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What You Need To Know To Become an Association Board Member in 90 Minutes

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I. COMMON INTEREST COMMUNITIES

- A. Planned Community
 - 1. Other Names
 - a. Homeowners Association (HOA)
 - b. Townhouse Association
 - c. Planned Unit Development (PUD)
 - 2. Owner owns the lot and/or living unit. Community owns common areas for the use and benefit of the owners.
- B. Cooperatives - Owner owns stock in corporation and proprietary lease.
- C. Condominium
 - 1. It's a type of ownership, not a type of structure.
 - 2. Owner owns unit and undivided interest in the common elements.

II. GOVERNING DOCUMENTS

- A. Hierarchy
 - 1. Federal Statutes
 - 2. State Statutes
 - a. Illinois Condominium Property Act (ICPA)
 - b. Common Interest Community Association Act (CICA)
 - 3. Local Statues
 - 4. Maps, Plat, or Survey
 - 5. Declaration – ICPA, Section 4
 - 6. Articles of Incorporation
 - 7. By-Laws – ICPA, Section 18
 - 8. Board Resolution
 - 9. Rules & Regs
- B. Definitions
 - 1. Map, Plat or Survey – Generally identifies the separate interests owned by each individual owner and common areas owned.
 - 2. Declaration – Contains covenants that restrict unit owner behavior. A declaration binds all owners in an interlocking relationship, establishes

- Association responsibilities and defines owner rights and obligations.
3. Articles of Incorporation – Creates the corporation, defines its basic purposes and powers.
 - a. Registered Agent (unfortunately for many boards it's a SECRET AGENT)
 - b. Annual Report (ask to see your annual report)
 - c. Check to see if your Association is a corporation in good standing (go to www.cyberdriveillinois.com/departments/business_services/corp.html) this will also show your registered agent
 4. By-Laws – Contain provisions concerning Association's operation and internal operating procedures.
 5. Resolutions and Rules
 - a. Resolution – A motion that follows a set format and is formally adopted by the Board of Directors.
 - b. Rule – A specific statement of required behavior whose violation carries a penalty (sometimes called a sanction).

III. ORGANIZATION

- A. Owners
 1. Elect the Board
 - a. ICPA, Section 18 (a) (1) 1/3 of Board terms of office shall expire annually
 - b. ICPA, Section 18 (a) (11) Elect for maximum of two years
 2. Amend Governing Documents
 3. Membership Meetings – ICPA, Section 18 (b) (6) Notice mailed or delivered at least 10 days ahead of time but no more than 30 days.
 4. Records Available – ICPA, Section 19 (a)
 - a. 30 days written notice – ICPA, Section 19 (b)
 - b. 30 days written notice and purpose – ICPA, Section 19 (e)
 - c. By court order – ICPA, Section 19 (g)
- B. Board
 1. Act on behalf of owners
 2. Authority from State
 3. Authority from Governing Documents
 4. Fiduciary Duty
 - a. Duty of Loyalty
 1. Avoid Self Dealing
 2. Conflicts of Interest
 - b. Exercise Ordinary Care – business judgment rule
 5. (Board members regard your position and duties as temporary stewardship)
- C. Board Officers
 1. President – CEO of the Association; presides over Board and Membership Meetings – ICPA, Section 18 (c)
 2. Secretary – maintains official records; shall keep minutes at all Board and unit owner meetings – ICPA, Section 18 (d)
 3. Treasurer – maintains financial records – ICPA, Section 18 (e)

- D. Committees
 - 1. 3 Purposes
 - a. Assist Board
 - b. Provide input on decisions
 - c. Good source for future board members
 - 2. Types
 - a. Ad hoc – 1
 - b. Standing (may be required in governing documents)
 - 3. Possible Committees
 - a. Maintenance
 - b. Elections/Nominating
 - c. Architectural
 - d. Budget and Finance
 - e. Rules Enforcement
 - f. Newsletter
 - g. Social and Recreational
 - h. Risk Management
 - 4. The Board will make Committees successful or not

IV. MEETINGS

- A. Must have open meetings – ICPA, Section 18 (a) (9)
- B. Exceptions to open meeting
 - 1. Discuss litigation
 - 2. Employees
 - 3. Violations of rules and regs or unpaid assessments
 - 4. Votes on these must be in open meetings
- C. Frequency – at least four times annually – ICPA, Section 18 (a) (10)
- D. Length (long meetings are the sign of an ineffective Board)
- E. Participation
- F. Attendance (because no one shows up doesn't mean you are doing a good job. It probably means you are not.)
- G. Notice – ICPA, Section 18 (a) (9) 48 hours mailed or delivered
- H. Agenda
- I. Conduct of Meeting – (parliamentary procedure – not required by law but it's a good idea – *Robert's Rules of Order* is the most popular)
- J. Minutes – Maintain at least 7 years – ICPA, Section 19 (4)

- K. Secretary should sign approved minutes; otherwise, how do you know which ones are the approved ones?

V. COMMUNICATIONS

- A. Prospective Purchaser
 - 1. Booklets, brochure packets
 - 2. Governing documents and other disclosure material
 - a. Legal – ICPA, Section 22.1
 - b. Obtained by Seller and made available to prospective Purchaser
 - c. Must provide to Seller within 30 days
 - d. Charge the Seller fees (charge for this because it is a lot of work)
 - 3. Budget and other information regarding the current operating plans for the Association.
- B. New Residents
 - 1. Welcome Committee
 - 2. Residents Manual
 - 3. Governing Documents
- C. Existing Residents
 - 1. Newsletter
 - 2. Board Meetings
 - 3. Annual Meetings
 - 4. Annual Report
 - 5. Special Purpose Meeting
 - 6. One-on-One Meetings, Surveys, Focus Groups
 - 7. Complaint Procedure
 - 8. Community Directory
 - 9. Social Events
 - 10. Awards Programs
 - 11. Phone Calls
 - 12. Letters
 - 13. Flyers
 - 14. Word of Mouth (most frequent and it will occur anyway so do it better)
 - 15. E-mail
 - 16. Website
 - 17. Social media
- D. Type of communication chosen to fit the issue

VI. NUMBER ONE JOB OF THE BOARD

- A. Preserve and enhance property values
 - 1. Know the market
 - 2. Focus on property values

- B. Quality of Life (the Boards Litmus Test – the only thing that counts--do residents LOVE living in your community?)

VII. SUPPORT TEAM

- A. Management Company – (the best deal your money will ever buy)
- B. Auditor
- C. Reserve Specialist
- D. Attorney – retainer or not?
- E. Consultants – architects, engineers, and designers
- F. Insurance Agent

VIII. RULES (Signs look lousy and give a negative impression; if you have to use them have them look good)

- A. The Board has the authority to pass rules or modify existing rules
- B. Authority – ICPA, Section 18.4 (h)
- C. Notice – ICPA, Section 18.4 (h) mailed or delivered including text minimum of 10 days and no more than 30 days (but no owner quorum requirement)
- D. Establishing Rules
 1. Rules should be necessary.
 2. Verify that existing rules do not address the issue.
 3. The rule must not be in conflict with the law or provisions in Governing documents.
 4. The rule should be clear and no broader than necessary.
 5. The rule should be reasonable and apply in a uniform manner.
 6. Evaluate the human and financial resources involved in rule enforcement.
- E. Rule Enforcement ICPA, Section 18.4 (l)
 1. Authority
 2. Procedure
 - a. Complaint
 - b. Notice
 - c. Hearing (don't have the board be the hearing Committee)
 - d. Decision Committee
 - e. Appeal
 - f. Rule Enforcement Tools
 1. Internal

2. External

IX. LEASES

- A. ICPA Section 18(n)(i-ii)
- B. Lessor must deliver to the Association
 1. Copy prior to occupancy
 2. 10 days after execution (although many boards would like this to happen to renters, it means signing the lease by both parties)
- C. Governing documents and ICPA are part of the lease

X. COLLECTIONS

- A. Legal
 1. ICPA, Section 9(g) (1) – (5) and (h-k) (Liens)
 2. ICPA, Section 9.2 (a-c) (Possession, Attorneys Fees, But No Other – Fees)
- B. Actions
 1. Lien – A legal claim by one party on the property of another to obtain payment of a debt.
 2. Foreclosure – A legal proceeding filed in court whereby a party with a claim against an owner can claim ownership of the unit involved in order to recover the money it is owed.
 3. Possession
 4. Personal money judgment

XI. FINANCIAL REPORTS

- A. Balance Sheet – Reflects the financial status at a specific time.
- B. Income and Expense Statement – Reflects financial activity for a specific period of time.
 1. Accrual method
 2. Cash method
 3. Modified
- C. Maintain Records for 10 years – ICPA, Section 19 (9)
- D. Review Financial Records
 1. Examine balance sheet and compare to prior periods
 2. Review bank statements
 3. Compare Association's record
 4. Examine A/R and compare to balance sheet
 5. Examine A/P and compare to balance sheet
 6. Review comparison to budget to actual activity
 7. Trace the account to general ledger and review the detail
 8. Make sure all bank accounts recorded on general ledger
 9. Review cash disbursements and question expenses

XII. RESERVES – (The Full Funding Fantasy)

- A. Legal Requirements
 - 1. ICPA, Section 9 (c) (2)
 - 2. Provide reasonable reserves for capital expenditures and deferred maintenance for repair or replacement. Take into consideration.
 - a. Repair, replacement cost and estimated useful life
 - b. Return on investments
 - c. Any reserve study obtained
 - d. Financial impact on unit owners and market value
 - e. Ability of the Association to obtain financing
- B. Types of Funding
 - 1. Baseline - keep the reserve balance above zero
 - 2. Threshold – establish a reserve goal
 - 3. Full – (praise be you are wonderful)
- C. Can anyone define reserves? (ICPA doesn't define it well; can bankers, attorneys or accountants? Probably not.)
- D. Reserve Studies (no bad studies just bad clients)
 - 1. Do you have to have one? No!
 - 2. Should you have one? Only if you will use it.

XIII. BUDGET

- A. Schedule Requirements
 - 1. ICPA, Section 18 (a) (6) – Supply to unit owners at least 30 days prior to adoption
 - 2. ICPA, Section 18 (a) (8) (i) – Notice of Board meeting to adopt budget no less than 10 days and no more than 30 days.
- B. 115% Rule 18 (a) (8) (iv)
 - 1. All budgeted regular and special assessments exceed 115% of assessments payable preceding year
 - 2. 20% can petition to consider the budget or special assessment at a meeting
 - 3. Unless budget or special assessment are rejected by majority of owners at the meeting they are ratified
- C. Income and Expense – FAME (First Allocate Mandatory Expenses)
 - 1. Zero Based
 - 2. Historical Trend
- D. Budget the Big 3 (80% of the budget = labor, utilities and insurance so spend 80% budgeting)
- E. Understand that cash flow is critical and a budget must consider this as well.
- F. Replacement Fund and Capital Improvements

- G. Presentation (interest in the budget is in direct relation to the assessment increase so present them for people to understand).
 - 1. Graphics
 - a. Pie Chart
 - b. Bar Graph
 - c. Clip Art
 - d. Photos
 - 2. Highlight important items

XIV. INVESTMENT POLICIES

- A. Establish a policy statement and procedures
- B. Investment by resolution
- C. Board has a legal duty to protect the assets (not a legal duty to get the highest return)
- D. Funds should be insured
- E. Signers on accounts and authority to transfer

XV. ANNUAL FINANCIAL REPORTS

- A. Requirement ICPA, Section 18 (a) (7)
- B. Compilation (don't waste your money)
- C. Review
- D. Audit (get an audit or don't get anything)

XVI. INCOME TAXES

- A. File a return every year
- B. 1120
- C. 1120 H

XVII. INSURANCE

- A. Legal requirements
 - 1. Association – ICPA, Section 12 (a)
 - 2. Unit Owners – ICPA, Section 12 (h)
- B. Agents and Carriers (Who's who)
 - 1. Only use experienced community association agents – not someone's brother
 - 2. Agents
 - a. American Agency System – agents place insurance for more than one insurance company.
 - b. Direct Writer System – employees place insurance for one company.
- C. Replacement Cost (don't even talk about anything else because it is the law)
- D. Types
 - 1. Commercial package policy
 - a. Property
 - 1. Real Property

- 2. Personal Property
 - b. Liability – at least \$1,000,000 – ICPA, Section 12 (a) (2)
 - 1. Liability – legal claim against an association (3rd party)
 - a. Bodily Injury
 - a. Property Damage
 - b. Personal Injury – libel, slander
 - 2. Fidelity – full amount of assessments and reserves
ICPA, Section 12 (a) (3)
 - 3. Deductible ICPA 12 (c)
 - a. Common expense
 - b. Charge owners causing damage
 - c. Require owner affected to pay the deductible
 - 3. Bailee
 - 4. Auto
 - 5. Garage keeper’s legal liability
 - 6. Hired non owned auto
 - 2. Boiler and Machinery
 - 3. Directors and Officers – ICPA, Section 12 (a) (3) (D)
 - 4. Fidelity Bond – ICPA, Section 12 (a) (3)
 - 5. Workers Compensation (you need it even if you don’t have workers)
 - 6. Umbrella (doesn’t have anything to do with rain)
- E. Policy Structure
 - 1. Declarations – names and address, period of coverage
 - 2. Policy conditions – basic provisions
 - 3. Selection of forms – defines type of insurance coverage
 - 4. Deductibles – a form of self insurance (higher deductible save you money)
 - 5. Exclusions
 - 6. Endorsements
 - a. Add or subtract items that are covered
 - b. Add or subtract causes of loss

XVIII. REAL ESTATE TAXES

- A. Legal – ICPA, Section 10 (a) – (c)
- B. Assess \$1.00 per year on recreation or other residential use ICPA, Section 18.4 (p)
- C. Board can ask for relief on behalf of Association

XIX. MAINTENANCE

- A. Understand what property is to be maintained
- B. Contracts – understand your contracts
 - 1. (Never sign an automatic renewal, never, never, never)
 - 2. Maintain a contract expiration worksheet
 - 3. Check your Governing documents for limitations
- C. Bidding (bid everything all the time; never let anyone get comfortable)
- D. Focus on major costs (don’t be afraid of big money)

- E. Buy Utilities Right
 - 1. Electrical Deregulation
 - 2. Alternative Gas Resources

F. Nobody is doing such a great job you can't save more money

XX. LOTS OF PEOPLE CAN STEAL YOUR MONEY

XXI. GET INVOLVED

- A. Outside the Community
- B. Political Representation Is Lacking for Community Associations
 - 1. Privatization of Services
 - 2. Who speaks for Community Associations?