are responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations and for such internal control as management and directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements presently fairly, in all material respects, the financial position of Ontario Condominium Corporation No. XX as at June 30, 20X1, the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Chartered Professional Accountants
Licensed Public Accountants
City, Ontario
Report date

ONTARIO CONDOMINIUM CORPORATION NO.XX
Statement of Financial Position
For the year ended June 30, 20X1

	20X1	20X0
Assets		
Current		
Operating fund cash	$ 106,000	$ 206,000
Operating fund investments (Note 2)	253,500	101,500
Owners' assessments receivable	19,500	11,000
Prepaid expenses	1,000	-
	380,000	318,500
Current reserve fund cash	69,000	106,000
Long-term reserve fund investments (Note 2)	1,506,000	1,161,500
	1,575,000	1,267,500
Long-term		
Superintendent and guest suites	328,000	328,000
	$ 2,283,000	$ 1,914,000
Liabilities		
Current		
Operating trade payables	$ 80,000	$ 93,500
Current portion of mortgages (Note 3)	6,500	5,500
Current portion of capital lease obligation (Note 4)	21,500	18,000
	108,000	117,000
Reserve fund trade payables	4,000	3,500
Long term		
Mortgages (Note 3)	297,500	304,000
Equipment lease obligation (Note 4)	113,500	136,500
	411,000	440,500
Fund Balances		
Reserve fund (Note 5)	1,571,000	1,264,000
Superintendent and guest suites fund	24,000	18,500
Leased equipment fund (deficit)	(135,000)	(154,500)
Contingency fund	50,000	50,000
Operating fund	250,000	175,000
	1,760,000	1,353,000
	$ 2,283,000	$ 1,914,000

On behalf of the board ________________ Director ________________ Director

The accompanying notes and schedule to the financial statements form an integral part of these statements.

ONTARIO CONDOMINIUM CORPORATION NO.XX
Statement of Operations and Changes in Fund Balances – Reserve fund
For the year ended June 30, 20X1

	20X1	20X0
Revenue		
Allocation from operating fund	$ 267,500	$ 233,000
Interest earned	43,500	38,000
	311,000	271,000
Expenses		
Carpet and flooring	4,000	9,500
Excess of revenue over expenses	307,000	261,500
Fund Balance, beginning of year	1,264,000	1,002,500
Fund Balance, end of year	$ 1,571,000	$ 1,264,000

ONTARIO CONDOMINIUM CORPORATION NO.XX
Statement of Operations and Changes in Fund Balances – Superintendent and guest suites fund
For the year ended June 30, 20X1

	20X1	20X0
Revenue		
Allocation from operating fund	$ 30,500	$ 30,500
Expenses		
Mortgage interest	25,000	26,000
Excess of revenue over expenses	5,500	4,500
Fund Balance, beginning of year	18,500	14,000
Fund Balance, end of year	$ 24,000	$ 18,500

ONTARIO CONDOMINIUM CORPORATION NO.XX
Statement of Operations and Changes in Fund Balances – Leased equipment fund
For the year ended June 30, 20X1

	20X1	20X0
Revenue		
Allocation from operating fund	$ 32,000	$ 29,500
Expenses		
Lease interest	12,500	13,000
Excess of revenue over expenses	19,500	16,500
Deficit, beginning of year	(154,500)	(171,000)
Deficit, end of year	$ (135,000)	$ (154,500)

The accompanying notes and schedule to the financial statements form an integral part of these statements.

ONTARIO CONDOMINIUM CORPORATION NO.XX
Statement of Operations and Changes in Fund Balances – Contingency fund
For the year ended June 30, 20X1

	20X1	20X0
Fund Balance, beginning of year	$ 50,000	$ 50,000
Fund Balance, end of year	$ 50,000	$ 50,000

ONTARIO CONDOMINIUM CORPORATION NO.XX
Statement of Operations and Changes in Fund Balances – Operating fund
For the year ended June 30, 20X1

	20X1 Budget	20X1 Actual	20X0 Actual
	(Note 10)		
Revenue			
Owners' assessments	$ 1,834,000	$ 1,834,000	$ 1,774,500
Less allocations to:			
Reserve fund	(267,500)	(267,500)	(233,000)
Superintendent and guest suites fund	(30,500)	(30,500)	(30,500)
Leased equipment fund	(32,000)	(32,000)	(29,500)
	1,504.000	1,504,000	1,481,500
Interest earned	24,000	26,000	23,500
	1,528,000	1,530,000	1,505,000
Expenses			
Utilities (see Schedule)	515,000	485,000	455,000
Contracted services (see Schedule)	451,500	444,500	422,500
Repair and maintenance (see Schedule)	245,000	217,000	235,500
Shared facilities (Note 6)	231,500	240,000	215,000
Insurance	52,000	46,500	40,500
Administration (see Schedule)	33,000	22,000	21,000
	1,528,000	1,455,000	1,389,500
Excess of revenue over expenses	-	75,000	115,500
Fund Balance, beginning of year	-	175,000	59,500
Fund Balance, end of year	$ -	$ 250,000	$ 175,000

The accompanying notes and schedule to the financial statements form an integral part of these statements.

ONTARIO CONDOMINIUM CORPORATION NO.XX
Statement of Cash Flows
For the year ended June 30, 20X1

	20X1	20X0
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses		
Operating fund	$ 75,000	$ 115,500
Reserve fund	307,000	261,500
Superintendent and guest suite fund	5,500	4,500
Leased equipment fund	19,500	16,500
	407,000	398,000
Changes in working capital		
Owners' assessments receivable	(8,500)	5,500
Prepaid expenses	(1,000)	35,000
Operating trade payables	(13,500)	500
Reserve fund trade payables	500	-
	384,500	439,000
Financing activities		
Mortgage principal payments	(5,500)	(6,000)
Equipment lease obligation principal payments	(19,500)	(16,500)
	(25,000)	(22,500)
Investing activities		
Operating fund investments, net	(152,000)	(101,500)
Reserve fund investments, net	(344,500)	(186,500)
	(496,500)	(288,000)
Increase (decrease) in cash	(137,000)	128,500
Cash, beginning of year	312,000	183,500
Cash, end of year	$ 175,000	$ 312,000
Cash is comprised of:		
Operating fund cash	$ 106,000	$ 206,000
Reserve fund cash	69,000	106,000
	$ 175,000	$ 312,000

The accompanying notes and schedule to the financial statements form an integral part of these statements.

ONTARIO CONDOMINIUM CORPORATION NO.XX
Schedule to Financial Statements
For the year ended June 30, 20X1

	20X1 Budget	20X1 Actual	20X0 Actual
	(Note 10)		
Utilities			
Electricity	$ 300,000	$ 284,500	$ 276,000
Gas	145,500	125,500	112,000
Water	65,000	71,000	62,500
Communications	4,500	4,000	4,500
	$ 515,000	$ 485,000	$ 455,000
Contracted services			
Concierge	$ 204,000	$ 199,000	$ 189,000
Management	137,500	139,000	129,000
Cleaning	74,000	71,500	67,000
Elevators	36,000	35,000	37,500
	$ 451,500	$ 444,500	$ 422,500
Repairs and maintenance			
Mechanical	$ 83,000	$ 72,000	$ 59,500
Common area housekeeping	50,000	35,000	39,000
Staff wages and benefits	48,000	49,000	36,500
Building	28,000	28,500	42,500
Plumbing	17,000	11,500	30,500
Safety systems	9,500	16,000	22,000
Other	9,500	5,000	5,500
	$ 245,000	$ 217,000	$ 235,500
Administration			
Professional	$ 20,000	$ 2,500	$ 11,000
Office	6,000	3,500	4,500
Meetings	7,000	6,000	5,500
	$ 33,000	$ 22,000	$ 21,000

The accompanying notes and schedule to the financial statements form an integral part of these statements.

Nature of operations

Ontario Condominium Corporation No. XX (The "Corporation") was registered without share capital in May 20XX under the Condominium Act, 1998 and is a non-profit organization that is exempt from taxes under the Income Tax Act. Its purpose is to manage and maintain the common elements (as defined in the Corporation's Declaration and By-laws) and to provide common services for the benefit of a 350 unit residential condominium located at 123 Anywhere Street in Any City, Ontario, known as Happy Towers.

1. Significant accounting policies

Basis of presentation

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations. The significant accounting policies are as follows:

Common elements

The common elements of the condominium are owned proportionately by the owners and consequently are not reflected as assets in these financial statements.

Fund accounting

Reserve fund - Externally restricted

The Corporation is required by the Condominium Act, 1998 to establish a reserve fund to be used solely for the purpose of major repair and replacement of common elements and assets of the condominium.

The Corporation allocates to the reserve fund amounts that, calculated from expected repair and replacement costs and life expectancies of the common elements and assets of the Corporation, are reasonably expected to provide sufficient funds to repair and replace the common elements and assets. Revenue and costs related to such major repairs and replacements are accounted for in the Reserve fund.

Superintendent and guest suite fund - Internally restricted

The Corporation established the superintendent and guest suite fund to account for the acquisition and the related mortgage payments and interest costs for the mortgages on the superintendent and guest suites.

Leased equipment fund - Internally restricted

The Corporation established the leased equipment fund to account for the acquisition and the related financing of the equipment lease entered into in 20XX. Lease payments and interest costs are accounted for in this fund. The equipment is not capitalized as it forms part of the common elements.

Contingency fund - Unrestricted

The Corporation established a contingency fund to be used at the discretion of the directors to pay for unforeseen expenditures not provided for in the annual operating budget.

Operating fund - Unrestricted

Revenue and expenses for the general operations of the Corporation are reported in the Statement of Operations and Fund Balances – Operating Fund.

Capital assets

Units and any real property directly associated with the units, which were purchased by unit holders initially from the developer, are not recognized as capital assets of the Corporation since they are owned by the unit owners.

Real property purchases made after the date of registration are recognized as capital assets of the Corporation when the Corporation has paid for them as the owner; they can be disposed of at the discretion of the board, or where required, with the approval of the owners, and any consideration received can be retained by the Corporation. Purchases which do not meet these criteria are expensed.

Common elements - shared facilities

Certain common elements, which include the recreational facilities, driveway, parking garage, certain amenities and other services, are owned jointly by the unit owners of the Corporation in conjunction with the unit owners of Ontario Condominium Corporation No. XXX. As such, the assets of these shared facilities are not reflected in these financial statements.

The operations of the shared facilities are governed by a committee comprised of members representing both corporations and are accounted for as a separate entity. The corporation's payments to the shared facilities are budgeted and accounted for in the operating fund and are adjusted to reflect the corporation's share of the shared facilities' surplus or deficit.

Superintendent and guest suites

The superintendent and guest suites are recorded at cost. No amortization was charged against these assets as the Corporation estimated that the residual value at year end is not less than cost.

Financial instruments

All assets and liabilities, with the exception of prepaid expenses and superintendent and guest suites, are financial instruments, and are initially recorded at fair market value and are subsequently recorded at amortized cost.

Revenue recognition

Owners' assessments are recognized as revenue based on the budget distributed to the owners each year. The Corporation recognizes revenue at the first of each month when assessments are due and collection is reasonably assured. Interest and other revenue are recognized as revenue of the related fund when earned.

Contributed services

Directors, committee members and owners volunteer their time to assist in the Corporation's activities. These services materially benefit the Corporation, however a reasonable estimate of the time spent and its fair market value cannot be made and accordingly, these contributed services are not recognized in the financial statements.

Use of estimates

The preparation of financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires the Corporation's management and directors to make estimates and assumptions that affect the reported amount of assets, liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the year. These estimates and assumptions are reviewed periodically and adjustments are reported in the year in which they become known.

2. Investments

Operating investments consist of Government of Canada deposits and guaranteed investment certificates with terms of less than 90 days.

Reserve investments consist of bonds and guaranteed investment certificates that mature from June 20X3 to May 20X6, earning interest at rates between 2.00% and 4.00%. Cash is held with ABC Bank, earning variable rate interest.

3. Mortgages payable

	20X1	20X0
The mortgages are secured by the superintendent and guest suites, bear interest at 8% and are repayable in blended monthly installments of $2,500, maturing in 20XX	$ 304,000	$ 309,500
Less current portion	6,500	5,500
Due beyond one year	$ 297,500	$ 304,000

Principal repayments as follows:		20X1
20X2	$	6,500
20X3		7,000
20X4		7,500
20X5		8,000
20X6		8,500
Thereafter		266,500
	$	304,000

4. Equipment lease obligation

		20X1		20X0
The Corporation has entered into a capital lease for certain equipment. The lease obligation has been recorded at an amount equal to the present value of the lease payments using an interest rate of 8.50%. The lease is secured by certain energy efficiency equipment and is repayable in monthly installments of $2,500, maturing in 20X7.	$	135,000	$	154,500
Less current portion		21,500		18,000
Due beyond one year	$	113,500	$	136,500

Lease payments as follows:		
20X2	$	30,000
20X3		30,000
20X4		30,000
20X5		30,000
20X6		30,000
20X7		18,000
Total future lease payments		168,000
Less: amount representing interest		33,000
Present value of lease payments	$	135,000

5. Reserve fund

The Directors have used the report of Forecast Reserve Fund Study provider dated June 20XO and such other information as was available to them to evaluate the adequacy of the reserve fund. That report proposed allocations of $267,500 for 20X1; costs of $48,000 and a year-end balance as at June 30, 20X1 of $1,533,000. Actual amounts were allocations of $267,500; costs of $4,000 and a year-end balance of $1,571,000. Reserve fund allocations are proposed to increase by 14.75% in 20X2 and increase annually by 2% thereafter.

Any evaluation of the adequacy of the reserve fund is based upon assumptions as to future interest and inflation rates and estimates of the life expectancy of the building components and their replacement costs. These factors are subject to change over time and the changes may be material; accordingly the Condominium Act, 1998 requires reserve fund studies to be updated every three years.

6. Shared facilities

The operations of the shared facilities are covered under the terms of a reciprocal agreement contained in the declaration of each condominium. The Corporation is responsible for 50% of the costs of the facilities and 40% of the other shared costs.

The shared facilities do not have any accumulated surplus or deficit at June 30, 20X1.

7. Related party transactions

During the year, the directors did not receive any remuneration.

8. Financial instruments – risk management

Interest rate risk

Interest rate risk is the risk of potential financial loss caused by fluctuations in fair value of future cash flow of financial instruments due to changes in market interest rates. The Corporation is exposed to this risk through its interest bearing investments and mortgages. The Corporation manages this risk through investing in fixed-rate securities of short to medium term maturity and plans to hold the securities to maturity, as well as entering into fixed-rate mortgages.

Credit risk

Credit risk is the potential for financial loss should a counter-party in a transaction fail to meet its obligations. The Corporation places its operating and reserve cash and investments with high quality institutions and believes its exposure is not significant. The Corporation’s credit risk from owners’ assessments receivable is also not significant given the ability of the Corporation to place a lien on a unit for outstanding fees and limited financial exposure in a multi-unit condominium.

Financial instruments – risk management (cont'd)

Liquidity risk

Liquidity risk is the risk that the Corporation will not able to meet its obligation as they become due. The Corporation manages this risk by establishing budgets and funding plans and by levying sufficient owners' assessments to fund its operating expenses, debt payments and the necessary contributions to the reserve and other funds. Cash is held in an interest bearing account which provides a rate of return as well as liquidity

9. Commitments

The Corporation has contractual obligations for various expenses including cleaning, security services, management, mechanical service and snow plowing. All contracts have short-term cancellation clauses with the exception of the elevator and mechanical services contracts, which expire in 20X6 with a current annual cost of approximately $54,000.

10. Budget amounts

The 20X1 budget amounts are presented for information purposes only. They were approved by the board of directors and are unaudited.

Chartered Professional Accountants of Ontario
(The Institute of Chartered Accountants of Ontario)

69 Bloor Street East, Toronto, Ontario M4W 1B3
www.cpaontario.ca