CONDO LAW
FOR ALBERTANS

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# Before You Buy:

## Understanding Condo Finances

If you're thinking about buying a condo, it is important to understand key issues around condominium finances. If a condominium corporation isn't financially healthy, it could have serious consequences for you as a property owner including higher maintenance and repair costs, lower property values, and future problems selling the unit.

This booklet includes financial information you need to know before you buy. This information applies to Alberta only and is not exhaustive. Seek legal advice or talk to an accountant and lawyer if you have any concerns about the condominium's financial documents.



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# Condo Finances 101

Every condominium operates under the same basic financial principles.

1. Owners pay condominium contributions (also referred to as "fees") to the condominium corporation. These contributions are calculated based on unit factor assigned to their unit. Condominium contributions vary, with large amenity-rich buildings usually having higher fees than smaller buildings with minimal amenities.
2. Contributions are used to pay for the ongoing operation of the condominium complex, including maintenance, repairs, administrative expenses, and insurance.
3. The condominium's board of directors decides how owners' contributions will be allocated each year. Contributions will go towards the operating budget and the reserve fund.
4. The board is required to provide owners with financial statements showing how their money was allocated in the previous year and how it proposes to use the upcoming year's contributions.

# Financial Documents

Reviewing key financial documents before you buy a condo is one of the most important things you can do to protect your money and save yourself from future problems. A condominium corporation in poor financial health can become a bottomless money pit and make it difficult to sell your property in the future. Make sure your condo corporation is financially healthy before you buy!

**Tip**

Ask your lawyer for help in reviewing the condo's documents.

## Documents To Obtain

The financial documents you should obtain will depend on whether you're interested in buying a new, conversion, or resale condominium unit. The lists below are not exhaustive and you should always consult with your lawyer to ensure you have obtained all of the necessary financial information. For more information on documents to obtain, see our checklists for *Buying a New Condo* and *Buying a Resale Condo*.

## Where To Get These Documents

### Resale Units

- Make a request in writing to the condominium corporation. The condominium corporation must provide the documents within 10 days of receiving the request. The condominium corporation can provide the documents and information in electronic form unless you request that they be in paper form.
- Fees may apply to document requests. Under the *Condominium Property Regulation*, condominium corporations can charge up to:
  - » $200 for an estoppel certificate
  - » $100 for a consolidated information statement
  - » $0.25 per page for other documents in hard copy format or more that 40 pages in length
  - » $10 for other documents in a format other than hard copy or no more than 40 pages in length
- A "rush fee" may also apply to certain documents requested on a rush basis. If you request the following documents to be produced and the corporation produces the document within three days of the request (excluding holidays), then the corporation may also charge you the following rush fees:
  - » up to $100 rush fee for an estoppel certificate
  - » up to $50 rush fee for a consolidated information statement or particulars of the statement
  - » up to $20 fush fee for any other documents or information
- Alternatively, ask the seller to provide documents as part of the purchase agreement. Talk to your lawyer or real estate professional for more information.

### New / Conversion Units

- Request a copy of the mortgage from the developer – they are legally required to provide you with a copy.

- For conversion units, request the reserve fund report and plan and summary of deficiencies from the developer
- Ask the developer for a proposed budget. If no budget has been prepared, the developer must provide a proposed budget.

**TIP**

You have 10 days after receiving the summary of deficiencies to make a written request for a building assessment report from the developer. The developer has 10 days after receiving your request to provide a copy of the report.

# Reviewing Financial Documents

Once you have received the documents, review each document carefully to determine the financial health of the condo corporation. Included below is information you should look for in each financial document.

**Caution**

This information is not exhaustive and does not cover all of the issues that could arise — always consult a lawyer to help you review the condo's documents before you buy.

## Reserve Fund Report and Plan

### The Basics

All condominium corporations must establish and maintain a reserve fund to cover the cost of major repairs or replacement of its real, personal, common and managed property. To determine how much money needs to be in the reserve fund, the condominium corporation must complete a reserve fund study, report, and plan every 5 years. Condominium corporations can prepare reserve fund studies and plans more often than every 5 years. For more information on reserve funds, see our *Reserve Fund Guide*.

- **Reserve fund study:** The physical inspection of the condominium's depreciating property (for example, the roof, heating system, plumbing system, etc.). A reserve fund study provider must complete the study.

**TIP**

If a condo building has 12 or fewer units, the condo board can carry out the study itself. A special resolution must be passed to allow the corporation to conduct the study. But experts usually do not recommend this. Whenever possible, a reserve fund study provider should conduct the study.

- **Reserve fund report:** Outlines the findings of the reserve fund study, including information on the physical state of the condominium's property, when repair or replacement of property will be required, the anticipated costs, and recommendations for how much money should be in the reserve fund to cover these costs.
- **Reserve fund plan:** A plan approved by the condo board based on the reserve fund report, including information about how the board will collect more money for the reserve fund (if required).

## Reviewing the Reserve Fund Documents: What to Look For

### Step One: Review the reserve fund report and identify the following information

- Who conducted the reserve fund study? Is the person a reserve fund study provider under the *Condominium Property Regulation*? Are they disqualified under the *Condominium Property Regulation*?

**TIP**

Contracts for a reserve fund study entered into before January 1, 2020 (the date that the new reserve fund study provider qualifications come into force) are still valid.

- What property will need to be repaired or replaced in the next 5 years and how much will it cost? How about the next 30 years or longer?
- For each piece of listed depreciating property:
  - a description of its current condition?
  - an estimate of when it will need to be repaired or replaced?
  - an estimate of the cost of repairs or replacement?
  - the estimated life expectancy after repair or replacement?
- How much money is in the reserve fund?
- How much money needs to be added to the reserve fund to meet future costs?
- How was the current amount in the reserve fund and recommended amount to add to the reserve fund determined?
- What are the potential costs/damages if repairs aren't made?

**Step Two: Review the reserve fund plan and identify the following information.**

- Does the plan reflect the recommendations made in the report? If not, why not?
- Review meeting minutes or ask the condo board for more information.
- If additional money is needed to top up the reserve fund, how does the board plan to raise the money? Increased contributions? Special levy?

**TIP**

A condo board can impose a special levy if there isn't enough money in the operating budget or reserve fund to cover certain expenses. Condo owners have to pay the special levy even if they don't agree with it.

**Step Three: Identify red flags, warning signs, and things to consider further.**

- *Beware of unqualified individuals completing reserve fund studies.* Reserve fund studies must be conducted by a reserve fund study provider who is permitted to act as a reserve fund study provider under the *Condominium Property Regulation*. The provider must also be knowledgeable about depreciating property. Small condo developments (12 units or less) can conduct their own reserve fund study. This usually isn't a good idea as experts recommend that a reserve fund study provider complete the study..
- *Think twice before buying if the reserve fund plan does not reflect the recommendations in the reserve fund report.* It could mean the board is trying to keep contributions low but this may lead to special levies in the future. Talk to the board about why the recommendations aren't being followed and look at past financial documents to see if there is a history of special levies.
- *Can you afford pending special levies or increased condo contributions?* If money needs to be added to the reserve fund, what is the board's plan to collect these additional funds? Think about how this will impact your budget. For example, if the board plans to levy a special levy of $5,000, how will you pay for it? Can you afford it?
- *Thinking about a conversion condo?* These usually involve the redevelopment of older, non-residential buildings and the cost of repairing and replacing property could be higher and happen sooner than in a new condo development. Make sure to carefully review the reserve fund report and plan before you buy. Also, be aware that developers of conversion units do not usually put any money into the reserve fund, so owners have to start from zero.

**You should consult a lawyer to help you review documents before you buy.**

### New Condos

The condo corporation has two years (from the date the condo plan was registered) to complete a reserve fund study, report and plan. The developer usually doesn't contribute any money to get the reserve fund started so owners have to start the reserve fund from nothing.

## Annual Report

All condo corporations must prepare an annual report every year and provide it to owners at least 14 days before the AGM.

### Reviewing the Annual Report: What to Look For

**Step One: Review the annual report to identify the following information**

- How much money was in the reserve fund on the last day of the previous year?
- How much money was put into the reserve fund during the year?
- How much money was taken out of the reserve fund?
- What was the money from the reserve fund used for?
- How much money did it cost to repair or replace the property?
- How much money was left in the reserve fund at the end of the year?
- What is the projected reserve fund for the current fiscal year?
- What are the total payments (made by ordinary or special resolution) into and out of the reserve fund for the current fiscal year?
- What depreciating property is projected to be repaired or replaced during the fiscal year? What are the projected costs of those repairs and replacements?

**Step Two: Compare the information in Step One with what is included in the reserve fund report and plan to determine if the condominium corporation has a healthy reserve fund**

- Was the money in the reserve fund used to make the repairs and replacements outlined in the reserve fund report?
  - » If not, what happened? What was the money spent on and why? Review the board meeting minutes and ask questions of the condo board.
- Does the reserve fund balance reflect the recommendations made in the reserve fund report?
  - » If not, find out why by reviewing the reserve fund plan and board meeting minutes, and asking questions of the condo board.

**Step Three: Identify red flags, warning signs, and things to consider further**

- *Beware of unexpected repairs or replacements.* If there were unexpected repairs or replacements, determine if there is a more serious problem with the building's structure or how it is being maintained. This could be a sign of future problems requiring special levies or higher contributions.
- *Think twice before buying if the reserve fund is underfunded.* If the reserve fund is very underfunded compared to the recommendations in the reserve fund report, find out why to determine whether the corporation is in a risky financial state. An underfunded reserve fund could be a sign of financial mismanagement and may lead to special levies in the future.
- *Be cautious if the reserve fund seems to be significantly overfunded.* This could mean the condo board isn't completing necessary repairs to maintain the property, which could damage property and lead to higher costs in the future if emergency repairs or replacements are needed. Find out why it's overfunded by asking questions of the condo board and reviewing meeting minutes.

**Caution**

Be cautious about purchasing a property where there are red flags. Ask questions of the condo board and make sure to get advice from a lawyer before buying.

## Operating Budget

Every condominium board prepares an operating budget outlining how much money it will bring in and the anticipated expenses of running the condominium for the next year.

### Reviewing the Operating Budget: What to Look For

**Step One: Review the budget — what are the expenses, is there enough money to cover the expenses?**

- What are the corporation's expenses? Expenses may include:
  - » insurance premiums
  - » utility costs
  - » property management costs
  - » landscaping and snow removal
  - » cleaning and maintenance
  - » professional fees for accountants or lawyers

- Does the corporation anticipate spending more money than it is bringing in? If so, find out why and how the corporation expects to make up the shortfall. Review meeting minutes and ask questions of the condo board.

**Step Two: Identify red flags, warning signs, and things to consider further**

- *Be cautious if the expenses seem high or questionable.* Consult your lawyer or real estate professional to discuss the corporation's expenses if you have questions. They can help provide insight on whether the corporation's expenses are reasonable for the size and type of condominium.
- *Think twice before buying if the condo corporation is planning to overspend.* While this may happen once in a while, the corporation should not be regularly planning to spend more than it brings in. This will ultimately lead to increased costs for owners through higher condo contributions or special levies.

**New Condos**

If no budget is available, ask the developer for a copy of the projected budget. Be aware that the projected budget could change significantly once the condo development is completed, meaning your condo contributions could increase once actual operating costs are determined.

# Financial Statements

## The Basics

The financial statements show how the condo corporation spent its money over the previous fiscal years. Financial statements usually consist of the following documents:

- **Balance Sheet:** A statement of the corporation's assets and liabilities.
- **Income Statement:** Shows the money coming into and going out of the corporation.
- **Cash Flow Statement:** this statement shows the flow of cash into and out of the corporation broken down by operating, investing and financing activities.

## Reviewing the Financial Statements: What to Look For

**Step One: Review the financial statements and identify the following information**

- Who prepared the financial statements?
- What did the corporation spend its money on in the previous year?
- Did the corporation spend more money than it took in? If so, where did the corporation over spend?
- Was the reserve fund adequately topped up?

### Step Two: Identify red flags, warning signs, and things to consider further

- *Beware of financial statements prepared by unqualified individuals.* Ideally, an accountant or accounting firm will prepare the condo's financial statements. If not, you may wish to have an accountant review the financial documents to ensure the corporation is in a satisfactory financial position.
- *Consider the corporation's expenses and whether you will get value for your money when living there.* For example, if your condo contributions will go towards maintenance of a pool and fitness centre, but you don't plan to use either, you may want to consider a building with fewer amenities and lower operating costs.
- *Think twice before buying if the corporation is overspending.* Look at areas where the corporation overspent by reviewing the financial statements and the operating budget. Review the board meeting minutes or talk to the condo board to find out what happened. Budgets are never perfect but you want to make sure the corporation is managing its finances responsibly and there won't be ongoing financial issues.

### New Condos

If you are interested in a new development, you can request the projected budget from the developer. Be aware that projected budgets can change drastically once the condominium is fully occupied and operating. This means that owners' condominium contributions (fees) could increase significantly once actual operating costs are determined.

## Estoppel Certificate

This is a signed document from the condominium corporation that outlines certain information for a specific condominium unit. Note: only resale condos have estoppel certificates.

### Step One: Review the estoppel certificate and identify the following information

- What are the current condominium contributions (fees) and payment schedule?
- Are there any unpaid contributions?
- Is there any interest owing on unpaid contributions?

**Step Two: Identify red flags, warning signs, and things to consider further**

- *Beware: unpaid contributions carry with the unit, not the owner*. If you purchase a condo unit with unpaid contributions, you will be responsible for paying them.
- *Carefully consider the amenities and services offered before buying*. Consider how much the contributions are, what the contributions cover (consult the annual report and operating budget), and whether you will use all of the amenities. A condominium with fewer amenities and lower contributions may be more suited to your needs and budget.
- *Think twice before buying if the condo fees seem too low*. It could be a sign that there is not enough money in the reserve fund to cover future costs.

## Meeting Minutes

A condo board produces meeting minutes to show what was discussed and how decisions were made by the board about the condominium.

### Reviewing the Meeting Minutes: What to Look For

- How the reserve fund plan was developed and if applicable, why it differs from the reserve fund report.
- Why certain repairs or replacements were made or not made.
- Why the reserve fund is over or under funded (if applicable). If under funded, how the corporation expects to make up the shortfall.
- Why the corporation went over budget (if applicable) and how it expects to make up the difference.
- When condo contributions have increased and why. Contributions are set annually by the condo board after considering operating costs and reserve fund needs.
- When special levies have been imposed and why. Consider how often and why they were levied, as well as how much owners had to pay. This could be a sign of financial mismanagement or problems with the building's structure.

This booklet was produced for the Condo Law for Albertans project by the Centre for Public Legal Education Alberta. For further information about condominium law in Alberta, visit www.CondoLawAlberta.ca.

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