



CAO Guide on Condo Reserve Funds



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INTRODUCTION

Reserve funds are critically important for the long-term well-being of condominiums in the province. The Condominium Authority of Ontario (CAO) understands the tremendous responsibility of each condominium board when it comes to ensuring an adequate reserve fund is maintained for their corporation. That's why we developed this comprehensive guide for directors who want to understand what's involved and steps they can take to meet this critical responsibility.



WHAT IS A RESERVE FUND?

The reserve fund is a dedicated **mandatory** account that condo corporations use to pay for **major repairs and replacements of common elements and assets**. It's like a savings account that a condo owner might use for both emergency and planned repairs. The reserve fund may not be used for alterations or improvements.

Every condo board has a critical duty to ensure condo fees paid by owners are sufficient to ensure adequate funding of their condominium's reserve fund.

A condo corporation may incur unexpected expenses (e.g. to cover the cost of unexpected major repairs of the building's

heating system). To pay for these repairs, the corporation may be able to draw from the reserve fund or may have to consider other alternatives. In these instances, condo boards may issue a special assessment as a one-time charge to owners or have the corporation borrow money.

However, the best strategy to ensure the long-term health of a reserve fund is to ensure that condo fees are sufficient to maintain the reserve fund and increase them as needed.

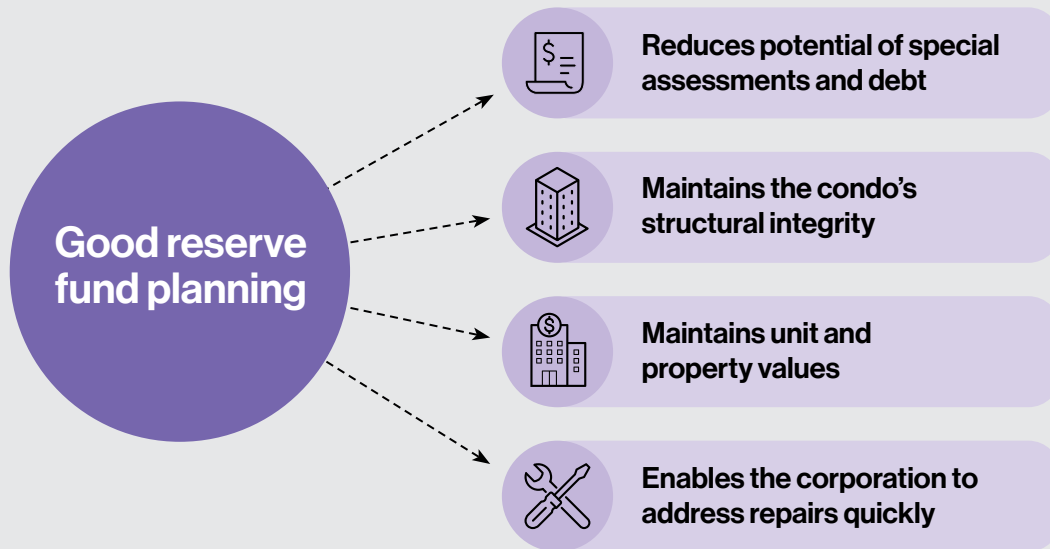
Condo owners should trust that their board will manage the corporation with care and that their common expenses fees will contribute to the long-term viability of their homes.



Read more about this in [section 93 \(4\)](#) and [115 \(2\)](#) of the Condo Act



Outcomes of Good Reserve Fund Planning



How Much to Contribute?

All condo corporations must contribute an amount that is **reasonably expected to cover major repairs and replacements of the common elements and assets over time**. This amount is determined through a formal reserve fund study and a plan for future funding.

Before condo corporations complete their first reserve fund study, they must contribute the greater of the following:

- > 10% of their annual operating budget
- > The amount reasonably expected to provide enough funds for future major repairs and replacements.

Once corporations complete their first study, they must create a plan for future funding of the reserve fund that is **reasonably expected to cover future repairs and replacements**. The contributions identified in the first plan for future funding will usually be higher than the contributions that were made before the first reserve fund study. The sections below will delve into the timing and details of this process.



A reserve fund can only be used to cover the costs of major repairs and replacements. It may not be used to pay for any maintenance costs or improvements to the common elements and assets.



A large amount in the reserve fund at any point in time doesn't always mean the condominium is in good financial health. Funds will fluctuate depending on ongoing repairs so its health should be judged on its consistent ability to cover expected and unexpected repairs and replacements instead of its size.

RESERVE FUND STUDIES

Everything begins with commissioning the first Reserve Fund Study. Condo corporations must have qualified experts complete this study. Thereafter, reserve fund studies are conducted periodically by qualified experts to establish and update their cost estimates and understanding of future needs.

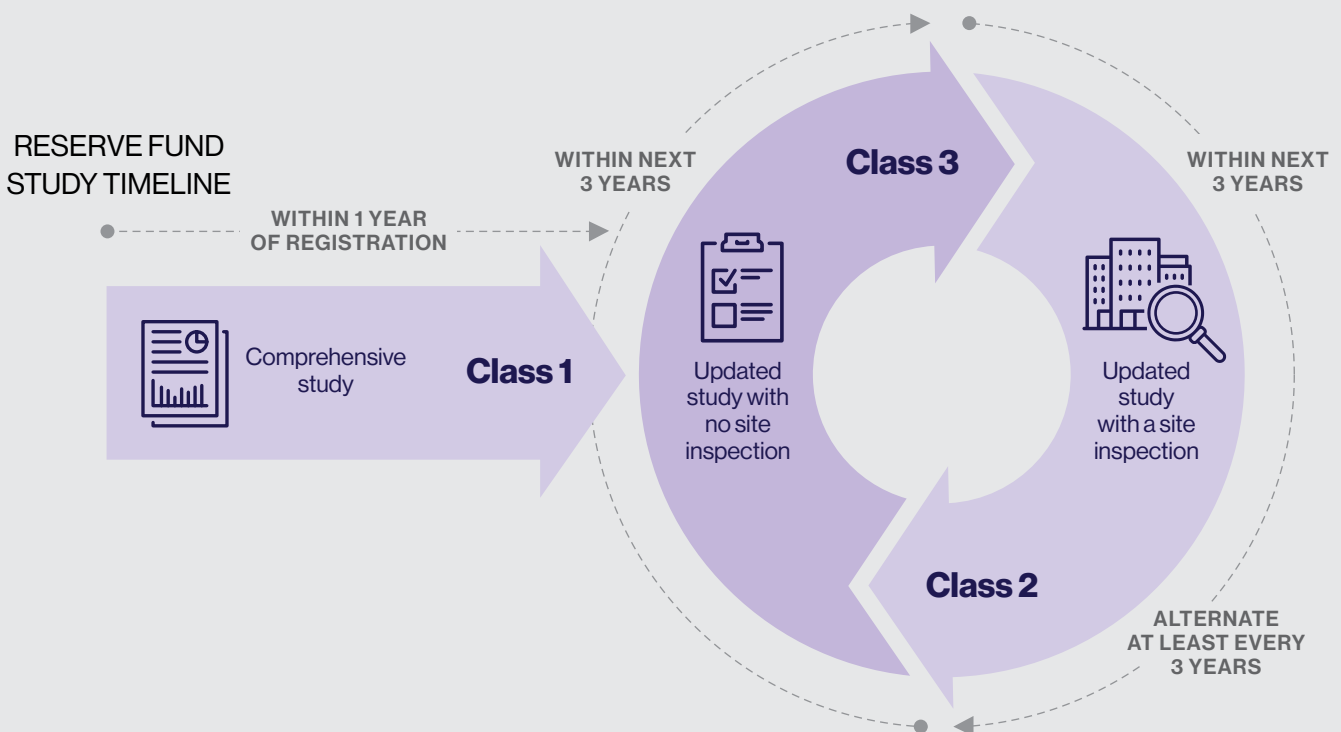
There are three types of reserve fund studies:

- > **Class 1** – Comprehensive and done within a year of the condo corporation’s registration.
- > **Class 2** – An updated study with a site inspection done three years or less after class 3.
- > **Class 3** – An updated study without a site inspection done three years or less after class 1 and 2.



Section 32 of Ontario Regulation 48/01 contains a detailed breakdown of who may conduct a reserve fund study.

Types and Timelines of Reserve Fund Studies



Condo corporations use **Class 1** studies to establish a **30-year financial projection** after having reserve fund experts examine the property in person, review the corporation's records and interview the corporation's directors, employees and agents.

A **Class 2** study includes a site inspection and many of the requirements of a Class 1 study.

Class 3 studies do **not** include a site inspection but involve a review of records and interviews with the corporation's directors, employees and agents.



The 30-year timeline is a legislated minimum. Corporations have the option of using longer timelines such 45 years or more¹. Ask your RFS provider what timeline is most suitable for your condo.



See [section 94 of the Condo Act](#) to find out more about reserve fund studies.

¹ A 45-year timeline is recommended in the Guideline for Engineers Conducting Performance Audits and Reserve Fund Studies by the Professional Engineers of Ontario.

Reserve Fund Study Contents

Content requirements are outlined in the Condo Act and its regulations. For example, Class 1 and 2 studies require both physical and financial analyses whereas Class 3 studies only require financial.

Physical analyses must include an inventory of each item in the common elements and assets of the corporation, called a “component inventory”. This inventory must include all components that are expected to need a major repair or replacement within at least 30 years of the date of the RFS and where the cost of replacement is expected to be at least \$500.



Sections 29 (2) and 29 (3)
of O. Reg. 48/01 set out
RFS requirements.



Physical Analysis

- **Component Inventory**
- **Assessment of each item in the component inventory:**
 - Year acquired
 - Real or estimated age
 - Normal expected life
 - Remaining life expectancy
 - Estimated year of major repair or replacement
 - Estimated cost of major repair or replacement
 - Percentage of the cost that will be covered by the reserve fund



Financial Analysis

- **Financial status of the reserve fund**
- **Minimum fund balance required for at least the next 30 years**
- **Recommended funding plan for each of the next 30 years that includes:**
 - Estimated opening balance of the reserve fund
 - Assumed annual inflation rate
 - Estimated cost of future repair and replacements in today's dollars and inflation adjusted based on expected repair year
 - Contributions needed to cover future repairs and replacements
 - Estimated annual interest rate and interest amounts that will be earned by the reserve fund
 - Sum of contributions and future earned interest
 - Percentage increase in recommended contributions from the previous year
 - Estimated closing balance of the fund by the end of each year

Who Can Conduct Reserve Fund Studies?

Only qualified professionals listed in the Condo Act can conduct an RFS. Qualified professionals must have liability insurance that is valid when the RFS is completed and for at least three years after that. Providers must present a certificate of the policy of liability insurance to the corporation they are working with upon request.



Can conduct an RFS

- ✓ Accredited Appraisers
- ✓ Licensed Architects
- ✓ Certified Engineering Technician or Technologist
- ✓ Certified reserve planners
- ✓ Professional Engineers
- ✓ TMU* graduates with a Bachelor of Technology (Architectural Science) – Building Science Option or Architecture Option
- ✓ Professional Quantity Surveyors
- ✓ Architectural or Registered Building Technologists

*Toronto Metropolitan University



Must not conduct an RFS

- ✗ Anyone lacking the qualifications listed in the left column.
- ✗ Any director, officer or manager of the corporation, even if they have the qualifications in the left column.
- ✗ Anyone with a direct or indirect interest in an existing or proposed contract or transaction involving a director or officer of the corporation in their life outside the condo board.
- ✗ The spouse, child, or stepchild of a director or officer of the corporation.
- ✗ An owner or resident in the condo corporation.

Plan for Future Funding

Condo corporations must review the reserve fund study within 120 days of receiving it and then propose a **plan for future funding** where they outline how they will keep their reserve fund adequately funded.

The plan for future funding must ensure that the reserve fund is adequately funded by the fiscal year following the year the RFS was completed. Most corporations will need to increase contributions to reach this requirement. Corporations should follow the advice set out in the RFS when setting their plan but are not legally bound to do so.












Section 94 (8) of the Condo Act specifies these timelines.

Notice of Future Funding

The next step is to send the unit owners a notice within 15 days of proposing a plan for future funding containing a summary of the RFS, a summary of the plan for future funding and a statement indicating where the two differ, if applicable.

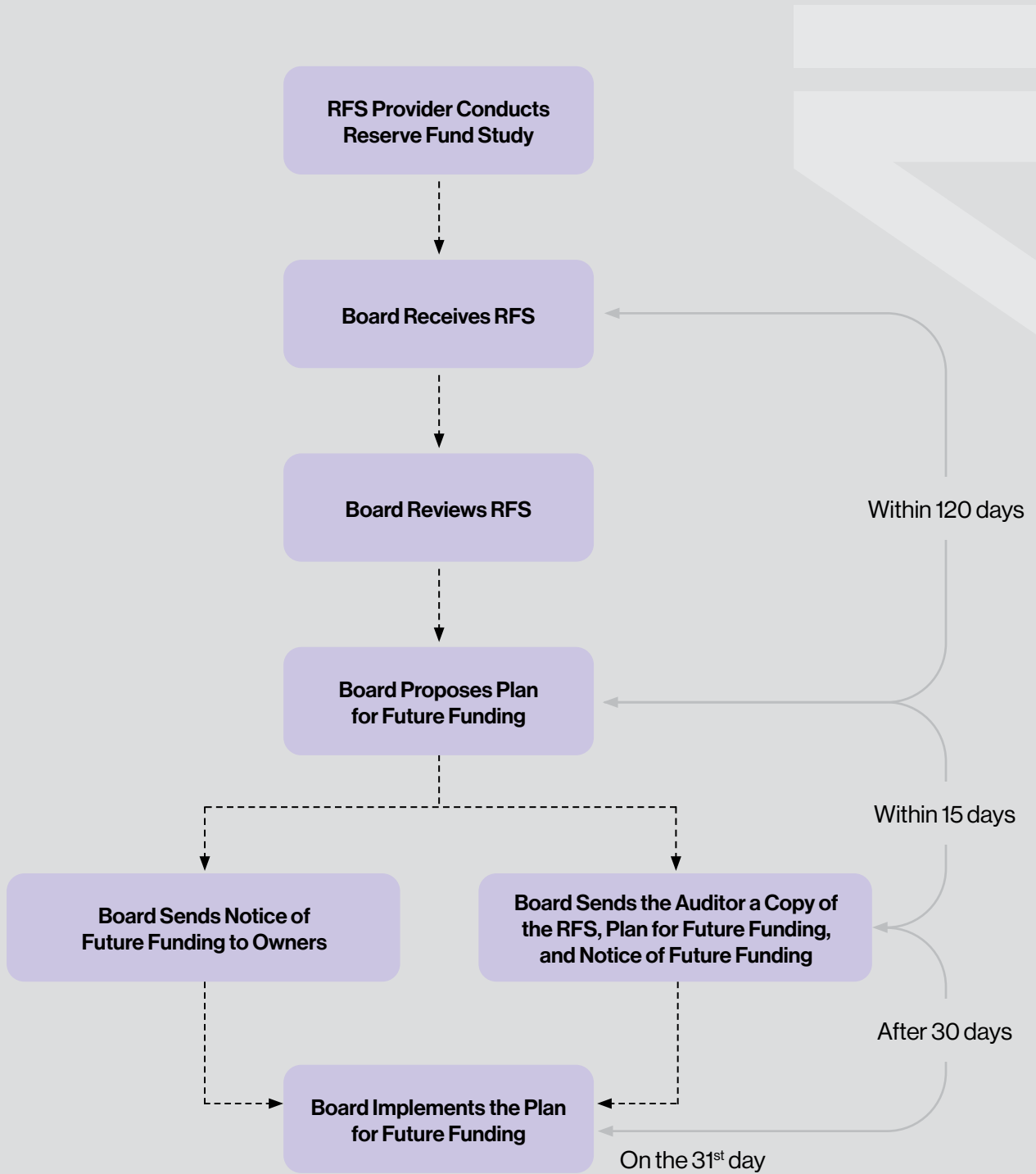
The notice of future funding is a [mandatory form that can be found on the CAO's website](#) that presents the required information in this way:

-  Corporation Name
-  Which owners are entitled to receive the notice
-  Overview of the notice's contents
-  Confirmation that the board reviewed the RFS
-  Summary of the RFS
-  Summary of the plan for future funding
-  Date of implementation of the plan for future funding
-  How owners can examine the proposed plan
-  Statement of where the board's plan differs from the RFS, if applicable.

The board must on that same day send the condo corporation's auditor a copy of the RFS, plan for future funding, and notice of future funding.

On the 31st day after sending the notice to unit owners and required documents to the auditor, the plan for future funding must be implemented by the board.

Reserve Fund Study Process and Timelines





OTHER RESERVE FUND RELATED DOCUMENTS

Audited Financial Statements

Each corporation must have an auditor review their financial statements including the most recent reserve fund study as part of their annual financial audit. The auditor will create a report summarizing their audit of the corporation's finances, including potential outcomes or implications of not complying with the Condo Act.

Financial statements shared with the auditor must include:

- > How much the corporation received in condo fees and special assessments
- > Accrued liabilities, including loans
- > Investment accounts and schedules
- > Contributions to and expenditures out of the reserve fund

The purpose of the auditor's review is to ensure that the financial statements are accurate and following the requirements of the Condo Act. It's important for the board to carefully review the auditor's comments and address any areas that are flagged for non-compliance to protect the financial well-being of the corporation.

The report that the auditor completes as well as the audited financial statements must be sent to the corporation's unit owners as part of the notice package that goes out before the corporation's Annual General Meeting.



See the [CAO Guide on Condo Finances](#) for more information.

Periodic Information Certificates

This is another important document that contains information about reserve funds that boards must send to owners, this time 60 days after the end of the first and third quarters of every fiscal year.

Here's a detailed list of what they must include:

- > Current balance of the reserve fund
- > Balance in the reserve fund at the beginning of the current fiscal year
- > Planned contribution to the reserve fund according to the corporation's budget for the current fiscal year
- > Anticipated expenditures coming out of the fund for the current fiscal year
- > Any plans to increase the reserve fund as outlined in the plan for future funding, if applicable

[Use the mandatory form in CAO's website](#) to complete and send PICs.



Status Certificates

Status certificates contain information about the financial status of a specific unit and the corporation, including important information about the reserve fund. This critical information includes but is not limited to:

- Details about any special assessments that were charged to the unit to increase the contribution to the reserve fund
- The current balance of the reserve fund
- The annual contribution to the reserve fund for the current fiscal year and the common expenses charged to the unit to meet that contribution
- Details about when the last RFS was conducted or when an RFS will be conducted

- Any plans to increase the reserve fund according to the plan for future funding, if applicable
- A copy of the most recent notice of future funding

As the status certificate is relied on by condo buyers and legally binds the corporation to the information it provides, ensuring status certificates are current and accurate is critical. Once the corporation receives the RFS, the board should work with their RFS provider and legal counsel to understand what changes may be required to the status certificates that the corporation is issuing.

Status certificates must also follow a [mandated form template](#).

RESERVE FUND BEST PRACTICES

There is no one-size-fits-all approach to reserve funds and reserve fund studies, though we can use some tools to help ensure a healthy reserve fund.

Here are some best practices that corporations might consider to help provide further protections in addition to the legislated minimums:

1 Finding and retaining the right RFS provider for your corporation

Here are some things to try:

- > Ask your corporation's manager, lawyer, or auditor for a recommendation. They may have experience within the industry.
- > Ask condo boards like yours for referrals. You can get in touch with other boards via your manager or director groups in your area. Consider asking specific questions about issues experienced and lessons learned.

Condo boards should also review their governing documents (declaration, by-laws, rules) for any procurement practices and procedures. In addition to any requirements in the governing documents, we would recommend entertaining bids and having interviews with at least three RFS providers as part of the procurement process.



See the [CAO Guide on Procuring Goods and Services](#) for more information.



2 Gathering relevant documents

Gather the documents that RFS providers will need to conduct their study before the process begins:

- > Your corporation's governing documents (declaration, by-laws, rules)
- > Previous reserve fund studies
- > Previous plans for future funding
- > The corporation's financial records
- > Agreements to modify common elements under [section 98](#) of the Condo Act
- > Agreements to install electric vehicle charging systems
- > Shared facilities agreements or "mutual use" agreements with other corporations²

It is also a good idea to be prepared to hand over additional documents that RFS providers may ask for ahead of the study.

Seek legal advice if any of these documents are not well understood before conducting the study.

² Depending on the agreement, the shared facility may have a separate reserve fund, which may require its own reserve fund study.

3 Clarifying repair and maintenance obligations

A common roadblock in the reserve fund study process is lack of clarity about repair and maintenance obligations outlined in the declaration. Condo corporations are generally responsible for repairing the common elements after damage, but the declaration may specify that owners are responsible for repairing parts of the common elements that are exclusive to their unit.

Lack of clarity about repair obligations, including obligations to repair exclusive use common elements, may result in an over or under estimation of repair costs because something that was deemed to be the repair responsibility of an owner may be misattributed to the corporation or vice versa.

Seek clarification from legal counsel to avoid delaying the reserve fund study or misallocating future funds.

4 Participate actively in the RFS process

Boards have important knowledge about the corporation's common elements and the community's concerns that they should actively share with providers so that nothing is overlooked. The RFS providers' expertise can complement this information so that the community can achieve the best results.

Condo managers can be heavily involved throughout the RFS process as well, but this will depend on the management agreement. However, a best practice is for boards to be actively involved in the RFS process and to provide input to the RFS provider.



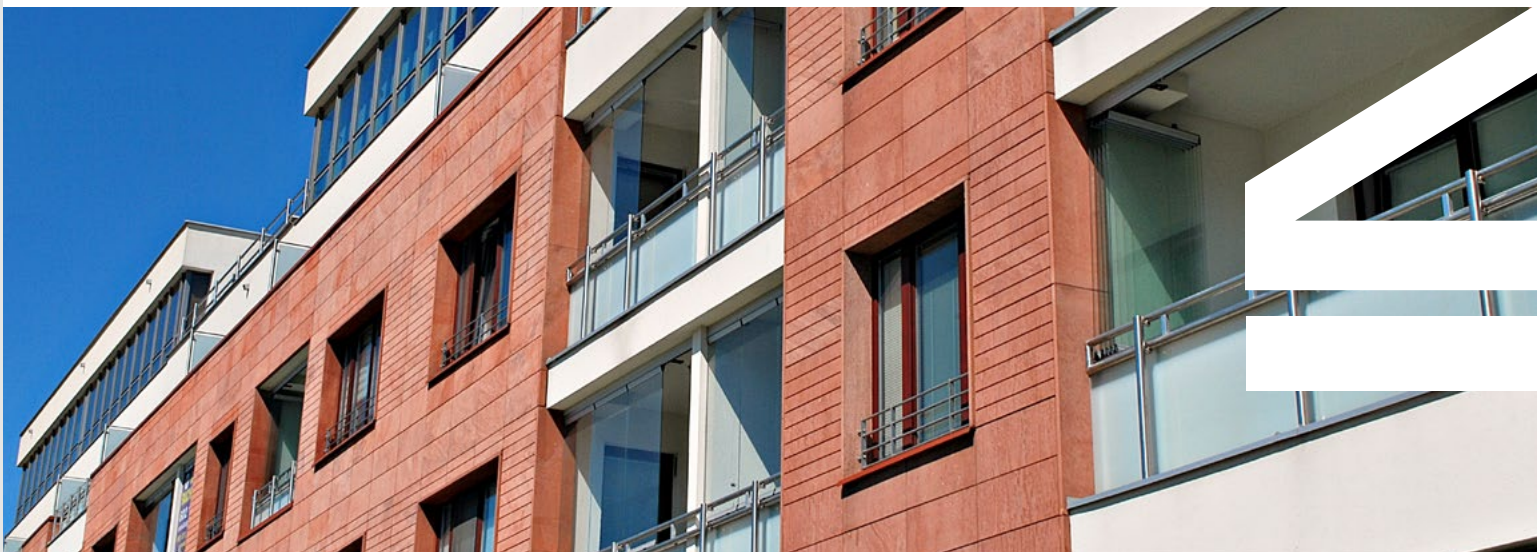
See the [CAO Guide on Overseeing Condo Managers](#) for more information.

Boards should also routinely communicate with their providers so any areas of concern about specific components of the building are considered. For example, a smaller corporation or one that is responsible for a heritage building may ask providers if they are using a standard reserve fund study format, and how they plan to tailor that format to their corporation's unique needs.

It is better to ask for clarification early and often rather than to receive a report that does not meet the needs of the community, is difficult for the board to understand, or that is missing key elements.

Some boards may be concerned about added costs associated with seeking clarification or making additional requests to the RFS provider (e.g. in-person meetings), but the board seeking to fully understand what is being recommended is a crucial part of the reserve fund study process.

Collaborating with the RFS provider will also lead to a better understanding of the study, which will better equip boards to explain the findings of the study to their community of unit owners.



5 Consider risk factors

Costs and timelines of likely repairs and replacements are determined by the age and type of the corporation's components. Some components may pose higher financial and safety risks if they are not properly maintained.

Some examples of risk factors include the following³:

- Having four or more stories in height
- Suspended structural slabs that support parking, driveways, or landscaping
- Post-tensioned structures
- Buildings with balconies that are fully exposed.

Studies assessing corporations with risk factors need to pay additional attention to ensure the reserve fund can adequately cover their long-term health. Make sure to raise risk factors associated with your specific corporation with your RFS provider early.

³ These risk factors can be found in the Guideline for Engineers Conducting Performance Audits and Reserve Fund Studies by the Professional Engineers of Ontario.



6 Conduct condition assessments

These are detailed inspections of building components that use methods such as destructive testing and thermal scans to assess the state of building components. They are more thorough than visual site inspections and therefore can be helpful in assuring correct reserve fund planning.

Destructive testing, for example, is done by taking a sample of the component and purposely damaging it to the point of failure to determine its ability to withstand different loads or pressures.

These assessments are not legally required but can be incorporated into a corporation's reserve fund study and plan for future funding. Condition assessments can be used to investigate higher risk components, including:

- > Concealed components that cannot be visually inspected
- > Older components with greater risk of deterioration
- > Structures with higher financial and safety risks such as balconies and swimming pools

Make sure to discuss whether a condition assessment is a good fit for your corporation with your RFS provider.

7 Be aware of economic conditions

Boards should keep track of how economic conditions are affecting the price of construction materials and work with their RFS provider to adjust their reserve fund planning accordingly.

Here are some best practices to mitigate inflationary and economic pressures:

- > The CPI inflation rate may not always be the best measure of change in construction material prices. Corporations should also be aware of the **construction price index for their region** and speak to their provider about how this can affect their reserve fund planning.
- > Invest the reserve fund to offset inflation and grow the funds over time. See the [CAO Guide on Condo Finances](#) for more information on what types of investment vehicles are allowed.
- > Consider conducting a reserve fund study earlier than required by legislation or a condition assessment. This will help update cost estimates and fine tune projections that have shifted due to changing economic conditions.



8 Consider the best strategy for funding your reserve fund

The primary strategy should be to **incrementally increase common expenses fees** according to the reserve fund study and plan for future funding.

Here are some alternatives that should be considered carefully if money is needed more quickly:

- > **Special Assessments** – Owners may be asked to pay an additional one-time amount, or a special assessment broken up in several installments, beyond the common expenses fees. Corporations should use sound financial management best practices to avoid these as owners commonly resist this option and some may not be able to pay the required amount. Condo corporations should carefully review their governing documents (declaration, by-laws, rules) for any provisions regarding communication with owners when issuing special assessments.
- > **Loans** – Reserve funds can be funded by borrowing money. Speak with your auditor or financial advisor to understand if this is a better option for your corporation. Boards must pass a borrowing by-law to obtain a loan. By-laws are proposed by the board but require approval from owners. This opens the door to a democratic process where the whole community is involved but also means the corporation will incur interest costs.

9 Communicate openly with owners

Owners should feel like they are included when it comes to the financial wellbeing of their condo.

Here's what to do:

1 Discuss the issue at an owners' meeting

- Provide owners with appropriate notice so they can hear from the board and the RFS provider (and possibly the auditor and lawyer, if applicable) at a meeting where the reserve fund and related plan can be explained, and questions can be answered directly.

2 Provide context in plain language

- Owners may struggle with interpreting legal notices about reserve funds, such as the Notice of Future Funding. Boards should consider attaching additional explanatory materials written in plain language when sending these.
- Corporations can also provide additional transparency beyond legally required notices about changes to the reserve fund. One simple way to do this would be through a regular owners' newsletter.

3 Manage expectations

- It is a good idea to flag the possibility of an upcoming special assessment, loan, or increase to condo fees early for owners so these do not come as a surprise, even if boards are not legally required to do so.

4 Remind owners of the collective nature of condo ownership

- Some owners may object to certain repair and replacement projects because they themselves do not use the amenity to be repaired. Boards can address these concerns by reminding them that the responsibility for funding the reserve fund is collective and that a well-maintained property is in the interests of all owners as it can affect their safety, security, and investment (i.e., the resale value of their unit).

CAO Contact

[Message](#) us through our website or call Monday-Friday 9:00 a.m. - 5:00 p.m.

CAO Local – 416-901-9356
CAO Toll Free– 844-880-5341

TTY (telephone device for the hearing impaired)

[Bell Relay Service](#)

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