

## FUNDAMENTALS of a Community Association

Each common interest community has its own history, personality, attributes, and challenges, but all associations share common characteristics and core principles. CAI developed the following list of community association fundamentals to foster a better understanding of how associations function and the roles of residents and association leaders.

The principles at the heart of the community association model are intended to inspire effective, enlightened leadership and responsible, engaged citizenship.

- 1 Associations ensure that the collective rights and interests of homeowners are respected and preserved.
- 2 Associations are the most local form of representative democracy, with leaders elected by members to govern in the best interests of all residents.
- 3 Associations provide services and amenities to residents, protect property values, and meet the established expectations of homeowners.
- 4 Associations succeed when they cultivate a true sense of community, active homeowner involvement, and a culture of building consensus.
- 5 Association homeowners have the right to elect their community leaders and to use the democratic process to influence the policies that will protect their investments.
- 6 Association homeowners choose where to live and accept a contractual and ethical responsibility to abide by established policies and meet their financial obligations to the association.
- 7 Association leaders protect the community's financial health by using effective management practices and sound business principles.
- 8 Association leaders have a legal and ethical obligation to enforce the association's governing documents and abide by all applicable laws.
- 9 Association leaders seek an effective balance between the preferences of individual residents and the collective rights of homeowners.
- 10 Association leaders and residents should be reasonable, flexible, and open to the possibility—and benefits—of compromise, especially when faced with divergent views.

***To learn more about how community associations are organized, governed, and managed, see CAI's [Community Association Living: An Essential Guide for Homeowner Leaders](http://www.caionline.org/CALiving), at [www.caionline.org/CALiving](http://www.caionline.org/CALiving).***



## THE RIGHT START

By Chelsie Throckmorton, CMCA, AMS, PCAM, and Jill Allen, CMCA, AMS, LSM, PCAM

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YOU'RE ELECTED BY YOUR PEERS to serve on the community association board but don't know what you do now. That's OK. Being the new kid on the block can seem intimidating, but you can get off to the right start by climbing into a comfy chair, grabbing a cup of joe, and diving into the basics of association governance and operations.

What exactly does the board do? And what are they responsible for?

In short, the board is the decision-making authority that functions as the executive branch of the association. It has a legal fiduciary duty to efficiently manage the association's affairs, except for those decisions that are specifically reserved for homeowners in the governing documents.

Being on the board means you should be communicating with homeowners, developing rules that are enforceable, understanding your governing documents, holding meetings, preparing annual budgets, conducting reserve studies, and more. That's a long list, and if your association has an on-site manager or a contract with a management company, they can help. Many times, a manager or management company offers training to assist seasoned board members as well as newcomers. The association's legal counsel and other business partners also might be willing to give detailed training. Be sure to ask questions. Information is power, and there's no such thing as a bad question.

### DOCUMENTS

Board members should take the time to review the association's articles of incorporation, declarations (also known as covenants, conditions, and restrictions, or CC&Rs), and bylaws. Collectively known as the governing documents, these are the keys that give the association authority to conduct business.

Understanding how each of these documents work in your community is essential to your success. The articles of incorporation give the community the right to become a corporation. What are the election procedures? Can an amendment be changed? What defines the role of the declarant and the developer? These questions usually are answered here.

The declaration or CC&Rs regulate the use, appearance, and maintenance of the property. Who's

in charge of common areas, assessments, additions, alterations, or improvement by homeowners? How does the association handle budgets, collections, resale fees, parking, and more?

Bylaws are the rules and procedures on how the association will operate and be governed. Designation and duties of board officers are explained in detail, as are which committees are required, fiduciary duties, liability, indemnification, books and records, notices and amendments.

But wait, there's more!

Policy resolutions relate to the long-term governance of the association and deal more with procedures and restrictions that impact members. Included in policy resolutions are procedures such as covenants enforcement, parking, pet policies, use of lots, living and common areas, and end of useful life replacement services.

Administrative resolutions deal with the internal operation and structure of the association. These resolutions give implicit instructions on things like writing off balances, committee charters, standard operating procedures, terms of office, investment and reserve funds, blast email communications, monthly meeting procedures, and gate entry procedures.

At a minimum, new board members also should review all board and standing committee minutes from the past year. These contain a detailed record of business that was conducted, providing an in-depth look at previous actions and the directions to where the community may be headed.

### MEETINGS

Meetings are the time for the board to showcase all of its hard work. During a meeting, the board may discuss day-to-day business and new or continuing projects happening throughout the community. Regular meetings, special meetings, town hall meetings, and annual meetings are some you should expect to attend.

What do you do in all these meetings? Turn to *Robert's Rules of Order* for answers. The book can help you navigate through motions, elections, votes, debates, and amendments. It offers simple but clear guidance on the most common rules of parliamentary procedure and will be a valuable tool to help you

understand how your meetings progress. It's available for purchase at [www.caionline.org/shop](http://www.caionline.org/shop).

### **BUDGETING AND PLANNING**

Money and numbers are always hot topics for the board. Examining the financial records is crucial to gain an understanding of the difference between operating expenses and reserve contributions.

If your community has a manager, he or she typically prepares monthly management reports that include financials, a synopsis of day-to-day operations, committee reports, and an action item list. The action items are comprised of pending work and what's coming down the road for a board vote. These reports often are presented to the board at its monthly meeting.

If you need help learning how to effectively read the financial statements, ask your manager, finance committee chair, or board treasurer to break it down step by step.

Meanwhile, the community's strategic plan and reserve study work hand in hand and are reflective of the financials as well as future planning. The strategic plan points to the long-term goals and objectives to

strengthen the association, and the reserve study provides the predicted timeline and required funds needed to reach and achieve those goals.

Still feel as though there is more to learn? Turn to your local CAI chapter, which often hosts workshops and webinars developed specifically for board leadership development. Your decisions have the capability to improve your community's quality of living not only in the present but for the future. Remember, before you offer your opinion on a matter, you must know the facts and what led to the current decision before the board. Take the time to do your research, and don't make up your mind before being informed.

Once you get the basics of being a board member down and are knowledgeable about association governance and operations, roll up your sleeves and jump in. There's a lot to do!

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## SIMPLY THE BEST

Great community association board members have the right attitude, embrace and prepare for the role, and know when it's time to move on. They aren't born for the role, they're made in the HOA.

By Kelly G. Richardson, ESQ.

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A COMMUNITY ASSOCIATION is no better than the board of directors that leads it. The board serves as the community's voice and guide.

If an association is to be excellent, willing volunteers must be developed. Truly exceptional volunteer governance is not a happy accident, and it often has little to do with a volunteer's background, training, and experience. Instead, it is the result of hard work and the pursuit of proper values, foundational understandings, and perspectives.

### HAVE THE RIGHT ATTITUDE

Excellent board members understand that their position is one of service rather than control. They serve their neighbors; they don't supervise them. A service-forward attitude results in a less defensive perspective in which new ideas and opinions are welcomed and not perceived as insults or threats.

The best know that board service is not an accomplishment or distinction to be defended and preserved. A board member seeing his or her position as an achievement will be less likely to receive criticism and new ideas in a healthy manner, may be less willing to listen to the advice of others, will be threatened rather than encouraged by new ideas, and will be more deeply offended by criticism. Directors concerned about their status may be prone to focus too much on preserving their reputation rather than focusing on the association's welfare.

A director has got to know his or her limitations. The best accept that they do not know everything; they rely upon managers, consultants, and committees. Such directors handle board disagreements much better by accepting the possibility that another sees or knows something that they do not. A director who accepts that they don't know everything will be a better listener in board meetings; such a person expects they will learn from their board colleagues. Such a director also will make much better use of open forum input from members, instead of viewing the opinions of others as a nuisance to be endured.

### EMBRACE THE VERY DIFFERENT WORLD OF ASSOCIATION SERVICE

Outstanding directors have learned that much of what worked for them in their day job will likely work poorly in the context of board governance. The chain of command is completely different in a community association. In the workplace, there is almost always somebody who is the boss, somebody who is your immediate supervisor, and often someone you supervise. In the association, no single person is in charge. Decisions are made by the board, so the chain of command is horizontal and less hierarchical. The president has far less power in most nonprofit corporations since all important decisions are made by the board, and so the president's vote is no more valuable than any other.

In this very different paradigm, the individual director typically has no power. Once directors embrace the framework of the board as decision-maker, they understand that they cannot make individual promises. This restraint can be very freeing since no individual is responsible for the association and its actions. Any decision is made by group consensus.

Directors failing to adapt to the group decision-making process will often stray outside of corporate authority and are also prone to unilateral actions without waiting for input from their board colleagues. Such directors often view themselves as action-oriented, but their actions without board authority can be precipitous, create exposure to liability, and engender conflict with the remaining directors.

A director's role is in the title; he or she is a person who gives direction. Directors are not normally required or expected to act. The board directs its manager, employees, and service providers to act through association policy and individual decisions.

The best directors experience less stress, understanding that they are not called upon to do the work but to decide who will do it. Such directors are less likely to micromanage the association's community manager, if it has one. They allow—and insist that—the manager and service providers

perform. They do not do the work of a failing manager or service provider; they find a new one when things aren't working out.

### **PREPARE FOR THE ROLE**

Before seeking a board seat, the best candidates improve their readiness for the position. They should:

**Read the governing documents at least once.**

The governing documents are the framework (along with applicable laws) within which the board must operate. Familiarize yourself with these important documents. One of your main tasks as a director is not only to enforce and implement those documents but also to educate and inform your neighbors, most of whom will not be familiar with them.

**Join CAI.** CAI is the only respected resource in the U.S. and around the world for homeowners to better understand effective community governance.

**Download CAI publications.** CAI offers excellent introductory publications: "Introduction to Community Association Living," "From Good To Great," and "Rights and Responsibilities for Better Association Communities." Each are free and available at [www.caionline.org/homeownerleaders](http://www.caionline.org/homeownerleaders).

**Take advantage of CAI's training courses.** Your local CAI chapter offers courses to help you better serve your community. The Nevada and Illinois chapters offer classes and activities culminating in the Dedicated Community Association Leader designation. The Orange County Chapter has the Community Leadership Training Program, and other CAI chapters also offer wonderful introductory courses in community association governance. [www.caionline.org/chapters](http://www.caionline.org/chapters).

**Use all of CAI's resources.** In addition to the free downloads mentioned above, a volunteer wishing for a deeper dive may want to take the Board Leadership Development Workshop, a four hour interactive online seminar. CAI chapters also offer the workshop in person. [www.caionline.org/bldw](http://www.caionline.org/bldw).

**Understand the business judgment rule.** The business judgment rule separates careful board members from liability for the decisions they make while governing the association. Learn the boundaries of that rule. Even well-intentioned directors can step outside of the rule, exposing themselves to a potential disaster of personal liability. Attend at least four board meetings. Familiarize yourself with board meeting procedures, and observe the current issues being addressed. This also demonstrates to the current directors that you are interested in the association's governance and will invest the time to listen and learn.

**Talk to the community manager.** Your manager may not be able to talk to everyone interested in board service, so be sensitive to their time. The manager may not endorse or oppose any board candidate (their ethics bars it), but he or she can tell you what makes a good director.

**Read the annual budget.** All too often, candidates for the board campaign on a platform that "assessments are too high" without ever bothering to read the budget. It is unfair to pursue this uninformed and preconceived notion. Study the budget and see where the association's money goes before you pass judgment on the current board.

**Read the most recent reserve study.** Is the association financially solvent? If the board has been reluctant to raise assessments in several years, and repairs aren't being made in the community, the board may have suspended reserve account deposits. An association with inadequate reserves may be effectively insolvent if the association does not have funds for major common area component repairs or refurbishment.

**Avoid predetermined agendas.** Your assumptions may be wrong. Board candidates often run on platforms that sound great but are based on inadequate information. The sitting board almost always has much more involvement and information than non-directors, so avoid making promises before you learn if you are right.

### **CONTRIBUTE TO MEETINGS**

The most productive and efficient meetings are the result of committed and prepared volunteers, normally assisted by a great manager. To help bring about the best board meetings:

**Read the agenda packet.** Come to the meeting prepared, having already read the agenda. You are provided the packet in advance to help you be ready to make decisions. Reading it for the first time at the meeting disrespects your board colleagues and contributes to avoidable lengthening of the meeting.

**Stay on topic.** A single director can derail discussions by moving on to a different topic before the current one is concluded. Remind your colleagues when deliberations stray from the matter at hand.

**Talk to the board, not the audience.** Directors attend the meeting to deliberate with board colleagues, not the audience. Grandstanding by speaking to the audience disrespects board colleagues and encourages raucous meetings.

**Ask the manager for input on most motions.** The board's most frequent protector under the business

judgment rule is the manager, so seek input from him or her. The manager often has years of experience and training; take advantage of that background. If a manager's input isn't being sought, why have them in the meeting?

**Encourage open forum as an important part of meetings, and pay attention.** Whether or not your jurisdiction requires open forum, it is always a good idea to set aside a part of the meeting to listen to the community. It reminds the directors that they are there to serve their community, and often helps the board to learn something they needed to know.

**Don't comment on every motion.** If there is a clear consensus and if other people have already said it, there is no need to say it again. Make sure your comments count. If there is nothing new to say, "I agree" is perfectly sufficient. Get the matter to a vote, and move on to the next decision.

**Respect your board colleagues.** Directors may disagree on one motion and agree on the next.

**Disagreement is not the same as disrespect. Don't make it personal.** Someone may be the smartest, most prepared, and experienced person on the board, but if they do not exhibit respect and grace to their colleagues, that person will probably be the board's biggest problem and its worst director. Never forget that you are volunteers and neighbors trying to do your best. Set a high standard of behavior in board meetings and contribute to a culture of mutual respect. Please note that is not the same thing as consistent agreement.

## HANDLE HOMEOWNER DISPUTES WITHOUT HOSTILITY

During your board service, there will occasionally be violations of the governing documents or other

un-neighborly conduct. Try to work things out. Gentle escalation is almost always preferable to "going legal" right out of the gate. The lawyer will always be there later if needed, but it is hard to ratchet down conflict once a lawyer is involved.

Don't assume the violating homeowners are disrespecting the board. They might not understand their rights and responsibilities. Give them a chance to do the right thing. Many homeowners do not fully appreciate the tradeoff of rights and responsibilities in a common-interest community, so explain to them not just the "what" of a rule but also the "why." As an association attorney, I often find that the best initial assumption is that the homeowner didn't understand what they were required to do (or not do).

In addition, don't be too quick to take sides in a dispute between residents, unless there is independent corroboration of the problem. You may know one of the two disputants, but you may not know all the facts. Encourage residents to work things out as neighbors.

## LET SOMEONE ELSE TAKE A TURN

Begin identifying and preparing your replacement on the board. Volunteer service should not be a life sentence. Committees are a great place to identify people who not only have the interest but will demonstrate commitment to the association and proper attitudes of service and governance. Don't just assume it always has to be you.

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