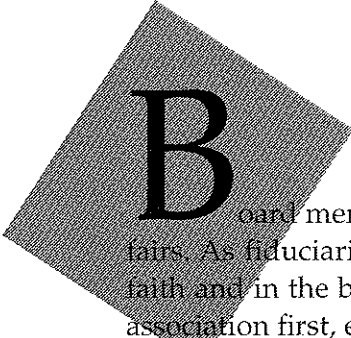


# Financial Responsibilities



Board members exercise a fiduciary duty to protect association affairs. As fiduciaries, board members must carry out their duties in good faith and in the best interests of the corporation. The board must put the association first, even if its decisions personally affect board members.

Before making decisions, the board should consider all options. Use information provided by reliable, competent professionals to evaluate the options. These steps serve the association and help the board meet its fiduciary responsibilities. The president should constantly evaluate actions of the board to uphold this standard.

The "prudent man rule" tests board members' abilities to fulfill their obligations. The rule tests members' actions by comparing their decisions with those made by a "prudent" person in a similar situation.

Presidents must exert more effort to fulfill their fiduciary duties than other board members since their duties are more extensive and specific (e.g., negotiate contracts with vendors or managers, or authorize or sign checks). Board and association members trust that the president will act in the best interests of the association when fulfilling these duties. However, the president does not have the authority to act without board consent.

## Know the Budget and Budget History

The association budget is an ever-changing illustration of the association's financial standing. It should be reviewed frequently and prepared annually so that it coordinates with plans for the new fiscal year.

The board should play an active role in the budgeting process since the budget measures the success of the association and the attainment of

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## **To fulfill their fiduciary duties, board presidents must:**



Actively participate in the budgeting process

Work closely with the treasurer to ensure adherence to budgetary guidelines

Make sure the budgeting process reflects the wishes of the members

Promote understanding and acceptance of the reserves account among the members

Collect fees from the homeowners

Negotiate contracts with vendors or managers

Authorize or sign checks

association goals. Expense and revenue figures reflect association actions during the year. The board president may ask members of the finance committee to prepare the budget. This taps innovative ideas, increases volunteer participation, and broadens membership awareness. The board president and other board members, however, must direct the preparation of the budget.

As the board performs its duties and authorizes the spending of association funds, the president works closely with the treasurer to ensure adherence to budgetary guidelines. As an authorized signer of checks, the president stays abreast of expenditures, both at the time of authorization and at the time of payment. The president should not hesitate to ask the board to reorganize priorities to preserve the association's financial position.

Because budgets survive year to year, reflecting previous gains or losses, the president should know the history of the association's budgets. This historical picture illustrates the effect of past budgetary decisions on community residents and provides insight into future decisions.

The president should also understand any limitations on the association fee structure, such as dollar amounts collectable or caps on the rate of increase. While such restrictions may limit budget options, they drive the president to find other ways to address needs (e.g., special assessments). The president should also monitor the budgeting process, along with the treasurer, to ensure that it reflects the wishes of the members and accurately accounts for association resources.

Often, the president's major concern during the budgeting process is the development of a replacement reserve account. The president must promote understanding and acceptance of this account among homeowners who may misinterpret its purpose and structure. Because the association

typically exists after current homeowners leave the community, the board must ensure the future protection of the value of the asset through the initiation of a reserve account.

While this banking of future funds can easily be challenged in efforts to keep fees lower, reserve funds act as insurance against future special assessments. An annual committee review of the reserve account balance will keep it current with actual replacement costs.

Another aspect of the budget the president must enforce is collection of fees from the homeowners. The by-laws specify the means of calculating the amount of fees and should set forth the time and place for their payment. The rules and regulations should state steps the association takes in case of late or unpaid fees. The board must support every aspect of the collection process.

All homeowners are obligated to pay regardless of circumstances. When all homeowners have met their financial obligations, association finances will flourish.

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