

On the Board Striving To Success

By Neal Bach

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All community association board members should strive to improve their communities. I recently stepped down from my Johns Creek, Ga., association board after serving for eight years, including four years as treasurer and the past two as president, and I'm proud to say that I left the association in better shape than I found it.

We had to make some tough decisions, such as hiring a new community manager and increasing assessments, but now our 500-home community is financially sound, the reserve account is fully funded and there are some terrific new board members taking the reins.

I'll be the first to admit that success didn't happen overnight. It took years of effort—along with a series of small enhancements and course corrections—to move from depleted bank accounts and deteriorated facilities to our current status as a premier residential community.

As president of an accounting firm that assists associations with tax prep, accounting and audit-related services, I've interacted with hundreds of boards. If my own board had the benefit of all that experience eight years ago, things would have been a lot easier.

It may not seem like it at first, but you can maintain your community's financial health and your own personal sanity at the same time. Here are some important tips:

>> Know and follow the rules. Your community has covenants, bylaws and other rules. Make sure that all new board members review these documents before their first board meeting. If they don't, they'll end up wasting valuable time. All board members in my community have to sign an oath pledging that they've read and understand the documents.

>> Run the board like a business. My community has \$500,000 in revenue and more than \$2 million in common area assets. While we all want to be nice to our friends and neighbors, first and foremost, we're a corporation. Act like a business, and residents will follow your lead.

>> Make recruiting a top priority. We always advertise that our community "runs on volunteer power." It's a continuous responsibility of one board member to recruit new committee, project and board volunteers. This is a year-round job, but we make a big push around our annual meeting since we have a captive audience. Also consider doing some sort of recognition event, like a reception, where you thank your volunteers in front of the whole community.

>> Try to recruit the right board team. Like any business, your board should have a few experienced people with leadership and financial skills. You'll end up with a variety of opinions. Dissension is fine as long as your team can separate emotions from sound operating decisions. A professional community manager can help in this aspect, especially if your board members have never volunteered for an association.

>> **Create a budget and stick to it.** Budget management is part of your fiduciary responsibility to the community. As you spend money, review the budget and document variances to simplify the planning process for future boards. It also helps to start creating year-end cash forecasts at midyear so you can adjust spending as needed.

>> **Understand cash flow.** Like at home, you have monthly and one-time expenses. You'll need to keep enough cash in the bank to cover the bills and projects between assessments. I generally recommend keeping at least 10 percent of your annual budget in a cash operating account.

>> **Respect your reserve account.** It's a separate account for major repair and replacement projects—not for parties or overdraft protection. Commission a professional reserve study to verify that you're saving the right amount, and then make the required payments.

>> **Review financials every month.** Someone on the board, often the treasurer, should understand financial statements and produce or review them before each board meeting, even if you have a manager do it too. Everyone makes mistakes.

>> **Maintain adequate insurance.** Have several insurance experts evaluate your directors' and officers' (D&O) liability insurance policy to ensure that there are no holes. You don't want to be held personally liable in the event your association is sued.

>> **Raise assessments.** Don't sacrifice the current or future quality of life in your community to save residents a few dollars. As neighborhoods age, they require more maintenance, and expenses skyrocket when you don't adequately maintain your amenities and common areas. If you don't have enough money to effectively operate, take the hit, make a good case to your neighbors and fix problems before they get worse.

>> **Don't sweat the small stuff.** Have fun! Serving on your community association board is a great way to meet new neighbors and support your community. There's always going to be someone complaining about something. Focus on pleasing the satisfied majority rather than the vocal minority, and you'll find that the board experience is much more rewarding and fulfilling.

Since stepping down from my board, I've enjoyed the bliss of no midnight phone calls, but I'd do it all over again.

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Pledge of Ethics

Want to hold your board accountable for their actions? Consider asking them to sign a code of ethics. CAI's Model Code of Ethics for Community Association Board Members includes lists of what board members should and should not do. The model code is not meant to address every potential ethical dilemma but is offered as a basic framework that can be modified and adopted by any common-interest community. Here's a sample:

Board members should:

- Strive at all times to serve the best interests of the association as a whole regardless of their personal interests.
- Use sound judgment to make the best possible business decisions for the association, taking into consideration all available information, circumstances and resources.
- Act within the boundaries of their authority as defined by law and the governing documents of the association.

Board members should not:

- Reveal confidential information provided by contractors or share information with those bidding for association contracts unless specifically authorized by the board.
- Make unauthorized promises to a contractor or bidder.
- Use their positions or decision-making authority for personal gain or to seek advantage over another owner or non-owner resident.

— www.caionline.org/boardethics

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