



FEATURES THIS MONTH

1. Tax Requirements
2. Interesting Insurance Information

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
- Vancouver Condominium Services: <http://www.vancondo.com>

1. Tax Requirements

Your strata corporation is a non-profit organization and, for that matter, not even a business enterprise. That does not matter to the Canada Revenue Agency (“CRA”). There are two documents that must be filed annually to comply with CRA law.

- (1) The T2 Return: This is the basic, corporate tax return. It essentially reports to the CRA what your corporation earned in its fiscal year. Invariably, the return is nil and no tax is payable. In theory, a strata corporation could own a bowling alley and make a “profit”, so that is why this tax return is required. Highly unlikely of course but that’s the reason.

- (2) The T1044 Filing: This is a document that the CRA requires for non-profit organizations to complete. Your corporation may or may not be required to file an annual T-1044. There are three criteria, any one of which triggers the requirement to file. They are:
 1. A previous filing has been made.
 2. Assets of the corporation were \$200,000 or more in the preceding fiscal year.
 3. The corporation earned more than \$10,000 in interest, royalties, dividends or rent in the taxation year.

Any one is all that is required; not all three. Obviously, if a previous filing has been made in the past, your corporation will always have to file, irrespective of any annual variations in two or three.

LATE FILINGS: The filings must be done within six months of your strata corporation’s fiscal year-end. If the filing is late, the CRA can levy a fine of \$25 per day. VCS has frequently observed strata councils receiving draft audits and reviewing them for extended periods of time. In some cases these “reviews” take months and in some cases we have observed the review process extends for one year or longer, which of course exceed the six month deadline. VCS accepts no

liability or responsibility for any CRA penalties or fines as a consequence of a strata council “reviewing” the audit beyond the deadline.

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2. Interesting Insurance Information

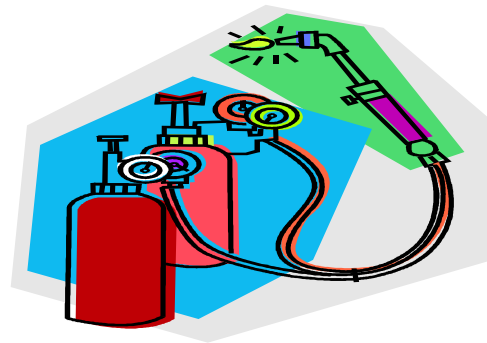
As you know from previous VCS bulletins, most of the strata corporations (about 170) managed by VCS have insurance programs through BFL Canada. Virtually all of these policies have December 31st anniversary dates. As you also know from last month’s bulletin, VCS will be renewing the 2009 policy with BFL. (If you do not want to renew with BFL please advise your strata agent and we will follow your instructions.) As a consequence of the impending renewal, VCS met recently with senior management of BFL to discuss trends and renewal terms. Some interesting information about our portfolio emerged from our discussions which we would like to share with you.

1. The vast majority of claims arise from water losses. This is why we have seen deductibles remain relatively stable for non-water loss claims (such as accidents, fires, vandalism, etc.) but increasing significantly for water related claims. Some water loss deductibles are now in the \$50,000 range.
2. In one property, several water claims over the past 24 months have created a loss reserve/claim in excess of \$700,000.
3. A fire in a townhouse caused by a wood burning fireplace has created a loss reserve/claim close to \$300,000. (The two owners affected have not been able to reside in their units for one year).



4. The plane crash into a Richmond highrise has created a loss reserve/claim of about \$2.5 million. Some 100 residents had to vacate their units. Some were allowed to re-occupy their units after three months. Most owners were out of their units for six months. Five owners are still out of their units one year later. (Note: the strata corporation's insurance policy does not provide for hotel expenses when residents are unable to occupy their units.)
5. A building manager, hired by the strata council, has brought a lawsuit for wrongful dismissal. A reserve has been established for \$50,000. Some \$15,000 has already been spent on legal fees.
6. A water filter in an owner's unit malfunctioned and caused a claim of about \$24,000.

7. An owner renovating his bathroom (shades of Tim from Home Improvement) set fire to the insulation and caused damages in excess of \$72,000



8. A smoking in bed incident (duh) caused a fire which cost in excess of \$266,000 to repair. It took one year to rebuild the townhouse.
9. A sewer back-up in a highrise caused damages of about \$85,000. This same strata had other claims in the past three years, all of which have created payouts by the underwriters totalling over \$220,000.
10. In newer construction, where municipal building codes now require fire sprinkler lines in strata lots, a parade of water loss claims have arisen as a consequence of residents using the sprinkler heads as convenient "hooks" to hang wet laundry. The resulting weight is snapping the sprinkler heads which are, of course, designed to pop easily if activated by

fire or heat. Those wet clothes get even wetter, as does the entire unit and those below. Remember that fire sprinkler heads, once popped, will permit hundreds of gallons of water to flow from the system until it is shut off by the fire department. This can easily take up to twenty minutes until the fire department arrives and investigates. BFL has manufactured rolls of peel-off stickers with a graphic to show no coat hanger on a sprinkler head. VCS will distribute these to clients which need them. There is no charge. (We are now waiting for a sprinkler head to break when someone tries to attach the peel-off sticker to an actual head - instead of the fridge door.)

11. Drug operations (marijuana, meth labs) continue to create huge losses. Such incidents not only create massive water claims, they also raise issues related to fire safety. Invariably, when we investigate the scene of the crime, we find tampering with the electrical systems of the unit and/or the building.
12. Recent court awards (these are not specifically related to VCS clients) are indicating significantly higher damages for personal injury claims. In Ontario, a child fell from a condominium window giving rise to a claim of \$16,000,000. On the advice of BFL, VCS will be renewing policies with higher limits. Most current policies have limits of \$5,000,000 with options to \$10,000,000. Fortunately, this type of coverage is relatively cheap, compared to all-risk and water escape, so the overall premium will not be a major hit.
13. BFL has advised that it would be prudent for strata councils to budget for a 10% increase in overall premium for 2009. (Actual premiums may not be available until late November or December.)
14. VCS reminds clients to budget for a further 10% increase to compensate for the skyrocketing cost of construction. Although market (real estate) prices may be softening, the cost of replacement construction new (CRN) remains in an upward direction.
15. Does the name AIG sound familiar? Hmm, well yes some BFL policies (not many) have AIG carrying a portion of the risk. BFL assures us that there are no concerns in respect of the security of the policy (where applicable) given that the firm is now itself underwritten by

the U.S. government. (Hmm.) BFL's security committee continues to monitor the status to ensure that they maintain their excellent rating levels.

Obviously, your strata administration cannot do much about such things as plane crashes and natural disasters; however, risk management leads to loss prevention which in turn leads to reasonable deductibles. For the most part you can do little about actual premiums as these are typically "across the board". It is the protection of deductibles that you can and should address. We recognize that its very difficult, if not impossible, to control dumb conduct or illegal activities, but efforts can be made in respect of educating residents on the do's and don'ts that affect insurance claims. Yes, it is "nagging" to some extent and people do turn off when nagged too much. Nevertheless, polite and reasonable reminders can be effective. Look at the examples of the actual claims above and ask "could we have done something to have prevented that claim?" "Yes" is the answer to many of them.

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