

Inspect financial records before buying resale unit

STEPHEN CHESNEY
SPECIAL TO THE STAR

Buying a unit in a condominium corporation is similar to buying into a small business. Why is it, then, that I see many people not evaluating the financial information available to them before finalizing the purchase of a resale unit?

Buyers may be acquiring the information, but I believe in many cases they're not using it to their advantage. Every buyer should make the purchase of a resale unit conditional on obtaining and reviewing the condo's status certificate. This is a package that includes a wealth of financial information about the condominium corporation and the specific unit being purchased. Among the documents is the latest audited financial statements and the condominium's declaration.

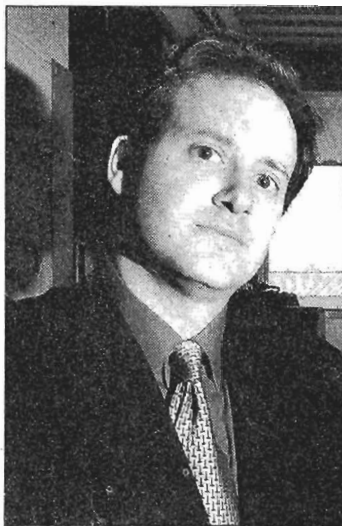
These documents, especially those dealing with the condo's finances, should be reviewed by someone who understands the financial implications. The status certificate will inform the purchaser if the condominium corporation is currently meeting its financial obligations, and if there are any expected increases in the condo fees. As well, you should watch to see if there are any "Special Assessments" levied against the unit or if the unit owner is in default for the monthly condo fees.

If, in fact, there are any special assessments, or if there is an expected increase in condo fees, many people will ask for a downward adjustment in the purchase price.

While this may be a sound move today, it does not protect the buyer from future increases. Therefore I suggest that the buyer investigate the reasons behind the increase in monthly fees or special assessment. Is this an isolated occurrence or has this been a pattern for this condominium? Is the special assessment to offset an operating deficit or is it to increase the reserve fund?

After reviewing the Status Certificate I strongly suggest that the buyer take a long hard look at the latest audited financial statements.

All condominium corporations in Ontario with 25 or more units must have audited financial statements prepared each year. The would-be purchaser should ensure that the latest financial statements have, in fact, been audited. He or she should also check the year-end on the statements to make sure the information is relevant and timely. If the financial statements are too old, you may want to obtain more up-to-date information or at least inquire as to why more recent, audited statements are not available.



'Every buyer should make the purchase of a resale unit conditional on obtaining and reviewing the condo's status certificate'

Stephen Chesney, chartered accountant

ance itself is not as important as the fund balance relative to what the study calls for.

First check to ensure that a reserve fund study has been completed and sent to the owners (form 15). If it has not been done, you will want to know why; this, again, may be a signal. If it has been done, you want to see if the balance is in line with the study. Although many older condominiums have 10 years to catch up, it is clear that if there is a large difference it is going to have to come from somewhere (the owners) over those 10 years.

Finally, you can ask to see if there is any historical information regarding the condominium fee increases over the years. This information can give you some insights into the operations of the corporation and past decisions of the board of directors. We all know that the past is not an exact indication of the future, but you may want to see the past financial strategy of this condo and its board.

As you can see there is a wealth of information available to a purchaser, however it is the content of the information that is often overlooked. Make sure that the person you are relying on has the financial expertise to understand these important issues.

Often it is the purchaser's lawyer who reviews this information and there are many lawyers who have the knowledge to do so.

If your lawyer is not as informed on these condominium financial statement matters, I would recommend you obtain the advice of a condominium accountant or other financial consultant.

Remember, in a way you are buying into a small business and you want to avoid nasty surprises by doing your due diligence!

In my next article, I will discuss the impact of the new Condominium Act on the reserve funds of Ontario condominium corporations.

Chartered accountant **Stephen Chesney** is a partner in the firm Parker Garber & Chesney. He is a specialist in the field of condominium corporations. Email chesney@parkergarberchesney.com

Within the financial statements I would begin by checking the auditor's report. Is it a clean audit opinion? If there is a qualification make sure you investigate the reason behind it. Often the books and records were not available or not complete or some of the specific numbers in the statements could not be audited. Don't just ignore this issue as it could be pointing you in the direction of possible future financial problems; make sure you spend the time to get to the source of the issue.

Within the financial statements themselves I suggest you pay attention to two specific areas: the operating fund and reserve fund. The operating fund is the cumulative amount of surplus or deficit in the condominium from the first day after registration until the year-end of the financial statements. Does this condominium have a large operating deficit?

In theory, the Condominium Act of Ontario would like to see the condominium operating at a break-even level. If there is a large deficit, the board of directors should be addressing this issue. There are really only two ways to eliminate the deficit, either by increasing the condo fees or issuing a special assessment. If the board does not address this deficit it is entirely possible that the condo will not be able to pay all of its bills and may need to borrow money from its reserve fund (which is in contravention to the Condominium Act of Ontario).

Once you have addressed the operating fund you should turn your attention to the reserve fund. This fund is established by law and is there to pay for major repair and replacement of the common elements. The new condo act requires that all condo corporations have a reserve fund study, a professional assessment of the monies needed in the fund to ensure that it is adequate to pay for all future major repairs and replacements. Therefore, the fund bal-