



Accounting and Auditing Guidelines for Ontario Condominium Corporations

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The Committee on Accounting and Auditing Guidelines
for Condominium Corporations
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Preface

This guideline will be of interest to directors, property managers, lawyers, engineers and auditors of condominium corporations. It suggests accounting principles, and audit and reporting practices to be applied to Ontario condominium corporations.

This booklet updates the *Guidelines* issued by the Institute of Chartered Accountants of Ontario (the Institute) in November 2001 and recognizes the introduction of accounting standards for not-for-profit organizations into the *CICA Handbook - Accounting* and the requirements of Ontario's Condominium Act, 1998 proclaimed on May 5, 2001. Included are sections of the *Handbook* to be considered in order to comply with the risk-based auditing standards that were issued by the Auditing and Assurance Standards Board in 2005. This booklet has also taken into account recent developments and issues in the condominium industry that have come to light since the Condominium Act, 1998 has been in effect. The adoption of the suggested financial statement formats will help bring uniformity to financial reporting for Ontario condominium corporations.

This publication is not an official pronouncement of the Institute; it presents the collective views of the members of a committee established to review accounting principles, audit procedures and to make recommendations on the preferred financial statement presentation for condominium corporations. Readers of these guidelines are cautioned that it is based on standards and legislation as of November 2008. Subsequent changes to legislation and/or accounting and auditing standards may affect the validity or applicability of the comments in this publication.

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

Finally, I wish to acknowledge and thank Louis Kan of the Institute for his guidance, support and assistance to the Committee.

Toronto, Ontario
November, 2008

Stephen Chesney, CA
Chair



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INTRODUCTION

Brief history of condominiums

The condominium concept is not new and evidence for arrangements similar to those of condominiums is reported by scholars to have been detected even in early civilizations. For example the Romans, from whose language the word condominium was derived, used this form of lifestyle. Condominium living appeared in medieval Europe, later found its way to South American cities and in the last century gained strong support both in Europe and North America.

Historically, condominiums have gained popularity when the cost of urban land has risen disproportionately to the cost of building construction, generally as a result of increases in population density resulting from migration to cities.

Purpose of the condominium corporation

Condominiums came into existence in Ontario in the latter half of the 20th century. Condominiums are corporations created through legally registered declarations by land developers pursuant to enabling provincial statutes. For this guideline, unless otherwise indicated, statutory references are to the Condominium Act, 1998 - “the Act”.

The concept is one of individual ownership of self-contained occupancy units within an indivisible whole property. Because of its complexity, this arrangement requires careful legislative definition and regulation. The owners of the occupancy 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 registered declaration of each condominium contains a legal description of the units which defines the boundaries between the unit owner’s property and the common elements. Administration is the collective responsibility of the owners, who are all the members of the condominium corporation.

The first Ontario Statute in 1967 basically intended to allow for a form of land registration. It was less than 15 pages in length and contained minimal requirements as to how a corporation should be operated. Various amendments were made in 1970, 1972, 1973 and 1974, but the first mention of financial statements and auditors did not appear until the 1978 Act. The need for modernization led to major reform of the legislation and introduction of the Condominium Act, 1998 which was proclaimed on May 5, 2001.

A condominium is a self-governing community which requires rules and regulations for internal purposes. It has 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 facets require coordination and supervision and the corporation’s board of directors performs these governance functions.

Role of board of directors and management

The directors, installed through election by a vote of the unit owners, or appointed by the remaining directors to fill a vacancy, are responsible for the operation of the condominium. The Act regulates the performance of their duties by requiring a quorum (a simple majority) for decisions, requiring declaration of any personal interest in contracts, setting out necessary qualifications, and providing requisites for the calling of meetings.

The board has statutory power to govern the operation of the corporation by creating bylaws and rules (subject to ratification by the owners), and is required to oversee adherence by the condominium corporation and its residents to the Act, declaration, bylaws and rules governing

the operation 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 directors from their number. These officers usually include at least a president, a secretary and a treasurer. The board often appoints outside management or hires management staff and employees. Professional managers exercise some of the functions of the board of directors, generally being responsible for the collection of assessments, staff supervision, payment of expenses, inside and outside maintenance and repair, assisting owners in resolving problems 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 do not relieve board members of their responsibilities.

Responsible ownership

The owners have the right to elect directors to manage the affairs of the corporation and to appoint one or more persons qualified to be auditors.

A general meeting of the owners is to be held on turnover (section 43) and subsequently within six months of each of the corporation's fiscal year-ends. At such meetings, any owner has the opportunity to raise any matter relevant to the affairs and business of the corporation. If at least 15 per cent of the owners deposit a requisition in writing, a meeting of owners must be held within 35 days. Owners are entitled to investigate the records of the corporation relating to the receipt and disposition of funds.

The Act makes the owners responsible for maintaining the common elements; for complying with the Act, declaration, bylaws and rules and for contributing towards the common expenses in the proportions specified in the declaration.

Statutory duties of the auditor

The rights and responsibilities of the auditor are included in Sections 60 to 71 of the Act and are discussed in more detail in Chapter III. Simply put, the auditor is required to report to the owners whether, in his or her opinion, the financial statements presented by the board of directors at an annual meeting are presented fairly in accordance with Canadian generally accepted accounting principles (GAAP) and meet the reporting requirements of the Act. The financial statements themselves are the responsibility of the management and the board of directors.

Financial structure

A condominium is comprised of units, which are owned individually, and common elements and assets that are owned collectively by the unit owners through an undivided interest in them. The entire property as built by the developer, units and undivided interest in the common elements and assets were bought by the first owners and each successive purchaser acquires that undivided interest on acquisition of the unit. As the units, common elements and assets in existence when the building was built have never been owned by the corporation, it follows that they are not recorded in the corporation's financial records. Common elements include such things as the land and landscaping, buildings (outside the unit boundaries), plumbing, electrical, mechanical and elevator systems, recreational and security facilities and equipment to name a few.

After registration the corporation may acquire further assets. As outlined in subsection 97(7) of the Act, the cost of any addition, alteration, improvement or change to the common elements and the costs of any change in assets of the corporation are common expenses and, specifically, their acquisition cost may not be charged to the reserve fund. Recording of these expenditures is governed by Section 4430 *Capital Assets held by not-for-profit organizations of the CICA Handbook – Accounting and EIC-95 Accounting for Capital Assets of a Condominium Corporation*.

Scope of this guideline

The Act now provides for the creation of four types of condominium corporations (Standard, Vacant Land, Leasehold and Common Elements Condominiums). This guideline deals only with the most common type, the standard condominium corporation.

While this booklet provides guidance as to best practices as of November 2008, readers should note that accounting and auditing standards continue to evolve. Accordingly, readers are encouraged to avail themselves of other publications that are updated on a periodic basis. For example, the CICA *Professional Engagement Manual* and *Audit Of A Small Entity* are valuable resources for auditors of Ontario condominium corporations. Other reference publications include:

- *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, and Purchasers (Fifth 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* by Audrey Loeb, LL.M – published by Carswell, a Thomson Company;

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



ACCOUNTING CONSIDERATIONS

Users of financial statements

The owners are the principal users of financial statements of condominium corporations; it is their funds received by way of periodic assessments that finance operations of the condominium. The financial statements are a record of the stewardship of the directors. Part of the evaluation by owners of the performance of their directors is based on what the financial statements disclose as to the directors' conduct of the corporation's financial affairs. It is important for them to be provided with uniform and clear financial information so they can best understand the fiscal performance of their corporation. Financial statement information is needed not only by owners, but also by potential purchasers evaluating the quality of their contemplated investment. Some degree of uniformity in and comparability of the financial statements of condominium corporations is therefore necessary.

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 must take this into account as much as possible to enable owners to understand the financial statements.

Other users of the financial statements include: managers who may also be involved in statement preparation; external third parties such as trade creditors, mortgagees, commercial lending institutions and government agencies. These latter users will be more familiar with the financial statement presentation of business enterprises and expect a reasonable degree of uniformity and clarity of presentation.

Basis of accounting

Section 66(1) deals with preparation of financial statements for presentation to owners and indicates that the corporation shall have its statements prepared in the prescribed manner and in accordance with generally accepted accounting principles (GAAP) as are prescribed. The prescribed manner is set out in Regulation 48/01, Section 16 and is "in accordance with the accounting principles specified

in the *CICA Handbook – Accounting* (the *Handbook*). Therefore, condominium financial statements presented to the owners at the Annual General Meeting are to be prepared in accordance with Canadian GAAP, being the *Handbook* in general and Section 4400 *Financial statement presentation by not-for-profit organizations* in particular, as modified by further guidance, such as EIC 95 and as interpreted by this Accounting and Auditing Guidelines for Ontario Condominium Corporations. No other basis of accounting is acceptable.

The Committee concluded that general-purpose financial statements that comply with the disclosure requirements of the Act should be prepared for presentation to the Annual General Meeting.

Condominium corporations must follow fund accounting as set out in Section 4400 of the *Handbook*. The Act requires at least two funds: one reserve fund and one operating fund. Additional reserve funds may be set up at the discretion of the board for specific purposes and other funds such as capital asset and contingency funds are common. *Handbook* section 4400.08 requires that "each fund would be presented on a consistent basis from year to year".

The Committee has concluded that all revenues and all expenses of each fund must be reported in that fund. In particular, all expenses for the major repair and replacement of the common elements and assets of the corporation are to be charged to the reserve fund and may not be charged as expenses in the statement of operations. Any allocation of funds to the reserve fund in excess of the budgeted amount is to be shown as a transfer from the operating fund to the reserve fund and not as an additional allocation from current year owners' assessments.

The directors should define what constitutes "major" repairs and replacements and should be consistent in its application from year to year. The committee also recommends that, where major types of reserve expenses are disclosed that they be categorized, to the extent possible, using the expense categories in the reserve fund study.

Financial statements

Section 66(1) of the Act details what information should be included in the financial statements of a condominium corporation. The overriding requirement is that the financial statements should be prepared in accordance with generally accepted accounting principles. As such, terminology used for financial statements should be based on current Canadian GAAP and auditors should ensure that all applicable *Handbook* disclosure requirements are met. Note the additional information required to be disclosed under this section related to the reserve fund study, operations of the reserve fund, and directors and officer's remuneration.

Accounting for capital assets of a condominium corporation

Condominiums may limit the application of Section 4430 if the annual gross revenue recognized in the statement of operations for the current and preceding period is less than \$500,000. Corporations with gross revenue below the \$500,000 threshold may choose not to capitalize. If this is the case, the disclosures contained in paragraph 4430.40 should be made, 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.

The adoption of the Recommendations of Section 4430 will require reference to the transitional provisions dealt with in paragraphs 41 to 46, which require application on a retroactive basis. Adjustments arising therefrom are treated as a retroactive change in accounting policy.

EIC-95 sets out capitalization principles for condominiums as follows:

- A condominium corporation should not recognize the units and real property directly associated with the units as capital assets when the units are purchased in arm's-length transactions between the developer and the individual unit buyers. The costs of such assets are not relevant to the condominium corporation;
- Real property not directly associated with the units should be recognized as capital assets when:
 - The condominium corporation has paid for the property;
 - Has title or other evidence of ownership of the property; and
 - Any one of the following conditions is met:
 - The condominium can dispose of the property, with the approval of the board of directors, or where required, the approval of the owners, for cash or claims to cash and retain the proceeds; or
 - The property is used by the condominium to generate significant cash flows from members on the basis of usage or from non-members
- Common personal property acquired by a condominium corporation, such as furnishings, recreational equipment, maintenance equipment and work vehicles, that are used in operating, preserving, maintaining, repairing and replacing common property and providing other services should be recognized as capital assets.

Amortization of capital assets should follow the recommendation set out in Section 4430.16. On the question of whether or not to amortize the cost of a purchased superintendent suite, the recommendation 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....."* It is commonly held that amortization of guest and superintendents' suites cost is not appropriate on the basis that:

- The residual value, with the market value of real estate increasing over time, will be in excess of original cost;
- The unit, being maintained continually, does not have a limited life.

The auditor should determine on an annual basis whether the unit's value has been impaired, and where circumstances suggest that such might be the case, measurement and recording of an impairment loss should be made.

Revenue recognition

Amounts received from owners are not "contributions" as contemplated in Section 4410 *Contributions – revenue recognition*. A contribution for the purpose of that section is a "non-reciprocal transfer" which is not the case with respect to owners' assessments. Accordingly, financial statements disclosure should not use the term "contribution", notwithstanding that this terminology is used in the Act.

Reserve fund

Purpose of the reserve fund

The purpose of the reserve fund is to set aside monies on an annual basis in order to provide sufficient funds for the major repair and replacement of the common elements on a long-term basis. The reserve fund portion of the annual assessment 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 a special assessment on owners.

By way of 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 bear the entire cost as the reserve fund provides a mechanism to share the cost among all owners from year one to year 30.

Statutory requirement

The Act states in subsection 93(1) that "The corporation shall establish and maintain one or more reserve funds" and in subsection 93(4) that "The corporation shall collect contributions to the reserve fund from the owners, as part of their contributions to the common expenses." Section 93(6) provides further that the amounts of the contributions, after the first reserve fund study "...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".

Subsection 95(1) of the Act specifies that the reserve fund can only be used for the purpose for which it was established. Therefore minor repairs, annually recurring items, preventive maintenance and additions, alterations or improvements to the common elements may not be charged to the reserve fund.

The reserve fund may only be used for the major repair and replacement of the common elements and assets of the corporation whether a single replacement or a contract to replace all of the items such as windows. Repairs should be major in nature and in no circumstance should they be general maintenance items. Monthly maintenance contracts should never be charged to the reserve fund.

Section 93(2) is vague with respect to the permitted use of the reserve fund and practitioners should rely on professional judgment, legal interpretation and the spirit of the Act to define eligible expenditures that may be charged to the reserve fund.

Reserve fund study

A condominium is required to conduct a reserve fund study at least every three years. The requirement to conduct the study is contained in section 94, with further details prescribed in the regulations to the Act (Sections 27-33) which set out the types, contents and frequency of studies as well as the qualifications and independence of the preparer of the study.

Items to be included and method of calculation

All existing common elements and assets should be considered in the reserve fund study. The common elements are defined by the Act as “all the property except the units”. Additions, alterations or improvements to the common elements may not be funded by the reserve fund. However, after they are acquired, provision for their repair and replacement should be included in subsequent reserve fund studies.

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

By way of example, paving costs would be categorized as follows:

- Annual patching/paving repairs to parking areas would be considered a general operating expense;
- Re-paving of a significant portion of the parking areas would be considered a major repair and replacement expense;
- The removal of landscaped areas and the creation of a new parking area in their place would be considered an addition or alteration to the common elements.
- Paving an asphalt parking lot with interlocking bricks would be an improvement.

The board of directors should clearly define the common elements to be included in the reserve fund study and define the nature of major repairs and replacements. The corporation should ensure that these definitions are followed consistently.

In order to determine the relevant common element components and assets, the condominium corporation’s declaration must be reviewed as it specifically defines the unit boundaries and therefore, the corporation’s common elements and assets.

Each condominium corporation’s declaration may also impose upon unit owners the responsibility for the repair and replacement of certain specific common elements such as door and window repair and replacement. Such items, if so defined, should not be included in the reserve fund study.

Common element components would most likely 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

Accurate calculation of a reserve fund provision requires the involvement of persons with a high degree of knowledge with respect to repair and replacement costs and life expectancies of the common element components. The regulations to the Act specify the qualifications of persons who may conduct a reserve fund study and the methods of conducting studies.

Legislated changes

There is debate as to whether the cost of legislated changes to the common elements may be considered eligible reserve fund expenses. Some professionals in the industry believe that S.97 (1) of the Act automatically deems a legislated change (e.g. roof anchors) to be an eligible reserve fund expense. The Committee concluded that auditors should use professional judgment and/or consider seeking an opinion or advice from the corporation's reserve fund study provider or legal counsel on this matter if they are uncertain.

Plan for future funding

(Form 15 – 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 Form 15 to communicate their plan to the owners. This plan is normally based on the reserve fund study. Regulations (Section 16) to the Act require the board to disclose in the corporation's annual financial statements a comparison between the actual reserve fund allocations from owners' assessments and expenses with the board's planned reserve fund allocations and expenses. Note that the Act does not require the board to follow the funding plans contained in the reserve fund study. However, they must ensure that the reserve fund is adequate within prescribed times as contemplated in the Act.

The committee concluded that if the board of directors choose not to accept the recommendations in the study, the auditor should disclose this fact and include in the notes to the financial statement, a statement of differences between the reserve fund study and the directors' proposed plan for future funding of the reserve fund.

Investment of reserve funds

Subsection 115(1) of the Act specifies that a corporation shall maintain one or more reserve fund accounts at a bank or a similar specified institution. The board may invest the reserve funds in "eligible securities", defined in subsection 115(5), as bonds, debentures, term deposits or similar instruments that meet one of three requirements:

1. Is issued or guaranteed by the Government of Canada or any province of Canada
2. Is insurable under the Canada Deposit Insurance Corporation; or
3. Is a security of a prescribed class (there are currently no securities of a prescribed class)

No other securities are "eligible securities".

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. Interest earned on reserve fund investments must be added to the reserve fund.

The board must develop an investment plan for its reserve cash and investments as required by Subsection 115(8), taking into account the anticipated cash requirements according to the reserve fund study. The auditor should consider if the board has actually developed this investment plan. Note that this is different from the Section 94(8) plan for funding of the reserve fund, which takes into account the amount of owners' assessments to be allocated to the fund on an annual basis.

As reserve cash and investments are not available to pay operating expenses, the Committee has concluded that it is not appropriate that they be classified as current assets.

Budgets

Significance of budgets

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 sets out the proposed basis of operations for the ensuing fiscal period; the financial statements themselves reflect the actual performance which may be evaluated against the budget. It is recommended that audited year-end financial statements include, for comparison, the budgeted figures for the year being reported upon.

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

Components of the budget

Following are the major components of the budget which establish the monthly assessment for a corporation.

(a) General Operations

This part relates to the estimated expenses required for recurring items that are made from month to month and year to year such as utilities, contracted services, repairs and maintenance and administrative costs. Its purpose is to ensure that the monthly assessment will provide sufficient funds for the continuing operation of the corporation. Preparation for this major portion of the corporation's financial resource allocation is usually the responsibility of management. Routine maintenance of major assets is included in this category.

General operations also include:

- Additions, alterations and improvements to the common elements

This represents an allocation of owners' assessments specifically for the acquisition of major items not already owned by the corporation or for major alterations or improvements to items currently owned which cannot be charged to the reserve fund.

- Other funds

These represent a specific allocation of owners assessments to other funds created by the directors such as a contingency fund.

(b) Major Repairs and Replacements

This is a specific allocation of owners' assessments to the reserve fund to provide for items that require repair or replacement on a basis other than through the general operating budget. It is meant to ensure that the corporation will set aside sufficient monies each year to provide for the replacement and/or repair of all common elements and assets as required. It is normally the amount set out in Form 15 for the year under audit.

Fund balances

The owners of the units of a condominium corporation share ownership of the fund balances of the corporation in the same proportions as their common interests. The carrying value of the recorded assets, less liabilities, is represented in the accounts by the accumulated sum of the operating fund, the reserve fund and any other fund balances. The Act specifies that the operating funds in a corporation must either be applied to future common expenses or paid into the reserve fund, but shall not, as long as the corporation is a going concern, be distributed to the owners. It is prudent for corporations to maintain a balance in the operating funds to prevent sudden fee increases or special assessments in future years due to unforeseen circumstances.

Since the owners of the condominium corporation have an undivided interest in the fund balances of the corporation and the distribution of such funds to the owners is specifically prohibited by the Act, using terminology such as “owners’ equity” or “members’ surplus” should be avoided. The Committee recommends the term “operating fund”.

Notes to financial statements

Notes to condominium financial statements, as with any financial statements, are useful for providing or expanding upon disclosure of matters necessary to obtaining an accurate financial assessment of the state of the corporation and the results of its operations.

The Committee suggests that at least the following information be disclosed by way of notes to financial statements of a condominium corporation. Other disclosures may also be required and practitioners should evaluate the circumstances of each engagement to determine that all required disclosures are made.

- A description of the basic functions of the corporation including the name, method of creation, date of registration and total number of dwelling or other units.
- A description of the significant accounting policies, including fund accounting, which have been adopted by the corporation.
- The reserve fund information prescribed in Regulation 48/01, Section 16(3) of the Act being actual reserve fund allocations and expenses compared to the planned amounts according to the board’s plan for funding the reserve fund under Section 94(8) of the Act.
- A description of all significant related party transactions involving such parties as directors, owners, and property managers (see *CICA Handbook* 4460 and Regulation 16(4) and (5)).

- Amount of remuneration paid to the directors, officers and management as required by Section 66(2)(f) of the Act.
- Details of any cost sharing or reciprocal agreements.

Income tax considerations

The position of the Canada Revenue Agency (CRA) is outlined in technical bulletin IT-304R2. It states that, subject to unique factual circumstances, residential condominium corporations would be considered non-profit corporations for the purposes of paragraph 149(1) (l) of the Income Tax Act. Accordingly, all investment income earned would not be subject to taxation unless the funds invested were held at unreasonably high levels. 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 many professionals in this field 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 will probably be characterized as a non-profit organization for this purpose.

All condominium corporations must file an annual T-2 (Corporate Income Tax Return). A T-1044 (Non-Profit Organization Information Return) must be filed when applicable. Failure to file the T-1044 return within the six-month deadline can result in penalties of up to \$2,500.

T-1044 returns must be filed if:

- 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.

Goods and services tax (GST)

Residential Condominiums

Owners' assessments applicable to the occupancy of a residential unit are considered an exempt supply under excise tax regulations. Activities that may be considered a taxable supply include fees for the provision of status certificates, the rental of commercial space or charges to customers with respect to advertising, guest suite rental or rental of transmission facilities. A residential condominium corporation that qualifies as a non-profit organization under paragraph 149(1)(l) of the Income Tax Act (Canada) may claim the public-sector body threshold of \$50,000 when considering applying for GST registration.

Commercial Condominiums

For condominium corporations that have non-residential units (typically being of a commercial or industrial nature) the decision whether to register for GST purposes is usually made based on the threshold amount being met (for guidance on the question of whether or not the corporation's activities are considered taxable, reference should be made to CRA publications IT-304R2 and IT-496R).

Care should be taken in situations of mixed use, which combine residential and non-residential units, where calculations of input tax credits may be more complex.



AUDIT CONSIDERATIONS

Statutory requirements

The Act, in Sections 60 to 71, sets out the rights and responsibilities of the auditor of a condominium corporation, as well as the required financial statements and disclosures and other matters that may require inclusion in the audit report.

In addition to the requirements of the Condominium Act, a condominium corporation is governed by its declaration, bylaws and rules. A review of these documents is necessary, as well as review of other significant agreements such as those governing operation of shared facilities, as additional rights and responsibilities may be indicated therein and these documents provide information needed to adequately perform an audit. Should there be any inconsistencies between the documents, the order of precedence is the Act, then the declaration, the bylaws and last, the rules.

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. Notwithstanding that the corporation meets the audit exemption, the Act requires that financial statements presented to the owners must be prepared in accordance with Canadian GAAP.

Compliance with generally accepted auditing standards

The Act provides various rights to auditors regarding the accumulation of information in support of his or her opinion but it does not contain specific procedures for the conduct of an audit. The Act indicates that Chartered Accountants expressing an opinion on financial statements of a condominium corporation must comply with generally accepted accounting principles and auditing standards as set out in the *CICA Handbook – Accounting and CICA Handbook – Assurance* (both referred to as the “Handbook” in this document).

Risk-based audit procedures

The audit of a condominium corporation is required to comply with risk-based audit procedures. Sections of the *Handbook* that may be relevant are listed below. This list is not intended to be all-inclusive and auditors should exercise professional judgment to determine the nature and extent of audit procedures necessary.

General

Professional skepticism	5090.05
Documentation	5145
Audit evidence	5300
Experienced auditor test	5145

Before start of engagement

Acceptance, retention and independence	5030 and GSF3018
Terms of engagement	5110
File quality review decision	GSF 066
Establish planning materiality	5142
Preliminary assessment of risk	5095
Develop overall audit strategy	5150

Field work – risk assessment

Nature of entity, business and fraud risks	5135/5141
Document and assess relevant internal controls	5141
Assess risk of material misstatement by section	5095
Assess weaknesses in internal controls	5220
Detailed audit plan	5150
Staffing, timing, budget	5025
Communicate findings	5750

Field work	
Tests of controls, journal entries	5143
Substantive tests	5143
Accounting estimates	5305
Analytical procedures	5301
Subsequent events	6550
Claims	6560
Illegal acts	5136
Confirmations	5303
Related parties	6010
Reporting	
Assess results and determine need for additional work	5142
Management representations	5370
Communicate findings	5750
Issue report	5400
Complete and freeze file	5145

Fraud

Section 5135 (the auditor's responsibility to consider fraud) must be complied with by condominium auditors as part of their risk-based audit procedures. Several specific areas to consider are:

Cash

Two signatures should be required on all cheques, preferably one board member and one from property management. Cash transactions should be discouraged.

Investments

All must be eligible securities as defined in the Act and be in the corporation's name only. Dealing through an investment broker adds another layer of internal control.

Expenses

Pre-numbered purchase orders should be used, authorized by a director when over a pre-determined limit.

Cheques should not be signed unless proper supporting documentation exists. After payment, invoices should be cancelled.

Quotations and Tenders

The industry standard minimum of three quotes should be obtained for most expenditures to help ensure that the best price/quality is obtained and that kickbacks are prevented. For large contracts, bids should be received in sealed envelopes and opened all at the same time in the presence of a director and management

Financial Statements

Financial Statements should be prepared by management on a monthly basis and compared to budget.

Fidelity Bonds

Board members, employees and the management company should be bonded up to the amount of funds at risk.

Additional statements in the auditor's report

The auditor, in addition to meeting the reporting requirements of the *Handbook*, must include a statement in his or her audit report when the information in the financial statements does not fairly present prescribed information on the reserve fund as set out in Regulation 48/01, Section 16 or otherwise contravenes the requirements of Section 67(4) and (5). These additional statements do not necessarily imply a requirement to qualify the auditor's standard report unless the matters would require qualification under generally accepted auditing standards. Additional statements, if required, should be presented in a fourth paragraph to the audit report. Common deficiencies that may require an additional paragraph and suggested wording follow. Changes to the suggested wording should be made as appropriate to the circumstances of each audit.

Ineligible investments

In accordance with Section 67(4) of the Condominium Act, 1998, we report that the corporation has not complied with the requirements of Section 115(5) of the Act, as the corporation has investments in (a description of the securities) which are not eligible securities as they are not guaranteed by Canada, a Province or insurable under the Canada Deposit Insurance Corporation – (as applicable).

Deficient reserve cash/investments

In accordance with Section 67(4) of the Condominium Act, 1998, we report that the corporation has not complied with the requirements of Section 115(4) of the Act, as 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 \$_____.

Bank/investment accounts in wrong name

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

No reserve bank account

In accordance with Section 67(4) of the Condominium Act, 1998, we report that the corporation has not complied with the requirements of Section 115(4) of the Act, which requires the corporation to deposit monies received from owners to be allocated to the reserve fund into a reserve bank account of the corporation and the corporation does not have such a bank account

Ineligible reserve expenses

In accordance with Section 67(4) of the Condominium Act, 1998, we report that the corporation has not complied with the requirements of Section 93(2) of the Act, as 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.

No reserve fund

In accordance with Section 67(4) of the Condominium Act, 1998, we report that the corporation has not complied with the requirements of Section 93(1) of the Act, as the corporation has not established the required reserve fund.

No reserve fund study (or late) and no Form 15 (or late)

In accordance with Section 67(5) of the Condominium Act, 1998, we report that the corporation has not complied with the requirements of Section 94 of the Act and Regulation 48/01, Section 31 related thereto as 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.

Not following reserve fund study and Form 15

In accordance with Section 67(5) of the Condominium Act, 1998, we report that the corporation has not complied with the requirements of Section 94(8) of the Act and Regulation 48/01, Section 33 related thereto as 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 is \$_____ which is less than the amount contained in the study.

No investment plan

In accordance with Section 67(4) of the Condominium Act, 1998, we report that the corporation has not complied with the requirements of Section 115(8) of the Act as the corporation has not developed an investment plan for reserve investments.

Inadequacy of reserve fund

In accordance with Section 67(4) of the Condominium Act, 1998, we report that the board of directors has implemented a Plan For The Future Funding of the Reserve Fund that will not be sufficient to fund the expected future major repair and replacement costs during the period covered by the plan.

Budget information

Budget amounts should be included for information purposes in the financial statements presented to condominium owners. The auditor should ensure that such information is marked as ‘unaudited’. Disclosure of budget amounts is important to enable owners and others to assess the performance of the board and management. Refusal to disclose these 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 reappointment.

Adequacy of reserve fund

The Act contains a number of references as to the “adequacy” of the reserve fund and the committee has concluded that owners and other users of the financial statements expect that auditors will assess the “adequacy” of the reserve fund and that we will comment in our report should the fund not be “adequate”.

The Act requires condominium corporations to conduct periodic studies (Section 94(1)) to determine whether the

amount of money in the reserve fund and the anticipated amounts to be collected by the corporation from owners are adequate and to propose a plan for the future funding of the reserve fund (Section 94(8) and Form 15 – Notice of Future Funding of the Reserve Fund) that the board determines will ensure that, within the prescribed period of time and in accordance with the prescribed requirements, the fund will be adequate. The prescribed period of time as set out in Part IV, Regulation 48/01 Section 33 is, for condominiums registered before May 5, 2001, 10 years from the date of the first reserve fund study required by the new Act and for condominiums registered after May 4, 2001, in the second year.

The requirements for a reserve fund study include a physical analysis and a financial analysis. The physical analysis includes the list of items requiring major repair and replacement; estimates of their life expectancies, replacement costs and long-term interest and inflation rates. The financial analysis includes, in addition to amounts flowing out of the physical analysis, the financial status of the fund at the study date and a recommended funding plan over at least 30 years as communicated to owners through Form 15.

As reserve fund studies contain complex estimating procedures involving specialized techniques, in order to evaluate the adequacy of the reserve fund, practitioners will have to rely on the work of specialists to satisfy themselves as to the list of common elements and assets, their remaining useful lives, repair or replacement costs, long-term interest and inflation rates and future allocations to the reserve fund and they should refer to Section 5049 – Use of Specialists in Assurance Engagements for the procedures necessary to be able to rely on the reserve fund study preparer’s report.

In general an “adequate” reserve fund is comprised of two elements, the present balance and the estimate of future allocations which together can reasonably be expected to be sufficient to pay for the major repair and replacement of the common elements and assets of the corporation as and when they are required. The current balance being

what it is, it is future allocations that practitioners have to assess for “adequacy”. Under Section 94(8), the directors are required to “propose a plan for the future funding of the reserve fund that the board determines will ensure that, within a prescribed period of time and in accordance with the prescribed requirements, the fund will be adequate for the purpose for which it was established”. The current estimate of the required future allocations that the board has concluded will be adequate and plans to make to the reserve fund are outlined in the latest Reserve Fund Study and Form 15 – Notice of Future Funding of the Reserve Fund distributed to owners.

Adequacy is not defined in the Act and there is no definition of adequacy as it relates to future allocations, however reserve fund study providers generally, though not universally, try to achieve future funding levels based on the following definition of adequacy. Adequacy is comprised of the present amount in the reserve fund together with future allocations that increase by no more than the inflation assumption used in the reserve fund study and the committee has concluded that this is the appropriate definition. Where future allocations in the reserve fund study are not calculated in accordance with the methodology above and these allocations are incorporated into Form 15, practitioners should confirm with the reserve fund study preparer that the future allocations contained in current Form 15 are, in their opinion, in accordance with the requirements of the Act and ensure that appropriate disclosure is made of the difference in methods and the reserve fund study provider’s opinion on adequacy.

Where directors, as the Act allows, issue Form 15 containing a funding plan that does not follow the methodology above or any of the funding plans contained in the reserve fund study but propose a funding plan that in the opinion of the auditor is clearly inadequate (e.g. a negative balance in a future year), the auditor should disclose this in a fourth paragraph of the audit report. (See *Additional statement in auditor report – Inadequacy of reserve fund* for sample wording)

Terms of engagement

A written engagement letter should be obtained which clearly defines the nature and extent of the engagement. It is highly desirable that the auditor confirms the terms of the engagement in writing on an annual basis. If there are no factors that would make it appropriate for the terms of the engagement to be revised, the auditor should document this in the working papers.

Examples of engagement letters are available in *Handbook* Section 5110 and in the Professional Engagement Manual.

Management representations

A written representation letter should be obtained that sets out the representations of those responsible for maintaining the records and preparing and approving the financial statements. The board of directors is responsible for the governance of the corporation and financial reporting. They may delegate day-to-day management to a manager or management company, including much of the responsibility for financial statement preparation. Although receipt of such a letter does not relieve the auditor of his or her responsibilities, its signing reminds the condominium’s board of directors and its management of their responsibility for the financial statements and accounting policies and provides these parties with the opportunity to raise questions and to reflect on events of the accounting period that may require disclosure.

Should the auditor be unable to obtain a satisfactory representation letter signed by both director(s) and management, they should consider qualifying their opinion as it is a scope limitation as set out in *Handbook* Section 5370.29. Failure to receive a representation letter should also be cause to evaluate the integrity of the board and management and to evaluate whether or not to seek reappointment.

Examples of representation letters are available in *Handbook* Section 5370 and in the Professional Engagement Manual.

In addition to the matters covered in these letters, auditors may wish to include additional paragraphs, when applicable, as follows:

General

The corporation has complied with all requirements of the Condominium Act and the corporation's declarations, bylaws and rules. (If applicable – except as noted elsewhere in this letter).

Investments

In addition to standard wording consider adding the following: Investments in operating and reserve funds, as applicable, are made with the intention of holding them to maturity.

Related parties

In addition to standard wording consider adding the following as appropriate: Management, in addition to fees, is reimbursed for office costs, and collect fees from owners, purchasers and others for issuing lien notices and status certificates.

Reserve funds

The corporation is following the plan for future funding of the reserve fund as set out in Form 15 – 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

Owners' assessments amount to \$ _____ for the year as contained in the budget for the year approved by the directors on _____(date)

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 and, if constituted, the auditor is required to present the auditor's report to the audit committee for its review and submission to the board. 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 and/or the board of directors and the audit committee can also require the attendance of the auditor at any meeting. The duties of an audit committee can vary and it is important that the board of directors approve the committee's objectives and responsibilities.

Where there is no audit committee, the board of directors is deemed to perform these duties.

Financial instruments

Section 3855 of the *CICA Handbook* requires management to classify financial investments held by the corporation as held for trading, available for sale or held to maturity. Due to the nature of the operations of condominium corporations and restrictions imposed by the Act, investments are generally classified as held to maturity. As such, they are initially measured at fair value (generally cost) and thereafter are measured at amortized cost using the effective interest rate method. Premiums and discounts must be accounted for using the effective interest rate method.

Caution must be taken, as under certain circumstances, the ability for the corporation to classify instruments as held to maturity may be a question of fact.

Long term payables and receivables

The Act states that a corporation shall not borrow money for expenses not listed in the current year budget unless the owners have passed a borrowing by-law. The auditor

should consider if this section applies to any form of long-term indebtedness incurred by the corporation such as a contractor providing extended payment terms for services rendered. The auditor should consider obtaining a legal opinion on such matters to ensure the corporation is in compliance with the Act.

Note that long-term receivables and payables are subject to Section 3855 and as such non-interest bearing receivables and payables should be discounted using the effective interest rate method.

Special assessments

GAAP requires special assessments levied by the Board to be recorded in the year they are levied versus when they are received. The auditor must review revenue recognition criteria under Section 4400 of *CICA Handbook* to assess when revenue should be recorded. Assessments should be recognized as revenue if the amount to be received can be reasonably estimated and collection is reasonably assured.

It is generally held that a series of special assessments contained in a reserve fund study are levied in the year to which they relate and not all in the first year. If there is any doubt, confirmation from the directors should be obtained to resolve this.

First year deficit (Section 75(5))

The corporation is to notify the declarant who built and registered the condominium, of the amount of first year deficit within 30 days of receiving the audited financial statements and the declarant then has 30 days from receipt of this notice 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 cash receipt.

Turnover audit ((Section 43(6), (7))

The Act requires that financial statements be prepared and audited as at the month end following the turnover meeting. The condominium corporation is responsible for the cost of the turnover audit.

Minutes (Sections 40, 41)

Minutes of directors and owners meetings should be read to identify any conflicts of interest, commitments, special assessments, legal issues, large contract and expense authorization or remuneration paid that may require disclosure.

Annual general meeting (Section 45.2)

An annual general meeting must be held within six months of the corporation's year-end. Audited financial statements must be appended to the notice of meeting which is required to be sent to owners and mortgagees at least 15 days before the meeting date.

Records (Section 55)

A corporation must keep adequate records and maintain them for a minimum period of six years.

Remuneration of directors (Section 56(2))

A corporation must have a bylaw in place (whose life must not exceed three years) prior to paying board members.

First year's budget (Section 72)

The first year budget statement must include the costs of the first reserve fund study, the performance audit and the turnover audit.

Reserve fund studies (Sections 93-95)

Condominiums are required to conduct reserve fund studies every three years to determine whether the fund will adequately provide for expected major repair and replacement costs. Regulation 31 prescribes standards for the reserve fund studies, the qualifications of those who can perform the studies and how often one must be prepared. The reserve fund study preparer is not allowed to have any affiliation with the board or the corporation.

Condominiums registered after May 5, 2001 have to conduct a study within their first year. Until their study is done, 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, or the amount that is reasonably expected to provide sufficient funds for the major repair and maintenance of the common elements and assets of the corporation.

Within 120 days of receiving the study, the board must propose a funding plan for the reserve fund which will ensure that the fund will be adequate to provide for future major repairs and replacements.

Within 15 days of proposing the funding plan, the board must issue to the owners a notice (Form 15) 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, a copy of the proposed plan and a copy of the above notice sent to the owners must be sent to the auditor.

After giving notice to the owners, the board then has 30 days to implement the plan.

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

There are restrictions on the ability of the directors to make additions, alterations or improvements to the common

elements and these costs may not be charged to the reserve fund.

Boards are able to make an addition, alteration or improvement, a change in the assets or a change in the services provided by the corporation without notice to the owners to comply with agreements such as cost sharing or legislative requirements, security and safety, or if, subject to the regulations, the cost involved is no more than the greater of \$1,000 per month and 1 per cent of the annual budget for common expenses of the year.

Non-substantial changes, as defined in Section 97 of the Act require notice to the owners but do not require a vote of the owners. Boards can make additions, alterations, improvements and changes in assets or services if owners are notified and provided with relevant information, which specifies that the owners have the right to requisition a meeting.

Substantial changes require a vote of owners with the percentage of approval required being $66 \frac{2}{3}$ per cent of all owners. Substantial is defined to be where the estimated total cost exceeds the lesser of 10 per cent of the annual common expense budget and any amount prescribed by regulation. Currently no amounts are so prescribed. A board may also elect to treat any change as substantial.

Corporation funds (Section 115)

A corporation must have at least two bank accounts; a general operating account and a reserve fund account both located in Ontario.

Investments must be registered in the name of the corporation or held in a segregated account in the corporation's name by a member of the Investment Dealers Association of Canada and insurable by the Canadian Investor Protection Fund.

Investments of the corporation's general operating fund must be cashable within 90 days of request.

Lien rights (Sections 85 and 86)

The corporation has priority lien rights for owners' assessments if they register a lien within three months of the date on which the assessments are due. If the lien is registered in accordance with the Act, the condominium will have priority over every registered and unregistered debt to the corporation with few exceptions such as municipal property taxes. If the condominium has a receivable from an owner and it is outstanding greater than 90 days without a properly registered lien, the auditor should consider whether an allowance for doubtful accounts is required.

Other receivables, such as charge-backs to owners, do not enjoy priority lien rights and collectability should be evaluated in the normal manner.

Preauthorized payments (Section 115(1), (2))

Subsection 115(1) of the Condominium Act states, in part, that a person who receives money on behalf of or for the benefit of the corporation shall hold the money in trust. Certain management companies have concluded that this allows them to deposit preauthorized payments of owners' assessments for all the condominiums they manage into one bank account in the name of the management company and then to transfer, at some later date, 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 for preauthorized payments that would be charged to each condominium are levied only on this account and are typically absorbed by the management company. Notwithstanding, 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, for instance if funds are not transferred expeditiously to the condominium's account, interest may be earned by the management company rather than the condominium.

Subsection 115(4), states, in part, that the person who receives money on behalf of or for the benefit of the corporation shall pay the money into a general account or a reserve fund account of the corporation. The committee has concluded that the intent of this subsection is that condominium funds should be deposited solely into a bank account that is in the name of the corporation and that any commingling of funds contravenes the requirements of the Act and in any event, is not in accordance with acceptable accounting and internal control practices. Practitioners are advised to determine whether such an arrangement exists and if so, to expand their audit procedures as appropriate to the increased risk and to consider adding an additional paragraph to their audit report for contravention of the requirements of the Act.

Debt and capital leases in condominiums

The following debt and capital lease arrangements may be encountered in condominiums:

1. Debt for reserve fund expenses
2. Capital leases for reserve fund expenses
3. Debt in new buildings for building components such as HVAC equipment
4. Capital leases in new buildings for building components, such as HVAC equipment
5. Debt for superintendent and guest suites and other capital assets
6. Debt for operating purposes

The committee has concluded that all debt and capital leases should be reflected in the statement of financial position. Expenditures made from the proceeds of one and two should be charged to a reserve fund. Expenditures made from the proceeds of three and four should be charged to an operating fund. Superintendent and guest suites should be capitalized when they meet the requirements of EIC 95 and the expenditures made from the proceeds of operating debt should be charged to the statement of operations.

Condominiums may have more than one reserve and operating fund (such as a contingency fund account) and practitioners should use professional judgment in adopting a financial statement presentation that will be as understandable as possible. Debt payments in arrangements

one to five should be reflected in the statement of operations as an allocation of owners' assessments to the fund and the principal and interest components accounted for in the related fund statement.

Disclosure may be as follows:

(1) Presentation where debt is incurred for expenses that do not qualify to be charged to the reserve fund

Ontario Condominium Corporation NO. XXX
Statement of Financial Position
June 30, 20X1

Assets		
Current		\$ 72,072
Reserve cash and investments (Note 4)		46,419
		\$ 118,492
Liabilities		
Current		
Accounts payable and accrued		\$ 60,186
Current portion of long term debt (Note 6)		32,107
		92,293
Long term debt (Note 6)		394,210
		486,503
Fund balances		
Reserve fund		46,419
Operating funds (deficit)		
HVAC equipment fund (deficit) (Note 6)		(426,317)
Operating fund		11,887
		(414,430)
		(368,011)
		\$ 118,492

Alternatively, the operating funds (deficit) above can be combined into one fund.

Statement of HVAC Equipment Fund (Deficit)

Balance, beginning of year	\$	–
Add (deduct)		
Debt incurred to purchase HVAC equipment		(451,071)
Allocation from owners' assessments for loan payments		55,926
Interest		(31,172)
Balance, end of year	<u>\$</u>	<u>(426,317)</u>

Significant accounting principles

The HVAC Equipment Fund (Deficit) reflects the purchase of HVAC equipment from the Declarant that was financed by debt. Loan payments and interest related to this debt are accounted for in this statement and accordingly, the balance of the fund at year-end offsets the remaining debt to the Declarant.

Note 6 HVAC equipment fund (deficit) and long term debt

The Declarant included a provision in the disclosure statement provided to purchasers that the Corporation would be obligated to enter into a loan agreement with the Declarant to finance certain heating, ventilation and air conditioning (HVAC) equipment. The loan is secured by the HVAC equipment, bears interest at 8.5 per cent is repayable \$5,593 monthly, principal and interest and matures in 2016.

(The note should also disclose future principal payments as required by the Handbook)

(2) Presentation where debt is incurred for expenses that qualify to be charged to the reserve fund

Ontario Condominium Corporation NO. XXX
Statement of Financial Position
June 30, 20X1

Assets

Current	\$ 72,072
Reserve cash and investments (Note 4)	46,419
	<u>\$ 118,492</u>

Liabilities

Current

Accounts payable and accrued	\$ 60,186
Current portion of long term debt (Note 6)	32,107
	<u>92,293</u>

Long term debt (Note 6)	394,210
	<u>486,503</u>

Fund balances

Reserve funds (deficit)	
Reserve fund	46,419
Energy retrofit fund (deficit) (Note 6)	(426,317)
	<u>(379,898)</u>
Operating fund	11,887
	<u>(368,011)</u>
	<u>\$ 118,492</u>

Alternatively, the reserve funds (deficit) above can be combined into one fund.

Statement of Energy Retrofit Fund (Deficit)

Balance, beginning of year	\$	–
Add (deduct)		
Debt incurred to purchase energy retrofit equipment		(451,071)
Allocation from owners' assessments for loan payments		55,926
Interest		(31,172)
Balance, end of year	<u>\$</u>	<u>(426,317)</u>

Significant accounting policies

The Energy Retrofit Fund (Deficit) reflects the purchase of energy retrofit equipment that was financed by debt. Loan payments and interest related to this debt are accounted for in this statement and accordingly, the balance of the fund at year-end offsets the remaining debt.

Note 6 Energy retrofit fund (deficit) and long term debt

The Corporation entered into a loan agreement with Any Bank to finance certain equipment as part of an energy retrofit project. The loan is secured by a General Security Agreement, bears interest at 8.5 per cent, is repayable \$5,593 monthly, principal and interest and matures in 2016.

(The note should disclose future principal payments as required by the Handbook).

(3) Disclosure if debt is by way of a capital lease

Where debt recorded in the statement of financial position results from a capital lease, disclosure should reflect the requirements of *Handbook* Section 3065.

Special Audit Considerations for a Condominium Corporation

NOTE: This checklist includes certain issues that are unique to audits of condominium corporations. Documentation arising from use of this checklist is not a substitute for any other required audit procedures.

	Yes/ No/ N/A	Comments (No answers require an explanation)	Initials	WP Ref
OWNERS' ASSESSMENTS				
1. Were owners' assessments:				
(a) reconciled to the budget?				
(b) assessed to owners in the proportions specified in 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 Form 15 – Notice of Future Funding of the Reserve Fund as required by Regulation 16?				
7. Do the financial statements appropriately disclose the information required by Regulation 16 with respect to funding and expenses of the reserve fund?				
8. Has the corporation updated its reserve fund study within the 3-year requirements.				
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 may 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.				

	Yes/ No/ N/A	Comments (No answers require an explanation)	Initials	WP Ref
INSURANCE				
1. Did the corporation maintain, as required by the Condominium Act:				
(a) insurance against major perils to the units and common elements ? (section 99)				
(b) liability insurance? (section 102)				
INCOME AND OTHER TAXES				
1. Have Provincial Sales Taxes been considered and have GST returns been filed if taxable supplies exceed the threshold?				
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 Condominium Act and any deviations from the requirements of the Act?				
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) that specifies the period for which it is to be paid?				
(c) Has management been included in the disclosure of related parties?				
3. Does the corporation follow a sealed bid procedure in awarding all major contracts? If not, include this matter in the communication to those having oversight responsibilities over the financial reporting process.				
4. Have minutes of directors’ meetings, the Annual General Meeting 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 equity in any operating fund of those organizations been appropriately recorded?				
6. Have the financial statements been approved by the board?				
7. Has a letter of representations been obtained that is signed by:				
(a) A Director?				
(b) A representative of management?				



Ontario Condominium Corporation No. XX
July 31, 20X1

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Chartered Accountants
456 Main Street
Hamilton, Ontario
A1B 2C3

Auditors' Report

To the Owners of:
Ontario Condominium Corporation No. XX

We have audited the statement of financial position of Ontario Condominium Corporation No. XX as at July 31, 20X1 and the statements of reserve fund, guest suites fund, capital assets fund, contingency fund, operating fund, operations and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management and its Directors. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Corporation's management and its Directors, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at July 31, 20X1 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Signed

Chartered Accountants
Licensed Public Accountants

City

Date

Ontario Condominium Corporation No. XX
Statement of Financial Position
as at July 31, 20X1

	20X1	20X0
Assets		
Current		
Cash	\$ 186,500	\$ 169,500
Accounts receivable		
Owners' assessments	8,000	18,500
Other	10,000	3,000
Shared facilities	13,000	14,500
Prepaid expenses	15,000	15,000
	232,500	220,500
Reserve cash and investments (Note 3)	748,000	300,000
Guest suites	450,000	450,000
Capital assets (Note 4)	25,500	34,000
	\$ 1,456,000	\$ 1,004,500
 Liabilities and Fund Balances		
Current		
Accounts payable and accrued	\$ 192,000	\$ 113,500
Current portion of long term debt (Note 5)	50,500	46,000
	242,500	159,500
Long term debt (Note 5)	168,500	219,000
	411,000	378,500
 Fund balances		
Reserve fund	748,000	299,500
Guest suites fund	231,000	185,000
Capital assets fund	25,500	34,000
Contingency fund	19,500	100,000
Operating fund	21,000	7,500
	1,045,000	626,000
	\$ 1,456,000	\$ 1,004,500

See accompany notes

Ontario Condominium Corporation No. XX
Statement of Reserve Fund
Year ended July 31, 20X1

	20X1	20X0
Balance, beginning of year	\$ 299,500	\$ 503,500
Add		
Allocations from owners' assessments		
Annual	189,500	186,000
Special assessment (Note 6)	214,500	286,000
Interest	31,500	24,500
Transfer from operating fund	25,000	20,000
	<u>460,500</u>	<u>516,500</u>
Deduct		
Windows	–	(707,000)
Balconies	(12,000)	(13,500)
	<u>(12,000)</u>	<u>(720,500)</u>
Balance, end of year	<u>\$ 748,000</u>	<u>\$ 299,500</u>

Ontario Condominium Corporation No. XX
Statement of Guest Suites Fund
Year ended July 31, 20X1

	20X1	20X0
Balance, beginning of year	\$ 185,000	\$ 142,000
Add (deduct)		
Allocation from owners' assessments for mortgage payments	67,000	67,000
Interest component of mortgage payments	(21,000)	(24,000)
Balance, end of year	<u>\$ 231,000</u>	<u>\$ 185,000</u>

See accompanying notes

Ontario Condominium Corporation No. XX
Statement of Capital Assets Fund
Year ended July 31, 20X1

	20X1	20X0
Balance, beginning of year	\$ 34,000	\$ 42,500
Deduct, amortization	(8,500)	(8,500)
Balance, end of year	<u>\$ 25,500</u>	<u>\$ 34,000</u>

Ontario Condominium Corporation No. XX
Statement of Contingency Fund
Year ended July 31, 20X1

	20X1	20X0
Balance, beginning of year	\$ 100,000	\$ 75,000
Add (deduct)		
Transfer from operating fund	–	25,000
Lobby improvements	(80,500)	–
Balance, end of year	<u>\$ 19,500</u>	<u>\$ 100,000</u>

Ontario Condominium Corporation No. XX
Statement of Operating Fund
Year ended July 31, 20X1

	20X1	20X0
Balance, beginning of year	\$ 7,500	\$ 26,000
Add (deduct)		
Excess of revenue over expenses	38,500	26,500
Transfer to reserve fund	(25,000)	(20,000)
Transfer to contingency fund	–	(25,000)
Balance, end of year	<u>\$ 21,000</u>	<u>\$ 7,500</u>

See accompanying notes

Ontario Condominium Corporation No. XX
Statement of Operations
Year ended July 31, 20X1

	20X1 Budget (Note 12)	20X1 Actual	20X0 Actual
Revenue			
Owners' assessments	\$ 1,290,000	\$ 1,290,000	\$ 1,206,000
Special assessment (Note 6)	–	214,500	286,000
Interest and other	20,500	17,000	17,000
	<u>1,310,500</u>	<u>1,521,500</u>	<u>1,509,000</u>
Less allocations to:			
Reserve fund			
Annual	189,500	189,500	186,000
Special assessment (Note 6)	–	214,500	286,000
Guest suites fund	67,000	67,000	67,000
	<u>1,054,000</u>	<u>1,050,500</u>	<u>970,000</u>
Expenses (See Schedule of Expenses)			
Utilities	530,500	500,000	467,000
Staff and security	225,000	231,000	221,000
Maintenance	57,000	49,500	47,000
Administration	139,000	126,000	109,500
Grounds	25,000	26,500	23,500
Shared facilities (Note 11)	77,500	79,000	75,500
	<u>1,054,000</u>	<u>1,012,000</u>	<u>943,500</u>
Excess of revenue over expenses	<u>\$ –</u>	<u>\$ 38,500</u>	<u>\$ 26,500</u>

See accompanying notes

Ontario Condominium Corporation No. XX
Statement of Cash Flows
Year ended July 31, 20X1

	20X1	20X0
Cash flows from operating activities		
Owners' assessments	\$ 1,300,500	\$ 1,193,000
Special assessment	214,500	286,000
Interest and other receipts	48,500	41,500
Operating expenses	(939,000)	(908,500)
Reserve fund expenses	(12,000)	(720,500)
Contingency fund expenses	(80,500)	–
	532,000	(108,500)
Cash flows from investing activities		
(Increase) decrease in reserve cash and investments	(448,000)	282,500
Cash flows from financing activities		
Mortgage payments	(67,000)	(67,000)
Increase in cash during the year	17,000	107,000
Cash, beginning of year	169,500	62,500
Cash, end of year	\$ 186,500	\$ 169,500

See accompanying notes

Note: The cash flow statement was prepared using the direct method whereby changes in working capital balances have been incorporated into the appropriate line items. Auditors may also use the indirect method in preparing the cash flow statement.

Ontario Condominium Corporation No. XX
Notes to Financial Statements
July 31, 20X1

1. Nature of Operations

Ontario Condominium Corporation No. XX (the Corporation) was registered without share capital on May 17, 19X7 under the provisions of the Condominium Act, 1998. The corporation was formed to manage and maintain, on behalf of the owners, the common elements of a condominium containing 190 residential units commonly known as CondoVilla, located in the City of Hamilton. The Corporation qualifies as a non-profit organization which is exempt from income taxes under the Income Tax Act.

2. Summary Of Significant Accounting Policies

a) Fund Accounting

The statement of reserve fund reports the portion of owners' assessments allocated to it and expenses for the major repair and replacement of the common elements and assets of the Corporation. The basis for determining reserve fund requirements is explained in Note 7. All major repairs and replacements must be charged to the reserve fund; minor repairs and replacements must be charged to expenses in the statement of operations. The Corporation segregates amounts accumulated for the purpose of financing future charges to the reserve fund in bank and investment accounts that must be used solely to finance such charges. Interest earned on these amounts is included in the reserve fund.

The statement of guest suites fund reports that portion of owners' assessments allocated to it to make mortgage payments and the interest component of those payments.

The statement of capital assets fund reports increases or decreases in capital assets and related amortization.

The contingency fund was established by the directors in 19X9 to accumulate funds for the purpose of financing lobby improvements. This statement records transfers from the operating fund and expenses for lobby improvements,

as authorized by the directors.

The statement of operating fund reports all owners assessments, budgeted allocations of those assessments to other funds and expenses related to the operation and maintenance of the common elements of the Corporation.

b) Interfund transfers

Interfund transfers not included in the annual budget or that are in excess of budgeted amounts are not recorded in the statement of operations; they are recorded in the related fund statements as additions or deductions, as applicable.

c) Investments

Investments are purchased to be held to maturity and accordingly are recorded at cost plus accrued interest, calculated using the effective interest rate method.

d) Guest suites

The Corporation owns three guest suites that are recorded at cost and are not amortized as residual value is expected to be in excess of cost.

(Comment: residual value is defined in *Handbook* Sections 4430.05 and 4430.16. Where estimated residual value is expected to be less than the carrying amount, a provision for an impairment loss should be made).

e) Capital assets

Capital assets are recorded at cost and are being amortized over 10 years using the straight-line method of amortization.

(Comment: Emerging Issues Committee abstract 95 (EIC-95) sets out capitalization criteria in condominiums.)

f) Revenue recognition

Owners assessments are recognized as revenue in the statement of operations monthly based on the budget distributed to owners each year. Special assessments are recognized as revenue when they become payable by the owners to the Corporation. Interest and other revenue are recognized as revenue of the related fund when earned.

g) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires directors and management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from their best estimates as additional information becomes available in the future and adjustments, if any, are recorded as that information becomes known.

h) Contributed Services

Directors, committee members and owners volunteer their time to assist in the corporation's activities. While these services benefit the corporation considerably, a reasonable estimate of their amount and fair value cannot be made and, accordingly, these contributed services are not recognized in the financial statements.

i) Cash flows

(Sample disclosure if a statement of cash flows is not included in the financial statements.)

Information on cash flows from operating, financing and investing activities is available from the financial statements and a statement of cash flows has not been prepared as it would not provide additional useful information.

j) Common elements

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

3. Reserve Cash And Investments

	20X1	20X0
Cash	\$250,000	\$105,000
Term deposits	225,000	125,000
Bonds	260,000	65,000
Accrued interest	13,000	5,000
	<u>\$748,000</u>	<u>\$300,000</u>
Market value as at year-end	<u>\$751,000</u>	<u>\$298,000</u>

Term deposits and bonds mature in 20X2 and 20X3 and earn interest at rates between 3 per cent and 4 per cent (20X0 – 3.5 per cent to 5.5 per cent). Interest is generally paid semi-annually.

4. Capital Assets

Description	Cost	Amortization	Net 20X1	Net 20X0
Passenger Bus	\$ 85,500	\$ 60,000	\$ 25,500	\$ 34,000

5. Long Term Debt

Mortgage payable, bearing interest at 8.5 per cent, secured by three guest suites, due July 20X5, repayable in monthly instalments totalling \$67,000 annually, principal and interest combined.

Principal repayments to maturity are as follows:

20X2	\$50,500
20X3	55,000
20X4	60,000
20X5	53,500
	<u>\$219,000</u>

6. Special Assessment

During the year the directors approved a special assessment of \$214,500 to fund garage repairs forecast for 20X3 in the approximate amount of \$650,000. These costs will be charged to the reserve fund when incurred and contracts are expected to be finalized in 20X2 with the work performed in 20X3.

7. Reserve Fund

The Corporation, as required by the Condominium Act, 1998, has established a reserve fund to finance future major repair and replacement of the common elements and assets of the Corporation.

The directors have used the reserve fund study of Engineers Ltd., dated August 19X9 and such other information as was available to them in evaluating the adequacy of the reserve fund. The board has accepted the recommendations of the study which suggests an annual contribution of \$189,500 for 20X1 plus a special assessment of \$214,500; expenditures of \$18,000 and an ending balance as at July 31, 20X1 of \$755,000. Actual amounts were \$189,500, \$214,500, \$12,000 and \$748,000 respectively. Annual reserve allocations in the study increase by inflation each year and special assessments are contemplated in the amount of \$214,500 in each of 20X2 and 20X3 to accumulate funds for garage repairs as discussed on Note 6.

Any evaluation of the adequacy of the reserve fund is based upon assumptions as to the 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 requires that reserve fund studies be updated every three years.

(Comment: appropriate disclosure should be made if the funding plan approved by the directors differs from funding plans recommended in the reserve fund study).

8. Interfund Transfers

During the year, the directors approved a transfer of \$25,000 from the operating fund to the reserve fund. (20X0 - \$20,000).

9. Commitments

The Corporation has entered into a contract for repairs to the retaining wall at the north end of the property at a fixed price of \$75,000. This repair project is expected to commence in the fall of 20X1 and the cost will be charged to the reserve fund in fiscal 20X2.

The Corporation, in the normal course of operations, enters into a number of contracts for services all of which contain short-term cancellation clauses except the mechanical and elevator contracts which expire in 20X4. The current annual cost of these contracts is approximately \$12,500, increasing by inflation each year.

The Corporation has entered into a contract for the supply of natural gas at a cost of XX.0 cents per cubic metre for a three year period ending October 20X3.

10. Related Party Transactions

No remuneration was paid to directors and officers during the year and they had no interest in any transactions of the corporation. Management, in addition to fees is reimbursed for certain administrative costs and collects fees from owners, purchasers and others for issuing lien notices and status certificates. These transactions were in the normal course of operations and were measured at the exchange amount.

11. Shared Facilities

The Corporation is a party to a reciprocal agreement with Ontario Condominium Corporation No. XX+25 to manage and maintain the recreation facilities, interior roadway, garage and certain shared services and systems. The costs involved in operating, maintaining, repairing and replacing these facilities are shared based on the number of residential units in each building and the corporation is responsible for 49.14 per cent of such costs. Separate financial statements are available for the shared facilities.

12. Budget Information

The budget amounts presented for comparison purposes are unaudited and are those approved by the directors on June 27, 20X0. They have been reclassified to conform to the financial statement presentation adopted for 20X1.

13. Financial Instruments

The Corporation's financial instruments consist of cash, investments, accounts receivable, accounts payable, accruals and mortgage. Unless otherwise noted, it is the directors opinion that the Corporation is not exposed to significant interest rate or credit risks arising from its financial instruments and that the fair values of its financial instruments approximate their carrying value.

14. Comparative Amounts

Certain comparative amounts have been reclassified to conform to the presentation adopted for 20X1.

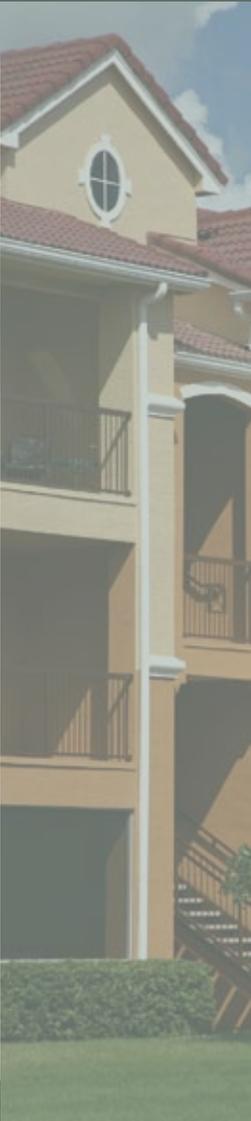
The above are examples only, members should ensure that all disclosure requirements of the Handbook are met

Ontario Condominium Corporation No. XX
Schedule of Expenses
Year ended July 31, 20X1

	20X1 Budget (Note 12)	20X1 Actual	20X0 Actual
Utilities			
Gas	\$ 123,500	\$ 118,000	\$ 99,500
Electricity	308,000	292,500	218,500
Water	90,000	83,000	80,500
Communications	9,000	6,500	5,500
	<u>\$ 530,500</u>	<u>\$ 500,000</u>	<u>\$ 467,000</u>
Staff and Security			
Staff	\$ 81,000	\$ 84,000	\$ 77,500
Security	144,000	147,000	143,500
	<u>\$ 225,000</u>	<u>\$ 231,000</u>	<u>\$ 221,000</u>
Maintenance			
Supplies	\$ 6,500	\$ 5,000	\$ 7,500
Mechanical and plumbing	10,000	14,000	10,000
Electrical and safety	10,500	10,000	5,500
Elevator	7,500	6,000	6,000
Building	18,500	11,500	15,500
Doors, locks and windows	4,000	3,000	2,500
	<u>\$ 57,000</u>	<u>\$ 49,500</u>	<u>\$ 47,000</u>
Administration			
Insurance	\$ 18,000	\$ 17,500	\$ 17,000
Management	97,000	97,000	79,500
Professional	12,000	5,000	6,000
Office	12,000	6,500	7,000
	<u>\$ 139,000</u>	<u>\$ 126,000</u>	<u>\$ 109,500</u>



Notes



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