



## FEATURES THIS MONTH

1. The Accountants Report
2. RESA Importance of Information Part 1
3. Repairs & Maintenance Tracking

## NEED GOOD SITES FOR STRATA CORPORATION INFORMATION?

Here are some sites you can access:

### **Strata U. - Continuing Education Department web site links of interest:**

- Canadian Condominium Institute: <http://www.cci.ca>
- Condominium Home Owners Association: <http://www.choa.bc.ca/index.html>
- Clark, Wilson, Barristers & Solicitors: <http://www.cwilson.com/stratafaq>
- *Strata Property Act* information web site: [http://www.qp.gov.bc.ca/statreg/stat/S/98043\\_01.htm](http://www.qp.gov.bc.ca/statreg/stat/S/98043_01.htm)
- Vancouver Condominium Services: <http://www.vancondo.com>

## 1. The Accountants Report

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In your November financial statement you will see an entry concerning the “Accountant’s Report” - at a cost of \$50. You may recall previous discussion in our bulletins about the costs of licensing under the RESA (*The Real Estate Services Act of B.C.*). We felt that a reminder review would be in order at this time.

Effective January 1, 2006 any company, such as VCS, providing strata management services had to be licensed under the RESA. Such licensing requires a wide variety of “must do’s” including the licensing of individual property managers (agents), separate trust accounts for each client, numerous protocols for accounting and financial reporting and (the subject of this article) an annual Accountant’s Report. This report is not an audit of your strata corporation. It is an examination of trust account transactions, for a sample of strata corporations managed by the brokerage (the management company) and is a requirement of the RESA as governed by the Real Estate Council.

The Accountant’s Report must be prepared by a qualified, independent accounting firm (such as a CA or CGA) and cannot be undertaken by a staff member (even if a qualified CA or CGA) of the brokerage. It must be third party independent. The report, once completed, must be executed by the brokerage and submitted to the Real Estate Council within four months of fiscal year-end of the brokerage. (In VCS’ case, June 30<sup>th</sup> is the fiscal year-end; therefore, the report had to be submitted to the REC by October 31, 2006 - which it was.) The cost of this report was just under \$10,000.

The Accountant’s Report is quite an extensive examination of a brokerage’s accounting procedures. Although most management companies (brokerages) including VCS, were initially somewhat resistive to yet another government intrusion into their private affairs, in fact the function and goals of the Report are commendable. Virtually every aspect of the brokerage’s accounting procedures is examined to ensure compliance with the RESA. Any errors - even minute ones - have to be reported. As an example, if a clerk writes an entry as .01 when, in fact, it should have been .10, this is considered an error. Now, in fairness, while this may appear quite petty, the REC will not yank someone’s operating license for such errors. What the REC is really looking for are good systems and, when mistakes occur, what supplementary systems are in place at a brokerage to catch those errors and correct them. Another factor is how quickly such errors are caught.

VCS was always opposed to licensing; however, it is here to stay and notwithstanding the huge cost to strata corporations as the consequential expenses are filtered through to the end consumer, we must admit that such a scrutiny of a management company's accounting procedures and standards is truly a worthwhile endeavour and a good protection (in theory at least) for the condominium public's money. Depending on the size of the management firm (brokerage) there can be quite a bit of money floating around. For example, check out the following statistics that arise from VCS alone:

- Total asset management value \$3,000,000,000 (that's "B")
- Total annual operating budgets \$ 52,000,000
- Total CRF value \$ 20,000,000  
(approx to Dec. 31/06)
  
- Total value of funds held on average \$ 18,000,000  
other than operating
  
- Bank reconciliations performed monthly 1,300

So, how did we do on our first annual Accountant's Report? Well, at the time that this bulletin was issued we had not heard from the REC. VCS is a big company and it will take time, no doubt, for them to review the report. We are confident that we made the grade and that any failures will be minor and correctable. Not to excuse any failures, this is the first year for such stringent accounting protocols and there is a bit of a learning curve. We are confident that, as we move forward into our second year, and beyond, we will do better. Human beings will always make errors but the key to success here is to first start with good systems and then be alert and quick to move on correcting errors. We believe that we are on the right track and we hope that you will find value in the \$50 expense for the confirmation that your money is well protected.

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## **2. RESA Importance of Information - Part 1**

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As you know, strata management companies ("brokerages" as they are officially termed) now are legislated by the *Real Estate Services Act* of B.C. (The RESA). This statute is enforced by the Real Estate Council of B.C. Over the past year or so, VCS has attempted to inform you about the various policies, legal requirements and practical mechanics of the RESA. We will continue to

provide such information during the coming year. Although the RESA became law on January 1, 2006, there are still many components which have not yet been finalized. It is an on-going process.

This article has to do with management contracts (“service agreements” as they are officially termed). Strata management companies have operated with a wide range of contractual wording over the past thirty years. In recent years, the wording has become more consistent from one company to another - largely as a consequence of the efforts by the *Strata Property Agents Association of B.C.* SPABC is an industry organization whose membership is comprised, naturally, of management companies. (VCS is not a member of SPABC).

SPABC developed a standard management contract which its members use. As noted above, this process has resulted in a somewhat homogenous form of contract that is now widely used in the Vancouver Lower Mainland and, to a lesser extent, in other parts of the province. VCS has its own contract which is similar to the SPABC contract but is not identical.

Over the past thirty or more years, strata management companies have, of course, included in their contracts the basic management fee being charged for the provided services. This disclosure could be found either in the body of the contract or in an attached addendum. In addition to the basic management fee, virtually all companies also charged its clients for a wide range of auxiliary services. Examples are photocopies, bank charges, postage and so on. Very few of the contracts contained such disclosure, although in practice clients (strata councils) were aware of these extra charges and generally agreed tacitly. VCS contracts have generally provided details about most of the extra charges.

Under the RESA, full disclosure is mandatory, or at least we should say will be mandatory by June 30, 2007. Every item that generates revenue to a brokerage must be disclosed in the service agreement. We mean every item. Any management company which earns revenue either directly or **indirectly** from a client (a strata corporation) must have the details included in the service agreement, failing which the company would be in violation of the RESA and subject to discipline by the REC. Photocopy charges, as mentioned above, is an example of a direct charge to a strata corporation.

What is an “indirect” charge? Some management companies receive commissions from third parties for referrals. As an example, a management firm may place a mortgage on a strata owned suite and receive a commission from the mortgage broker for doing this act. This is an **indirect** source of revenue for the management company. It is quite rare, but it does happen (although we

hasten to add that VCS has never indulged in such practises). Another very common example is the practice of management companies, including VCS, charging additional fees known as “rush charges” to real estate agents, notaries and lawyers for documents required for sale purposes. This revenue flows between the third party and the brokerage as a consequence of the relationship (service agreement) between the management company and its clients (the strata corporations). Because it flows in this fashion, the strata corporation does not see this revenue item earned by the brokerage but, in the eyes of the RESA, this revenue only exists as a consequence of the strata corporation’s contract with the management company, albeit “indirectly”.

The management industry has, over the past year, fought “tooth and nail” to prevent the RESA from requiring such disclosure in service agreements but the industry lost the battle. From the perspective of RESA and its enforcement body the REC, the requirement for full and open disclosure is paramount. Frankly, we feel it is a valid point and gives strata corporations a fair chance to see exactly what is happening.

Since the RESA became law on January 1, 2006, you may well ask why this requirement is not already in force. Ah, good question. The short answer is that the REC has not determined all of the sources of revenue that management companies rely on as part of their business. This has taken time and the REC has also been very fair and open-minded in working with the industry, meaning that they took the time to listen to the objections. It had been contemplated originally that all service agreements would have to be in full compliance by January 1, 2007; however, this deadline has been extended by six months. The REC did not agree with industry arguments to avoid disclosure, but did agree that, once the final list had been determined, it would take time for the brokerages to prepare new contracts and have them executed by their clients. One of the big factors in respect of the latter point (and sorry to step on your toes councils) is that strata councils generally ignore requests from their management companies to execute contracts or contract addendums. It often takes months and months to achieve execution. You should be aware, and this is very important, that if you do not execute a compliant contract (“service agreement”) with your management company by June 30, 2007, the management company (“brokerage”) will not be able to provide management services as it will be in violation of the RESA. Some may consider this an excellent opportunity to “walk away” from the management company and that is probably true. The problem, of course is, at that point, where do you walk to? Every company in the industry must have a compliant service agreement and every company will have all the extra charges in such contracts.

In the next few months, a new compliant service agreement will be sent to you for execution. We sincerely hope that you will deal with the request on a prompt basis and not leave it to June 29<sup>th</sup>.

In next month's bulletin, Part II, we will bring you information on a RESA requirement concerning "authorization" to spend strata corporation money by a management company. Again, this statutory provision is written to protect you and you should know how it is intended to work.

Questions? Feel free to ask.

These are just two examples of the difficulties we are experiencing these days. Many times, the failures to deliver are beyond our control and we thank you for your patience and understanding while we try to get things done for you in an efficient manner.

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### **3. Repairs & Maintenance Tracking**

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No home is maintenance free. All building components have a service life which can be affected by environmental conditions, installation, and operating conditions. All components of a building require regular maintenance inspections and scheduled maintenance should be performed to maximize the service life.

Under its bylaws a strata corporation has duties to repair and maintain. The standard bylaw regarding this area usually reads something like this (however, remember that bylaws can be amended at an Annual or Special General Meeting by the owners, provided that they do not contravene the *Strata Property Act*).

#### ***4. Repair and maintenance of property by strata corporation***

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*The strata corporation must repair and maintain all of the following:*

- (a) common assets of the strata corporation;*

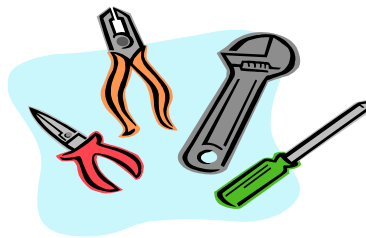
- (b) *common property that has not been designated as limited common property;*
- (c) *limited common property, but the duty to repair and maintain it is restricted to*
  - (i) *repair and maintenance that in the ordinary course of events occurs less often than once a year, and*
  - (ii) *the following, no matter how often the repair or maintenance ordinarily occurs:*
    - (A) *the structure of a building;*
    - (B) *the exterior of a building;*
    - (C) *chimneys, stairs, balconies and other things attached to the exterior of a building;*
    - (D) *doors, windows and skylights on the exterior of a building or that front on the common property;*
    - (E) *fences, railings and similar structures that enclose patios, balconies and yards;*
- (d) *a strata lot in a strata plan that is not a bare land strata plan, but the duty to repair and maintain it is restricted to*
  - (i) *the structure of a building,*
  - (ii) *the exterior of a building,*
  - (iii) *chimneys, stairs, balconies and other things attached to the exterior of a building,*
  - (iv) *doors, windows and skylights on the exterior of a building or that front on the common property, and*
  - (v) *fences, railings and similar structures that enclose patios, balconies and yards.*

Regarding paragraph (b) above, the *Strata Property Act* provides some guidance by defining “common property” in section 1(1) to mean the following:

- (a) *that part of the land and building shown on a strata plan that is not part of the strata lot, and*
- (b) *pipes, wires, cables, ducts, and other facilities for the passage or provision of water, sewage, drainage, gas, oil, electricity, telephone, radio, television, garbage, heating and cooling systems, or other similar services if they are located*
  - (i) *within a floor, wall or ceiling that forms a boundary*
    - (A) *between a strata lot and another strata lot,*
    - (B) *between a strata lot and the common property, or*
    - (C) *between a strata lot or common property and another parcel of land, or*
  - b) *wholly or partially within a strata lot, if they are capable of being and intended to be used in connection with the enjoyment of another strata lot or the common property.*

A budget for maintenance is established at each Annual General Meeting. This budget should be specific for maintenance requirements and not confused with capital projects such as replacement of common area carpets, painting the exterior of the building, replacement of a boiler, replacement of a roof, etc.

General maintenance and specific maintenance concerning the building envelope should always be carried out by professionals. Record keeping of maintenance items is imperative. The record keeping should include when the maintenance occurs and any recommendations that were noted and what action was taken. Attached is a sample common property maintenance log that can be established by your strata corporation to help keep track of monitoring the condition and performance of the building components. Of course each maintenance log is specific to the type of strata corporation you have - townhouse, high-rise, etc. Remember this is just a sample and there are many other items that could be added to the tracking list.





## Sample Common Area Maintenance Log Strata Plan \_\_\_\_\_

### Exterior Building Envelope

Item	Suggested Review	Description of Work	Date Completed	Contractor Name	Cost	Next Scheduled Review
Inspect weather stripping on exterior doors	Annually					
Clean & inspect exterior flashing	24 months					
Inspect exterior caulking	Annually					
Inspect stucco and siding	Annually					
Inspect roof and clean drains	Annually					
Inspect waterproof membrane, balconies, walkways for wear, open seams, signs of leakage	Annually					
Inspect gutters and downspouts	6 months					
Inspect and clean sumps	Annually					
Inspect and clean exhaust vents	Annually					
Inspect Roof Anchor System	Annually					

### Underground Parkades

Item	Suggested Review	Description of Work	Date Completed	Contractor Name	Cost	Next Scheduled Review
Inspect parkade drains and sumps	Annually					



Inspect parkade gates & security doors	3 months					
Parkade Carbon Monoxide sensors	Annually					

**Landscaping**

Item	Suggested Review	Description of Work	Date Completed	Contractor Name	Cost	Next Scheduled Review
Inspect automatic sprinkler system	6 months - seasonally					
Clean drains at patios and courtyards	Annually					

**Plumbing & Venting**

Item	Suggested Review	Description of Work	Date Completed	Contractor Name	Cost	Next Scheduled Review
Inspect boilers and pumps	3 months					
Winterize hosebibs	Annually					
Clean dryer ducts from the exterior	24 months					

**Fire Safety System**

Item	Suggested Review	Description of Work	Date Completed	Contractor Name	Cost	Next Scheduled Review
Fire panel/in suite inspection	Annually					

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