Dear Homeowners,

Please find below my response to the SHC Board of Director's communication titled "Stelkia Homeowners Corporation Pre-AGM Budget Q & A October 18, 2021."

I asked questions 1 – 5. I did not ask question 6. The initial response from the treasurer to me was that he would not answer my questions before the AGM. Subsequently the BOD changed course and issued their Q & A. I believe their answers are inadequate and cause as many questions as they attempted to answer.

I believe that there are several very significant issues associated with last year's budget deficit and the proposed budget for next year – much, much more than should be handled by simple majority votes on adopting the proposed budget and associated capital / CRF plan.

I respectfully ask that you review the following, and the budget proposals to be voted on at the AGM, so that you can make the best, most informed decision at the AGM.

Of course, I welcome the BOD's response to mine.

Regards,

Garry Lockyer
Unit 101
C: +1.250.689.0686
Garry@lockyer.ca

Stelkia Homeowners Corporation Pre-AGM Budget Q & A October 18, 2021

Dear Homeowners, Since the October 2021 AGM package has been released, the Board of Directors has received a few questions relating to the proposed 2021-2022 budget. We have prepared a document to answer the frequently asked questions to assist homeowner understanding of the budget, and to facilitate an effective, efficient Annual General Meeting.

**Question 1.** The FY2020 surplus and FY2021 capital expenditures were not handled as approved at the 2020 SHC AGM (actually held in 2021). About 110 K$ was to have been rolled into FY2021 operations, and expenses of 93 K$ for fixed assets and about 17 K$ for a depreciation report were included in the FY2021 budget. Said another way, the FY2021 budget presented in the 2021 AGM package does not match the approved FY2021 budget in the minutes for the 2020 SHC AGM. Why were these amounts handled differently than expected?

**Answer:** We are a BC Non-Profit Corporation, therefore the funds carried forward from YE 2020 for the Wheel Loader Purchase and the Depreciation report should not have been put into the income statement as income and expenses. This is incorrect accounting practices. These amounts were removed from the Operating Budget and retained as part of the capital budget. The net amount of the budget did not change, only these specific line items were moved to be accounted for correctly.

**GAL Response:** I'm not going to go into how SHC is incorporated and will stipulate that the net result from an accounting perspective is $0.

That said, regardless of how a surplus is recorded in the financials, using a surplus to offset the following year's operational expenses is specifically allowed under the Sublease (4.3 Payment and Adjustments of Common Costs).

Even if incorrect accounting practices were used in the past, the BOD should have informed all homeowners with a very clear explanation as soon as the practices were detected and well before presenting a new budget with different practices.

**Question 2.** There was a deficit of 96.4 K$ in FY2021. The BC Strata Act (yes, I know we are not a strata, but "for all intents and purposes. . .") requires that deficits be recovered in the following year. I do not see anything in the FY2022 proposed budget to recover this deficit. Why doesn't the FY2022 proposed budget include measures to recover the prior year's deficit?

**Answer:** As you state we are a BC Non-Profit Corp and as such we do not follow the same rules, the overage in the budget impacted cash flow but we did not need to take funds from any of our contingency funds to meet our financial commitments. Had we had to utilize our contingency fund to meet operating obligations we would have needed to recover those funds from the homeowners.

**GAL Response:** Please explain how you were/are able to cover all operating expenses given that at the end of August 2021 cash on hand (1000 – Bank – Operating Account) was 4.3 K$ and the amount owing to SHC (1500 – Accounts Receivable) was 4.2 K$ for total liquid assets of about 8.5 K$ while the total accrued expenses was 123.2 K$? There appears to be insufficient funds in the Operating Account and all other funds are restricted.

**Question 3.** The 19.9 K$ for a depreciation report, approved at the previous AGM, was not expended, as in, it's not listed as an actual expense in FY2021. The FY2022 budget does not include an amount for a depreciation report - it is mentioned under "Capital / Contingency Fund" but we do not normally automatically roll unspent funds forward. I believe this expense will become due in FY2022 (and must be paid!) so there should be an expense line item in the FY2022 budget. I view this expenditure as "approved but unfunded." I suspect your answer will be something like “the funds are still available as part of the 110 K$ surplus from the prior year (described as a Restricted Funds from prior year income)” but I do not want to make an assumption, so am very interested to hear your view.

**Answer:** As explained at the town hall, we now have two budgets, an Operating budget and a capital / Contingency fund budget. The funds that were identified for the depreciation report are still in our bank account and have been unofficially reserved for paying for the depreciation report when it becomes due. The depreciation report will be another asset on the balance sheet and will not be recorded in the operating accounts.

**GAL Response:** I incorrectly stated in my question that the cost of the depreciation report was 19.9 K$ - the 2021 approved budget specified 16,968.36 or about 17 K$.

I do not know if it is an acceptable accounting practice to capitalize an expenditure such as a depreciation report – have you confirmed with Associa’s accounting department and/or an external accounting firm that such a report may be treated as a fixed asset?

The Capital / Contingency Fund accounting as presented is incomplete and likely confusing. It does not show (under “2021 Unaudited Actuals”) an inflow of funds to cover the cost of the wheel loader and the depreciation report nor does it show a corresponding outflow for the wheel loader. I recognize that funds for the depreciation report are mentioned, but it could have been explained much more clearly and properly accounted for in the 2021 actuals and the 2022 budget.

You seem to be combining the CRF and capital into a single fund. I believe this is very inappropriate – one cannot repurpose a fund simply by relabeling it! The funds in the CRF are for repairs and maintenance that occur less frequently than annually. Each fund should be accounted for separately as are the Operating Fund, Boat Slip Fund, etc.

The wheel loader was to have cost 93 K$. It is listed as actually costing $96,432, for an overspend of about 3.4 K$. How is this amount being covered – are you simply taking it out of the CRF?

Has a Cash Flow Statement been prepared to properly show how funds are flowing between the various funds? If yes, please provide it to all homeowners.

**Question 4.** The FY2022 budget significantly increases the number and cost (about 1.8 X $) of SHC Staff, with no evident supporting justification. Why is this very significant increase required?

**Answer:** As stated at the Town Hall, The operations manager will be a full time position rather than 10 hrs per week. This budgeted item also includes a janitor and bylaw officers for the summer months.

**GAL Response:** Your answer does not provide any more information than the homeowners had previously. Where is the supporting documentation (real documentation, not verbal statements) supporting the need for such as massive increase in staffing and budget? Does the current BOD have a written plan that all homeowners can review?

**Question 5.** I have reviewed the "Capital / Contingency Fund Expenditure Budget" presented in the 2021 AGM package, and am in favour of fixed asset accounting with depreciation but believe that we need a more detailed Fixed Asset / Depreciation report that itemizes each fixed asset and shows over what period it is being depreciated. Is a more detailed report available?

**Answer:** Currently we only have one fixed asset, the wheel loader. The cost of the asset is presented in the Balance sheet. When we have more fixed assets, we will provide that information as part of the notes to the financial statements.

**GAL Response:** Thanks for the clarification that we only have one fixed asset. I look forward to seeing more detailed fixed asset reporting in the future.

**Question 6.** Why are management fees increasing at a flat amount rather than the 1.5x for lakefront homes?

**Answer:** There are no articles of incorporation or bylaws that demand that management fees be applied to lake front homes at 1.5x what other units pay. The increase in the cost of running the development does not benefit the lake front homes any more than other residents. The Board agreed to equally share the increased costs amongst all homeowners.

**GAL Response:** Lakefront homes have always paid 1.5 X the monthly fees paid by Meadows/Hillside homes. The Information Statement (Exhibits B and E) provides the relevant information in detail, using "Lot Type" of "Standard" and "Lakefront." I believe the allocation of expenses by lot type is completely within the developer's areas of responsibility and authority – that the SHC BOD cannot arbitrarily and unilaterally adjust the method.

I believe the only valid way (at this time) to change the allocation method is with the developer's approval. I trust he would not do that without consulting all homeowners. After the developer is no longer a shareholder, the remaining shareholders (homeowners) might consider changing the allocation method but surely that would be done via a public proposal (with at a minimum, a rationale for the change and detailing which expenses will be shared at what rate by what lot type), open review and discussion and a vote by the homeowners – not an arbitrary decision by the SHC BOD buried within a proposed budget.

Two members of the current BOD own Lakefront homes and therefore are in potential conflict of interest if they approved this very significant change in the fee allocation policy (because they benefit immediately and in the future by not having increases applied as previous – 1.5 X). How did each member of the BOD vote when this method was adopted?