

Welcome to the Board of Directors



Board Member Toolkit

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INTRODUCTION

As with many businesses, there are many disciplines involved in running a homeowner association, including project management, accounting, construction, horticulture and law. Various skills are needed – skills in planning, problem-solving, facilitating, organizing, delegating and motivating, diplomacy, human resources, negotiating and many others. This Board Member Toolkit is intended to provide a cursory, practical orientation for Board members of a community association framework for applying required disciplines and skills.

An objective in its design was to keep it relatively brief to better ensure its chances of being read. However, having access to those many, in-depth references now are important. Many good references have been written for specific aspects of community association management. You can obtain such materials from homeowner association support organizations in your area. Your Community Manager is knowledgeable and has expertise in many aspects of community association and is also a good resource.

Did You Know?

You're part of the leadership team of a corporation.

Your association is a corporation; and, although you're not running Microsoft or AT&T, you're still a corporate board member, responsible for running a business. Your investors are your association members, and you're responsible for maximizing the return on their investment—their homes.

You're an elected official.

Your association likely provides some services that traditionally were provided by local government. That makes you similar to a town council member (or the mayor, if you're the president), responsible for ensuring that services are provided and that rules are appropriate and fairly applied. Your citizens are—again— your association members, and you're responsible for maintaining and enhancing their quality of life.

You're a leader.

Your association is a neighborhood like a family. That makes you a parent, cheerleader, role model, social director—in short, a community builder. Your members are your neighbors, and you're responsible for their civic well-being.

That's a lot of responsibility, and we're here to support you. Our mission is to help you not only succeed, but to achieve success with a minimum amount of anxiety and angst. Hopefully, we can even help you enjoy the experience. That's why we're providing you this free overview of what you need to know. It's just the beginning; and we trust it will lead you to the information, tools, and resources you need to be a successful and respected leader.

GOVERNING DOCUMENTS

Few people like fine print or red tape, but there are several important documents board members need to be familiar and comfortable with. Collectively, they're called governing documents. Depending on the type of association you live in, individual documents will differ. Each is a very useful tool that will provide specific guidance.

Why governing documents are important?

- They give boards the authority to govern by providing for the operation and regulation of the association.
- They provide guidance and protect boards.
- They protect association members by spelling out their rights and responsibilities.
- They are supported by local ordinances, state statutes, and federal regulations.

Governing documents will provide the structure within which the board can work effectively, they'll guide board decision making, and support association operations. Their greatest value, however, may lie in the protections they provide to board members.

Community association governing documents typically include several items in descending order of authority.

- Declaration or master deed, including Covenants, Conditions & Restrictions, or CC&Rs (in condominiums and planned communities)
- Articles of Incorporation
- Bylaws
- Rules and Regulations

The Declaration

The Declaration (or Master Deed) contains the CC&Rs that regulate resident behavior. They bind all the owners to the association, establish association responsibilities, and define owners' rights and obligations. (In cooperatives, this document is called the proprietary lease or occupancy agreement.)

Articles of Incorporation

Articles of Incorporation initially create the corporation under state law and define the association's basic purposes and powers. They may specify such things as the number of directors, terms of office, and other specifics about how the board functions. (In some states, condominium and planned community associations are not legally required to incorporate, and these may have articles of association.)

Bylaws

Bylaws contain provisions concerning actual association operations, such as meetings, procedures for electing the board members and officers, and general duties of the board. Sometimes the bylaws cover the same topics as the declaration.

Rules and Regulations

Boards adopt rules and regulations. They must be consistent with the declaration or proprietary lease, the bylaws, and state law. Rules are usually recorded at a board meeting in the form of a motion called a policy resolution. Making and enforcing rules are important responsibilities for boards that must be undertaken with care. See page 31 for more information. In addition to policy resolutions, boards will also adopt administrative, special, and general resolutions. These resolutions specify how the association should operate. Board members should familiarize themselves with all association resolutions along with the other governing documents.

The Four Types of Resolutions

1. **Policy resolutions** affect owners' rights and obligations.
2. **Administrative resolutions** address the internal operations of the community association.
3. **Special resolutions** record board decisions that apply a policy to an individual situation.
4. **General resolutions** record board decisions regarding routine events.

THE ROLE OF THE BOARD

Community associations are unique entities, and the boards that lead them fill unique roles.

- Community association boards consist of officials elected to represent and protect the best interests of their constituents.
- Community associations are corporate entities whose board members must maintain the value of a jointly owned asset.
- Community associations are social entities neighborhoods of people who expect the board to preserve, if not improve, their quality of life.
- Ultimately, the role of the board is to protect and increase property value. This is accomplished by operating the association, maintaining the common property, and enforcing the governing documents.

Qualities of a Good Board Member

A Strong Board Member

- Good character
- Strong integrity
- Calm judgment
- Willingness to serve
- Committed to the best interests of the community as a whole
- Relevant experience or background
- Previous volunteer service
- Strong "people skills"

A Weak Board Member

- Unable to put the welfare of the community first
- Works behind the board to run things his or her way
- Impulsive or quick tempered
- Has a personal or hidden agenda
- Puts individual interests first
- Little or no experience in management, leadership, or service
- Unable to work with others for the common good
- Ineffective with others

How do you succeed with such a challenging assignment?

Put your personal preferences and circumstances aside. When you make decisions as a board member, you have an obligation to work in the best interest of the entire community, regardless of how they affect you personally.

Educate yourself. Part of learning how to be a good board member will come from trial and error; but, you can reduce the errors and the time it takes you to get up to speed by

attending seminars, reading books, networking with community association board members, asking questions of your manager, accountant, or attorney, downloading free materials from the web, and much more.

Know the difference between the roles of the board and the manager. Boards set policy and make policy decisions. Managers implement the Board's directives and take care of operations.

Stand united. Once the board makes a decision, stand behind it and make every effort to see it succeed—even if you voted against it.

Don't allow personality differences to interfere with the work of the board. Be cooperative, positive, and make every effort to stay focused on the needs of the community.

Be reasonable. Although boards have a big responsibility, they needn't be over zealous or inflexible to fulfill it. Avoid snap decisions, act rather than react, and deal with real problems, not nuisance situations. Boards vary in size, but most comprise three to seven elected homeowners. Among themselves they appoint each Directors position, of which the three primary positions are president, secretary, and treasurer. Decisions are made by the board as a group, not by individuals or by officers.

Working with Committees

Boards can't always accomplish everything that needs to be done particularly in large communities. That's when committees of residents become especially valuable. There are two types of committees.

Ad hoc committees:

- Task oriented
- Disband when the task is completed

Standing committees:

- Function oriented
- Remain in force indefinitely

The duties of a committee vary from one community to another, depending on what the task is, when it should be completed, how many and what kinds of recommendations the board wants from the committee, and how much authority the committee has been given by the board. Boards should develop a set of clearly articulated guidelines for the structure, function, and responsibility of each committee. In addition, there are steps boards can take to promote a committee's success:

- Form a new committee only to meet a specific need.
- Act on committee recommendations.
- Recognize committee chairs and committee members for their time, efforts, and contributions to the community.

Building Community

The role of the board is as much about building the social and civic well-being of the community as it is about maintaining common areas or enforcing rules. To do this, a board must:

- Provide leadership and inspiration, not merely administration.
- Instill a sense of caring, civic pride, and shared responsibility in all residents.
- Position the association as a wellspring of resident volunteerism in community-related activities, both inside and outside the association's boundaries.
- Transform housing units into vibrant neighborhoods and communities.

BOARD MEMBER ROLES

The Role of the President

Community association presidents are required to fulfill many roles, but the primary roles are leader and manager. Different situations will determine which role the association president assumes. Sometimes the president must set aside other roles, such as neighbor or friend, to accomplish a task or make a decision.

Association presidents gain their authority to lead a community association from state law. The president should have a basic understanding of the law pertaining to community associations, as well as the association's governing documents—the declaration (also called Covenants, Conditions, and Restrictions—CC&Rs), bylaws (which address the association's structure, the board, the officers, definition of a quorum, ability to enter into contracts, etc.), and the rules and regulations (the operational and behavioral laws that apply to association residents). Therefore, presidents must perceive the association as both a community and a business, as well as operate on the democratic principles of government.

Oversee Operations

Association presidents must adhere to budgets, formulate and enforce rules and policies, conduct meetings, prepare agendas, and work with committees.

Speak for the Board and the Association

The president is the official spokesperson for the board to association members, the community manager (or management company), vendors, the press, and the greater community.

Seek Knowledge

Learning how to be president of a community association generally comes from on-the-job training. However, educational resources for association volunteers are available in books, seminars, periodicals, and networking offered by groups that serve common-interest communities, such as Community Associations Institute and its chapters.

Work with Volunteers

The president is the *leader of the board*, a body that typically includes:

- The vice president—who substitutes for the president in his or her absence
- The secretary—the official recorder of the association's activities
- The treasurer—the chief financial officer of the association

It's in the president's best interest to encourage the officers' participation in association affairs and to develop their skills as team members. The president should also attempt to identify and train potential association leaders, encourage them to join the board, and orient them to their new responsibilities.

Work with Professionals

Many associations employ either a community management company or a professional manager who directs association operations based on policy set by the board. The president is the liaison between the manager and the association.

Seeking the services of an attorney, architect, or insurance professional is in the best interests of the association. Experts provide information and expertise that board members don't normally have. For example:

- Reviewing legal contracts requires advice from an attorney.
- Managing reserve funds requires guidance from an accountant.

Protect the Assets

Board members have a fiduciary obligation to protect the community association by:

- Preparing and adhering to an association budget (with the assistance of the professional manager) that reflects the values and wishes of the members.
- Adequately funding reserve accounts and educating home-owners about the value and purpose of a reserve fund.
- Collecting fees from homeowners.
- Seeking the advice of a certified insurance specialist and protecting the association with appropriate levels of insurance coverage.

The position of association president is not for everyone, but fortunately every president has a board from which he or she can draw support. As long as the members recognize the importance of the community that unifies them, the role of president can be very satisfying.

The Role of the Secretary

The association secretary is responsible for preserving the association's history, maintaining its records, and protecting it from liability. The secretary should be efficient, well organized, and have a commitment to the future of the association. Associations with a professional manager can ask the manager to perform some of the secretarial tasks.

Record Minutes for all Association Meetings

- Board meetings
- Special meetings
- Annual meetings
- Committee meetings

Guidelines for Recording Minutes

- Record the association's actions and record why they were taken.
- Preserve board members' voting records.
- State the authority by which directors take a certain action and cite the documents granting that authority. Record all matters brought before the board, whether

adopted, dismissed without discussion or vote, rejected, deferred, tabled, or simply presented as information.

- Remember that the association's minutes are official records and admissible as evidence in a court of law.

Use Standard Language for Recurring Functions

Certain functions occur frequently in all meetings. Recording these will be easier if the secretary develops standard language to cover functions such as:

- Call to order by the presiding officer
- Proof of meeting notice or waiver of meeting notice
- Presence or lack of a quorum
- Reading and approval of the previous meeting minutes
- Reading and acceptance of various reports
- Unfinished business
- New business
- Adjournment

Announce Meetings and Prepare Agendas

Notifying board members and association members of meetings is required by law. How and when notice is given is typically stated in the association's governing documents. Agendas are essential to the success not only of the meeting, but of the association as well.

Maintain Association Records

- Store and retrieve association documents as needed.
- Devise an effective filing system, and keep files safe and accessible.
- Identify and categorize all current and stored records.
- Prepare and maintain a retention schedule for document disposal.

The Role of the Treasurer

The association treasurer is responsible for maintaining the finances and ensuring the financial stability of the association. He or she is the financial voice of the board and liaison to auditors, CPAs, brokers, agents, and bankers. This includes a number of duties and responsibilities.

Prepare the Budget

The most important responsibility the treasurer has is preparing the annual operating budget.

Maintain Association Accounts

The association's documents and bylaws specify a number of financial responsibilities that the treasurer must oversee.

These may include:

- Maintaining adequate insurance coverage
- Keeping financial records
- Investing association funds
- Collecting assessments and delinquencies
- Reserving funds for future needs
- Filing income tax returns

Understanding Basic Financial Statements

The treasurer must understand at least the basic components of the financial statement:

- Assets
- Liabilities
- Members' equity: reserves and operating fund balance

In addition, it would be advantageous to the association if the treasurer also had an understanding of the other components of the financial statement such as:

- Initial working capital
- Special project funds
- Income statement
- Statement of cash flow

Report to the Board

The treasurer should report at regular board meetings on the state of the association's finances based on the following information, which may be maintained and provided by the manager or finance committee:

- Balance sheet
- Statement of income
- Cash receipts and cash disbursements activity
- Unit owner balances
- General ledger activity and journal entries
- Schedule of accounts payable
- Bank statements and bank reconciliations

Implement a Reserve Program

Reserves are a primary responsibility of the treasurer and the board of directors. The treasurer must:

- Conduct a reserve study.
- Update the reserve study periodically.
- Develop and implement a reserve funding schedule.
- Fund the reserve accounts appropriately.

Select a CPA and Conduct an Audit or Financial Review

Ensuring that the association is working with a qualified Certified Public Accountant (CPA) is one of the treasurer's important duties. CPAs with community association experience are better equipped to provide the expertise you need. The treasurer should work with the CPA to perform an annual audit or financial review—a very important document for a community association, the management company, and the board. Even if your association uses the services of a CPA, or if your treasurer is a CPA, all board members—especially in self-managed associations—should have a basic understanding of community association finances.

Bookkeeping

In smaller, self-managed communities, the treasurer's duties may include bookkeeping.

Financial Liaison

The treasurer is the liaison between the association board and finance committee, its subcommittees, and between the board and the members on financial matters. In addition, the treasurer is the liaison to reserve study engineers, bankers, CPAs, insurance agents, investment brokers, and auditors.

Maintain Records

The treasurer should make sure that important financial records are safely maintained for an appropriate time.

WORKING WITH A PROFESSIONAL MANAGER

Many associations employ either a community management company or a professional community manager to direct association operations. It's essential that you find a qualified manager with whom you can work productively. A professional association manager will help the board preserve assets, maintain property values, establish continuity, and provide assistance with operational and financial matters.

Professional Managers—Right Hand of the Board

The board sets policy and establishes a direction for the association, and the manager sees that the policies are implemented. Just a few of the ways professional managers assist boards include:

- Managing human resources: compliance with Equal Employment Opportunity Commission (EEOC) guidelines, payroll, reviews, and hiring.
- Coordinating and supervising maintenance activities: landscaping, repairs, snow removal, trash pickup.
- Alerting the board when legal assistance is needed.
- Advising the board of regulatory issues and compliance requirements: fair housing procedures, fair debt collection practices, FCC antenna regulations.
- Coordinating member/board communication: preparing a newsletter, posting notice of meetings, arranging social interactions.
- Managing office operations: accounts payable and receivable, bookkeeping, filing.
- Managing association finances: budgeting, collecting assessments, analyzing reserves, pursuing delinquencies.
- Working with accountants and auditors to maintain the association's financial viability.
- Working with insurance companies to file or settle claims.
- Working with state and regulatory agencies as an advocate for the association.
- Carrying out delegated officer duties: taking meeting minutes.
- Preparing proposals and screening contractors.

Select a Qualified Manager

The association's size, amenities, facilities, and budget determine the type of management your association needs. Whether you select an on-site manager or work with a management company, it's essential that you select a qualified community association management professional. You can identify qualified managers by the credentials that indicate their level of professionalism.

Certified Manager of Community Associations® (CMCA®).

These managers have demonstrated fundamental knowledge in managing common-interest developments by passing the CMCA examination. They comply with the National Board of Certification for Community Association Managers' Standards of Professional Conduct and renew every two years through continuing education.

Association Management Specialist® (AMS®). These managers have earned the CMCA certification, passed an additional education course, and managed the finances, administration, and facilities of an association for at least two years. They adhere to professional ethical standards and renew their AMS designation every three years through continuing education.

Professional Community Association Manager® (PCAM®).

These managers have met advanced educational requirements in law, communications, operations, and asset protection and have at least five years' experience managing community associations. They have also earned the CMCA certification and AMS designation, adhere to professional ethical standards, and renew their PCAM designation every three years through continuing education.

Large-Scale Manager® (LSM®).

These managers hold the PCAM designation and have at least ten years' experience in managing community associations. They have met advanced educational requirements, adhere to professional ethical standards, and must redesignate every three years through continuing education.

Accredited Association Management Company® (AAMC®).

To earn this accreditation, a management company must adhere to CAI's Professional Manager Code of Ethics, have managed associations for at least three years, have a PCAM as the company's senior manager, show that at least 50 percent of its managers hold a PCAM or AMS designation or CMCA certification, provide continuing education for its management staff, and complete other requirements.

Certified Property Manager (CPM).

These managers have been certified by the Institute of Real Estate Management in property management. Importantly, a CPM does **not** signify that the manager is versed in issues of community association management.

Invite Managers to Apply

Once you've identified several potential managers or management companies, invite them to submit a proposal.

The Management Contract

When the association selects a manager or management company, both the board and the manager will want a contract that specifies the terms of the agreement, including:

- The parties involved in the agreement
- Documents that govern the use of management services
- Amenities serviced by the management company
- Association management duties
- Manager's communications responsibilities

- Compensation
- Terms of the agreement
- Various definitions and guidelines for dealing with potential conflicts

WORKING WITH PROFESSIONAL PARTNERS

Whether the association board works with a professional manager or self-manages the association, it's likely that the board will still need the services of other professionals like attorneys, accountants, insurance agents, and reserve specialists. These people become partners with the board and provide invaluable resources.

The Attorney

Next to selecting an association manager, the most important decision a community association can make is selecting its attorney.

- Associations would be wise to choose an attorney with expertise in community association law.
- It is almost never advisable to hire a member of the association to be the association attorney, whether compensated or on a volunteer basis.
- The association manager needs to work very closely with the attorney, so the two professionals should have a positive and productive working relationship.
- The board should designate one person to interact with its attorney. This not only controls fees, but eliminates confusion and miscommunication.
- The association's attorney is legal counsel to the association and neither represents the board, nor any single member of the board, nor any particular officer or homeowner.

What Attorneys Do for Community Associations

- **Review Documents:** Review governing documents, rules proposed by the board, or contracts with other service providers.
- **Provide Legal Opinions:** Advise the board in all association matters.
- **Educate:** Attend meetings to answer questions, explain concepts or documents, and provide information to homeowners or board members.
- **Collect Delinquent Assessments:** Write and send routine demand letters, file liens, process foreclosures, and litigate if necessary.
- **Enforce Deed Restrictions:** Write and send routine demand letters, file lawsuits, and litigate if necessary.
- **Litigate:** Represent the association for collections, to enforce deed restrictions, and in defense of the board.

The Certified Public Accountant (CPA)

The accountant is a vital part of your association's professional team. Success requires that you know what the accountant does, how you can benefit from the accountant's capabilities, and what you want and need. As you develop a long-term relationship with your accountant, your community will benefit from his or her advice, industry expertise, and wisdom.

A staff member or volunteer may take care of the bookkeeping for the association, but a CPA will be needed to conduct an audit or financial review at the end of the year. In addition, accountants provide other services that make them a valuable partner for the association.

What Accountants Do for Community Associations?

Provide Written Reports

- Audits and transition audits
- Reviews
- Compilations
- Budgets
- Expert testimony and litigation support
- Reserve studies
- Tax returns
- Performance reports

Provide Services

- Develop accounting policies and procedures
- Create an accounting policies and procedures manual
- Design and implement systems for internal control
- Formulate investment policies
- Evaluate, select, and install accounting software
- Train bookkeepers and other accounting staff
- Prepare monthly or quarterly financial statements
- Make recommendations for interviewing and hiring accounting staff

Consult and Advise

- Educate and train board or committee members on technical matters
- Make presentations at meetings
- Evaluate and explain the work of other professionals such as engineers
- Evaluate and advise on replacement funding strategies
- Advise on budgets and long-term financial plans
- Assist in obtaining financing
- Provide business and financial advice

The Insurance Agent

Insurance agents, like CPAs and lawyers, have a broad range of specialties and areas of expertise. Fortunately for community associations, insurance specifically for community associations is one of them.

The Reserve Specialist

Reserve Specialists prepare studies that provide boards with guidance on how to keep the association's physical assets from deteriorating faster than its financial assets increase. That study will include an inventory of items that need to be replaced and maintained, an estimate of the useful remaining life of these items, an estimate of the cost to replace them, and a plan for funding the replacement. This requires specialized knowledge of a wide range of interrelated areas, expertise that can be obtained only from a certified Reserve Specialist.

THE IMPORTANCE OF MEETINGS

An association is a business that must conduct meetings of its "shareholders"—the owners or their elected representatives. Community associations conduct several types of meetings, each addressing a particular need.

Board Meetings

Board meetings must be productive, orderly, free of disruptions, and open to members and residents unless an executive session is convened. (The board should only convene in executive sessions to discuss pending litigation, personnel issues, or contract negotiations.)

The primary purpose of board meetings is to:

- Set policy
- Review operations
- Resolve disputes
- Listen to residents
- Plan for the future
- Vote on business discussed in executive session

Annual Meetings

The primary purpose of annual membership meetings is to:

- Present the annual budget to members
- Elect directors
- Deliver committee reports to members
- Build community by bringing neighbors together

Special Meetings

Special meetings (sometimes called town meetings) are used to:

- Focus on one particular item of concern or interest
- Present sensitive or controversial matters to residents
- Garner support for large projects or clarify unpopular decisions
- Provide a structured venue in which residents can explore issues and express opinions
- Get resident feedback before the board takes action
- Reach consensus or resolve an issue
- Gain valuable insights into the character and values of the community

Parliamentary Procedure

Parliamentary procedure is a tool for conducting meetings. It can be as formal or basic as the association wishes, as long as it provides sufficient structure to keep a meeting orderly, fair, and productive. The advantages of using parliamentary procedure include:

- Staying on the agenda
- Discussing one subject at a time

- Giving each participant a chance to speak
- Speaking only on the issue being discussed
- Speaking only when recognized by the chair
- Addressing questions and comments to the chair
- Deciding issues through motions, seconds, and votes

Meeting Requirements

Associations must meet several important criteria before business can be transacted at a meeting; specifically the association must:

- **Notify members.** The law requires community associations to notify members of meetings. Keep notices brief, focused, and simple; issue them at the appropriate time in the proper manner.
- **Achieve a quorum.** Each association's governing documents or state law specify how many members constitute a quorum and it varies from one association to the next. Ensure that a quorum is present before calling any meeting to order.
- **Record actions taken - minutes.** Minutes are the official record of decisions made at an association board or committee meeting. Good meeting minutes will include:
 - ✓ Type of meeting: board, committee, regular, special
 - ✓ Association name
 - ✓ Time, date, and place
 - ✓ Proof of Quorum
 - ✓ Approval or correction of the previous minutes
 - ✓ Officer and committee reports
 - ✓ Motions and their outcomes—approved, denied, or tabled
 - ✓ Adjournment time
 - ✓ Secretary's signature

ELECTING BOARD MEMBERS

Community associations are democratic entities governed by boards elected by homeowners. Proper election procedures are essential to the successful operation of the community.

Seek Nominations

Most associations' governing documents specify how candidates should be nominated for election—usually by a nominating committee, taking nominations from the floor at the annual meeting, and/or writing in candidates' names on ballots. Boards of associations whose documents don't address this process should implement procedures and safeguards.

Conduct the Election

Conducting an election should be free of cumbersome procedures. Elections should be conducted as early in the meeting as possible so the results can be tabulated as the meeting progresses and the winners announced at the end.

Appoint Inspectors

Inspectors of elections certify that elections are conducted fairly and that results are accurate, either by observing or carrying out the process of collecting and tabulating ballots. Generally, three neutral people who have no interest in the outcome are appointed.

Introduce Candidates

Candidates should be allowed to present their qualifications and platforms to the members in writing (as a personal letter sent to all owners, an article in the association newsletter, or a statement posted on the association website), in person at a special meeting where owners may see and hear the candidates and ask questions, and in person at the annual meeting just prior to the election.

Conduct the Election

During the annual meeting, give members sufficient time to mark, fold, or seal their ballots; then collect ballots in a secure manner. All votes—except those on minor or procedural issues—should be recorded by written ballot. This safeguards the integrity of the vote by creating a permanent record.

Voting By Ballot or Proxy

A proxy is the written authorization that allows one person to appoint another (the proxy holder) to vote on his or her behalf. State law and the association's governing documents specify whether an association can use proxy voting, and they may address the type (general or directed), form, and content of the proxy. Associations should consult their attorneys to ensure their proxy procedures are legitimate.

Tabulating the Vote

No matter how the association tabulates the ballots (by hand, with a calculator, or using a computer) make sure everyone understands the correct procedures and involve more than

one person. Every association should review its documents to determine how to count votes. Generally, the voting scheme and the assessment scheme are the same: if every unit or lot pays an equal share, each gets one vote; if the assessment is based on percentage interest, so is the vote.

FINDING VOLUNTEERS

The importance of volunteers can't be overstated— associations can't function without them. The community is only what the volunteers make of it, and it's up to the board to identify, appoint, and motivate them.

Elements of Successful Recruitment Programs

The message should:

- Be clear and simple.
- Be repeatedly presented to members to create a strong awareness.
- Grab the attention of residents.
- Be specifically tailored to your community.

Popular Recruitment Methods

- Personal invitations
- Newsletter articles and announcements
- Special mailings
- Notices posted on bulletin boards
- Announcements on the association website

Recruitment Techniques

- Link individual talents and interests to association needs.
- Educate members about what may occur if they don't participate.
- Explain volunteer duties.
- Consider all members of the community, including renters, absentee owners, and new residents. Tenants are frequently overlooked, but, as potential owners, may have an interest in getting involved.
- Solicit feedback from the residents on important issues, and recruit those who respond or show an interest.
- Follow up on invitations; be enthusiastic but not pushy.

Keeping Volunteers Motivated

- Encourage friendly competition among volunteers.
- Stay in touch with volunteers.
- Facilitate the work of volunteers.
- Thank volunteers publicly and often.
- Make volunteer work fun.

FINANCES

As a board member, one of your most important responsibilities as a board member, one of your most important responsibilities is managing the association's finances. As a fiduciary of the corporation, you must protect assets, budget responsibly, plan for the future and invest wisely, and observe all laws and regulations affecting the association's resources. Association managers and accountants can assist you in each of these areas.

Protect Assets

Boards should implement every possible means to protect association assets.

- Protect cash assets with checks and balances procedures and conservative investment policies.
- Protect physical assets with adequate insurance coverage.
- Protect cash and physical assets with sound risk-management policies.
- Protect income with fair and consistent collection policies.
- Protect against liability with informed decision making.
- Protect against waste and corruption by exercising due diligence.
- Protect real-estate values with proper maintenance.

Budget Responsibility

The budget is a formal financial plan that determines the annual assessment. It should cover operations and reserve funding.

- Develop the budget in an objective, step by step manner based on historical data (prior year budgets) and careful research.
- When budgeting expenses, avoid rationalizing ("we won't need much for maintenance because the property is in good condition") or projecting ("it will be a mild winter, so electricity expenses can be reduced").
- Remember to include tax preparation in the budget—and insurance premiums.
- When projecting revenue, remember that some owners will inevitably default or be late with assessment payments, which will reduce monthly cash flow.
- If possible, develop two-, three-, or five-year budgets to avoid special assessments or a surprise assessment increase.

Plan for the Future—Reserves

Reserves—funds set aside for future big-ticket expenses—are an extremely important part of the association's finances.

Observe Federal and State Regulations

Some federal and state regulations affect community associations with regard to how they manage their finances.

Taxes

Even though community associations are nonprofit organizations, they must file federal, and possibly state and local, income tax returns. Most associations will have at least some

income from interest earned on investments. Some will have miscellaneous income from laundry facilities, late charges, special fees, repair charges, pool use, vending machines, or newsletter advertising. In addition, some associations may be subject to sales, payroll, or property taxes.

Fair Debt Collection

The federal Fair Debt Collection Practices Act (FDCPA) has made abusive debt collection practices illegal. Most community associations are not subject to the federal act, but many fall under state debt collection statutes. Boards should check with the association attorney to ensure that the association is using legal procedures to collect delinquent assessments.

The Role of the Manager

Financial responsibility for the association rests with the board, but the manager plays an important role in implementing financial policies and carrying out the day-to-day activities of managing finances. Such activities include:

- Collecting assessments
- Following up on delinquencies
- Filing liens
- Reviewing and paying invoices
- Processing payroll
- Preparing financial reports
- Preparing tax returns, budgets, and financial reports
- Serving as liaison to the CPA and Reserve Specialist

RESERVES

One of the primary duties of the board is protecting property values. Boards accomplish this by planning ahead and reserving money for future big-ticket expenses in funds called reserves.

- Knowing what the big-ticket items—roofs, asphalt, seawalls, boilers—will cost and when to replace them is a specialty that requires specialists. These experts—called Reserve Specialists— prepare reserve studies that tell associations how much they need to put aside, or reserve, in each year's budget so they can pay for a new roof in 20 years.
- The board and manager cannot develop a realistic budget without a reserve study.
- Because prices and conditions change from year to year, boards should have the association's reserve study updated at regular intervals.
- Reserve funds build up over many years. Therefore, investment strategies are an essential component of any reserve-funding program. Boards have a fiduciary obligation to protect the principal while maximizing the return on the investment. This requires sound financial guidance from qualified advisors.
- Maintaining adequate reserve funds eliminates unexpected fee increases, special assessments, and borrowing. And by saving instead of borrowing, the association earns income instead of paying interest. In fact, the income from reserve accounts can help keep fees low by supplementing assessments.

Steps in Establishing a Reserve Fund

1. Get the owners on board. Owners sometimes think reserves are costing them extra money or wonder why they should pay now for something that may not have to be replaced for several years. To help owners understand the importance of reserves, boards can inform them of these important reasons:

- A reserve fund may be required by law.
- Reserve funds provide for the planned replacement of major items that must, at some point in time, be replaced.
- Major items deteriorate over time. Although a roof will be replaced when it is 25 years old, every owner who lived under it should share its replacement cost.
- Reserves minimize the need for special assessments.
- Reserves enhance resale values.

2. Conduct a reserve study. The board should work with its manager, accountant, engineer, and Reserve Specialist to conduct a reserve study. Reserve studies have two parts: the physical analysis and the financial analysis.

3. Setup a component schedule. A component is a part of the common elements, like a roof or boiler, and the schedule is the date when the experts think it will need to be replaced. A components schedule is therefore a list of all common area components and the dates when they are likely to need replacing.

4. Select a funding plan. There are four primary reserve funding strategies, and the board must decide the one that's right for the association based on funding goals.

- Full funding means that reserves are funded and maintained at or near 100 percent.
- Baseline funding means that associations keep the reserve cash balance above zero.
- Threshold funding means that the fund's minimum balance is set at a predetermined dollar amount.
- Statutory funding means associations set aside the minimum amount of reserves required by statutes.

5. Decide how often to conduct a reserve study. Experts recommend that studies be reviewed or updated every one to five years, but this can vary according to the age and needs of the association.

Investing

The board has a legal responsibility to all owners to make sure reserve funds are invested properly and that the funds are available when needed. For these reasons, board members must consult with professional advisers, decide on a strategy that is in the best long-term interest of the association, and prepare a written investment policy.

Establish an Investment Policy

An investment policy will provide boards with the structure, consistency, and continuity necessary for any investment decision inflation or interest rates.

Guidelines for Investing Reserves

Boards are guided by their bylaws as to how to invest their funds. Typical guidelines might state:

- If the association needs to use reserve funds within six months, it should invest in a money market fund.
- If the association needs money within six months to one year, it should invest in a six-month CD or a six-month treasury bill.
- If the association needs the funds after one year, it should utilize a laddered portfolio of CDs or treasury notes based on the future liquidity needs of the association.

Associations benefit from prudent investing that focuses on reason and foresight—not on high rates of return. The board has a fiduciary duty to protect, maintain, and enhance association assets, not to speculate with funds. Any variance from this safe and secure approach may constitute a breach of fiduciary duty.

Tax Considerations

Associations can invest their funds in a variety of ways. However, different types of investments are subject to federal and state income taxes, such as:

- Interest income

- Rental income (if the association owns and rents a unit)
- Capital gains

The effect of taxes on the association's investments will need to be factored into the overall reserve funding strategy.

Finding a Reserve Specialist

A qualified Reserve Specialist has years of experience and education, and he or she can ensure that your community association prepares its reserve study as accurately as possible.

COMMUNICATING WITH RESIDENTS

Communicating effectively with members and residents will do more to ensure the success of the board and the association than any resolution the board may pass or rule it enacts.

How Does a Board Communicate Effectively?

- Communicate frequently, in varying settings and places, and in as many ways as possible.
- Be positive, open, and direct.
- Listen and be inclusive.
- Another approach to communicating effectively is by answering these questions:
- What does the board want to accomplish with this communication?
- What tone is appropriate to accomplish this goal?
- When do residents need to receive this information?
- To whom is the message directed?
- What is an appropriate expense for delivering this message?

Correspondence

Individual correspondence is one of the most direct and personal ways to communicate with residents. Some of the more common forms of correspondence include:

- Rule-violation letters are one of the necessary evils of community association management. It's a good practice to begin with a gentle reminder letter giving residents an opportunity to comply followed by two to three progressively stronger letters if they don't.
- Thank-you letters let volunteers know their efforts are appreciated.
- Thank-you letters let residents know their compliance with rules was noticed.
- Welcome letters give new residents a sense of belonging.
- Congratulating letters are appreciated by staff, board members, and residents for major accomplishments or jobs well done.
- Business correspondence is essential to the operation of the association. Do your letters to contractors, lenders, committees, public officials, and others clearly identify all parties involved, what they're supposed to do, where and when they should do it, and why?

Newsletters

The association newsletter is a valuable and important way to communicate with residents. The board may prepare the newsletter or delegate it to the manager or a volunteer. Important aspects of good newsletter preparation include the audience, content, presentation, and design.

Audience

- Is yours a family-oriented community, a retirement community, or a busy, professional community?

- Are all residents owners; are all owners residents?
- Will managers and developers see your newsletter?

Content

- A message from the board or the president
- Reports on project status, financials, committee work
- Minutes or summaries of minutes
- Rule reminders
- Events—including meeting notices
- Association contact information

Presentation

- Snappy headlines
- Fair reporting of the facts
- Well written and easy to read
- Different or creative presentations
- The most important information is up front

Design

- Lighthearted, eye-catching artwork and photography
- An attractive, consistent, simple layout

Websites and Email

Making full use of technology will strengthen any association's communications program. Websites are cheaper, faster, more accessible, and more convenient than traditional means of communication, such as newsletters, and they provide immediate and interactive exchange of information. Place the following types of documents on the association website:

- Governing documents, forms, rules, budgets
- Back issues of newsletters
- Meeting minutes and annual and committee reports
- Announcements: upcoming events, meeting notices

Like websites, email allows board members, managers, and residents to communicate effectively because it's convenient, provides a written record, allows quick exchange of documents such as minutes, and reduces postage expense.

Annual Reports

Annual reports can:

- Provide a permanent record of the association's activities. Inform members about board and association accomplishments.
- Provide realtors and others with valuable marketing information.
- Provide valuable data for the resident handbook or welcome packet.

Annual reports generally include:

- A list of key accomplishments.
- An overview of the association's finances, including the budget for the coming year.
- Names of volunteers who worked for the association during the year.
- Plans for the coming year.

RULES

Boards of community associations have a right and duty to make and enforce rules based on common law, state statutes, and the association's governing documents, which confer on the board the obligation to preserve and protect the assets of the community. One of the ways that the board meets this obligation is by adopting rules and seeing that residents comply with them. In this way, rules are very good things. However, making rules is a serious business and must be approached with great care and attention.

Rules are important in community associations for the same reasons laws are important in society in general. Rules provide certainty and order, protect the freedom and safety of residents, interpret provisions found in governing documents, and protect commonly owned resources.

This last reason is particularly important to boards of community associations: rules are the means by which boards restrict behavior that might reduce the value of the commonly owned property. Most important perhaps, rules help the association meet the established expectations of residents.

Basic Guidelines for Making Rules

- Develop a rule only if necessary.
- Base the rules on proper authority.
- Be reasonable. Rules shouldn't be about limiting the activities of residents. They're about protecting the living environment and property values from the disruptive or harmful behavior of residents.
- Make compliance easy. Keep the rules simple and easy to follow.

Work with Residents to Achieve Compliance

- Educate residents about rules and give them sufficient notice of all effective dates.
- Build community consensus that supports the rule.
- Review rules periodically, and eliminate or amend them, if needed.
- Act promptly when violations occur.
- Be reasonable; make sure the rules and consequences fit the situation.
- Give residents ample opportunity to comply.
- Provide clear information and guidelines on rules.
- Apply rules uniformly and consistently.
- Be flexible; allow appropriate and reasonable exceptions.

When Rules are Broken

Due process is a legal term that simply means basic fairness. The Person who may have violated a rule must be treated fairly and afforded basic rights. The essentials of due process include:

- Give the resident notice of the problem and consequences.

- Give the resident an opportunity to be heard with his or her side of the story.
- The resident has the right to be represented by legal counsel.

Do's And Don'ts of Making Rules

- Make rules that make sense.
- Make rules that restrict as little as possible.
- Make rules that are actually needed.
- Make rules that are acceptable to residents.
- Make rules that residents can easily obey.
- Make rules that get the needed result.
- Make rules that are enforceable.
- Make rules that are legal.
- Don't make rules that try to regulate the personal lives of residents.
- Don't give in to political pressure.
- Don't go to extremes.
- Don't impose harsh consequences for small infractions.
- Don't refuse to make exceptions in exceptional circumstances.
- Don't act on anonymous, unverified, or unsubstantiated complaints.
- Don't make rules that create new problems.

Congratulations! You have become a member of the Board of Directors!

The mission of the Board of Directors is **to preserve, protect and enhance** your investment.

Board Members volunteer their time to bring continuity and order to the community, help preserve the architectural integrity, and maintain the common elements. The association also promotes the concept of "community" while protecting the neighborhood's property values. The Homeowners in your Association have placed confidence in their Board to provide a vision and financial direction for their community.

Thank you for accepting your position and for supporting your Association.

Naturally, there is a learning curve for new Board Members. Not to worry - your team at The Management Group is always available to answer questions or respond to concerns. We also hope this Board Member Toolkit is a resource for you throughout your term on your Board. It provides practical information about governing documents, roles and responsibilities of each board position, financial considerations, rule guidelines, and much more.

Serving your Association at any level can be both rewarding and educational. Your TMG team thanks you for your commitment and contribution.

Your dedication is invaluable.

Sincerely,



Carmen Villarma, CPM
President of The Management Group

