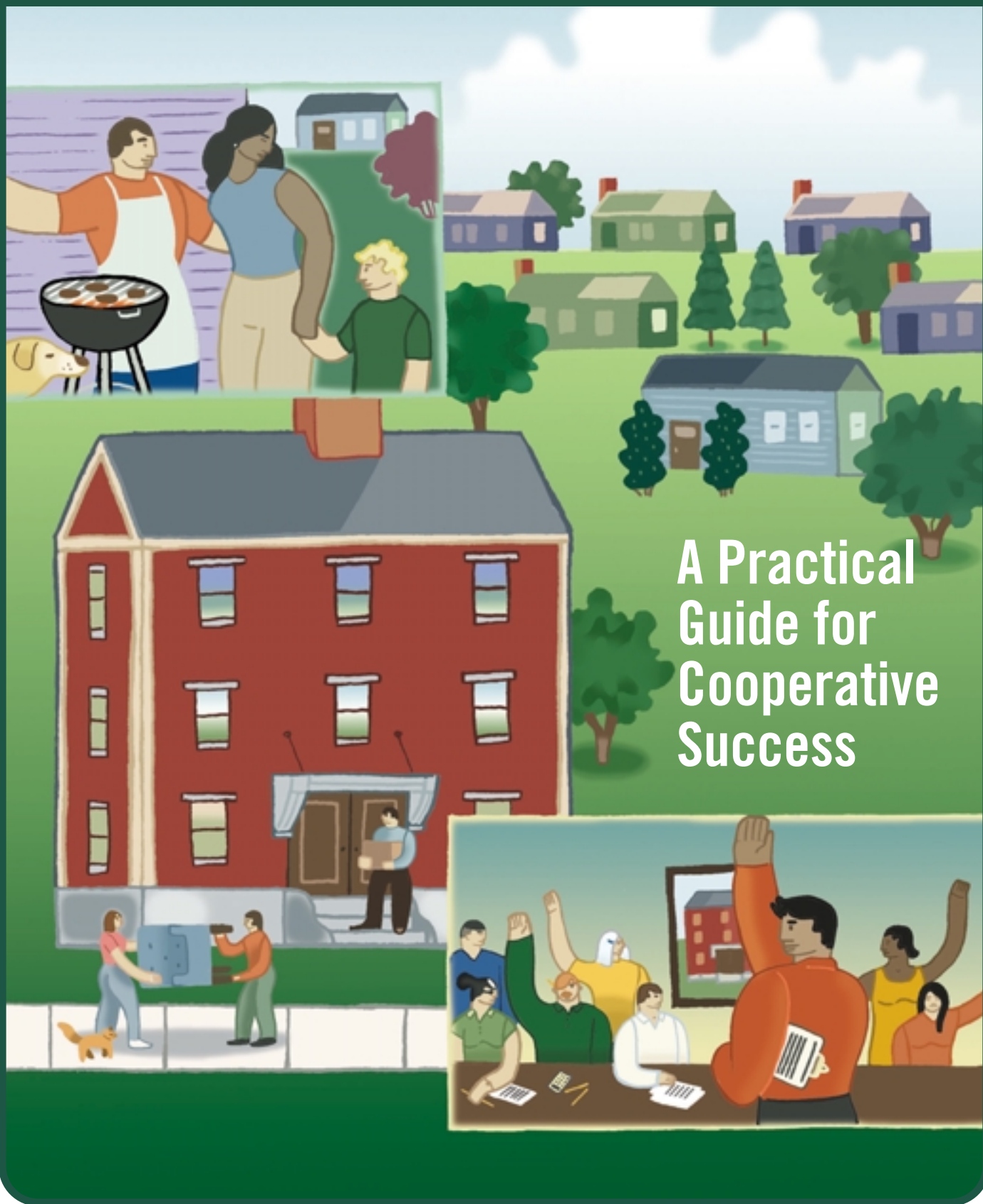


# COOPERATIVE HOUSING TOOLBOX



## A Practical Guide for Cooperative Success

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# A Practical Guide for Cooperative Success

Published by Northcountry Cooperative Foundation  
in partnership with Northcountry Cooperative Development Fund

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If you wish to purchase a copy of this toolbox, contact:

**Northcountry Cooperative Foundation**

219 Main St. SE, Suite 500

Minneapolis, MN 55414

612-331-9103

[www.ncdf.coop](http://www.ncdf.coop)

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**About the Publisher**

Northcountry Cooperative Foundation (NCF) is the non-profit, educational affiliate of the Northcountry Cooperative Development Fund (NCDF). NCDF was founded in 1978 by a group of natural food cooperatives whose members wanted to invest their capital in business activities that supported their values. What began as a simple tool for self-preservation—a handful of co-ops lending money to each other because no one else would—soon grew into one of the first community-development loan funds in the country, and a model for community-based capital control.

Since its founding, NCDF has expanded its market beyond natural foods to include other cooperative sectors. NCDF has made millions of dollars in capital available to a range of small consumer, worker, housing and producer cooperatives and their members, playing an instrumental role in the success of these enterprises. From its beginning, serving a locally-based collaboration of small natural food cooperatives, NCDF has grown into a regional network of more than 100 community-based, democratically owned and governed enterprises.

NCF, as the non-profit arm of NCDF, was formed to more effectively carry out and expand the educational and technical assistance activities with which NCDF has long been involved.

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## Introduction

This guide is designed for use by housing cooperative boards of directors, resident members and co-op partners. It defines what a cooperative is, highlights the history of the cooperative movement, explains how co-ops are managed and governed, explores what co-op members can do to recognize and weed out problems early on and provides guidelines that allow the best elements of cooperative living to take root and grow.

Cooperative home ownership can be a rewarding housing experience, but it isn't always easy. Taking responsibility for your own home, working with your neighbors, making difficult decisions, testing new skills, building a community—none of these things is simple, but each brings its own reward. Co-op housing residents have discovered that by living and working together, they experience an improved quality of life and community that they could not have achieved on their own.

As an enterprise that is owned and controlled by its members, a housing co-op is really a reflection of the actions taken by its members. The primary purpose of this book is to **help housing co-op residents make more informed decisions and take appropriate actions**. If you are a member of a housing co-op, this book offers you tools and information you can use to make decisions that will benefit you and your fellow cooperators long into the future, nurturing the precious community asset that is your co-op.

While all housing co-ops share many common attributes, each co-op community is unique. Differences in size, location, and membership influence the way each co-op makes decisions. There are housing co-ops that have three units—and one co-op in New York City that has more than 15,000 members.

While housing cooperatives traditionally have provided much-needed affordable housing in urban markets, particularly on the East Coast, housing co-ops are now appearing in small towns and rural areas. Some housing cooperatives cater specifically to the needs of seniors, some to students, some to families and some to groups with special space needs, such as artists. Some co-ops share a large number of communal assets, such as gardens, playgrounds, kitchens and other common areas, and build many aspects of their common community upon those communal assets. Other co-ops are used mainly as financial vehicles for cost-effective group housing purchases.

This guide focuses on those practices that are common to all successful housing co-ops.



# INTRODUCTION TO COOPERATIVES

## WHAT IS A COOPERATIVE?

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**T**he International Cooperative Alliance defines a cooperative as “an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.” It is, essentially, an enterprise formed by a group of people who join forces and work together to solve a problem or reach a goal that they all share.

Cooperative members come from all walks of life, are of all ages, and belong to all income groups. People form and join cooperatives to meet all sorts of needs, and buy and sell all kinds of products and services, ranging from childcare to groceries to agricultural products to financial services. There are cooperative day-care centers, and cooperative burial societies. There is probably a cooperative somewhere in the country to meet any kind of need you can imagine.

Cooperatives are differentiated from other business entities in three ways: member ownership, member control and member benefit.

### **Member Ownership**

When you join a co-op, you invest some amount of money in the co-op. You're not only a customer or a user, you're also an owner. As a co-op owner, you're concerned not only about whether the enterprise is making money, but also whether the business is meeting the needs of its member-owners. In an investor-owned business, in contrast, investors are concerned mainly with making money.

### **Member Control**

Participation in the decision-making process is one of the primary ways business owners exercise their rights as owners. As a member-owner of a consumer co-op, for example, you can cast one vote in any business decision, regardless of the amount of business you do with the co-op. In an investor-owned business, in contrast, an investor can cast votes in direct proportion to the number of shares the investor owns—that is, more shares equals more votes equals more control.

Co-ops are led by member-elected boards of directors. The directors are members who have agreed to serve the organization for a number of years. The co-op's manager (if there is one) reports directly to the board. In an investor-owned business, in contrast, the board of directors is typically composed of top company management plus some outsiders.

### **Member Benefit**

A housing co-op's main purpose is to provide affordable housing for its members, who are charged only for the actual cost of running the co-op. A co-op is in business to meet member needs but, like any business, it must make at least as much money as it spends. Housing co-ops generally operate at-cost or on a not-for-profit basis. Beyond everyday expenses, most housing co-ops reserve money for emergencies, vacancies, unexpected increases in operating costs, regular maintenance and property improvements.

An investor-owned housing development, in contrast, is in business to make money, not to benefit residents. Profits are distributed based on the number of shares owned by investors. The more shares you own, the bigger the share of profits you receive. Decisions related to property maintenance and improvements are not always made with the best interests of residents in mind.

## Cooperative History and Origins

Equity. Equality. Self-help. Democracy. Solidarity. These are the guiding values upon which the modern cooperative movement is founded and the basis for the organization of every cooperative enterprise in the world today.

The origins of the modern cooperative movement can be traced to the city of Rochdale, England, at the beginning of the industrial revolution. In 1844, a group of industrial workers, tired of poor quality and high-priced goods sold through the company store, set out to make things right. The Rochdale Society of Equitable Pioneers opened its first cooperative store on Toad Lane.

From the outset, the group's purpose was nobler than simply selling quality, affordable provisions and clothing. It also proposed the building of houses (in the words of the Rochdale pioneers) "in which those members desiring to assist each other improving their domestic and social conditions, may reside; the formation of worker cooperatives to help the unemployed; the purchase of land for common cultivation; and, the promotion of education and sobriety." While some of these early efforts were more successful than others, the clarity, consistency and breadth of these early cooperative principles are striking. From the beginning, these co-op pioneers envisioned cooperatives as a way to give ordinary people greater control over their lives, improve their economic conditions, and protect them during hard times. These principles, developed more than 150 years ago, live on today in the thousands of cooperative institutions that exist throughout the United States and the world.

Any type of business can be a cooperative. In the United States the largest co-ops are often agricultural co-ops and credit unions. Indeed, since the beginning of our nation, farmers and ranchers have joined together to gain funds and manpower to process or harvest their goods. Credit unions are often developed by employees of large organizations to provide financial services to their members.

Co-ops also abound internationally. In Sweden, Canada, Japan and Costa Rica, cooperatives embody a significant portion of the national economy. In fact, Mondragon in the Basque region of Spain is an entire cooperative economy, in which factories, schools, businesses, professional organizations, and services are provided on a cooperative basis. Co-ops appeal to consumers because they offer a way for people to work together to bring members lower prices and better services.

It is probable that people have been initiating cooperative endeavors throughout the ages, but the most significant contribution of the Rochdale Pioneers is that they established a set of ethics that are still the root of co-op philosophy today, known as the seven Cooperative Principles.

The current articulation of these seven principles, approved by the International Cooperative Alliance (ICA) at a 1995 meeting that celebrated the 150th anniversary of the modern cooperative movement, are:

**1. Voluntary and Open Membership**—Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership without gender, social, racial, political, or religious discrimination.

**2. Democratic Member Control**—Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives, members have equal voting rights (one member, one vote), and cooperatives at other levels are also organized in a democratic manner.

**3. Member Economic Participation**—Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members allocate surpluses for any of the following purposes: developing their cooperative, possibly by setting up reserves, part of which would at least be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

**4. Autonomy and Independence**—Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, they do so on terms to ensure democratic control by their members and maintain their cooperative autonomy.

**5. Education, Training, and Information**—Cooperatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperatives. They inform the general public—particularly young people and opinion leaders—about the nature and benefits of cooperation.

**6. Cooperation Among Cooperatives**—Cooperatives service their members most effectively and strengthen the cooperative movement by working together through local, national and international structures.

**7. Concern for Community**—Cooperatives work for the sustainable development of their communities through policies approved by their members.

## WHAT IS A HOUSING COOPERATIVE?

---

**T**he first recorded housing cooperative was created in New York City in 1857 to provide shared living, studio and gallery space for artists. The first fully residential housing cooperatives were purportedly begun by a group of Finnish immigrants, also in New York City, around 1916. The 1930s saw the expansion of cooperative enterprise in many different sectors of the cooperative movement, including housing co-ops, which added the first of the student housing cooperatives. The 1950s saw another burst of growth, as housing co-ops were formed across the country in response to the post-war housing boom. In the 1970s and 1980s, many new housing co-ops were formed with the help of various government programs, designed specifically to provide affordable housing for families.

More recently, housing cooperatives are being used increasingly for senior housing. New co-ops are being developed specifically for seniors, and residents in former family cooperatives also are using the co-op structure to help them age in place through the creation of Naturally Occurring Retirement Communities (NORCs). Today, more than 1 million units of cooperative housing are scattered throughout the United States, with large numbers located in major urban areas like New York City, Chicago and Washington, D.C. More than half this number is in metropolitan New York City.

A housing co-op is not unique because of the type of people who live in it or because of the type of building. A housing co-op is unique because of its ownership structure. A housing co-op is a corporation that exists primarily to provide housing and related services to its members, instead of simply generating a profit for its shareholders.

In a housing cooperative, there is a two-tiered ownership structure: At the top is the cooperative corporation, and below that, the corporation's owners, typically known as member-owners.

The cooperative corporation owns or leases the housing stock, which includes all land, dwelling units and common areas. Member-owners purchase stock—sometimes called shares or membership certificates—in the cooperative corporation. Upon purchasing stock in the cooperative, the member-owner signs a perpetual lease, called a proprietary lease or occupancy agreement, giving the member-owner a legal and exclusive right to occupy a particular dwelling unit, on condition that all obligations to the cooperative are met.

As the legal owner of the property, the cooperative corporation is responsible for meeting its financial obligations, including mortgage payments, property taxes and management and maintenance costs. The cooperative passes these costs on to the member-owners according to some equitable formula, generally based on a variable such as unit size. In turn, members pay a single monthly “assessment” or “carrying charge” to the cooperative, covering all fixed and operating expenses, including taxes, insurance, maintenance and replacement reserves, and the member's pro-rata portion of any overall debt.

Housing co-ops differ from condominiums in that residents do not own or hold title to their individual dwelling units. Instead, the cooperative corporation holds title to the property, and residents own share(s) in the cooperative. See “Differences Among Co-op, Condo, Rental, and Single Family” in this section for a comparison of condominium, cooperative, single family and rental housing features and benefits.

## **Types of Housing Cooperatives**

Cooperative law is particularly flexible, allowing for development of many different types of cooperatives, each structured to meet the needs of a particular group of members. There are three basic types of housing co-ops, each identified by the method in which members accumulate equity.

### **Market Rate or Equity Cooperative**

In a market rate co-op, units are bought and sold at market value, similar to the way single family homes and condominiums are valued. In practice, a market rate or equity co-op is operated in a manner similar to a condominium. The major difference is that, as in all co-ops, residents do not own a specific piece of property, but instead own a share of the cooperative corporation that owns the building. Residents have a binding long-term lease to occupy a specific unit in the building. Unlike condominium associations, co-op member-owners control who is eligible to purchase a co-op unit. Additionally, co-ops own real estate that can be borrowed against for property improvements. Condominium associations only own the common elements of a community, not the real estate itself, often limiting the condominium members’ ability to obtain loans to upgrade the community infrastructure.

### **Limited Equity Cooperative**

One of the unique aspects of a cooperative corporation is that the co-op can adopt bylaw provisions that limit the maximum resale prices of co-op units. Typically, this strategy is employed in order to maintain long-term co-op housing affordability and retain the value of any public subsidy that may have been used in financing the creation of the co-op. Because this type of co-op limits each unit’s equity appreciation, it is called a “limited equity” co-op.

When a member-owner sells a unit in a limited equity co-op, any return on the sale is limited by a pre-determined formula. Each limited-equity co-op has its own formula, contained in the co-op’s bylaws. For example, some co-ops set the maximum share price at an artificially low figure, with any additional market value accruing to the cooperative as a whole, rather than to individual members. Some co-ops allow share values to increase by a modest rate (Consumer Price Index, or some other formula), or the depreciated value of improvements, or the portion of the co-op’s blanket debt paid by the member, or some combination of these values.

Because of their potential for offering long-term affordable housing, limited equity co-ops are attractive recipients for government and non-profit grants and loans.

### **Leasehold Cooperative**

Of all types of housing co-ops, a leasehold co-op requires the least amount of member investment in the corporation. A leasehold co-op leases property from a landlord or non-profit organization, and operates the building collectively as a cooperative. Leasehold co-ops are a unique hybrid of rental and cooperative. Unlike other housing co-ops—where members generally have a considerable ownership stake in the property—members do not have any ownership in a leasehold co-op. However, the leasehold arrangement often gives residents access to inexpensive buildings owned or controlled by charitable organizations and to outside assistance in the form of management help and oversight. Under this arrangement, residents can benefit from reductions in operating costs that their stewardship has created.

## INTRODUCTION TO COOPERATIVES

Leasehold cooperatives are most commonly used in situations where the non-profit partner wants to maintain some kind of control over the on-going use and occupancy of the building; where the housing is intended to serve a population that is temporary or transitional (such as student co-ops); or to take advantage of specific types of financing that do not permit actual resident ownership, such as low-income housing tax credits. Leasehold co-ops can become ownership co-ops at the end of the restricted period if the contract that creates the co-op is structured properly; that is, if a purchase price is set at the end of the period and if a sinking fund is established to fund the purchase.

### Differences Among Co-op, Condo, Rental and Single Family

	Market Rate	Limited Equity	Condo	Rental	Single Family
<b>Ownership</b>	Member/residents are the sole owners through a corporation which in turn owns the land and buildings. Each member has the exclusive right to occupy a particular dwelling unit in perpetuity.	Member/residents are the sole owners through a corporation which in turn owns the land and buildings. Each member has the exclusive right to occupy a particular dwelling unit in perpetuity.	Unit owners take title to the air space to the back of the paint on the walls of a particular dwelling unit plus an undivided interest in the common elements (the land and buildings).	The landlord owns the land and buildings. Each tenant has the exclusive right to occupy a particular dwelling unit during the term of the lease.	Owners take title to the land and building directly.
<b>Monthly Costs</b>	Members pay monthly carrying charges to the cooperative—a pro-rata share of actual operating costs, blanket debt principal and interest, property taxes, insurance and reserves. Members with share loans make individual principal and interest payments directly to the share lender.	Members pay monthly carrying charges to the cooperative—a pro-rata share of actual operating costs, blanket debt principal and interest, property taxes, insurance and reserves. Share loans, if any, are small and may be serviced by the cooperative. Members with share loans make individual principal and interest payments.	Unit owners pay monthly fees to the condo association—a pro-rata share of actual operating costs, reserves and insurance. Unit owners with mortgages make principal and interest payments directly to the lender. Unit owners make their own property tax payments.	Tenants pay the rent specified in the lease, which includes the landlord's profit margin. Owners with mortgages make principal and interest payments directly to the lender.	Owners make their own property tax and insurance payments through monthly mortgage escrow payments or directly to the insurance company and local government.
<b>Maintenance and Repairs</b>	Cooperative is responsible for exterior maintenance. Cooperatives can choose how they allocate responsibility for dwelling unit maintenance and repair between individual member and cooperative as a whole.	Cooperative is responsible for exterior maintenance. Cooperatives can choose how they allocate responsibility for dwelling unit maintenance and repair between individual member and cooperative as a whole. Many limited equity cooperatives assume most or all responsibility for unit maintenance and repair, in order to balance and reduce costs to members.	Condominium association is responsible for exterior maintenance. Individual unit owner is responsible for all dwelling unit maintenance and repair.	Landlord is responsible for all maintenance and repair.	Owner is responsible for all maintenance and repair.

	Market Rate	Limited Equity	Condo	Rental	Single Family
<b>Purchase Price</b>	Purchaser pays market price for shares or membership. Pro-rata share of cooperative's blanket loan remains in place. Purchaser assumes seller's obligations under occupancy agreement. Few closing costs.	Purchaser pays low price for shares or membership. Pro-rata share of cooperative's blanket loan remains in place. Purchaser assumes seller's obligations under occupancy agreement. Few or no closing costs.	Purchaser pays market price for condominium unit. Purchaser becomes obligated to pay monthly condo fees. Closing costs include title insurance, tax proration, etc.	Tenant typically pays first and last month's rent plus security deposit.	Purchaser pays market price. Closing costs include title insurance, tax proration, etc.
<b>Financial Liability</b>	Members have no personal liability on cooperative's blanket loan. Members are obligated under occupancy agreement to make monthly carrying charge payments to the cooperative. Members with share loans (if any) are personally liable to their share lenders for the amount of the loan.	Members have no personal liability on cooperative's blanket loan. Members are obligated under occupancy agreement to make monthly carrying charge payments to the cooperative. Members with share loans (if any) are personally liable to their share lenders for the amount of the loan.	Unit owners are obligated to pay monthly condo fees to the condominium association. Unit owners with mortgages are personally liable to their lenders for the amount of the loan.	Tenants are obligated under their leases to pay monthly rent to the end of the lease term.	Owners with mortgages are personally liable to their lenders for the amount of the loan.
<b>Community Control</b>	Cooperative has right to approve all potential members and can terminate membership and evict residents who violate occupancy agreement. Members democratically govern the cooperative and elect board of directors to oversee operations.	Cooperative has right to approve all potential members and can terminate membership and evict residents who violate occupancy agreement. Members democratically govern the cooperative and elect board of directors to oversee operations.	Condominium association has little or no control over sale of units or behavior of unit owners. Unit owners democratically govern the condominium association and elect board of directors to oversee operations.	Tenants have no voice in who moves in and no control over behavior of other residents.	Owners have no control over who moves into neighborhood and no control over behavior of neighbors.
<b>Facility Rehabilitation</b>	Three methods available to finance cooperative improvements: 1. Assessment of individual members for pro-rata share of the total cost. 2. Establishment and funding of replacement reserves. 3. New long-term blanket financing.	Three methods available to finance cooperative improvements: 1. Assessment of individual members for pro-rata share of total cost. 2. Establishment and funding of replacement reserves. 3. New long-term blanket financing.	Two methods are available to finance improvements of the common elements: 1. Assessment of individual unit owners for their pro-rata share of the total cost. 2. Establishment and funding of replacement reserves.	The landlord decides when and if rehab, replacements, or improvements are to be done.	Owner is individually responsible for all rehab, replacements, and improvements.
<b>Property Management</b>	Cooperative members democratically elect board of directors, which hires and oversees property management firm and/or employees.	Cooperative members democratically elect board of directors, which hires and oversees property management firm and/or employees.	Unit owners democratically elect board of directors, which hires and oversees property management firm and/or employees.	The landlord hires and oversees property management firm and/or employees.	Owner is individually responsible for all aspects of property.

## Differences Among Co-op, Condo, Rental and Single Family

	Market Rate	Limited Equity	Condo	Rental	Single Family
<b>Tax Benefits</b>	Cooperative members enjoy all of the income tax benefits of homeownership. In most states, cooperatives and their members receive whatever property tax benefits are available to other homeowners.	Unless the cooperative has given them up in exchange for tax-exempt financing, cooperative members enjoy all of the income tax benefits of homeownership. In most states, cooperatives and their members receive whatever property tax benefits are available to other homeowners. In some states, there are additional property tax benefits or savings due to the limitation of resale prices.	Condominium unit owners enjoy all of the income tax benefits of homeownership. In most states, condominium unit owners receive whatever property tax benefits are available to other homeowners.	Tenants receive no income tax benefits associated with homeownership. In most states, rental properties incur higher property taxes than owner-occupied housing. The higher taxes are passed through to tenants as part of their rent	Owners receive all of the income tax benefits associated with homeownership. In many states, homeowners receive some property tax benefits in the form of lower assessments or lower tax rates.
<b>Home Equity</b>	Cooperative members build equity as the value of their cooperative interest increases and as their share loan is paid down.	Growth in equity is limited through a limitation of resale prices. Generally, a formula is used to determine the portion the selling member will receive of the increase in value of the cooperative interest and the pay-down of the cooperative mortgage.	Unit owners build equity as the value of their unit increases and as the mortgage is paid down.	Any increase in value belongs to the landlord and reflects itself in increased rents.	Owners build equity as the value of the home increases and as the mortgage is paid down.

## BENEFITS AND CHALLENGES OF LIVING IN COOPERATIVE HOUSING

Housing co-ops are a uniquely flexible housing tool, providing many opportunities and benefits to their members, both economic and social.

### Economic Benefits

#### Low Entry Costs

When a person buys or sells a co-op unit, the person does not receive title to real estate, but instead buys a share of stock in the cooperative corporation that owns the real estate. As such, there is no need for a new title search or title insurance with each transaction. For this and other related reasons, the closing costs involved in purchasing a co-op unit are typically lower than that of single family home or condominium transactions.

#### Stable Payments

Housing cooperatives can secure long-term, fixed-rate mortgage financing through several different programs operated by the federal government. For a co-op with such a mortgage, the portion of members' monthly expense that pays principal and interest remains fixed over the term of the loan, no matter how often units change owners. Consequently, over time, monthly expenses remain stable, and generally lag behind prevailing rental rates.

## **Homeowner Tax Advantages**

The interest and real estate tax portion of a housing cooperative's mortgage payment enjoys the same beneficial tax treatment as the interest expense on a conventional single family home or condo. The co-op passes these tax benefits on to its members.

## **Equity Accumulation**

Depending on the bylaws of the cooperative, members can build equity in their cooperative homes (through ownership of their share) the same as they would in a single family home or condo.

## **Joint Financing**

The cooperative business structure allows residents to borrow collectively under a single mortgage (often called a blanket loan), borrow separately under individual mortgage loans (often called "share loans"), or use some combination of the two financing methods. This range of options gives co-op members greater flexibility in financing. In addition, individual households do not have to deal with emergency repairs.

## **Limited Liability**

Individual members of the co-op are not personally liable for loans taken out by the cooperative corporation on behalf of its members.

## **Joint Purchasing Opportunities**

Cooperatives provide a ready vehicle for joint purchasing on behalf of their members. In addition to providing an economy of scale in operations, housing co-ops have jointly arranged everything from shared babysitting services to visiting nurses. Such joint purchasing often can deliver to members a wider variety of products and services at a better cost.

## **Protection from Predatory Lenders**

Because co-ops typically allow only owner-occupied housing, require new members to be approved by the board of directors, and are a specialized product offered by only a few lenders, cooperatives provide a natural barrier to such predatory lending practices as "flipping" (buying low and then immediately selling homes at inflated prices to unsuspecting borrowers) and unscrupulous mortgages.

## **Operation at Cost**

In a cooperative, occupancy charges are equal to the actual cost of owning and operating the property. In a rental, rents go up far faster than actual costs because the landlord is in business to make a profit. Cooperative members keep the profit that a landlord would pocket.

## **Overall Value**

A cooperative maximizes benefits to its members. A rental maximizes profits to the landlord.

## **Protection from Non-Paying and Non-Participating Members**

Lease terms and summary eviction proceedings can be utilized to enforce rule observance, owner-occupancy and other conditions required of owner-families, with far more ease than in a condominium setting. In a cooperative, the relationship between cooperative and member is both of corporation and shareholder and of landlord and tenant. The cooperative may use summary eviction proceedings, which are faster to implement than the foreclosure proceedings necessary in condominium settings.



### **Social Benefits**

#### **Self-Management**

Cooperative members approve legal documents, determine policies, approve new members, select the management company (if one is used), approve the budget and set the priorities for maintenance and improvements.

#### **Community Control**

Community concerns as well as individual benefits are taken into consideration in all decisions. Co-op members also have the right (within legal limits) to approve new buyers and so have more leverage in enforcing house rules than is typical in a condominium or town home association.

#### **Leadership Development**

Cooperative board membership provides unique opportunities for members to develop and practice their community leadership skills.

#### **Democratic and Civic Participation**

The cooperative living experience empowers members, helping them build life skills and confidence. Studies show that cooperative members are more active in their communities and more likely to vote.

#### **Flexibility to Change Units**

As household size or economic status changes, co-ops members have the flexibility to change units within their cooperatives. Changing units is primarily an internal process, undertaken in accordance with bylaw and board approval, and involves changing share ownership and proprietary lease/occupancy agreements. Changing units in a co-op is not a real estate transaction. Changing units in a condominium or town home development involves selling the unit and purchasing another.

#### **Multigenerational Living**

Because members can easily change units, larger housing co-ops have attracted multiple generations of the same family, with households moving to larger or smaller units within the same co-op as their families grew or changed.

#### **Enhanced Security**

Because neighbors know each other, many members feel more secure in their homes. Some studies have indicated a lower incidence of crime in cooperatives serving low income members, compared with other kinds of housing serving the same population.

#### **Opportunities for Strengthening the Social Fabric of the Community**

Cooperatives are about living in community with other like-minded individuals. As such, co-ops provide natural opportunities for members to form friendships, pursue common interests and, ultimately, strengthen their community.

#### **Lower Rates of Delinquency and Default**

Studies reflect that co-ops have lower rates of delinquencies and foreclosure than rental buildings, even when both types of housing are subsidized by similar housing assistance programs.

# FOR MEMBERS

**T**he success of a cooperative is determined by the quality and strength of its governance structure. Understanding the appropriate relationship among the members, the board of directors and the cooperative's management (if used) is fundamental to setting the stage for success. In any cooperative, it is critical to maintain a balance between effective decision-making and democratic process. The co-op must operate within a framework that allows members to oversee the co-op's operations as effectively as would any outside owner, while still fostering the growth of the co-op and its members by incorporating the cooperative principle of democratic decision-making.

The main elements of the cooperative governance structure are: members, board of directors and committees. The basic unit of governance is the individual member. Each member has certain rights, which are balanced by responsibilities.

## **MEMBER RIGHTS AND RESPONSIBILITIES**

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### **Member Rights**

- To be involved in critical co-op decisions, such as amending the articles of incorporation and bylaws.
- To elect and, if necessary, remove directors.
- To examine annual reports.
- To receive services and use of all common facilities in a non-discriminatory manner.
- To be charged a proportionate share of all co-op expenses.
- To receive timely notices of all changes in board policies, house rules and other matters affecting the co-op.
- To receive advance notification of annual meetings or other special meetings.
- To dissolve, merge or consolidate the cooperative, or form a joint venture with others.

### **Member Responsibilities**

To hold directors accountable and to require elected directors to operate the cooperative according to the articles of incorporation and bylaws.

- To provide necessary capital. Members are the owners of the cooperative; each member should provide his or her proportionate share of "risk" capital.
- To stay informed on issues affecting the co-op.
- To pay financial charges in a timely manner.
- To comply with co-op rules and board policies.
- To attend membership meetings.
- To vote on issues that come before the membership for a decision.
- To treat all common areas with respect.
- To treat fellow residents as equal owners.
- To behave as an owner, not a tenant.
- To become actively involved in the cooperative's committees and activities.

Aside from amending the articles and bylaws, and voting to dissolve, merge or consolidate the cooperative, most decisions regarding the operations of the cooperative are delegated to the board of directors. For this reason, selection of directors is critical, and every member has the

responsibility to stay informed on important issues. A conscientious board will inform and consult the membership in a variety of ways on important issues, but the legal authority to make decisions on behalf of the corporation rests with the board of directors.

## DEMOCRACY AND THE COOPERATIVE MODEL

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Cooperatives claim to be “democratic” institutions, but what exactly does this mean? After all, it is also said that the United States is a democracy. By extension, does that mean that, like U.S. citizens, less than half of co-op members participate in electing their servant-leaders? Clearly, the concept of “democracy” requires a closer examination.

The term “democracy” is derived from a Greek word that means “rule by the people.” A democracy is different from other forms of government because, in a democracy, every person has an equal vote. Today, most nations claim to have a democratic government, or to derive their authority from the “will of the people.”

For the greater part of intellectual history, democracy was viewed with a degree of contempt and out-of-hand dismissal. The refrain was, “It looks good on paper, but it will never work in the real world.” Although democracy’s goals were laudable, many thought the conditions necessary for success could not be produced in practice. In *The Social Contract*, the political theorist Jean Jacques Rousseau wrote what he believed to be the conditions necessary for fostering a democracy.

They are:

- “A very small State, where the people can readily be got together, and where each citizen can with ease know all the rest.
- “A large measure of equality in rank and fortune, without which equality of rights and authority cannot last.
- “Little or no luxury—for luxury either comes of riches or makes them necessary; it corrupts at once rich and poor, the rich by possession, and the poor by covetousness; it sells the country to softness and vanity, and takes away from the State all its citizens, to make them slaves one to another, and one and all to public opinion.”

Clearly Rousseau did not feel that meaningful democracy was possible on the scale of a modern nation state, but how would a housing cooperative fare against his criteria?

### Housing Co-ops Embody Democratic Principles

Rousseau’s first requirement is that the organization be small enough that the members know each other. This condition ensures that all of those participating in democratic governance will cast their votes with an understanding of how it affects other people. Housing co-op members often cite this sense of community as the greatest advantage of cooperative living. Many co-ops purposefully work to foster community through group activities and common living spaces.

The second requirement is a large measure of equality in rank and fortune. Although there is some variation in the articles of incorporation amongst co-ops, all articles embrace the one member, one vote model. Co-ops are by design egalitarian institutions, because equality is a prerequisite for democracy.

The one member, one vote characteristic of co-ops means that as a co-op member, you have the ability to fully participate in the governance process. With your vote, you can affect what you think is the best course of action and have an opportunity to influence the views of other members.

The strength of the co-op model is that the consumers of the co-op’s services are also the co-op’s owners and so have ultimate control over the co-op. The weakness of the model lies in the potential for some member-owners to abdicate their responsibility to control the co-op, opening the way

for abuse of power by a select few co-op members. In an empowered situation, members are fully engaged in control of the co-op. Members know and are engaged in a dialogue with their neighbors; they are knowledgeable about the cooperative model and their co-op's legal documents; they participate in committees; they stay informed of the business of the co-op; they attend resident meetings; they comply with all co-op rules; they vote in elections. In short, they are good citizens.

The opposite is true in a situation where members have disengaged from control of the co-op. The danger in this situation is that some individual members may work behind the scenes to control the co-op, or that individual directors will abuse their power on the board. In both instances, members as a whole are not in control of the co-op; instead, one or a few members with personal agendas are making the decisions.

Like a democracy, the long-term viability of a housing co-op depends on the extent to which co-op members are engaged in the process of holding themselves and their servant-leaders on the board of directors accountable.

## LEGAL STRUCTURE

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**E**very cooperative has a basic set of incorporation documents that govern how the cooperative works. These are very important documents, and each member should receive a copy upon joining the cooperative.

### Articles of Incorporation

The articles of incorporation constitute the legal document that establishes the cooperative as a business entity, subject to the laws of the state in which the co-op is chartered. The articles state the name under which the co-op will operate and the purpose of the corporation (which is to provide housing to its members). The articles are the backbone of the co-op and can be difficult to amend.

Articles of incorporation should enable the corporation to function on a cooperative basis, allow the project to operate at cost, and enable patronage rebates to members. Properly constructed, the articles allow the cooperative to operate, for tax purposes, under subchapter T of the Internal Revenue Code, which provides for a single level of taxation that minimizes tax cost. Articles of incorporation should be drafted in accordance with Internal Revenue Code Section 216, which allows cooperative shareholder/members, like other homeowners, to take advantage of the deduction for mortgage interest and real estate taxes.

The articles should state that the purpose of the corporation is the ownership and operation of multifamily (or scattered-site single-family) housing on a cooperative basis. The articles should refer to any particular government program, land lease, or limited-equity format that restricts cooperative operations. The purpose can be amended to include associated activity (such as cooperative child-care, food purchasing or other business enterprise).

The articles must also provide for their own amendment and for the operation of the corporation through its board of directors.

Following are sample sections of a housing co-op's articles. If you interested in trying to make changes to your co-op's articles, it is best to consult an attorney.

Article I	Name
Article II	Location of Principal Place of Business
Article III	Location of Registered Office
Article IV	Name and Address of Resident Agent
Article V	Purpose
Article VI	Number of Directors
Article VII	Capital Stock

Article VIII Distribution of Dividends  
Article IX Names of Incorporators and Initial Directors  
Article X Membership Termination  
Article XI Duration

## **Bylaws**

The bylaws of the corporation state how the corporation will operate, how meetings will be held, how many directors will serve on the board, the structure of membership meetings and other rules of the corporation. The bylaws generally can be amended by a majority vote of the membership. Amendment procedures are outlined in the bylaws. Board members, in particular, should be familiar with the bylaws, which should be reviewed on an annual basis.

Article I Name and Location of Corporation  
Article II Purpose and Powers  
Article III Membership  
Article IV Member Meetings  
Article V Directors  
Article VI Officers  
Article VII Committees  
Article VIII Financial Regulations  
Article IX Seal  
Article X Waiver of Notice  
Article XI Repeal or Amendment of Bylaws  
Article XII Dissolution and Property Interests of Members

Some co-ops address specific issues—such as an affirmative requirement for owner occupancy and prohibition against leasing a unit—in the House Rules, while others will include such issues in their bylaws. Generally, if an issue is critical to the co-op's operation and is unlikely to be changed, then it should be included in the bylaws, which require a membership vote to be changed. If an issue is not critical, it is best addressed in the House Rules, where the board can make changes and amendments as needed.

Cooperative bylaws spell out the particulars of cooperative functioning. Bylaws should:

- Set voting rights.
- Allocate power between the general membership and the board of directors.
- Provide for details of the cooperative's operations.
- Set forth the relationship between the individual member and the corporation (including the corporation's lien on memberships for outstanding sums due it).
- Restrict occupancy to member families.
- Provide for the transfer of control from the initial sponsor-controlled board to one elected by the members.
- Set forth in detail any restrictions on resale and provide for their enforcement.

Most cooperative bylaws deal specifically with structuring the initial cooperative board of directors, which serves until the first annual meeting of members, at which time the members elect their own representatives. Bylaws generally specify what conditions must be satisfied (that is, sale of a specified percentage of memberships, member-occupancy of a specified number of housing units, specified period of time, etc.) before the first Annual Meeting must be held. Until then, a board appointed by the developer/sponsor runs the corporation.

## Occupancy Agreement (Proprietary Lease)

The occupancy agreement serves as a proprietary lease between the cooperative corporation and the member. The agreement grants members the right to live in specific units, provided they abide by terms of the occupancy agreement, pay their share of the housing costs, and abide by all rules and regulations of the cooperative. The occupancy agreement sometimes outlines consequences of a member not adhering to the terms of the occupancy agreement.

The occupancy agreement is a comprehensive document, stating what the co-op expects from its members and what the members can expect from the co-op. Each member should be thoroughly familiar with all terms of the agreement.

## Subscription Agreement

A Subscription Agreement is generally used only when a new co-op is developed. The Subscription Agreement is often the first document that a prospective member signs, indicating a commitment to purchase a share(s) in the co-op and to abide by the provisions of other co-op legal documents. The agreement states that the subscriber, if approved, is entitled to occupy a unit according to terms of the occupancy agreement. Finally, the agreement outlines cancellation provisions: the process by which the application can be denied or cancelled and the process by which the person can withdraw the application.

Signing a Subscription Agreement requires that the members be aware of their rights and obligations as set forth in the cooperative's Articles of Incorporation, Bylaws and Occupancy Agreement. Significant restrictions on ownership rights, particularly limitations on continued occupancy, sub-leasing and resale, should be disclosed.

## Federal, State or Local Regulatory Agreements

Federally insured co-ops enter into a contract with the Department of Housing and Urban Development (HUD). Co-ops financed by state or local housing authorities have similar contracts, which are likely to be modeled after the standard HUD agreement. The regulatory agreement requires the co-op to abide by the regulations of HUD, which insured the mortgage in order to induce a lender to finance the development. The agreement binds the co-op and the mortgage holder until the mortgage is repaid. Stipulations in the agreement typically require that the co-op maintain minimum reserve accounts, notify HUD of any adverse changes (such as a fire), get prior approval for any additional borrowing, allow for regular inspections, seek permission to enter into any contracts and, in some cases, limit co-op membership to persons within a previously identified income range.

Board members should be familiar with the provisions of any federal, state or local regulatory agreements, to ensure that the cooperative is in compliance at all times.

## Other Documents

Articles of Incorporation, Bylaws, Occupancy Agreement and Subscription Agreement are the minimum set of legal documents used by a housing co-op. In addition, most co-ops develop a detailed set of House Rules that define expected behavior of members and govern the everyday operations of the co-op, such as: operational policies governing admittance of pets; use of common spaces; member improvements; and noise limits. These rules are ultimately enforceable (by way of agreement to the occupancy agreement) through occupancy termination. A well-structured cooperative also will have less drastic means of enforcement, including fines and dispute resolution procedures.

## ANNUAL MEMBERSHIP MEETING

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**T**he co-op is required to have an Annual Membership Meeting. Bylaws set the date and place, and specify the procedure for notification of members, determination of quorum (percent of members of record required to be present in order for business to be conducted), and adjournment of the meeting when a quorum is not present. Voting rights and procedures are also described in detail in the bylaws, as are methods of appointing proxies. Some bylaws provide an order of business to be followed at the annual meeting.

### Purpose of the Annual Meeting

#### Co-op Democracy

Co-op members elect the board of directors.

#### Member Participation

Co-op members choose which committee(s) they will be on.

#### Communication and Education

The Treasurer reports on the co-op's finances, the President reports on the workings of the board, and each committee reports on its accomplishments over the year.

#### Planning and Goal-Setting

Members discuss and determine what things are important for the co-op to accomplish in the coming year, and what goals the co-op will set for itself.

#### Acknowledgments

Acknowledgements are important (but often overlooked) components of the Annual Meeting. Every member deserves to hear appreciation for the work and energy he or she has contributed to the co-op. A common complaint of co-op living is that there is very little acknowledgement of members' contributions.

#### Full Membership Decisions

Decisions such as bylaws amendments may happen at the Annual Meeting. Also, there may be decisions that the board decides to turn over to the full membership for a vote, and the Annual Meeting is the time for such a vote.

### Location of the Annual Meeting

- A place that is accessible to all co-op members.
- A place large enough to seat all co-op members comfortably.
- A place with space for your activities
- A place that meets your members' needs for off-site or on-site childcare.
- A place where folks will feel comfortable and on "neutral" ground

### Planning the Annual Meeting

- The board should make sure all the business gets covered.
- The Recording Secretary is ultimately responsible for getting the official notice (as required by Bylaws) out to all co-op members.
- Committees may head up the food effort, coordinate child care, or plan a celebratory activity. Or an ad hoc committee consisting of some board members and other members may plan the whole event.

## Timing of the Annual Meeting

- Check your bylaws. Ideally, the Annual Meeting should be held shortly after the beginning of the fiscal year, with enough time to allow for year-end financial statements to be completed.
- Weekend afternoons or late mornings usually work best for most folks. Remember that your Annual Meeting will probably take about three hours.

## CHALLENGES AND SOURCES OF STRENGTH

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**C**o-ops can make you better than the sum of your parts, or they can be an exercise in frustration. It is the responsibility of co-op members to create a foundation of policies and procedures that minimize the frustration and amplify the benefits of the cooperative housing experience.

### Challenges

Following are some common challenges to cooperative success:

- Preferential Enforcement. Policies or procedures are enforced differently for board families, friends or supporters.
- Lifetime Directors. Some board members believe that they occupy the position for life. They may sincerely believe that their perpetual presence is best for the co-op, but most often it is not.
- An apathetic membership. Too many “free riders” who let everyone else do the work.

The best way to ensure that the board governs democratically is to have an active, vigilant and informed membership. To that end, members need to attend meetings, serve on committees and stay up-to-date about issues and problems facing the co-op. It is also important that there be reasonably frequent turnover on the board and that the board acts at all times in an impartial and professional manner.

### Sources of Strength

#### Community

Cooperatives are a natural incubator for community. Many housing co-ops started out as a way to put an affordable roof over some heads. Then, and before long, members formed a singing club or a day care center or someone’s daughter adopted “grandma” down the hall. Co-ops don’t make everyone best friends overnight, but they do provide the structure in which like-minded neighbors can craft a living experience and a life that is infinitely richer than that found in a typical apartment complex.

Living in a housing cooperative is as much about choosing to invest time in building community as it is about finding an affordable place to live. The essence of community represents a sense of mutuality, belonging, sharing, exchange and joint responsibility. It isn’t necessary for everyone to be friends or to even like each other in a housing co-op, but residents do need to respect each other and work together.

All successful housing co-ops have several things in common:

- Members participate in creating and refining the governance structure and share responsibility for cooperative operations and governance through committee assignments and other duties.
- Members think of themselves as “owners.”
- Members emerge as leaders within areas of interest or expertise.
- Members are committed to expanding their knowledge and skills through interaction with the



group and access to outside resources.

- Members actively display a sense of stewardship for shared resources, recognizing shared values and meeting common needs and goals.
- Members learn how to deal constructively with differences of opinion, exhibiting a positive attitude of success.

### **Empowerment**

The cooperative structure embodies the assumption that every member has a voice, and that every member's voice is valued. This attitude rubs off on members, who tend to be more civic-minded than their peer group at-large, participate actively in the community outside the co-op, and use skills in their professional life that they have developed as members of the co-op. To some, the world seems to say "you can't." Participation in a co-op helps members see the world from an "I can" perspective.

### **Collective Enterprise**

Being part of something that is greater than the sum of its parts can be an electrifying experience. Participating in a collective enterprise, through something as basic as housing, is a concept deceptively simple in form, but very powerful in execution. Separately, you may have been renters, but together, in a housing co-op, you are property owners. Separately, you worry about the availability of services near your home. Together, you bring those services to your door. Separately, you are a squeak. Together you are a rumble.

### **Keys to Resident Retention**

Through everyone's combined efforts, it is easy to develop a powerful, successful resident retention program by creating security, having fun, building community, recognizing special occasions, generating involvement and soliciting feedback.

### **Residential Referral Program**

Consider a resident referral program. The program offers a member a one-time carrying charge deduction for the referral of a friend or relative who becomes a new member. The program acknowledges the co-op's trust in the members and the desire for each and every one to be an active participant in the co-op. If a member is willing to participate in this program, then he or she must be happy with the co-op.

### **Create Security**

Feeling at home is directly related to feeling safe, and providing a blanket of security in the co-op creates that environment. Community and neighborhood watch programs and volunteer-based public safety programs use member participation and cooperation with local law enforcement to foster a safe environment. Local law enforcement will be glad to attend annual meetings of members and help those interested learn more about and become involved in these programs. A good way to keep your police department involved with your community is by documenting and reporting any incidents and disturbances. See the "Sample Neighborhood Activity Log" in the Appendix.

### **Build community**

According to the National Apartment Association and the National Multi-Housing Council, the number one amenity residents are looking for is a "sense of community." This can be achieved by keeping members informed about their co-op through a community newsletter that updates members about co-op events and concerns and includes a call for suggestions.

The cooperative newsletter can introduce new members, announce cooperative members' birthdays, new births and marriages, cooperative graduates and membership anniversaries. Newsletter articles can

describe upcoming events, discuss capital improvements and inform members about the most prevalent member issue with regular updates on progress. Co-op members can photograph events and outdoor activities to fill the newsletter with images of residents having fun together.

### **Have Fun**

The board of directors and member volunteers should be encouraged to plan and organize activities such as a mini-festival or picnic in honor of the members. Besides food and beverages, the event can include door prizes, games, music and children's activities. Lots of great company and smiling faces are only a few of the benefits.

### **Recognize Special Occasions**

Everyone loves to receive a birthday card on that special day. The co-op can send personalized birthday cards with kind words thanking members for their work. That individual emphasis personalizes the relationship with members. The co-op has its own birthday each year, which offers a great opportunity for a special newsletter documenting the co-op's accomplishments since the previous birthday.

### **Solicit Feedback**

The co-op has a responsibility to seek out information from members about the quality of living in the co-op. This can be done with a simple member survey targeting both maintenance and management of the co-op. The survey feedback request should include a self-addressed stamped envelope and a friendly cover letter emphasizing the importance and serious nature of members' responses, and reminding members that their responses can be made anonymously.

The Membership Committee should conduct exit interviews for departing members to explore their reasons for moving. These exiting members should be encouraged to talk about their overall experience with the co-op.

# FOR BOARDS OF DIRECTORS

**G**overnance is the job of the board of directors, and there is truly no more important job in the co-op. Sound governance—the ability to make timely, thoughtful and balanced decisions on behalf of members—is the key to cooperative success. Directors are the stewards of important resources, not just for the directors’ families, but for all members’ families and for future members. Directors who are effective and conscientious stewards of co-op resources will help the co-op live up to its potential as a vibrant and vital community resource.

Governance is primarily about making decisions, and then ensuring that those decisions are carried out in a fair and timely fashion. As a decision-making body, the board not only sets broad policies for the long-term but also deals with more immediate operational issues.

The board of directors is responsible for developing, communicating, and implementing the goals of the cooperative. Major responsibilities include:

- Developing policies and procedures to ensure sound operations, fairness, and continuity for the cooperative.
- Financial planning and monitoring, ensuring that the co-op’s income exceeds expenses, and that proper allocations are made to short and long-term reserves.
- The hiring and supervision of any employees and professional contracts (for example: lawyer and accountant).
- Acting like a team, working together to develop strategies, execute plays, and creating a contingency plan for the unexpected.
- Set an example for respectful interaction among members of the co-op.

## BOARD OF DIRECTORS DUTIES

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By law and by custom, all directors are expected to perform three basic duties on behalf of the organization and its owners: Care, Loyalty and Obedience.

**Care**—Directors are expected to use the same good judgment in overseeing the cooperative’s operations that an “ordinarily prudent person” would use in similar circumstances. Directors need to stay informed about the co-op’s finances, educate themselves about things they don’t understand, participate actively in meetings, check to see that board policies are being carried out and periodically measure their accomplishments as a board against some standard of performance.

**Loyalty**—Directors are expected to put the cooperative before their own personal interests and to act in good faith in all dealings with the cooperative. They must disclose and avoid any conflict of interest, or the appearance of any conflict of interest, and must not use their board position for any personal gain or profit. They must act in good faith in all dealings on behalf of the co-op and keep confidential information to themselves.

**Obedience**—Directors are expected to ensure that the cooperative follows its articles of incorporation and its bylaws and is operating within all local, state and federal laws and regulations that apply to the business. They must act with honesty, integrity and common sense, ensuring that the co-op is not at legal or financial risk. They must comply with all environmental regulations, building codes and discrimination laws, be familiar with and follow the board’s policies and ensure there are accurate written minutes of the board’s activities and decisions.

Specific duties of the board include, but are not limited, to the following:

**Organizational**

- Attend and participate in meetings.
- Appoint the cooperative's committee members.
- Set the charge to and oversee the work and work product of the cooperative's committees.
- Ensure the board's succession by recruiting and mentoring members to fill vacancies on the board.
- Prepare and publicize board meeting agendas.
- Speak with one voice, supporting the properly made decisions of the board, whether or not everyone agreed with the decision.
- Act with the authority of a board member only in the context of a board meeting.

**Financial and Legal**

- Establish sound fiscal policies, including financial controls that limit opportunities for theft, and maintain accurate records.
- Develop and maintain an annual budget.
- Retain services of an auditor, attorney, insurance agent, engineer or other professional as needed.
- Authorize legal action on behalf of the cooperative.
- Provide adequate insurance coverage for the cooperative.
- Ensure that the cooperative is protected for acts of all parties with fiscal responsibilities.
- Ensure that the cooperative has sufficient capital and cash flow to remain viable.
- Borrow money on behalf of the cooperative.
- Calculate and set monthly carrying charges.
- Collect monthly carrying charges.
- Levy special assessments as needed.
- Develop a capital improvement plan and establish a reserve fund.

**Property Management**

- Hire any employees of the cooperative.
- Establish policies and procedures for self-management or employ a management service.
- Ensure that the cooperative's grounds, fixtures and buildings are maintained in good working order.
- Plan ahead for capital expenditures.
- Approve expenditures from the reserve fund.
- Assure that member requests for maintenance are handled properly.

**Policies, Rules and Regulations**

- Develop and institute policies to help manage the cooperative effectively.
- Establish, publicize and enforce rules and penalties.

**Member Relations**

- Communicate the cooperative's policies to membership, including BOD decisions and transactions.
- Terminate members who are not fulfilling the terms of their occupancy agreement.

**Community Relations**

- Maintain positive relations with the co-op's neighbors. Many co-ops are actively involved with the issues and events of their local community. This partnership can help the community understand the benefits of cooperative housing as a valuable part of the community.

**Makeup**

The number and term of a co-op's directors are set forth in the co-op's bylaws. As a general rule, an effective board needs a minimum of five directors, with a maximum of 11 directors. It is prudent to

have an odd number of board members to avoid tie votes.

### Composition

Housing co-op members are typically elected from the membership at large, and only residents may serve as voting members on the board. A co-op board may consider seeking outside members with particular expertise to serve as “advisors,” who would attend meetings and participate in discussions, but not cast a vote.

### Meetings

Co-op boards of directors usually meet monthly. Every cooperative is required to have at least one annual meeting of all members. Some co-ops will opt for more member meetings, depending on the size of the membership and whether there is some kind of sticky issue pending. The minimum schedule for board and member meetings is defined in a co-op’s bylaws.

### Term

Two or three year terms are most common. It is a good idea to stagger board members’ terms to ensure board continuity (for example: having three members of a nine-member board elected each year to three-year terms). Terms for directors are set forth in the cooperative’s bylaws.

## CHARACTERISTICS AND QUALIFICATIONS OF BOARD MEMBERS

**M**ost co-op bylaws specify the criteria that must be satisfied in order for a member to be eligible for election to the board of directors. The board’s first step is to make certain that candidates meet the legal criteria for eligibility.

### Characteristics of Board Members

People who are willing to spend time on the work of the co-op and are good at organizing are important to any organization, but good board members need more than willingness to serve. Qualified directors are respectful, deliberative, focused and fair. In general, an effective director will exhibit the following personal characteristics:

**Vision**—An effective director must be able to think in terms of systems and contexts. People who focus on parts are useful to the organization, but the board needs people who not only understand how the parts function separately, but who also are drawn to the harmony of the whole. A good director must also be able to look beyond systems to the vision and values upon which the enterprise is based.

**Focus with Perspective**—Focusing on the job at hand and getting the work done is a primary job of any director, but an effective director must also be able to step back from the day-to-day activities and, when needed, look at something from a different point of view. A positive attitude is vital for this, as is a sense of humor.

**Open-Mindedness**—An effective director is open to and willing to spend time learning. The director sees board membership as an opportunity to grow, learn and work with others, and actively embraces this opportunity. The director is able to remain objective in all discussions and to deal even-handedly with issues relating to the co-op. An effective director exhibits at least as many sophisticated listening skills as sophisticated speaking skills.

**Consideration**—An effective director must conduct his or her duties with care, exhibiting thoughtfulness and consideration for the co-op and all its members, starting and ending every deliberation with the standard of what is right. An effective director maintains appropriate levels of confidentiality, leaves a good impression of the cooperative in all interactions, is an effective communicator and generates

enthusiasm in others. The director will remember that he or she does not represent one or a group of members, but is charged with making decisions for the membership as a whole.

## Qualifications of Board Candidates

When nominating an individual for election to the board, the nominating committee or co-op member should consider the following qualities in a prospective director.

### Personal Attributes

- Integrity and good character.
- Inquisitive mind, with ability to ask good questions.
- Community leader, capable of working with people.
- Ability to analyze and use good judgment, maintain confidentiality.
- Good formal or informal education background.
- Ability to express ideas clearly.
- Loyalty.
- Emotional stability.
- Energy and creativity.
- Willingness to attend regularly scheduled and special meetings of the board of directors, as well as any director training seminars.

### Related Skills/Experience

- Experience in business management, including performance evaluation if the co-op has employees.
- Specific knowledge of property management, accounting, real estate or other relevant field.
- Active interest in cooperative affairs as a member.
- Ability to organize.
- Experience on other boards, working with community-based organizations.
- Knowledge and understanding of finance and ability to read financial statements.
- Demonstrated involvement in the cooperative's committees or activities.

## RECRUITING BOARD MEMBERS

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It is the board's responsibility to provide for its own succession. Recruitment is a year-round activity that requires all board members' participation. The final action of an effective board is to make sure that when time for the Annual Meeting rolls around, there are great new board members ready to take over where parting board members left off.

### The Nominating Committee

Most cooperatives use some type of Nominating Committee to identify candidates for the board of directors. The Nominating Committee can have a tremendous impact on the direction the cooperative takes, so the selection of members to serve on the Nominating Committee is extremely important.

The nominating committee takes organizing responsibility and leadership for the following:

- Plans strategy for board recruitment.
- Establishes qualifications that should be represented in the board as a group.
- Identifies gaps in composition of the current board.
- Identifies potential candidates.
- Presents recommendations to the full board.
- Coordinates recruitment interviews.
- Orients new board members to the board.
- Conducts exit interviews with outgoing board members. Exit interviews help provide positive

closure, constructive criticism and positive feedback, and give outgoing board members an opportunity to talk about their concerns so they don't feel they need to go public with their gripes, possibly damaging the credibility of the board. Don't wait until the last minute to begin the nominating process, and don't wait to see who volunteers at the Annual Meeting. Review the qualities and characteristics of a great board member, determine if any of your neighbors possesses some of those attributes, then go after those people. Your co-op deserves the best.

### **Qualities of an Effective Board Member**

Before recruiting individuals for the board, think about what the board as a team is charged with, and what will make the board as a team most able to fulfill its leadership responsibilities in ways that will benefit the entire co-op. The board members must be able to work together to fulfill the board's responsibilities, while representing the diverse interests of the co-op. First decide what qualities and skills you want this group to have. Then determine what qualities and skills are lacking in the group. Target your recruitment based on filling these gaps.

Some members will stand out immediately as good candidates for the board. Others will have more subtle qualities that make them potentially good candidates. Individual board members must provide the pieces that fit together to form an effective group, but no individual board member is required to have every skill or leadership quality necessary to the group as a whole. One board may need a person with particular skills and experience, while another board may need someone very different. The goal is to build an effective group; each individual is only one piece of this equation.

Sources of good board candidates may be:

- People who have participated actively at co-op (or other group) meetings or events.
- People who have shown initiative, diplomacy, knowledge and judgment in addressing issues facing your co-op or another group.
- People who are demanding change and will take on responsibility to effect change.
- People who help a meeting simply by being there—through their people skills, organizational skills, sense of humor or positive spirit.
- People who inspire trust or are seen as team builders.
- Good listeners.

People enjoy having their strengths recognized by their peers. If someone turns you down, invite that person to be on a committee or try again next year.

### **Pre-Screening Board Candidates**

Recruitment and nomination is one of the key reasons to invite non-board members to attend a board meeting. Committees are composed of people who are not board members. It gives the person a chance to try out the board, and gives the directors a chance to assess whether the person would be a strong candidate for the board.

Some questions to consider when pre-screening potential candidates for the board:

- What gaps would this person fill in the current board?
- Why would this person make a good board member? What will he or she contribute?
- Would this person be interested in serving on the board? Why or why not?
- Would this person have time for the commitment required?
- Is this person willing to share power and work constructively with the group?
- Is there any reason this person should not be on the board?

### **Interviewing Board Candidates**

Before the Annual Meeting (preferably several months before the meeting), the board should decide

on a slate of candidates. Current board members should volunteer to meet one-on-one with candidates to discuss the benefits and responsibilities of serving on the board and to recruit members to run for the board.

Some tips:

- Stress vision, achievements, momentum, development (not tasks, problems, recurring crises). Be enthusiastic. Stress the positive.
- Give members a realistic overview of the expectations in terms of time required, responsibilities, etc.
- Let members know what strengths you think they would bring to the group, and why you're enthusiastic about having them, in particular, on the board.
- Offer to answer any questions they have. Ask how you can help.

Suggested questions for potential candidates:

- Please summarize your previous co-op experience.
- Why do you want to serve on the board of directors?
- What do you believe are the primary challenges facing the co-op?
- What insights, skills, and experience do you have that will help the co-op meet these challenges?
- Are you committed to the mission of the organization?
- Can you contribute the time necessary to be an effective board member?
- Can you place the cooperative's purpose and interests above professional and personal interests when making decisions as a board member?

People who are interested in board service who have not been nominated by the nominating committee can still run for the board, according to the conditions set in the cooperative's bylaws. Usually a nomination to the board can be made from the floor during the co-op's Annual Meeting, or in advance of the meeting by petition.

Candidate responses may be published in the newsletter or posted in the co-op for members to read. If space in the newsletter is a consideration, make sure you get approval from the candidates before editing their responses.

## Election Process

Election of new directors to the board usually takes place at the Annual Membership Meeting. The manner in which directors can be nominated, and in which votes can be cast, is dictated in the bylaws. Check your bylaws to make certain that your election process is in compliance.

## BOARD ORIENTATION

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**T**he best way to become familiar with the co-op when joining the board as a new director is through an orientation session. Generally, the board president conducts the orientation, but you may choose to hire an outside trainer to work under the board's guidance. The orientation should not be restricted only to new members; it should be open to all board members.

Below is a sample outline of topics to include in an orientation. Providing board manuals for the new members will make it easy for them to follow the orientation and bring them up to speed quickly. The orientation agenda and the board manual layout are similar. You can use the board manual as an outline for the orientation, since it contains current working documents.

Participating in an orientation requires a commitment, but it's time well spent. Have some fun with it. An orientation will increase the overall comfort level for both new and old board members and it can greatly decrease the amount of time you spend on orientation topics at your regular board meetings.

Consider implementing a mentor system for the first few months after an election, pairing each new board member with a seasoned director



### Sample Agenda for Board Orientation

1. Introductions
2. Cooperative principles, including what co-ops are and how they function
3. Vision/mission statement
4. Organizational responsibilities
  - *Organization chart*
  - *Board job description*
  - *Committee structure and responsibility*
  - *Manager job description*
5. Articles of incorporation and bylaws
  - *Brief explanation of governing system*
  - *Legal duties*
6. Policies
  - *Current adopted policies*
  - *Drafts of proposed policies*
7. Budget/financial
  - *Fiscal calendar*
  - *Quarterly reports*
  - *Balance sheet*
  - *Income statements*
  - *Operations budget and capital budget*
  - *Budget assumptions*
8. Maintenance and repair
9. Planning and publications
  - *Board planning calendar*
  - *Long range planning*
  - *Annual report to membership*
  - *Membership and benefits of membership and board responsibility*
10. Board operational procedures
  - *Dynamics of the decision-making process*
  - *Good meeting management*
  - *Conflict resolution and problem-solving*
  - *Training opportunities*
  - *Member selection and compliance with fair housing regulations*

## BOARD OFFICERS

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In addition to the general duties of each member of the board, the officers of the board have specific duties and responsibilities. Officers are elected annually by the board (not by the membership). Officers collectively are responsible for representing the co-op and the board to the outside world (that is, to the manager, members, outside contractors or vendors, and government agencies), as well as for making decisions between board meetings. Generally, most co-ops have four officers: President, Vice President, Secretary and Treasurer. Some co-ops combine the offices of Secretary and Treasurer, while others do not have a Vice President. Larger co-ops may have additional officers, such as an Assistant Treasurer. Each co-op's bylaws specify which officers the board is empowered to elect.

Officers of the co-op do not possess any powers on their own. The powers they

wield derive from the board as a whole. The co-op must be clear and specific about what kinds of decisions officers are empowered to make on their own, versus what decisions must be brought back to the a committee or the entire board for resolution and decision. For example, can the board president engage an attorney without board approval? Change insurance agents? Purchase office supplies? Purchase a routine maintenance contract for the boiler? Order the boiler fixed in the middle of the night?

Only the president can be authorized to act as a board member outside board meetings, and then only on specifically delegated responsibilities. Outside of that specific delegated authority, the president must call an emergency meeting. The only other board member who acts outside meetings is the treasurer, who may co-sign checks as appropriate and review the cooperative's General Ledger.

One way to do avoid board officers' abuse of power is to formulate and approve specific job descriptions for each officer which outline the areas of responsibility for each office, and then clearly delineate at what level decisions have to be brought to the full board or a committee. These would typically include expenditures over a certain amount, the signing of contracts, the hiring or firing of professional contractors or consultants, or any issues that raise policy issues or have financial or legal consequences beyond those anticipated in the co-ops current budget or operating plan. Other decisions may be left to the officers or committees of the board for swifter action. Some co-ops will make provision for two or more officers of the cooperative to act on behalf of the co-op in an emergency (the midnight boiler repair, for example) with the stipulation that their actions are reportedly immediately to the rest of the board. These kind of operational issues are usually carried out by management, or by policies and procedures approved by the board if the cooperative is self-managed.

Timely and accurate communication is key to building trust and avoiding misunderstanding. Decisions made by officers and committees between board meetings should be reported at the next meeting and read into the minutes of the association. When in doubt, consult with others, and when differences of opinion occur, use the opportunity to clarify your policies and strengthen your board process.

## President

More than any other director, the President must exhibit the essential characteristics of vision, focus with perspective, open-mindedness and thoughtfulness. Only the President can be empowered to represent the board between board meetings.

The President runs the meetings of the directors and membership. An effective President is a strong facilitator and consensus builder. He or she discerns the co-op's most pressing needs, sets goals and then attains them. He or she manages the affairs and is responsible for the general administration of the guidelines established by the board and the membership. The President performs duties prescribed by the board, or as are necessary to accomplish the objectives of the cooperative.

The President heads a board of volunteer directors. The President ensures that directors and committees are meeting their assignments and goals in order to run a successful and harmonious co-op. While the President's power is defined in the bylaws and policies, the person's real power comes from the strength of the personal relationships he or she forms with board members and co-op members. The President must lead with persuasion rather than command.

The President develops the agenda for each board meeting. The President or Secretary sends the agenda, along with the treasurer's report and the minutes of the last board meeting, to the board members several days in advance of the meeting.

The President calls meetings to order, conducts the meeting and helps board members stick to the agenda, limiting discussion to what is essential, according to policies and procedures (and Code of Conduct) developed by the board. This vital function requires a willingness to interrupt and redirect side conversations.

The President typically acts as a signing officer for the co-op on legal documents and contracts and represents the co-op to vendors, members and the community-at-large.

### **Personal Characteristics of an Effective President**

**Commitment to Service**—Above all, the President must be committed to his or her role as a servant of members. An effective servant does not always do the leading, but implements the will of members.

**Vision**—The co-op looks to the President for inspiration. Members want to hear how good life can be in the cooperative. A good President looks for the positives and talks about them. The President must visualize how the board, committees and volunteers function separately, and also how they work together to achieve the co-op's goals.

**Perspective**—The President needs to be able to step back from the day-to-day activities and assess what is happening, as if for the first time. That includes having a sense of humor.

**Impartiality**—An effective President is able to remain objective and open-minded in all discussions. He or she must be willing to listen to intensely different points of view.

**Caring**—The President must care for the conduct of the co-op and for the well being of its residents. A strong President has an ability to affect others positively and to generate enthusiasm in others.

### **Vice President**

The Vice President presides at all meetings in the absence of the President, or at the President's request, and performs duties delegated by either the board or the President. The Vice President reports on the activities of the President to the board in the absence of the President. He or she usually is considered to be learning the job in preparation for serving as the next President. Often, the Vice President will chair one of the committees.

### **Treasurer**

The job of the Treasurer is to oversee the timely and accurate collection and disbursement of the cooperative's funds. This includes making sure that the co-op's financial records are timely and accurate at all times. The Treasurer should be authorized to co-sign checks over an agreed-upon amount and to review the General Ledger to oversee all the cooperative's financial transactions. The Treasurer (in consultation with the Finance committee, which he or she typically chairs) is in charge of developing the co-op's annual budget, overseeing the investment of reserve accounts and strategizing about how to deal with any budget shortfalls. The Treasurer also reviews monthly delinquency reports, ensures that there are workable policies for dealing quickly and confidentially with late payments, and is responsible for preparing the cooperative's books for audit, if required. Regular duties of the Treasurer include:

#### **General Financial Controls**

- Ensure two signatures on checks.
- Have books and reports done by someone other than family members of signatories.
- Have someone other than the Treasurer balance the co-op checkbook.

#### **Monthly Tasks**

- Establish rent collection procedures.
- Record rent and expenses, all payments have invoice backup.
- Establish late rent procedures, payment plans, notice to board of directors.
- Reconcile bank books, sign off monthly.
- Complete monthly budget report; send to board and other required institutions or entities.

**Annual Tasks**

- Draft annual budget for board and member approval prior to beginning of fiscal year.
- Provide annual audits and reports to lenders.
- File federal and state tax returns within two months and five days of end of fiscal year.
- File annual state reporting form by April 1 to Secretary of State.
- Ensure that insurance coverage is in place for the next fiscal year.

Each month the Treasurer oversees the reconciliation of the cooperative accounts. The Treasurer may delegate tasks and responsibilities to any member of the Finance Committee.

The Treasurer should ensure that an orderly transition occurs when a new Treasurer is elected, and help the new Treasurer master the performance of all necessary tasks.

**Recordkeeping Guidelines**

Generally, the Treasurer is responsible for compiling and keeping the financial records. To prevent misuse of funds and to ensure adequate oversight, however, care should be taken to segregate duties among as many people as possible. Larger organizations may delegate some of these duties to staff.

TYPE OF RECORD	DESCRIPTION	RETENTION TIME
<b>Co-op and Board</b>	Articles of Incorporation	Life of corporation + seven years
	Bylaws	Life of corporation + seven years
	Current year's board minutes	Life of corporation + seven years
	Historical board minutes	Life of corporation + seven years
	Membership meeting minutes	Life of corporation + seven years
	House Rules	Life of corporation + seven years
	Copy of mortgage	Until discharged of record
	Copy of deed	Until property is sold
	Correspondence	Two years
	Grant applications	Two years
	Insurance policies and certificates	Two years past expiration
<b>Financial Records</b>	Bookkeeping (invoices and receipts)	Three years
	Bank statements	Three years
	Financial reports	Three years
	Audit reports	Three years
	Budget reports	Three years
	Tax returns	Three years
	Historical financial data	Three years
	Monthly resident payment records, including copies of Demand for Rent, Notices to Quit, signed payment agreements and legal eviction notices	Three years
<b>Employment Records</b>	Applications and references	One year
	Advertisements for help	One year
	Records of injuries	Three years
	Complaints and action taken	One year
	Payroll records and employment contracts	Four years
<b>Membership Records</b>	Application (not admitted), including authorization to obtain credit report, credit report, verification notes, and Notice of Adverse Action	Two years
	Active resident files should include: <ul style="list-style-type: none"> <li>• Original application, including authorization to obtain credit report, credit report, verification notes</li> <li>• Acknowledgement of receipt of Articles of Incorporation, Bylaws, and House Rules</li> <li>• Any grievances and action taken</li> <li>• Any notices given the member or secured lender</li> <li>• Any notices from a secured lender</li> <li>• Copies of assignment of mortgage received</li> <li>• Correspondence</li> </ul>	Two years

Good financial records result in better reporting, which will lead to better-decision making and greater public trust. The organization will also be better managed through better use of time, and the organization's assets will be safer from loss or theft.

### Secretary

The Secretary keeps the records of the cooperative and its bylaws. The Secretary makes sure that the agenda is posted for the membership. When amendments to the bylaws are made, they should be typed, noted, dated and maintained with the bylaws, and copies should be distributed to the membership. The Secretary keeps a true record of the proceedings of all meetings of the directors and members. The Secretary is responsible for posting meeting notices, typing correspondence, updating membership and resident lists and maintaining corporate records.

### Importance of Meeting Minutes

*Remember that meeting minutes are legal documents of the organization.* If the co-op is ever involved in a legal dispute, complete and accurate board minutes are extremely important. Most state statutes require that meeting minutes be maintained and filed in a safe place.

All meetings minutes should:

- Record the date and time the meeting began and the time it adjourned.
- Record the name of each person in attendance. Note whether the person is a board member, committee chair/member, co-op member, or a guest. Also note any board members who are absent from a meeting.
- Include:
  - Every motion, exactly as it was stated, who made each motion, who seconded it, and the result of the vote. This records the cooperative's official business action. (Motions distinguish the legal decisions from the general discussions.) It may be helpful to record each member's vote.
  - Announcements.
  - Date set for next meeting.
  - Time of meeting adjournment.
  - Secretary's signature.
- Assign any follow-up needed on any business to a specific person. The board may wish to use the Action Plan form to clarify who will do what by when. This assures that things will get done.
- Be prepared within one week of the meeting. They should be written in a format that corresponds to the way in which the agenda was presented.
- Not be circulated beyond the board until after approval. All board members are responsible for checking the accuracy of minutes.
- Be approved at the next regular board meeting. This makes the minutes of a meeting an official legal document. Until they are approved they are simply the Secretary's notes of a meeting.

Hints:

- Highlight or bold any motions and the vote result to make them easy to find later.
- Create a file for each year of your cooperative's history. Put the minutes in order in each file. Keep them all in one place and pass them on to the next Secretary.
- Keep a copy of the last year's minutes in a binder to take with you to all meetings.
- Stop the meeting discussions if you need to, to make sure you have recorded the exact wording of the motion.

*See sample Board Minutes in the Appendix.*

When a new Secretary is elected, the current Secretary should ensure that an orderly transition occurs, and help the new Secretary master the performance of all necessary tasks.

## BOARD PERFORMANCE STANDARDS

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**C**odes of Ethics and Conduct are working agreements that set guidelines for ethical behavior and conduct. These agreements clearly state expectations about how the board will conduct business, and clarify any uncertainty which may exist regarding the authority exercised by the board or individual directors.

Many boards adopt formal Codes of Ethics and Conduct that set guidelines for ethical behavior and conduct. While it may seem that ethical and respectful behavior can be assumed of all directors, many co-ops find that it helps to have a formal agreement to make sure that everyone is on the same page, and to more swiftly and effectively deal with any lapses in judgment. Adhering to a formal set of guidelines may provide a degree of legal protection for directors in case of a lawsuit related to the board's actions or decisions.

The following statements of agreement clearly state expectations about how the board will conduct business. You may want to adapt these, or write your own.

### Board of Directors Code of Conduct

As a co-op director, I pledge to do my best for the co-op and will:

- Devote the time needed to fulfill the responsibilities of the position.
- Attend all regular and special board and committee meetings.
- Be prompt, attentive and prepared for all board and committee meetings.
- Contribute to and encourage open, respectful and thorough discussions by the board.
- To enhance board understanding and cohesiveness, attend and actively participate in the board's training sessions and annual planning retreat.
- Consider the business of the co-op and its members to be confidential in nature.
- Disclose any personal or organizational conflict of interest in which I may be involved, and refrain from discussing or voting on any issues related to that conflict.
- Be honest, helpful, diligent and respectful in my dealings with the co-op, other directors and the co-op's management, staff and members.
- Refrain from becoming financially involved or associated with any business or agency that has interests that are, or could be perceived to be, in conflict with the co-op's interests.
- Work for continued and increased effectiveness in the co-op's ability to serve its member-owners.
- Be a team player and agree to abide by the majority action of the board, even if it is not my own personal opinion.
- Present the agreed-upon view of the board of directors, rather than my own, when I speak on behalf of the co-op to employees, members, shoppers and the general public.
- Refrain from asking for special privileges as a board member.
- Work to ensure that the co-op is controlled in a democratic fashion and that all elections are public, fair and open to the participation of all members.
- Strive at all times to keep members informed of the co-op's status and plans and of the board's work.
- Continually seek opportunities to learn more about the co-op and its operations and about my responsibilities as a board member.

As a co-op director, I agree to abide by this Statement of Agreement. I agree that if, in the opinion of the majority of co-op directors, I have violated the letter or spirit of this agreement, I shall resign my position on the board immediately and shall not cause continued disruption to the co-op and the co-op board.

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Signature

Date

## Board of Directors Code of Ethics

The board of directors adopts the following Code of Ethics to clarify any uncertainty that may exist regarding the authority exercised by the board or individual directors. This Code of Ethics is proposed to create greater unanimity and closer coordination among directors, management, and employees. To that end, as a co-op director I agree:

### Authority

The board's authority is limited to overseeing the affairs of the cooperative in a manner deemed beneficial to the cooperative as a whole. The board is responsible for carrying out other duties as provided by the bylaws, or by general or specific corporate laws.

### Limits to Authority

Each director's individual authority is limited to the rights and authority of an individual member of the cooperative, except when the board is in formal meeting. No individual director may take action on behalf of the cooperative unless explicitly delegated that authority by action of the board. No individual director has rights to information that is not made available to all directors.

### Disagreement

While an individual director may disagree with a policy or action of the majority of the board, the dissenting director will support that policy or action as being the considered judgment of the board. An individual director shall have the right to present evidence and argument to the board for further consideration, provided the presentation is in a manner consistent with the board's practices.

### Confidentiality

All directors will maintain confidentiality as needed to protect the co-op's interests and financial viability. Directors shall not discuss disputed or confidential corporate actions, policies or issues with co-op members, employees or the general public unless all directors agree to disclose such information. All issues related to personnel, real estate, market strategy and goals, pending litigation and financial status will be considered sensitive issues, subject to confidentiality, unless or until the board as a whole approves full disclosure.

### Professional Conduct

Directors serve as representatives of the cooperative. Directors shall conduct themselves in a manner that fosters confidence and reflects positively on the co-op, its members, and its staff. The board respects the rights of directors, staff, and members to communicate their ideas free from interruption and intimidation. All directors shall disclose any economic conflicts of interest.

As a co-op director, I agree to abide by this Statement of Agreement. I agree that if, in the opinion of the majority of co-op directors, I have violated the letter or spirit of this agreement, I shall resign my position on the board immediately and shall not cause continued disruption to the co-op and the co-op board.

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Signature

Date

## LEGAL DUTIES AND RESPONSIBILITIES OF THE BOARD

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**D**irectors of a cooperative business have the same legal responsibilities as directors of any other corporation or business. Because of the unique nature of cooperative business, however, board members must attend to some additional duties. Unlike investor-owned businesses that are often focused solely on making a profit, co-ops operate profitably in order to meet the needs of their members. Directors must ensure that the members are educated about cooperatives, and about their rights as members. The board has an official responsibility to communicate with member-owners about the financial health of the organization and about the plans and vision of the board.

Directors of the co-op are legally responsible for careful, honest decision-making. Some co-ops have chosen to indemnify or insure their directors against liability. Your Articles of Incorporation may have wording to limit or eliminate a director's personal liability in some areas, but a court will still examine some general areas of director activity to determine accountability. Directors may still be personally liable for self-dealing or personal behavior.

In general, directors can avoid liability by basing decisions on timely and accurate information, promoting education, staying involved, avoiding conflicts of interest and personal gain, and following a code of ethics. General legal guidelines about your responsibilities as a director can be found in your state statutes and you should always defer to an attorney that is qualified to practice cooperative law in your state when you have specific legal concerns.

### Issues Generally Governed by State Guidelines

Directors must make decisions based on careful examination of reliable information including:

- Accurate, complete and timely financial information.
- Current and objective market information.
- Regular and comprehensive membership information, such as member surveys.

Directors must be diligent in monitoring the affairs of the co-op by:

- Participating actively and regularly in meetings.
- Understanding and reviewing financial information.
- Receiving and understanding reports and other information from accountants, attorneys, auditors and consultants.
- Monitoring management activities.
- Monitoring committee activities.

Directors must operate in good faith:

- Keeping confidential information regarding the cooperative or any of its members confidential.
- Making full disclosure about personal business dealings that may conflict with the co-op, and abstain from any discussion or vote on possible contracts.
- Not benefiting more than any other members by their dealings with the co-op.
- Acting as any prudent person would in similar circumstances.

Unless the board or individual directors have clearly breached any of these guidelines, personal director liability is unlikely. Your board process and records will indicate to the courts whether the activities and decisions of the board have been appropriate, prudent and in the best interest of the co-op. It is in your own best interest to make sure that your board records are complete and that your process has been professional.

### Board Liability Insurance

The cooperative should obtain directors and officers liability insurance to protect those members who serve as board members. The lack of such insurance could prevent some members from considering board service.



## BOARD POLICIES

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**D**eveloping sound, fair, and comprehensive policies for the governance and maintenance of the co-op is one of the most important functions of the board. The methods used when formulating policies are important for a number of reasons.

- Policies are statements of intent. They establish clear guidelines and standard practices for how the co-op operates, and alleviate misunderstandings.
- Policies identify the criteria to be used when making decisions.
- Policies minimize problems and conflicts by anticipating potential areas of conflict or confusion and by establishing procedures to deal with such situations before they arise. Policies save the group's time for more important things.

Good policies reduce the likelihood that decisions will be made in an ad hoc, arbitrary, preferential or discriminatory fashion.

The board should adopt policies to clarify procedures and to address issues that are likely to arise. Some of these policies may eventually become amendments to the bylaws or may become part of the house rules. Others will become part of a committee's operating guidelines. Some may stand alone.

All co-ops should establish policies dealing with:

- Maintenance and repairs. The policy should outline priorities, procedures and responsibilities for repairs and regular maintenance.
- New member selection process.
- Recruitment. The policy outlines the criteria, procedures and responsibilities for choosing residents to fill board vacancies.
- Funding for a maintenance reserve.
- Financial management.
- Board elections.
- Sale of shares (memberships).
- Subleasing.
- Use of keys, when locks can be changed and by whom, and who can make duplicate keys and how.

All decisions on whether to adopt or amend policies should be included in the board meeting minutes, including associated motions and votes. It is useful to keep a copy of all board policies in a separate three-ring binder.

The effectiveness of a policy has as much to do with how it is crafted as with how it is implemented. Policies must be clear and concise and must cover all possible (within reason) situations. Policies also must conform to local, state and federal law, as well as to any other government restrictions and regulations.

### Creating Policies

When creating a policy, and before submitting it to a board vote, test the proposed policy against these criteria:

- Does the policy address a specific issue or problem? If not, it may be too general or vague.
- Does the policy clearly define the procedure that a member, board or committee is to follow?

Does it have clear consequences and enforcement procedures; that is, if the rule is not followed, what happens? Who enforces the rule? For example, if you develop a policy dealing with member payment of carrying charges, you should include a schedule showing exactly when payments are due, when penalties for late payment are charged, what the penalties are, how and by whom collections are handled, and when, how and by whom an eviction process is started, all of which must be consistent with provisions of the occupancy agreement.

- Is the policy comprehensive enough? Does it cover all expected variations? For example, when developing a resident selection policy, does it specify how to process applications from current residents versus prospective residents? If so, does it specify what criteria will be used to determine which of several members gets the vacancy if more than one resident applies?
- Does the new policy conflict with the co-op's bylaws or other government regulations?
- Is the policy enforceable? If not, then you're wasting your time developing a rule(s) that is a waste of the board's time.
- Have you considered the short and long term effects of the policy? Some policies need to anticipate all foreseeable changes over time so that they do not have to be constantly changed and updated. For example, does the co-op's resale policy adjust for market changes or inflationary price increases over time?
- Is the policy discriminatory in any way, or does it favor anyone unfairly?
- What are the drawbacks, if any, to the proposed policy?
- When will the policy take effect, if adopted?

*See sample Board Policies in the Appendix.*

## Maintaining Policies

With few exceptions, policies require monitoring and updating. There are two ways you can maintain the co-op's policies:

**Wait until the policy needs fixing**—At some point, the board will attempt to apply a policy to a situation and discover that the policy is outdated, and needs to be updated or maybe even eliminated.

**Plan a periodic review of the board's policies**—Boards that choose this method most commonly build the policy review into the annual board calendar so that all policies are reviewed on a set interval, such as one or two years.

## Examples of Policies

- Policy on limitations of powers of committees.
- Policy that guides investment of co-op's cash assets or surplus funds.
- Policy that dictates separation of responsibilities in the co-op's financial accounting system.
- Policy dealing with access to and privacy of member information.
- Policy for dealing with maintenance emergencies.
- Policy for approval of new members
- Policy for dealing with delinquent members.
- Policy that defines conflict of interest.

## BOARD MANUAL

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**E**very director should have access to all the information he or she needs to be an effective leader and decision-maker. The best way to ensure that each director has access to needed information is to assemble a Board Manual in a three-ring binder. The ideal Board Manual contains the following information:

- Table of Contents.
- List of directors with phone numbers and addresses.
- Vision/Mission Statement.
- Brief history of the co-op.

### Legal Documents

- Copies of articles of incorporation and bylaws.

## FOR BOARD OF DIRECTORS

- Copy of membership application and member benefits brochure.
- Copy of Occupancy Agreement.

### **Descriptions**

- Chart of organization.
- Board job description.
- Committee job descriptions.
- Manager job description, if applicable.

### **Policies and House Rules**

- List of policies.
- Copy of House Rules.

### **Board and Committee**

- Minutes of the last four board meetings and committee meetings.
- Director development plan and budget.
- Most recent board evaluation.

### **Budget/Financial**

- Last two quarterly reports.
- Year-end statements.
- Last three financial statements.
- Operating budget and capital budget, with assumptions stated.
- Last three management reports, if applicable.

### **Planning and Publications**

- Meeting dates.
- Planning calendar.
- Annual Report.
- List of co-op contacts including accountant, attorney, lender, trainers and general resources about cooperatives.

## **BOARD MEETING**

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**B**oard meetings allow for the free exchange of information and ideas among parties with a common interest, which is one of the most important aspects of living in a cooperative. Much of the co-op's business is conducted at meetings. As one noted co-op expert said, "Meetings should be about doing things and taking care of business." Discussion and debate should center on specific issues and proposals that need board decisions. By publicizing the agenda in advance, members are given notice that an issue about which they have an interest will be discussed. Meetings should also result in the delegation of concrete tasks and responsibilities so that participants know clearly what is expected of them before the next meeting.

Except for executive sessions called by the board, all board meetings are open to attendance by membership. Some boards include a spot in their agenda for feedback or questions from members. If you adopt this practice, be certain to formulate ground rules ahead of time to guide member participation. Always be clear with members that they are free to voice opinions, and that the board values their opinions, but that the board ultimately makes the decision.

### **Annual Board Calendar**

Preparing monthly board meeting agendas will be much easier if done within the context of an annual board calendar. At the beginning of the co-op's fiscal year, create an annual calendar that

contains all significant events or decisions in which the board will participate. For example:

January	Create Annual Board Calendar.
February	Plan Annual Meeting.
March	Plan summer activities.
April	Host Annual Meeting.
May	Common area cleanup.
June	No board meeting.
July	Co-op cookout; plan National Night Out activities.
August	National Night Out.
September	Fall cleanup and winter maintenance items.
October	Budget planning.
November	Evaluate the past year.
December	No board meeting.

## Board Meeting Agenda

In order for any meeting to be effective, there must be an agenda. Planning the board meeting agenda is a major responsibility of the board President. Planning the meeting agenda is always easier if the board has developed an Annual Board Calendar.

Here are some general guidelines to remember when developing a board meeting agenda:

- In order to conduct business in an efficient manner and stay on task, it is important to allot a time limit for each agenda item. Some agenda items need to be voted on at the meeting, in which case you may include suggested wording for the motion in the agenda. Doing so can help focus discussion on the point at hand.
- If a particular item continues to appear on the agenda, consider forming an ad hoc committee to deal with it, so the board can spend its meeting time more effectively.
- Schedule important discussions early in the meeting, when people are fresh.
- 25 percent of a board's time is spent monitoring the past, and 75 percent creating the future.

The agenda usually consists of these items:

- Approval of minutes from last board meeting.
- Approval of the meeting agenda.
- Reports from board officers, committees or management company.
- Old business—Includes those items that were tabled or not resolved at the last meeting.  
**Warning—These items are a potential time trap!**
- New business—New items of business that have arisen since the last board meeting.
- Announcements of upcoming co-op events.
- Review of Action Items.
- Date of next board meeting
- Review of agenda items for next meeting.
- Meeting evaluation. Include a check-in on how effectively the group advanced the mission of the co-op.
- Adjournment.

*See a sample board meeting agenda in the Appendix.*

## Board Packet

Everyone arrives at the board meeting with a desire to participate and be productive. Time spent at these meetings is valuable and board members want to use it wisely. It helps if everyone who comes

to the meeting is prepared, and mailing a board packet before the meeting is the best way to help meeting participants be prepared. The following is a suggested list of informational materials that can be included in the board packet:

### **4–7 days before each board meeting**

Each board member should receive the following information for the upcoming board meeting:

- Agenda.
- Minutes from the last meeting.
- Information about issues up for discussion or action.
- Financial information, including a monthly financial statement, if available.
- Committee reports.
- Management reporting categories (if the co-op has a management staff) summarizing current activities. These can be labeled "For information only—no action required."
- Notice of next meeting, including date and place.

### **10–14 days before the board meeting at which it is discussed**

- Annual budget.
- Audit report.
- Strategic plan.

### **When appropriate**

- Updated material for board handbook.
- Advance copies of publications, brochures or promotional material.
- Information about any educational opportunities.

### **Quarterly**

- Financial report.

## **Characteristics of an Effective Meeting**

- The atmosphere is informal, relaxed, and comfortable. People are involved and interested. There are no signs of boredom or tension.
- There is a great deal of discussion in which everyone participates. The discussion stays relevant to the topic or topics at hand. If the discussion gets off the subject, someone quickly brings it back.
- The task or objective of the team is well understood and accepted by participants. Participants are committed to achieving it.
- Participants really listen to each other.
- Disagreement is expressed openly and without fear of conflict. Differences of opinion are honored and thoroughly explored before decisions are made. If differences cannot be resolved, participants agree to live with them and to move on.
- Decisions are reached by consensus. Formal majority voting is not used.
- Criticism of ideas is frequent, frank and phrased constructively. Participants avoid personal attacks.
- People are encouraged to express their feelings as well as their thoughts. There are no hidden agendas and few surprises, since participants are open about sharing their feelings.
- When action is agreed upon, clear assignments are made and participants accept individual accountability.
- The facilitator does not dominate interaction. Participants do not defer unduly to the facilitator. All participants exercise leadership responsibilities.
- The group is highly conscious of its own internal processes. Frequently, it will stop to examine how well it is doing and take a look at things that may be interfering with its functioning. Problems are discussed openly until a solution is found.

## Key Meeting Roles

### Meeting Facilitator

*Responsibilities:* To begin and end the meeting on time; to keep the meeting focused on results; to keep the meeting moving; to model and use facilitative behaviors; to keep discussion on track; to keep the discussion balanced; to summarize; to encourage all participants to contribute; and to listen, look for and point out areas of agreement. See “Role of Meeting Facilitator” below for more details.

### Recorder/Minute Taker

*Responsibilities:* To record ideas and suggestions made by participants, to record agreements and decisions reached, to seek out clarification when necessary.

### Timekeeper

*Responsibilities:* To keep track of time spent on agenda items, to warn leader or facilitator when time is running out.

### Participant

*Responsibilities:* To contribute to the meeting in a constructive way; to share information that is useful; to listen carefully to other points of view; and to pay attention to both task and process functions.

## Role of Meeting Facilitator

Co-op meetings don't have “someone in charge,” they have facilitators. The board president is usually the meeting facilitator, but the board can assign the facilitator role to anyone. A facilitator is a member who steps out of the decision-making to focus on the meeting process, how the discussion runs. Skilled facilitation keeps a meeting focused, moving and productive.

Small meetings are generally easy to facilitate; large meetings are tougher. Start small and gain experience. With practice and attention, anyone can become a great facilitator.

Here's a quick checklist of the facilitator's role:

- Make the meeting space comfortable.
- Provide meeting supplies (extra handouts, newsprint, tape, etc.)
- Start and keep the meeting on time.
- Move the group from one agenda item to the next.
- Recognize people and give them their opportunity to speak.
- Keep issues clear and manageable.
- Make sure that people stick to the issue.
- Encourage positive attitudes.
- Make sure that everyone participates.
- Sum up discussion points.
- End discussion if a decision cannot be made.

The following outlines a facilitator's job in detail. All of the listed goals are necessary, but the tools are suggestions. Experiment and learn as you go.

### Focus

It's the facilitator's job to stay out of the debate and keep discussions on track. An unfocused meeting quickly becomes inefficient and frustrating.

1. **Separate yourself (as facilitator) from the discussion. Try not to add content to the discussion.**

## FOR BOARD OF DIRECTORS

As facilitator, your role is to focus on the process.

- If you know that you have a strong personal stake in a proposal, ask someone else to facilitate the meeting.
  - If you give any personal input, start by saying, "Stepping out of my facilitator role..." It is important that people do not give your opinion more weight because you are acting as facilitator.
2. **Keep the issue clear and manageable.**
    - Start the discussion with a time for "clarifying questions." This is a time for people to make sure that they understand the issues or proposals, not to discuss them.
    - Break large, complicated issues or proposals into smaller parts.
    - Post the agenda or steps needed to reach decision where everyone can see them.
  3. **Make sure people stick to the issue.**
    - Keep a "parallel agenda" or "parking lot" if unrelated issues come up. Jot down notes of concern. Later, you can address these issues quickly, or pass them to a committee or table them for a future meeting.
  4. **Keep speakers from repeating points that have already been made.**
    - Write points on a large pad of newsprint or a blackboard.
  5. **Keep the meeting moving. Be aware of time.**
    - Set time limits for each agenda item.
    - Choose a timekeeper.
    - Remind people how much time remains. If you run out of time, have members either extend the time limit or set another time to continue the discussion. If you extend the time, have the members decide if the meeting will go longer or what will be tabled for another time.

### Participation

It's the facilitator's job to recognize speakers and to get everyone involved. The more points of view that are expressed and then addressed, the stronger final decisions can be. Everyone has valid opinions. Everyone can have creative solutions.

1. **Recognize speakers; call on people to speak in turn.**
  - Keep a "stack." Write down people's names as they raise their hands and use that list to call on people in turn. People may not get to speak at the exact moment that they want, but they will understand that the system is fair.
2. **Make sure everyone gets a chance to speak.**
  - Go around the circle giving each person a brief, uninterrupted chance to speak.
  - Ask questions to prompt quiet members to speak.
  - Break the discussion group into smaller groups so it's less intimidating.
  - Try to have everyone speak once before anyone speaks a second time.
  - Clarify the issue under discussion as needed.
3. **Encourage everyone to speak his or her mind.**
  - If someone seems to be holding back, ask what's up.
  - Give people easy ways to participate. Ask the group a question and have people show thumbs: Thumbs up means agreed, in favor. Thumbs down means disagreed, against. Thumbs to the side means unsure, neutral.
4. **Encourage creativity, especially when discussions get stuck.**
  - Hold brainstorms where everyone adds to a list of ideas without any evaluation. The group can discuss certain ideas after the brainstorm.

### Positive Attitudes

It's the facilitator's role to set the tone of the meeting. Good meetings are relaxed, organized, friendly and fun.

- Keep discussions from getting too heated.
- Schedule a break. It reduces tension and renews energy.
- Give positive feedback.
- “That was a good point to raise.”
- “Great idea.”
- “Well said.”
- Discourage non-constructive feedback and criticism.
- Ask people to stop negative responses such as shaking heads, "tsk, tsk," whispering to others, side comments, etc.
- Refer to points and proposals by titles, not the names of the person who presented them.
- Use the catchy phrase "ideas, not names!" Remind people that it is the idea, not the person, that is important to the issue.
- Make the space comfortable.
- Show up early and arrange the room.

### **Pull it all together**

It's the facilitator's role to bring clarity before the group makes a decision. This is one of the most important parts of facilitating—and often the hardest.

- Sum up what's been said; in voting, points of opposing proposals; in consensus, points to be addressed and solutions.
- Use a blackboard or flipchart to list points of the proposal(s).
- Review important points of the discussion (on paper or orally). This way the group can see how the decision(s) has been reached.
- Know if/when a decision cannot be made. The people may need more facts, opinions from others, time to think, etc.
- Ask members what they need or want to feel comfortable making a decision.
- Make sure everyone understands the decision.
- Restate the decision. Ask for group approval. Make sure that the recorder writes it down exactly.

## **Board Meeting Facilitation Tips**

A well-facilitated meeting makes all the difference between feeling energized or drained by a meeting. Strong facilitation helps all members to participate equally. Although leading a board discussion is usually the president's job, facilitation may be assigned to any person who has a knack for watching the clock, and the agenda, and of encouraging everyone to participate in discussions.

Running meetings and managing them well is not something that anyone is born knowing how to do; it is an acquired skill that takes skill and experience. With time, each facilitator discovers his or her own strengths and own style. Don't be hesitant to secure (and be willing to pay for) outside help if you need it.

The basic job of the facilitator is three-fold: Begin the meeting on time, keep the meeting moving and end the meeting on time.

### **Begin the meeting on time**

- Allow some time for small talk and settling in.
- Create an impromptu agenda, if necessary.
- Walk through the agenda, emphasizing desired outcomes (decision, review or discussion) for each item.
- If agenda topics have appeared in prior meetings, establish continuity by giving a brief review of actions taken since their last consideration.



### **Keep the meeting moving**

- Don't move too fast or push too hard.
- Stick to the allotted times for agenda items.
- Summarize frequently to avoid confusion or misunderstanding, and bridge from one topic to the next.
- If a discussion becomes complicated or lengthy, propose a way of addressing the topic in another way or at another time.
- Keep the discussion balanced.
- Encourage all participants to contribute. The facilitator should be sensitive to everyone's needs to digest or articulate information, especially when discussing complex topics or making difficult decisions, while keeping the discussion moving and tactfully cutting short repetitive arguments.
- Listen, look for and point out areas of agreement.

### **Bring the meeting to a conclusion**

- Be committed to ending meetings on time.
- Get clear agreement on action items, including who will be responsible, time frames, how progress will be checked and how progress will be evaluated.
- Some boards routinely set aside a block of time at the end of each meeting to give members a chance to air questions or concerns. To prevent the meeting from becoming a gripe session, it helps to have ground rules for this sort of exchange.
- Time should be allowed at the end of each meeting for a meeting evaluation process. Encouraging board members to give feedback can improve teamwork and make the job of being a board member fun. All board members are responsible for helping make meetings effective.
- Set the tentative date and time of the next meeting, if appropriate.

## **Using the Consensus Model for Decision-Making**

Making decisions as a group can be difficult. Voting sometimes leaves a group deadlocked, frustrated or resentful. Often, an answer is not a simple "yes" or "no." One way a group can reach a decision that unites instead of divides participants is through consensus. Consensus is defined as reaching general agreement. An effective meeting facilitator will attempt to guide the group to consensus on decisions, using the following techniques:

**Encourage** presentation of viewpoints, especially when conflicting. Real consensus comes only after open discussion and facing differences.

**Listen** carefully for agreements and hesitations within the group. When a decision can't be made, state points of agreement and of hesitation. Stating points of agreement helps group morale, may lead to agreement "in principle" on the issue and may make possible agreement on new ideas. Points of hesitation stated can make them clearer and can make resolution possible. Many times, hesitations are based on misunderstanding and restating can end those misunderstandings.

**Test** for agreement as soon as a decision seems to be emerging. State the tentative consensus in a question, and be specific. For example: "Do we all agree that we'll meet on Tuesday nights for the next two months, and that a facilitator will be chosen at each meeting for the next one?" rather than "Do we all agree to do this the way it was just suggested?" If you are unclear on how to phrase the decision, ask for help.

- Insist on a response from the group. Don't allow silence or grunting for consent. Participants need to be conscious of making a contract with each other.
- Sometimes stating the perceived agreement in the negative helps to clarify the group feeling: "Is there anyone who does not agree that...?" This method is especially helpful for groups under time pressure or with a tendency for nit-picking, but it is also important for group members to be fully supportive of the decision. If you have doubts about their commitment, ask them.

- Be suspicious of agreements reached too easily. Test to make sure members really do agree on essential points.

**Offer alternatives** when there is no agreement.

- Ask those who disagree to offer alternative proposals for discussion and decision.
- If an agreement still cannot be reached, people may need time to reflect on the feelings behind their opinions. Propose a break or a period of silence, or postpone the discussion.
- If postponing the decision, try to reach an agreement on a process for what will happen before an item is brought up again. It is often productive for representatives of opposing factions to draft a compromise proposal together.

There are many models of consensus-based decision making, and the one described below is just one of them. The idea behind this model is to avoid anyone leaving the table feeling disgruntled, excluded or dismissed. This model isn't appropriate for every decision you make, but it can be helpful in instances where you're dealing with potentially divisive issues.

When making a decision, instead of voting "yes" or "no," have everyone express support for the decision in terms of a number between 1 and 5.

5 = I feel strongly about this and will take the lead to make sure it happens.

4 = I feel strongly about this, and will work to make sure it happens.

3 = I am okay with this.

2 = I am not okay with this, but will not stop it.

1 = I am opposed to this, and will work to prevent it from happening.

After everyone has voted, tally and share the responses with the group. Begin by asking the 1s and 2s to share their concerns. Then ask the 4s and 5s to share their viewpoints. The goal is to share viewpoints until everyone in the group is comfortable with the decision. Also, if there are no 5s, you may ask if the proposal is a good idea to begin with.

## Ground Rules for Meetings

It's a good idea to set some formal meeting ground rules that everyone agrees to abide by. Like the code of ethics, ground rules describe the highest level of behavior that meeting participants should practice at all times, but that may be forgotten in the heat of discussion.

- Arrive on time. Stay until the end.
- Begin all meetings on time.
- Start the meeting with introductions and an explanation of the meeting process.
- Come prepared, having read all relevant materials beforehand.
- Recognize and state when you have a conflict of interest. Do not vote on any motion in which you have a stated conflict of interest.
- Make no judgmental statements.
- Seek to understand before being understood.
- Speak respectfully. Never raise your voice above a normal speaking tone.
- Talk to the issue, not to the person.
- Don't criticize those who are absent.
- Ask questions when you do not understand. There are no stupid questions.
- Take turns speaking. Try not to speak again until everyone else has had a chance to speak.
- Don't speak at the same time. Don't interrupt.
- State your motions positively. Try to pair a solution with every problem.
- People can disagree without being disrespectful. Everyone needs to be heard and respected, but that does not mean everyone gets his or her own way.
- Talk about meeting issues at the meeting, not in the parking lot after the meeting.
- End all meetings on time.
- Thank all attendees for their support and dedication.

## Roberts Rules of Order

Robert's Rules of Order is time-proven tool for meeting process. You don't have to be a parliamentary whiz to use basic concepts that help you stick to an agenda and finish the meeting in an hour or two. The table shown below summarizes the most commonly used parliamentary procedures. Adopting these, even informally, can often help at times when discussions stray from the business at hand, or when conflict becomes stressful.

PROCESS	Following parliamentary procedure, one says:	Need a second?	Is it debatable?	Can it be amended?	What vote is needed?
Introduce business	"I move that..."	Yes	Yes	Yes	Majority
Motion by committee	"Finance committee moves..."	No	Yes	Yes	Majority
Suspend further consideration of an issue	"I move to table the motion."	Yes	No	No	Majority
Postpone discussion for a certain time	"I move to postpone the discussion until..."	Yes	Yes	Yes	Majority
Amend a motion on the table	"I move to amend the motion by..."	Yes	Only if motion is	Yes	Majority
End a debate and amendments	"I call the question."	Yes	No	No	2/3
Give closer study to something	"I move to refer the matter to the _____ committee."	Yes	Yes	Yes	Majority
Adjourn a meeting	"I move that we adjourn."	Yes	No	No	Majority

### Motions that occur occasionally

PROCESS	Following parliamentary procedure, one says:	Need a second?	Is it debatable?	Can it be amended?	What vote is needed?
Protest breach of conduct	"I rise to a point of order."	No	No	No	No vote
Vote on a ruling of the chair	"I appeal the chairs decision."	Yes	Yes	No	Majority
Suspend rules temporarily	"I move to suspend the rules so that..."	Yes	No	No	2/3
Avoid considering an improper matter	"I object to consideration of this motion."	No	No	No	2/3
Request information	"Point of information."	No	No	No	No vote
Take up a previously tabled matter	"I move to take from the table..."	Yes	No	No	Majority
Reconsider an action	"I move to reconsider the vote on..."	Yes	Yes	No	Majority

## Troubleshooting a Problem Meeting

PROBLEM	SOLUTION
Lack of agenda	Send a written agenda in advance to all meeting participants, increasing the odds that people will come to the meeting prepared.
Poor attendance	Were you clear about the meeting date, time and location? Did you invite the correct people to the meeting? Did you poll participants to choose a convenient time and location?
Distractions	Be sure to choose a meeting time and location that is free from distracting sights and sounds. Make sure the seating and room temperature are comfortable.
Late arrivals	Start the meeting on time. If you don't start the meeting on time, you're penalizing those persons who are on time, and rewarding the latecomers.
Socializing	Get down to business at hand, and follow the agenda. Do not try to talk over the persons talking on the side, but be silent until the disruption ceases.
Wandering from agenda	Make sure discussion sticks to the agenda. Bring back the strays. Use parliamentary procedure.
Meetings run late	Follow the agenda. Table items for discussion at the next meeting, or assign the work to a committee. Interrupt lengthy speakers, if necessary, and ask them to summarize. End the meeting on time.

## Handling a Meeting Monopolizer

A “monopolizer” is a person who attempts to take charge of a group, monopolizing its discussion and attempting to determine its direction. Many cooperatives have a monopolizer or two. Left unchecked, a monopolizer can ruin a committee, split a board, or even destroy a co-op’s sense of community.

Handling a monopolizer is a delicate matter because the co-op does not want to arbitrarily silence a member. That would be a violation of the member’s right to voice a minority opinion within the democratic organization. The solution for the co-op is twofold:

- Proper use of majority-rule democratic process.
- Effective meeting management by the meeting facilitator.

Responsibility to ensure the success of the democratic process falls to the board, which is elected and empowered to run the meetings of the cooperative. Committee chairs have the same power delegated to them from the board.

### Encourage Democratic Process

The democratic process is designed so that organizations can get business done fairly and effectively. This includes preventing one person from taking over the agenda, or making decisions without a vote. Anyone in the group can move that time limits be imposed, or that each person gets to make their point succinctly and only once. The group can adopt the process by majority vote. This not only puts clear limits on the monopolizer, but also shows him or her that the group has heard enough of them.

### Manage the Person and the Meeting

If someone has previously demonstrated a tendency to monopolize, a board member could speak privately with the individual before the next meeting. Ask the monopolizer what he or she wants to accomplish. Tell them that speaking too much doesn’t help their case, but rather, turns people off. Help them formulate a simple request that they can make at the meeting, and suggest that they then stop talking unless the president calls on them again.

In a meeting, it is the facilitator’s responsibility to protect everyone’s right to be heard. Set the ground rules, and then stick to them firmly and consistently. Make raising your hand essential. Only allow someone to speak after being properly recognized. If anyone speaks before being called on, interrupt him or her. A gavel is useful in these instances.

Even a positively inclined monopolizer can create a difficult situation. Such a person may volunteer lots of their time to the co-op, and may be well-liked by everyone, but feel a need to be in charge of everything. But if the situation continues, other people stop trying to get involved. Another danger is that if the monopolizer should disappear, there could be a sudden leadership vacuum. Consequently, even a positive monopolizer should be encouraged to move over a bit and let others assume important roles.

## BOARD EVALUATION

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**T**he greatest threat to the survival of a cooperative is the board of directors. A March 1994 report by the Plunkett Foundation—Developing Directors of Cooperatives and Other Similar Enterprises—recommends that boards:

“...recognize that the success of any business ultimately depends upon the capacity of its directors to provide the vision and direction needed not only to survive, but to develop and prosper. Therefore, make a commitment to develop the capacity of the board of directors to improve both

their personal and collective contributions to the overall development of the business.”

Building capacity of the board of directors starts with a board evaluation. By evaluating its performance, the board can recognize its achievements and discuss areas that need improvement. A board evaluation:

- Provides the board with a chance to reflect on and assess its areas of strength and weakness.
- May provide the board with an invaluable yardstick by which it can prioritize its activities for the future.
- Can serve an educational and consensus-building function, by clarifying and defining the overall standards of performance for the board.
- Encourages all directors to reflect on what the board has accomplished, as well as on what it should be doing and how it works. Such a review can optimally result in all directors contributing to setting goals of the board. The commitment of all directors to the board's priorities and to improving board effectiveness makes those goals all the more likely to be completed.
- Give a board a sense of its own competence and accomplishment as a group by pointing out the board's strengths, as well as any weaknesses. This is a good foundation on which to build positive change.

Some directors are uncomfortable with the idea of evaluating board performance because they feel they are being personally evaluated. A board evaluation is not an evaluation of the individual board member. An effective board assessment evaluates the performance of the board as a whole. The board evaluates itself on its success in fulfilling its responsibilities, providing members with meaningful accountability and spending its time effectively. The board is responsible for planning, monitoring and evaluating its own work. By creating a structure of internal governance and accountability, the board sets a framework for success.

*See a sample Board Evaluation Tool in the Appendix.*

### **Preparing for the Board Evaluation**

Create a process that allows for an annual review of progress on board goals and measurable objectives, the board's job performance (did the board make a difference?), and the plan for board development (recruitment, training). Begin by setting a process for the board evaluation. Map out the steps for this exercise to be effective.

- 100 percent participation is a goal.
- Gain commitment to the process.
- Plan the process, including timeline and evaluation form to use.
- Gather information in preparation for the discussion.
- Consider using outside assistance for the evaluation, particularly if there is tension among board members, or controversy about the assessment process. If you choose not to use an outside resource for this process, it is still possible to review the results and make plans for board development.

### **How Should the Board Evaluation Be Used?**

All directors' responses to questions should be compiled in a timely manner and distributed to all board members. One or two board members can review the data and prepare an initial analysis for the board. The entire board should review the data and then discuss priorities for future board work, such as setting goals for the board for next year or directing a committee to make recommendations for board training.

## BOARD COMMUNICATION WITH MEMBERS

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It is the board's job to act in the best interests of members, which requires the board to keep the lines of communication open and in regular use. The board must keep members informed about important issues, problems and upcoming events, and to solicit their input on policy proposals. It should be conveyed clearly to members—at the outset, and then regularly thereafter—that the board's communication with members does not mean that the board is automatically obliged to take their suggestions or recommendations, some of which may not be legal, others simply not be feasible or advisable.

All official board communications must be in writing to avoid any confusion or misunderstanding.

At a minimum, each co-op is required to hold an annual meeting of the membership. This is a great opportunity for a party, and for the board to lead the co-op in taking a step back to review the year and give everyone recognition for successful community building. It is a good idea for the board to create and disburse a written annual report of some kind, outlining the accomplishments of the co-op and the board and making sure that the membership understands the important work and issues that have transpired over the past year.

Boards are not required to consult the entire membership on many issues, but thorny issues such as a major increase in carrying charges or an unexpected opportunity or emergency should be presented to an all-member meeting for discussion and feedback. Again, it should be made clear to members that they are being asked for their input—but that the board will make the final decision. While such meetings involve some risk, if used selectively and handled correctly, all meetings have potential to strengthen the members' commitment to the co-op and confidence in the leadership of their board. Major issues, like merger or dissolution, must always be put to the membership for a vote.

### Tools for Effective Communication

The board is responsible for keeping co-op members informed. The ability to communicate effectively with current members, potential members and committees is crucial in determining the degree to which the board is supported in its work. Effective communication can prevent misunderstanding and problems.

Effective communication involves a two-way flow of information. Not only does the membership need to know what the board is doing, but the board needs feedback from members to confirm that its messages are being received.

Many co-op problems can be traced to poor communication. When members don't know what is happening or why, there is a greater likelihood of tension and conflict. Fortunately, good communication can be maintained at minimal expense. There are several methods you can employ that contribute to effective two-way communication.

#### First Contact

- Pay attention to the first impressions that prospective members receive of your co-op. A neat entrance, well-maintained grounds and building, and first contacts with your members or sales agent all contribute to a prospective member's first impression.
- The sales personnel also play a vital role in the communication process. In addition to being enthusiastic, they must understand and articulate the advantages and implications of co-op living. To play this role well, sales personnel must be kept informed by the board.
- A sales brochure designed for prospective members is an effective communication tool. It doesn't need to be expensive, but it should be well-written, emphasizing the advantages of co-op living.

#### Orientation

Orientation should familiarize new members with the co-op so that they immediately feel wel-

comed by and connected with the co-op community. The board can handle the orientation tasks, or delegate them to the membership committee.

Some co-ops hold a special orientation meeting for new members. Others include the orientation as part of the member application process, which is advantageous because the prospect is particularly receptive to information about the community they wish to join.

While the orientation timing and format may vary, it should always provide:

- Introduction to the co-op model, and how a housing co-op in particular works.
- What is expected from members, and what they can expect from the co-op.
- The board's role and responsibilities.
- Committee roles and responsibilities.
- Monthly housing charges and other financial considerations.

### **Ongoing Communication with Members**

The board can make use of several other tools to keep members informed of the state of the co-op.

**Bulletin Boards**—Most co-ops maintain a bulletin board near the main entrance for posting notices and other information, including past board minutes and upcoming board agenda.

**Newsletters**—A newsletter is a useful vehicle for board communication with members.

The newsletter can contain:

- Board meeting minutes.
- Committee reports.
- Meeting notices.
- Comments from management.
- Letters from members.
- News from the co-op community-at-large.
- Birthday, anniversary, and other member special events or announcements.
- Classified ads.
- Recipes or other home tips.

Look for these qualities in the person or persons that the board chooses to write for or produce the newsletter:

- Ability to write clearly and concisely.
- Attention to detail.
- Ability to set and meet deadlines.
- Commitment to communicating the board's message, and to contributing to unity and cooperation.

Commitment to communicating the board's message is crucial. Under no circumstances should the board tolerate a newsletter that seeks to undermine the board's authority. Conflicting opinions and a discussion of issues are encouraged, but the newsletter should never be used to circulate rumors, vent personal or personality conflicts, or spread accusations. The board must ensure that the newsletter works for the benefit of and strengthens the co-op as a whole, not for special interests.

### **Volunteer Recognition**

Because the co-op relies on the commitment and energy of volunteers to keep it running and healthy, it's important that the board implement a system of recognizing volunteers—including themselves—for their contributions. The board can delegate these responsibilities to a committee, or even to another member volunteer.

Here are a few ways to recognize volunteers:

- Orient them to the job, and provide ongoing training.

- Smile.
- Invite their participation in planning and policy formation.
- Say, “Thank you,” and write them thank you notes.
- Take pictures of them working.
- Keep challenging them.
- Provide a baby sitter.
- Post an Honor Roll.
- Invite to a board meeting.
- Plan an annual awards ceremony.
- Send a birthday card.
- Send newsworthy information to news media.
- Plan volunteer meals and social events.
- Praise them to their friends.
- Tell the “powers that be” of their contribution.
- Get T-shirts and buttons.
- Celebrate outstanding projects and achievements.

## Conflict Resolution

Even in co-ops where everyone gets along, there will be occasional problems. One of the challenges for people living in and running their own co-op is learning to work with people who are their neighbors, some of whom they may not like. Members need to relate to each other as business partners, and attempt to represent the best interests of everyone in the co-op. They also need to relate to each other as members of a community, creating an environment in which everyone can feel at home.

To work together, the board and members need to have clearly defined structures and roles, open communication and a commitment to democratic participation and decision-making.

The board carries a major responsibility for creating this environment, and this role can be complicated by two factors:

- The co-op differs from most businesses in that it is both a business and home to its members. This can create a difficult dynamic and make it hard for members to separate the business from the personal.
- Sometimes boards must make difficult decisions. And sometimes, when those decisions are made for the good of the co-op as a whole, they go against the interests of some individual members.

## Preventing Conflict

The best way the board can deal with conflict is to act in a manner that does not generate conflict. Generally, the conflict arises when the board decides to implement or enforce a policy or house rule. Here are some suggestions for how the board can avoid conflict and reduce resistance from members when creating, changing, or implementing agreements or rules.

- Give residents a voice when creating or changing the rule. Give everyone a chance to be heard and, if appropriate, put the issue to a vote.
- When writing a rule, make the rule specific. Make sure that it is not open to interpretation.
- Make the first contact with violators personal and informal. Talking about the violation personally with someone results in a higher rate of compliance than using a formal written notice.
- Try other approaches before resorting to threatening calls or letters. Be creative.
- Offer compromises. Often, the co-op can provide alternatives to violators without compromising the co-op’s position.
- Hold public meetings on divisive rules. Let members decide if the rule should be changed or if it even



should exist. Small group meetings may work best when collecting information for a decision.

- Employ due process procedures. A hearing by an impartial committee, such as the grievance committee, will show the membership that the co-op is fair and willing to play by the rules.

### **Handling Disputes**

At some point, the board will find it necessary to arbitrate disputes and restore neighborly relations. The skill, impartiality and speed with which the board helps members settle their differences will have a major impact on member attitudes and involvement in the co-op.

In some co-ops, the arbitration process is delegated to a committee responsible for fact-finding and making recommendations. The board, however, has sole authority to enforce all co-op policies and rules and is ultimately responsible for eviction.

These procedures are recommended for resolving disputes between members:

- Person-to-person communication. Before coming to the board, members should attempt to resolve matters themselves.
- Formal, written complaint. If a personal discussion is not productive, then the member should file a formal, written complaint with the board (or the committee charged with handling the dispute). The complaint should include: member name; unit number; time, date and place of alleged offense; exact nature of event; description of contact to date between the two parties; and relief sought by complaining member.
- Fact finding. After receiving a complaint, those charged with arbitration must interview each of the parties to the dispute. Usually, a personal visit to each party works best. After talking with both parties, the committee decides whether or not to unite the parties for a discussion. Finally, the committee makes a recommendation to the board.
- Board action. To avoid disclosing confidential information, the board should deal with grievance issues at a closed (executive) session. After considering the complaint and the committee's findings and recommendation, the board decides whether or not to take action against the offending member.
- Notification of board decision. The board or its committee should give the disputing parties written notice of what action—if any—the board will take, including an explanation of why action or inaction is necessary.

As two noted co-op experts (Greene and Berhtoud) put it, “Co-ops reflect the triumph and struggle of democracy.” Disagreement and conflict are as much a part of democracy as the power of collective action. Managing disagreement and resolving conflict in a productive fashion are part of crafting an effective democracy. While everyone knows the consequences of destructive conflict, the advantages of constructively managed conflict include greater understanding, enlightenment and consensus.

### **Working with Co-op Partners**

Cooperating can be a tough business and it's always nice to know that you are not alone. Your co-op should maintain a resource list of professional partners who can assist you with specific tasks (and to invite to anniversary parties).

The resource list should include people who are on your extended team, working to protect, empower and strengthen the cooperative and its democratic governance structure. If you feel that one of your partners is not fulfilling a role—that is, your attorney is too busy to return calls, or your accountant can't explain your financial statement in a way that you can understand it, or someone simply doesn't understand co-ops—you should consider replacing that person or vendor. There are plenty of professional service providers who are familiar with co-ops and who are committed to building well-run and effective co-ops. It is worth your time to develop a good team and

it is worth your money to pay for quality assistance.

Typically, a housing co-op should have an attorney, a bookkeeper or accountant, a lender and an insurance agent as part of its extended team.

### **Legal Elements of Contracts**

One of the responsibilities of the board of directors is to enter into contractual relationships on behalf of the co-op with vendors. Because contracts are legally binding, it helps to know something about a contract before signing one.

#### **1. Why is it important to know when a contract is formed?**

It is important to know when a contract is formed because a contract is legally enforceable. This means that if you don't do what you've agreed to do under terms of the contract, the other party can take you to court to either force you to do it or to make you pay damages, or both, depending on the nature of your agreement. You can take the same action with someone from whom you expect performance under a legally enforceable agreement. A contract may be formed simply by someone in the cooperative saying, "Okay," even though he or she has no authority to form the contract.

#### **2. What are the necessary elements of a contract?**

The three essential elements of a contract are: offer, acceptance and consideration by parties having capacity.

An offer is simple: "If you will do X, I will do Y."

Acceptance involves a return promise: "Okay, I'll do it." Acceptance can also take place through performance. For example, if someone says, "I'll give you \$10 if you hit the side of that barn with this ball," and you throw the ball and hit the side of the barn, you have performed on a contract, whether or not you say anything. You also may allow the other party to perform, as happens when you go to a restaurant for a meal: The restaurant offers you the food and service at a certain price, you accept (by eating) and are then obligated to pay.

Consideration involves an exchange of something of value between two parties who possess capacity. That "something of value" is what you bargain for in an agreement. The "something" must have value to the party bargaining for it; if it has no value, the agreement will not be enforceable. Almost anything a person wants to contract for has enough value for the contract to be enforced, provided the person relies on the contract and performs his or her part of the contract.

Capacity means the mental and legal ability to be held to your promises. Adolescents under 18 years of age lack capacity to enter into a contract, except for the "necessities of life." Capacity is also an issue in considering who has the authority to bind the co-op in a contract.

#### **3. Does the contract have to be in writing?**

Generally speaking, no. Contracts that must be in writing include contracts for the sale or transfer of real estate, contracts for services not to be completed within one year, agreements to pay someone else's debt, contracts for the sale of goods over \$500, and others specified by statute.

#### **4. Who can bind the co-op in a contract?**

In theory, persons acting on behalf of the co-op must have the actual authority to act on the co-op's behalf in order to bind the co-op in contract. In reality, however, if an outside party "reasonably believes" the person has authority to act on behalf of the co-op, the co-op will be bound in contract. The contractor's reliance on the co-op person's apparent authority will be seen as more "reasonable" the more the cooperative gives this person the trappings of authority (such as keys to the co-op's office), and if the contract was formed "in the ordinary course of business" (activities in which the co-op might routinely engage).

**5. What precautions can the co-op take to limit potential liability?**

Be sure that anyone working with contractors understands and makes very clear to the contractor that any contract will need to be approved by the board of directors. The board should have a policy of putting all agreements in writing, and keep good minutes on the nature of the authority given the cooperatives' agents. In all written agreements, especially with contractors, include a statement that "any and all change orders must be authorized, in writing, by further vote of the board of directors, and signed by the chairman of the board of directors and the Treasurer or Secretary."

**6. What if the co-op is involved in a contract it didn't authorize, or a contract goes bad?**

If a party defaults on obligations contained in an enforceable contract, or intends to default, the party has an obligation to minimize the damages (to the other party) caused by or reasonably related to their failure to perform under the agreement. If the co-op is about to default, contact the other party and tell him or her that the co-op will work to minimize the impact of the co-op's non-performance. If the party appears likely to default, contact him or her. Be sure the party knows that the contract is enforceable and that if he or she does not perform, the co-op may ask for damages. Work with the contractor to minimize impact to the co-op.

Each party has an obligation to minimize damages. The co-op can't ignore an opportunity to remedy a problem if it has the power to prevent the problem. For example, you can't ignore a leaking faucet if you have the knowledge and opportunity to shut off supply of water to the faucet, or if you have time to call another contractor to fix it. You can always seek damages to cover the cost of hiring the other contractor to fix it. In this way, the first contractor won't have to pay the full damages resulting from the leaking faucet; he will only have to pay what it cost you to prevent the damage.

**Self-Management or a Management Company?**

Whether you decide to hire an outside manager or use member labor for your management tasks depends on the size of the co-op, the co-op's budget and the ability of the members to be self-managing. A co-op of more than 30 units, for example, usually benefits from having at least some paid management staff to keep track of rent, handle repairs, and pay bills. A smaller co-op in which no members are experienced or trained in financial management may also benefit from hiring an accountant or bookkeeper to assist with the co-op's financial affairs. Even if co-op members are willing and able to collect monthly charges and pay bills, it's still a good idea to have an outside accountant prepare your monthly financial statements. An accountant's services will provide for better continuity as board membership changes over time and gives an extra measure of oversight.

Many co-ops of 20 or fewer units "self-manage." That is, board and committee members take responsibility for bookkeeping, maintenance and organizational tasks. In these cases, it is important to seek out members with previous property or financial management experience to help with the management of the co-op. The value of this sort of experience cannot be underestimated. If co-op members are volunteering to do managerial jobs, it's wise to keep the workloads low, preferably no more than two hours a week.

In a larger co-op, bookkeeping and maintenance responsibilities (and sometimes even organizational ones) often are contracted to a management company or delegated to a co-op employee. In these cases, the co-op's responsibility is limited to scheduling maintenance and overseeing outside contractors or employees. Some management companies allow smaller co-ops to contract for management services on an a la carte basis. That is, the co-op selects and pays only for those services that it does not want to perform itself.

You also may want to consider providing a free unit for a caretaker, or compensating a member for performing maintenance or bookkeeping tasks. This strategy must be done carefully. Clearly spell out that member's duties, limits of power and method of compensation. Any time a member of the co-op is being compensated to perform management work, that member becomes vulnerable to a range of accu-

sations that would not normally be leveled at a non-member manager. The member's responsibilities should be carefully outlined in a contract and policies clearly defined and consistently enforced in order to avoid accusations of a conflict of interest. Make sure such a move is cost-effective for the co-op. Providing a free unit for a caretaker may seem like an easy solution, but it may be more cost-effective to rent out the unit and use the income to pay for management services.

Co-op practice varies widely on the management issue and there is no "right" answer. Some co-ops have members who want a wide variety of services and are willing to pay for them. Some feel that the volunteer efforts of members are best spent on organizational efforts that directly benefit the co-op as an enterprise, and so choose to focus their volunteer time only on those efforts, hiring out maintenance and financial tasks. Others find that outside contractors are not cost-effective, so they perform all co-op management tasks themselves. The challenge is to work out an arrangement that works best for your co-op.

### **Management Company Accountability**

The manager's job is to implement the co-op's policies and procedures. Managers also oversee the co-op's employees, if there are any. The Manager's duty is to implement decisions made by the board at a board meeting, or by the members at a general membership meeting; they do not set policies, but simply enforce them.

Only the entire board, speaking as one voice, can give the manager direction, unless the President or another board member has been given the power to oversee the manager between board meetings. Reports from co-ops indicate that one of the biggest problems with hiring a management company is the tendency of individual residents to direct the work of the management or its employees.

Even if your co-op decides to use a member as volunteer on-site manager, the co-op should have a written job description for the manager. Be clear about what is expected of the manager, including what will happen if those expectations are not met. Keep a copy of any written correspondence between the board and the manager or management company. The correspondence could be useful should any difficult legal issues arise regarding the manager or management company's performance.

### **Hiring Employees**

If your co-op contracts for maintenance or other services with a management company, the board has a supervisory relationship with the management company, and the co-op has no employees. If your co-op hires a manager or other staff, however, the board's supervisory relationship is with the manager or staff, and the co-op has employees.

Being an employer is big responsibility. As a "boss," the co-op's board is responsible for interviewing candidates, checking references, outlining expectations, and supervising and holding staff accountable for performance. The co-op board must be knowledgeable of and compliant with laws relating to discrimination in the workplace, be prepared for the tax, insurance, and record-keeping responsibilities of being an employer, and maintain appropriate employment policies. A discussion of the employer-employee relationship is beyond the scope of this book, so if your co-op hires an employee, the best course is for the board to consult with an employment attorney.

### **Attorney**

The co-op board and members must understand the co-op's articles of incorporation and bylaws, which are the basis of the board's authority.

If the co-op has a government-insured mortgage (from HUD or another governmental body), the board must fully understand the contract between the co-op and the regulatory agency. The board also may need help with vendor contracts.

The board must understand all agreements between the co-op and its members, such as the sub-

scription and occupancy agreements. And the board will need a resource to guide the co-op in an unfortunate event like an eviction.

If the board has questions about any of these documents, it should retain the services of an attorney who is familiar with cooperative law.

### **Accountant / Bookkeeper**

It is the board's responsibility to ensure that the co-op retains qualified personnel to manage co-op bookkeeping tasks, prepare financial statements, and deal with tax compliance issues. See "Self Management or a Management Company?" above for a discussion of criteria to use when deciding whether your co-op should employ the services of a professional management company, or use qualified volunteers from within the membership.

It is almost always more prudent to retain the services of an outside accountant than to attempt to perform accounting tasks internally. An outside accountant will provide for better continuity as board members change and will make it easier to institute the kind of separation of duties that guards against fraud. You should always have access to or retain an accountant or certified public accountant (CPA) who can advise the co-op in these three main tasks:

#### **Bookkeeping**

- Always use qualified personnel.
- Do not allow one person to handle all bookkeeping responsibilities. This practice guards against theft. For example, since it's easiest to steal cash, the person paying bills and depositing funds should not be the same person who reconciles cash.
- Purchase an established software accounting program.
- Physically secure and restrict access to the co-op's confidential information, such as member records and financial data.

#### **Financial Reporting**

- Stay current with your monthly accounting system tasks. Post transactions regularly. Reconcile General Ledger balances with supporting documents. For example, balance the bank statement to the appropriate General Ledger account.
- Set up your financial reports to compare budget to actual.
- Print an Income Statement and Balance Sheet monthly, and forward to the co-op's board of directors, lenders, or other interested parties.
- Close the books within a set number of days of the end of the month.

#### **Tax Compliance**

- Retain the services of a CPA in establishing the nature of the co-op for tax purposes and in completing the co-op's annual tax returns.
- If the co-op has hired staff, be sure to file quarterly payroll tax returns, and make monthly tax deposits with the co-op's bank.
- If necessary, make quarterly estimated tax payments to the IRS.

### **Lender**

If your co-op is anticipating any major capital improvement project for which you may need to borrow funds, or even if you just want to ensure you have some options in the event of an unexpected repair issue, it is a good idea to develop a relationship with a local lender. You may also discover that co-ops are an unfamiliar home ownership option and that you need to educate your lender; take the offensive by educating your lender before you need money.

Many conventional mortgage lenders simply will not lend for the purchase of a housing co-op share/membership. If you want the highest value for your shares and the widest possible audience of potential members from which to choose, you will have to find a willing and knowledgeable lender.

Wherever you go for lending services, make sure the lender understands and appreciates the cooperative difference.

## **Insurance Agent**

The co-op board is responsible for maintaining appropriate levels of insurance on the co-op's building and other common property. In an appreciating market, it is important that your coverage levels keep pace with current unit values. Boards may also want to consider additional coverage for themselves, such as directors' and officers' liability insurance. Additional insurance needs, such as workers compensation, may be required if the board has any employees, or if the board reduces a member's carrying charges in exchange for work. A good attorney can advise you on your risks, and a good insurance agent can help you figure out your options.

Co-op members should also be aware that the property coverage maintained by the co-op does not cover the interior fixtures or any furniture or other belongings in a members unit. In addition to the blanket policy, each co-op member should carry condominium-type insurance for his or her protection.

## **Peer Network**

Co-ops can be each others' best friends. If you have a problem or question, there is a good chance that someone else at another co-op has already had that same problem or question. If you are a new director, or if your whole board is new, rest assured that someone, somewhere, has already experienced your problem. Finding such people and setting up formal or informal mentoring relationships is worth the effort. Even something as simple as lunch with another board president can contribute tremendously to the confidence and morale of your board.

To develop a peer network for yourself, begin with your state association of cooperatives, if there is one. Look for training events at which you might meet other housing co-op folks. Ask your co-op attorney, accountant, lender, or insurance agent if they know of other housing co-ops that are well-run, and how you can contact someone there.

# FOR CO-OP BOARD COMMITTEES

Committees play an important role in carrying out the business of the co-op. The board of directors typically delegates certain tasks to one or more committees, which carries out its assignments between board meetings and then reports back to the full board with results of its work. Committees are an efficient way to accomplish a range of tasks and allow for maximum member participation in co-op activities. By providing a vehicle for involving non-board members in the affairs of the co-op, the workload and pressure is reduced for the board, whose directors might otherwise feel overwhelmed by a burden of responsibility. Committees also represent a natural mechanism for identifying emerging leaders among co-op members, and for developing future board members.

## OVERVIEW OF COMMITTEES

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**C**ommittees may include only board members but, ideally, they should have a mix of board and non-board members. In either case, a person must be a member in good standing in order to sit on a committee. Each committee should include at least one board member responsible for reporting on behalf of the committee to the board as a whole. The power of the committee is derived from the board, so the board must approve all recommendations made by a committee, unless different authority has been explicitly delegated to the committee beforehand.

### Purpose of Committees

- Increase the number of residents who are active participants in the cooperative.
- Promote communication among residents.
- Distribute workload and prevent burnout.
- Give residents an opportunity to act on their personal interests, such as finance, member outreach or physical plant maintenance.
- Help residents understand what's involved in running a cooperative.
- Research problems and make recommendations to the board of directors.
- Provide the opportunity for an individual to measure interest in and knowledge of the cooperative, gauge the value and soundness of his or her judgment and assess potential qualifications for a seat on the board of directors.

### Committee Job Description

Each committee's job description must be clear. The limits of the committee's decision-making authority and spending powers are especially important, and must be clearly delineated. Committees are great for involving members, but can create ill will if they have unrealistic expectations about the extent of their authority.

The following guidelines should govern the work of every committee:

- Prepare a meeting agenda and send to committee members in advance of meeting.
- Facilitate the meeting.
- Ensure that meeting minutes are being taken. See sample committee minutes in the Appendix.
- Act as a resource and encourage members to follow through on their commitments.
- Maintain an ongoing list of issues to research for the board of directors.
- Encourage every committee member to participate in the meeting, and accommodate different personal styles.

- Deal with conflict openly and honestly.
- Assist the committee in setting guidelines for process and code of conduct.
- Make full, accurate and timely reports to the board of directors.

## Relationship Between a Committee and the Board of Directors

- The committee exists only to perform those tasks assigned by the board, as outlined in the committee's job description.
- The board appoints committee members.
- A committee is always accountable to the board.
- The committee should report to the board so that the board can discuss and act on its report.

## Committee Member Responsibilities

- Arrive on time for meetings. Notify chair in advance if late or unable to attend.
- Maintain a folder or notebook containing meeting notes and minutes.
- Bring materials or tasks he or she has completed to share with the group.
- Stay focused on the task at hand and participate in committee discussions and decisions.
- Ask for information or assistance when needed.
- Share the committee workload as needed.
- Fulfill commitments.
- Advise the committee chair when unable to fulfill commitment(s).
- Support and encourage other committee members.
- Support the chair in efforts to facilitate a productive meeting.

## Committee Chair Responsibilities

There are several ways of choosing committee chairs. The chair can be appointed by the board or elected by committee members. Some co-ops require that the chair of each committee be a board director. These co-ops feel that the director-chairperson should be responsible for work that is being carried out in the name of the co-op and for which the board is ultimately responsible. This logic is especially applicable to standing committees. In any event, each committee should have a board member that acts as liaison with the board.

In other co-ops—especially large co-ops—members feel that the board already wields enough power, and that the installation of a director as committee chair is intimidating to non-board committee members. These co-ops prefer to use non-director committee chairs. In yet other co-ops, directors may sit on but not vote at committee meetings, and are viewed instead as the conduit to relay the committee's concerns and findings to the board.

## Standing Committees

Standing committees are appointed by the board of directors to assist the board with ongoing tasks and are expected to function indefinitely.

Every co-op should employ the basic standing committees of: Membership, Finance and Maintenance. The standing committees that your co-op uses will depend on the co-op's membership. For example, artist co-ops often use a standing Design/Exhibition Committee if the building has gallery space.

If there have been past communication problems at your co-op—or to avoid problems if none currently exist—consider setting up a standing Grievance Committee. The Grievance Committee can receive and examine issues that members want to escalate to the board level, then make a recommendation to the board. Or the committee can simply deal with the issue of violations of house rules. The presence of an appeals process gives members confidence that their issue will be given a



fair and impartial hearing. Grievance committees typically include board members, but can include a majority of non-members to give the committee a perspective that the board may be lacking. Members of the Grievance Committee should be selected specifically for their skills in listening to and resolving conflict. If you have the resources, consider giving committee members specialized training in this task.

### Ad Hoc Committees

An ad hoc committee is set up on a temporary basis to accomplish a specific task. After the task is completed, the committee usually disbands. Examples of ad hoc tasks include: recruiting and screening candidates for the board of directors; bi-annual review of house rules; installation of new playground equipment on the co-op's property; celebration of a major anniversary; or oversight of a major remodeling project. Some committees are labeled Standing or Ad Hoc depending on the interests of the membership: For example, in a co-op where gardening and landscaping is a high priority, the Garden Committee would be a standing committee. In a co-op that was interested in a one-time landscaping project, the Garden Committee would be an ad hoc committee.

### Recruiting People for Committees

- Write the job description for the committee, using this format:
  - Purpose:** What you want the committee to accomplish.
  - Duties:** Specific tasks in which the committee will engage to accomplish its purpose.
  - Makeup:** Minimum and maximum number of committee members and the committee's composition (board members and members-at-large).
  - Meetings:** Frequency at which the committee is expected to meet.
  - Term:** Length of service on the committee.
  - Desired Skills:** Specific skills you are looking for in committee members
  - Time Commitment:** Amount of time, each week, month or year that you expect committee members to devote to their task.
- Select a chair for the committee, preferably someone who is good at getting people to work together.
- Select committee members based on their knowledge, interest and time.
- Meet individually with each committee member. Describe the work of the committee, how you see that person contributing and the expected time commitment.
- At the first committee meeting, re-recruit each member by reviewing the committee's purpose. Point out the value of his or her contribution to the co-op, the support of the board and the fun members will have by working together. Ensure that everyone is in agreement.

## MEMBERSHIP COMMITTEE

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**T**he Membership Committee helps the board develop standards and procedures for recruiting new members, reviewing applications, interviewing prospective members, and orienting new members. Because so much of a co-op's success depends on the quality of its members, the role of the Membership Committee cannot be overemphasized.

*See a sample Membership Committee Job Description in the Appendix.*

### Managing the Member Application Process

Much of a co-op's success depends upon the quality of its members: their willingness to give freely of their time and energy for the good of the co-op, to be conservative in their use of utilities and maintenance services and their ability and willingness to pay carrying charges on time. Screening

applicants is one of the board's most important duties.

The board may choose to make all decisions about accepting or rejecting new members, or it may delegate the task to a standing Membership Committee. Most often, a committee is appointed to do the job. The process of screening and selection of new members varies by co-op, and typically is governed by the co-op's bylaws.

When qualifying people who are interested in living in the co-op, you will probably be more rigorous than the typical landlord. As in any tenant selection process, however, you must apply selection criteria uniformly to all candidates. Legally, you cannot reject an applicant on the basis of race, color, religion, nationality or gender. In some states, it is illegal to reject an applicant because of source of income, physical disability or marital status. You can reject an applicant on the basis of rental history, credit history, income, incomplete application information or other evidence that the applicant will not make a good member.

Persons who sit on the membership committee should be chosen with these criteria in mind:

- The committee should represent a cross-section of the co-op's membership.
- Committee members must be committed to observing local, state and federal fair housing and equal opportunity laws and be committed to operating in a non-discriminatory manner.
- Committee members must understand and accept the need for confidentiality.
- Committee members must be well-versed in any rules regarding income and family size limitations that apply to your co-op.

## New Member Application Process

Your co-op must develop a standard process for screening new members, one that is written down and that followed in every instance. You leave yourself open to serious liability if the co-op operates in a manner that is seen to be arbitrary or discriminatory. While you may simply feel that your process is in need of refinement, a prospective member may feel it is discriminatory—and it may be deemed discriminatory by a judge as well.

Guidelines for a new member review process are:

1. The prospective member completes an application form, which may include information related to:
  - Criminal record.
  - Employment history.
  - Credit history.
  - Assets and liabilities.
  - Housing history.
  - Personal references.
  - Volunteer or community involvement.
  - Vehicle information.
  - Reasons for interest in co-op housing.
2. Your co-op may also require the following information upon application:
  - Signed acknowledgment of receipt and reading of bylaws and house rules.
  - Authorization to release credit history.
  - Pet registration form.
  - Non-refundable application fee.

*All application information should be kept in a file in a secured location. Application information should be kept even if the applicant is denied membership.*

3. The membership committee meets to review the application.
4. The committee interviews the applicant. By this time, the committee should have developed a set of questions that are used for interviewing all applicants. Be certain that these questions do not

touch on any illegal issues and that the same questions are used for all individuals who are interested in membership.

5. The committee meets to discuss the interview and make a recommendation to the board for approval or rejection. Particular attention should be paid to:
  - Applicant's household income.
  - Credit history.
  - Criminal record.
  - Employment record.
  - Reluctance to communicate or cooperate.
  - Falsification of information.
  - Willingness to be actively involved in cooperative activities and committees.
6. The committee communicates its (or the board's) decision, in writing, to the applicant.

### **Selection Criteria**

Selection criteria for new co-op members should include:

#### **Current Occupancy and Need**

You may develop a policy under which current residents in good standing may be given preference over outside applicants for relocation to an open unit.

#### **Matching Family Size to Unit Size**

Would the applicant make the best use of the available space? Does the applicant's family fall within the limits established by ordinance, and by fair-housing guidelines?

#### **Rental, Credit, and Financial History**

Does the applicant have a history of paying rent and other financial obligations on time, or does he/she have a history of falling into arrears? Has he or she ever been evicted?

Some co-ops are uncomfortable with running credit checks on potential members, or simply do not want to go to the trouble or expense. This is almost always a mistake. Applicants should be treated equally, and not be judged on whether they "look" like good credit risks. A negative or spotty credit history need not exclude an otherwise enthusiastic and qualified member. Give the applicant the chance to explain any blemishes on his or her record. Be fair and welcoming, but also know that you do not have to accept a member who does not meet the co-op's standards for membership. Getting rid of a problem member is much more trouble and expense than preventing one from joining in the first place.

Many co-ops find it useful to sign up for a credit reporting service used by landlords or rental properties. These services combine all housing related information (credit history, legal judgments, and criminal background) in one report. Remember that all credit data (as well as other personal data) must be kept strictly confidential.

#### **Drug Use or Criminal History**

Does the applicant use illegal drugs? Has he or she been convicted of a felony? Have a history of violent behavior?

#### **Age or Disability**

Though you cannot ask questions related to age or ability, and cannot use age or ability as criteria for membership, elderly or disabled residents may be given priority in assignment of available units, especially for units that are conveniently accessible for them.

**Occupancy Plans**

You can ask if there are other people not listed on the application who will be living in the unit.

**Value to Co-op**

In choosing between two similarly qualified applicants, preference legitimately can be given to the applicant whose skills would most benefit the co-op. For example, an applicant with accounting or building maintenance skills may be of particular value to the co-op.

**Community Involvement**

Applicants who have demonstrated a special interest in your community or neighborhood, or in the neighborhood in which they currently live, can be real assets to the co-op.

**Past Experience with Co-ops or with Resident Self-Management**

Applicants who have had previous experience with co-ops or other forms of resident self-management, or who are particularly eager to participate in the co-op, will often be active members.

**Sample Interview Questions**

Listed below are questions that **ARE APPROPRIATE** to ask a prospective member.

- Have you had your own apartment before?
- Why did you leave your previous residence?
- Do you get along well with the residents in your previous residence?
- How were you referred here?
- Have you ever been evicted? If yes, please explain.
- What is your primary source of earned income?
- What is your total household income?
- Have you ever been convicted of a crime? Please explain.
- What would you do if a neighbor were causing a disturbance in the building?
- Have you ever been involved in a community group or done volunteer work? Please explain.
- Do you have any skills that would benefit the cooperative?

Listed below are questions that **ARE NOT APPROPRIATE** to ask prospective members:

- Are you married?
- Do you have a boyfriend or girlfriend?
- What is your religion?
- What church do you attend?
- Have you ever been arrested?
- Do you have a green card?
- How old are you?
- Are you gay?
- Are you heterosexual?
- Where were your parents born?
- Do you drink alcohol?
- Are you handicapped?

*A sample Interview Guide is included in the Appendix.*

**New Member Admission Procedure**

After an applicant has been approved for membership in the co-op, a transaction occurs for the purpose of transferring stock (representing space in a specific unit) to the new member. In addition, the co-op should have established an orientation plan for new members.

### Stock Transfer

Every co-op has a slightly different procedure for selling or transferring stock to a new member. The procedure is influenced by some combination of the co-op's bylaws, participating lender, and lawyers. Whatever the procedure, it's important to have it identified for the new member, so that the member has a good first impression of the co-op's organizational capabilities.

### Orientation

In order to assume their new jobs as member-owners, new members should be educated on how their co-op functions, and on their rights and responsibilities as members. Their education should take the form of formal training sessions as well as written materials. Many co-ops develop a Member Handbook that contains all the information needed by a member to participate actively and harmoniously in the co-op.

New member education should include the following topics:

- History and function of cooperatives, and housing co-ops in particular.
- History of the housing co-op to which the individual is applying.
- Dynamics of the democratic decision-making process.
- Roles and responsibilities of the members, board, officers, committees and manager.
- Basic financial management.
- Basic co-op maintenance.
- The art of community living.
- The art of good meeting etiquette.
- The art of conflict resolution and problem-solving.

### Skills and Interests Inventory

The best time to assess a new member's skills and interest level is when the member first joins the co-op. The best member is an engaged member, and it's never too early to engage a member in the life of the co-op community. Ideally, you should develop your own assessment process based on the culture and needs of your co-op. At the very least, you can give the new member a list of tasks on which they can indicate their particular area of interest.

- |                   |                |                  |                 |
|-------------------|----------------|------------------|-----------------|
| • Data entry      | • Minute taker | • Youth program  | • Mechanical    |
| • Fundraising     | • Telephoning  | • Filing         | • Tree trimming |
| • Cooking         | • Carpentry    | • Snow shoveling | • Leaf raking   |
| • Event organizer | • Gardening    | • Lawn care      | • Plumbing      |
| • Bookkeeping     | • Childcare    | • Food prep      |                 |
| • Newsletter      | • Recycling    | • Painting       |                 |

### Member Handbook

A member handbook is a valuable communication tool, and is an important part of the co-op's member orientation effort. The handbook needn't be anything fancy; it can be contained in a three-ring binder for easy maintenance. The important thing is that the handbook be well written, well organized and up-to-date.

The ideal handbook contains the following information:

#### Organizational

- Copies of the co-op's articles of incorporation, bylaws, and house rules.
- The Occupancy Agreement.
- Member roles and responsibilities.

- Board and committee roles and responsibilities.
- List of current board and committee members, along with offices and terms.
- Copies of policies and regulations adopted by the board.
- If applicable, name and address of management agent and other vendors.
- If applicable, information about insurance required of the member by the co-op.
- Contact information for other co-op members.

### **Maintenance**

- List of chores that members are expected to perform.
- How to handle emergency, service or regular maintenance requests.
- Special tips for maintenance of units of common areas.
- Frequently asked questions (FAQs).

### **Payments**

- Procedure for paying monthly carrying charge.
- Late fee policy.
- Breakdown of how monthly payment is being used.

### **Leaving the Co-op**

- Procedure for terminating membership.
- Board's policy on selling a share/membership.

### **Community Information**

- List of nearby places of worship, schools, library, community center, post office, shopping, etc.
- Registering to vote.
- Registering your unit for homestead tax status.

## **House Rules**

House rules guide the everyday operation of the property. They should be developed by members, discussed at a membership meeting, formally adopted by the board, and then explained to any new residents as part of their orientation.

Because each co-op is unique, there is not a set of house rules that works for every co-op. For example, a senior co-op will want different noise policies than a family or student co-op. Co-ops with young children will have different policies than a co-op with childless adults.

One of the complaints voiced most frequently by co-op members is that house rules are arbitrary. In order to avoid this perception by your members, and to maintain legal compliance, there are three important factors to consider in relation to house rules:

- The rules must be written.
- The rules must be given to all members. Consider having each member sign a statement indicating that he or she has received, read, and understands the house rules.
- The rules must apply equitably to all members.

When developing or changing house rules, use the “RULE” filter. Make sure each rule is:

- (R)easonable
- (U)nderstandable
- (L)egal
- (E)nforceable

Some issues, like pets, may be contentious, but are worth working through. The rules will be easier to enforce if everyone feels that their concerns have been heard. It is especially important that the house rules are fair, enforceable and enforced. You may also want to identify a specific pro-

cedure—at either the board, Membership Committee or Grievance Committee—for appealing or making exceptions to the house rules.

### **Non-Member Occupancy**

One issue that often arises at housing co-ops is the ability of members to rent their units to non-members. Unlike condominiums—where there is no intentional relationship between residents and no ability to enforce prohibitions against renting—co-ops intentionally are set up as communities of owner-occupants. This distinction should be made clear to prospective members. The success of the co-op depends on having an informed and engaged membership, which requires that the members occupy their units. To protect the value of the individual units and the value of the co-op as a whole, most co-ops prohibit members from renting units to non-members for longer than a year. In addition, many co-ops routinely prohibit any adult who has not been screened by the membership committee from occupying a unit in a co-op. Some co-ops feel strongly enough about this owner-occupied requirement that they include it in their bylaws instead of house rules.

### **Improvements to Units**

Inevitably, members will want to make modifications to their units. The modification could involve something as simple as painting, or as complex as moving a wall.

When considering a request for approval of a modification, the board should consider several factors:

- What restrictions are already contained in the co-op’s legal documents?
- Will the modification violate any local or state building, safety, or fire codes?
- Will the modification increase or reduce the number of rooms?
- Will the modification enhance future sales potential of the unit?
- Will the workmanship be of high quality?
- Will the project have an impact on other residents?
- Will the project be finished in a reasonable length of time?
- Who will own the modification when the member leaves?
- How will the modification affect the selling price of the unit?

Answers to these questions should be addressed in a policy that applies to all members, approved by the board before any modifications are made.

### **Dealing with Delinquent Members**

Occasionally, members forget to submit their monthly payment, or experience financial or other difficulties that cause them to be delinquent. One of the first policies a board develops should outline the process for dealing with delinquent members. First, check your co-op’s bylaws and occupancy agreement to make sure you understand delinquency language in those legal documents.

Once you understand the legal requirements, remember these rules when creating a policy to deal with delinquent members:

- The policy should outline an entire escalation procedure, from day one of the delinquency all the way to eviction.
- The policy should reflect an immediate response. For example, if a member has until the fifth of the month to pay their rent, and you have not received it, talk to the member on the sixth.

This conversation could take place by phone, or in person (depending on the member’s payment history). In some co-ops, one or two members of the Finance Committee handle the call or visit. They start with a friendly “Hi, how’s it going?” and then say “We noticed that we haven’t received your check for (month) yet.” Pause for them to say something. If no reply, ask “Would you be able to write it out now?” If the member cannot pay now, ask “When will you be able to get it in?”

### **Prompt Payment Discount**

Co-op experience has shown that rewards are psychologically more effective than punishments. This concept has been clearly demonstrated in rent/carrying charge collection. People don't like to pay late fees; late fees are punishment and they often prove difficult to collect. On the other hand, people do like discounts. Consequently, some co-ops choose to raise the official rent figure and give people a discount for prompt payment.

If your co-op wants to develop a payment discount plan, make sure you:

- First check regulatory covenants, such as HUD.
- Provide members with an opportunity to respond to the proposal.
- Record the results in a payment discount policy.

### **Marketing and Sale of Units**

In most housing cooperatives, a departing member is responsible for finding a new buyer for his or her share/membership. Many co-ops have a “first right of refusal” clause in their bylaws, which means that the co-op has the right to purchase the unit before it is offered to an outside buyer. A “first right of refusal” clause is good policy. For example, the co-op may wish to purchase and remodel a dilapidated unit, or convert a smaller share into an office and meeting space. This practice also allows members to move within the co-op as their personal or family needs change. Generally, an internal transfer is available only to members in good standing. Whether the share is sold to the co-op or to an outside buyer, the departing member receives the same price.

Depending on your local housing market, market rate co-op shares/memberships may be sold by real estate agents the same way a condominium unit might be. Don't be surprised, however, if your local real estate agent has never sold a co-op share/membership and is not familiar with how co-ops work. For this reason, co-op members sometimes sell their share themselves, through networks of friends and relatives, advertisements or waiting lists kept by the co-op.

While the member technically is responsible for selling his or her share, it is in the co-op's best interest to facilitate a quick and orderly transaction. Some co-ops maintain a list of interested buyers. For example, senior housing co-ops often have a waiting list because a timely transfer is important to departing members. A limited equity co-op also may maintain a waiting list because the accessible pricing makes the units very attractive to potential members.

The co-op may wish to develop attractive and up-to-date marketing materials that explain the co-op structure to prospective members, making sure board members are available to answer any questions.

### **Responsibility of the Co-op in a Share Sale Transaction**

The successful transfer of a co-op share from seller to buyer involves coordination and collaboration among all parties involved. Here is a list of tasks for which a representative from your co-op is usually responsible at closing.

1. Collect and retire the old share certificate.
2. Collect and retire the lease issued to seller of the share interest.
3. Issue a new share certificate in the name of the new member. (If your co-op requires that the share certificate be embossed, the co-op's representative will need to bring the appropriate tool to the closing.)
4. Typically, two signatures are required on the share certificate. Make sure that the document is pre-signed, or that both signers are at the closing.
5. Issue a new Lease (Occupancy Agreement) or an Assignment of the Lease in the name of the buyer (new member).
6. (If there is a lender involved) Sign the Recognition Agreement between the lender, the new member, and the co-op. (The person signing the document for the co-op needs to be an authorized



party. Typically, the president or vice president of the board can sign this document, but you should consult your bylaws to determine who is authorized to sign legal contracts for the co-op.

### Finance Committee

The Finance Committee assists in preparation of the annual budget, oversees the co-op’s bookkeeping, accounting and cash management systems, and ensures compliance with any funding agency reporting requirements. *See a sample Finance Committee Job Description in the Appendix.*

### Importance of Budgeting

Setting a budget is one of the most important responsibilities of the board of directors. The budget estimates the co-op’s expenses for at least the next year and identifies where the income to pay those expenses will come from.

You can use this sample budget to guide you in creating expense categories for your budget.

Description	Current year budget	Year-end projected actual	Proposed budget
<b>ADMINISTRATIVE</b>			
Marketing			
Management Fee			
Legal			
Audit			
Telephone			
Dues and Subscriptions			
Training (board & members)			
Office Supplies & Equipment			
Other Administrative			
<b>MAINTENANCE</b>			
Elevator Repair & Maintenance			
Pest Control			
Trash Removal			
HVAC Service & Supplies			
General Repair & Maintenance			
Janitorial Supplies			
Painting & Decorating			
Janitorial Maintenance & Payroll			
Other Contract Services			
Grounds Maintenance			
Snow Removal			
Other Maintenance			
<b>UTILITIES</b>			
Electricity			
Natural Gas			
Water and Sewer			
Other Utilities			
<b>PROPERTY TAXES</b>			
<b>REAL ESTATE TAXES</b>			
<b>OTHER EXPENSES</b>			
Bad Debts			
Bank Fees			
<b>REPLACEMENT/OPER. RESERVE</b>			

Formulating and following the budget is the Treasurer's biggest responsibility. He or she will be instrumental in creating the budget and in ensuring that the co-op sticks to it. The Treasurer, with the help of the Finance Committee (and the management company, if you have one), should prepare the first draft of the budget for the board's review.

The first budget will be filled with guesswork. How much will utilities cost for the co-op the first year? How much should be budgeted for maintenance? The easiest way to arrive at accurate estimates is to use real numbers from the previous year, if available, or ask members of similar co-ops for their budget figures.

Creating a budget is much easier when you have accurate income and expense figures from a previous year to work with. Then you need only adjust the numbers up or down to more closely reflect the co-op's actual expenditures.

## Steps for Creating a Budget

**1. Estimate the co-op's expenses.** Create a thorough list of the type of expenses the co-op is likely to incur over the course of the next year. Then attach dollar estimates to each expense. Certain expenses, such as reserves or marketing, already may have been determined by the board. If the person creating the budget is not on the board, he or she should consult with the board to discover the amount to commit to these variable types of expenses.

When estimating expenses, it's helpful to think of expenses in three categories: Fixed, Variable, and Controllable.

**FIXED EXPENSES** are set by law or contract, and the co-op has no control over their timing or amount. Examples of fixed expenses are:

- Mortgage interest and principal.
- Real estate taxes.
- Special assessments.
- Property and liability insurance.
- Workers compensation.
- Payroll taxes.
- Maintenance reserve.

**VARIABLE EXPENSES** can be controlled somewhat by the co-op, but cannot be eliminated.

Examples are:

- Cleaning supplies.
- Legal services.
- Accounting services.
- Office supplies.
- Telephone.
- Electricity.
- Garbage collection.

**CONTROLLABLE EXPENSES**, though sometimes necessary, are totally under the control of the board. Examples are:

- Grounds maintenance.
- Common area painting and decorating.
- Building repairs.
- Board training.
- Co-op publications.

**2. Estimate the co-op's income.** Create a thorough list of all reliable forms of co-op income. Generally, carrying charges ("rent") constitute the largest share of co-op income. If you discover that carrying charges are inadequate to cover expenses, this is the time to raise the carrying charges.

**3. Ensure that income exceeds expenses.** A surplus is advisable because it allows you a margin of error in your estimates. A surplus allows you the flexibility of spending more next year, freezing carrying charges, funding operating or capital reserves, returning the surplus to the members as a rebate, having a party or making a special improvement to the co-op that wouldn't otherwise be possible.

The second year's budget is easier to create. In essence, you are simply updating the budget to more closely reflect actual income and expenses. Begin by looking closely at the first year's budget. Expenses that exceeded the budgeted amount need to be increased in next year's budget—or the co-op must find a way to keep those costs under control. Be sure to investigate and understand why an actual expense exceeded the estimate.

As homeowners, it's critical that you don't cut corners on maintenance. Maintenance can turn into a large and costly burden on members if deferred for too long.

Some budget amounts, such as utilities, maintenance supplies and management fees, will increase because of inflation; make sure your budget reflects these increases. For co-ops with long-term beneficial mortgage financing (such as HUD), the portion of monthly charges that go toward paying principal and interest should remain the same. As a result, the co-op's carrying charges, over time, typically will be lower than prevailing rental rates for comparable units.

It is good practice to ensure that your co-op's income exceeds expenses by a safe margin, preferably 10 percent. Many lenders require a 10 percent or higher margin. Particularly in a new co-op, many unexpected expenses arise. In addition to a 10 percent cushion, your budget should include separate allocations for a maintenance reserve and an operating reserve.

### **Value of a Maintenance/Replacement Reserve**

The maintenance reserve is a savings account that the co-op sets up on behalf of residents to cover the cost of unexpected maintenance and replacement expenses, as well as to provide security in case of a natural disaster. Any use of the reserve must be paid back in subsequent budget periods.

This sample schedule contains a list of items that are common to every building, with an estimated life. Your co-op may not have all these amenities and members may be expected to pay for some of them, but you can use the list as a worksheet to develop your own reserve schedule and budget amount.

### **Calculating Maintenance/Replacement Reserve Amount**

There are a several methods you can use to calculate the amount needed in your maintenance/replacement reserve. Before calculating your reserve account, first check the covenants of your lender. Some lenders—HUD, for example—require that a borrowing co-op use a HUD formula to maintain a specific dollar amount in reserve.

#### **Method One**

Estimate, as best you can, every foreseeable expense and then save the money to cover those expenses. For example, let's assume that you live in a 15-unit co-op, and you want to establish a reserve amount for tuckpointing. You've received an estimate from a contractor that, if performed today, tuckpointing would cost \$40,000. The contractor expects that the building will require tuckpointing within five years. In five years, however, that amount will likely increase, so you'd be wise to add 5 percent per year to the estimate. Your reserve account should contain \$50,000 ( $\$40,000 \times 1.25$ ) at the end of five years to cover the cost of tuckpointing. As a result, you must budget \$10,000 per year for the next five years for tuckpointing.

Perform this exercise for every maintenance and replacement item at your co-op. Add up all the estimates, then subtract the amount you already have available in reserves. The difference is your shortfall or surplus, and will determine the amount you ought to budget into your reserve account

for maintenance expenses.

While it is better to have too much rather than too little budgeted to your reserve, the above method may yield a figure that is an unrealistic burden for current members, especially if past members neglected to save enough money and your current reserve account is underfunded. In this case, you should work out a schedule to build your reserves over time and make arrangements with a lender to borrow funds in the event you need them.

**Method Two**

A second method of reserve planning is to simply allocate a certain amount of money on an ongoing basis (typically two to three percent of monthly revenue from carrying charges, or \$3000-\$6000 per unit per year).

**Method Three**

A third method is to hire a qualified engineering firm to provide an estimate on years of service left in major replacement items (such as the roof, electrical system and boiler), build those items into

Maintenance/Replacement Items	Useful Life (years)	Cost	Count	Total Cost
Washer	12			
Dryer	12			
Water Heater	10			
Furnace repair	2			
Furnace replacement	20			
Insulation and weatherization	5			
Electrical (major)	25			
Carpet	10			
Vinyl tile and hardwood floor	13			
Kitchen sinks and fixtures	13			
Kitchen cabinets and counter tops	13			
Bathroom fixtures	15			
Plumbing (major)	17			
Landscaping/tree trimming	1			
Fencing	20			
Shed/trash enclosure	10			
Parking lot resurface	7			
Roof and gutter repair	1			
Roof replacement	20			
Interior common area painting/repairs	8			
Interior unit painting	4			
Exterior surfaces (stucco and tuckpoint)	20			
Exterior painting (trim and porches)	5			
Patio/porch/sidewalk/steps repair	13			
Patio/porch/sidewalk/steps replacement	20			
Play equipment	10			
Parking lot repairs	4			
Parking lot resurface	10			
Equipment purchase	6			
Door and window replacement/repair	10			
Retaining walls	20			
Special items/operating deficits				

*From Debra Palmquist, Twin Cities' Housing Development Corporation*

your reserve budget and then add a small amount per unit per year for minor repair items.

The important thing is that you choose a method and build a reserve. A well-maintained property will save you money in the long run.

### **Vacancy Reserve**

A unique aspect of housing co-ops is that they don't need to budget for a "vacancy allowance" expense as do rental properties. Co-op members who leave the co-op are responsible for paying their monthly carrying charges until they legally transfer that responsibility to a new member. If a member leaves under duress, the co-op should eventually be able to recover any lost monthly carrying charges from the resident's equity when the unit eventually transfers. When a member is delinquent for any reason, however, the co-op must cover expenses in the interim, and an operating reserve ensures that the funds are available.

**Note:** Be sure to consult an attorney for help in dealing with a seriously delinquent member.

### **Reporting to Housing and Urban Development (HUD)**

If your co-op has a HUD-insured mortgage, it is required to submit specific reports to HUD on a regular basis. Most requirements are related to financial obligations of the co-op, including reserve funding, audited financial statements, oversight of capital improvements, replacement costs and general maintenance.

It is your responsibility to be familiar with the terms and requirements of the co-op's mortgage with HUD, and to submit required reports to HUD on a timely basis.

### **Setting Up Your Co-op's Office**

When running a collective enterprise like a co-op, you should have a common space set aside for the co-op's office, including space for a computer, filing cabinets (that lock), office supplies and a central library of board minutes and other resources.

Information about the co-op (such as financial statements, member applications, and minutes) is the property of the cooperative as a whole and should not be in the possession of only one member or the sole responsibility of a management company. **Under no circumstances should the co-op's office be located in a member's dwelling.**

Co-op records should be accessible to anyone who has a legitimate reason to see them. Every member has a right to see the co-op's financial statements, but members do not have the right to freely access the co-op's computer or accounting software or to review the financial records of other members. Member application records should be kept confidential and under lock, accessible only to those members whose work at the co-op gives them a legitimate reason for access.

Wherever you choose to set up the co-op's office, ensure that the office space meets these requirements:

- Confidential records must be kept locked.
- Avoid storing records in a member's home, even if that person is the board president.
- Information should be accessible only to those persons who have a legitimate right to access.

Generally, the board Treasurer is responsible for compiling and keeping the financial records of the co-op. However, care should be taken to segregate duties among as many people as possible to prevent misuse of funds and to ensure adequate oversight.

If you decide to use co-op volunteers to maintain the co-op's financial records, you need to set up a system to handle those records. See *Setting Up a Financial Record Keeping System* below.

## Setting Up a Financial Record-Keeping System

### What you need

- Sturdy locking file cabinet
- Hanging folders
- Manila folders
- Deposit (endorsement) stamp
- PAID stamp
- Receipts journal

### Invoices/Accounts Payable

There are at least two ways you can organize invoice files: alphabetically by vendor or chronologically by month.

- Label a set of hanging folders alphabetically (A, B, C, etc.) or chronologically (by month). If you have a low check volume, you can combine letters (ABC, DEF) or combine months into quarters (Jan-Mar, Apr-June).
- Within the hanging folders, create separate manila folders for regular vendors (mortgage company, electric company, phone company). If you organize by vendor, you can combine vendors who are not paid on a regular basis into one manila folder.
- Be consistent about how you pay vendors to avoid double payment. If you pay by invoice, always pay by invoice. If you pay by statement, always pay by statement. If you pay by statement, match all invoices to statement to make sure you are not being billed incorrectly and to guarantee that you are paying everything that is owed.
- As an accounting control, the person who writes the checks should not be able to sign them. You can designate authority to sign the checks when you open your bank or credit union account. For accountability, the signing authority should rest with the Treasurer or Board President. You can require one or two signatures on checks.
- Write (or stamp) "PAID" on the invoice or statement, along with the date, check number and amount paid. If you have access to a copier, you can instead attach a copy of the check. If you use duplicate check forms, attach the duplicate.
- After payment, place bills and invoices in the files you've set up. Filing checks in chronological order within the files will make it easier for the auditor, treasurer or finance committee.

### Cash Receipts and Deposits/Accounts Receivable

- Create a hanging folder for each quarter (Jan-Mar, Apr-Jun), or by each month if you have high volume. Within each hanging folder, create a separate manila folder for Deposits/Cash Receipts, Accounts Receivable, and Bank Statements. If you have more than one bank account, create separate folders for each bank account.
- Generally Accepted Accounting Practices dictate that the person who receives checks, makes deposits and writes checks should not receive and reconcile the bank statements. In fact, bank statements can be mailed to a different address altogether. (Contact your financial institution to arrange for a different mailing address.)
- Endorse all incoming checks (with endorsement stamp) immediately upon receipt, and store in a secure place, such as a locking file cabinet. Establish a schedule for regular deposits.
- Record all incoming checks and cash (such as donations or grant payments) in the Receipts Journal as soon as they are received. In the Receipts Journal, enter the date received, the source, the amount and any explanatory notes.

## FOR CO-OP BOARD COMMITTEES

- Never use incoming cash as petty cash or for “trade” payments and receipts. For example, if someone gives you \$10 in cash to pay a co-op fee, do not put it in petty cash. Likewise, if you need to buy gas for the snowblower, do not use petty cash to pay for it. “Trading” leaves no audit trail for accountability. To leave the proper audit trail, be sure to deposit any cash, with an accompanying explanation, as soon as it’s received.
- Deposit all checks and cash regularly to avoid losses. Depending on volume, you may make deposits weekly or monthly. If processing two or three checks, weekly deposits are sufficient.
- If you have access to a copier, make a copy of all checks when you deposit them, and attach the copy to the deposit receipt, along with a copy of the deposit slip. (Tip: You can use your copier’s zoom function to make copies of several checks on one piece of paper, reducing the amount of paper you have to store.)
- Place the deposit record, with the receipt from the financial institution, in the Deposits/Cash Receipts folder.
- If you receive grants (from foundations, city, county, federal government, etc.) create a hanging folder for each individual contract for Payment Request History and make copies of payment requests and payment receipts.

### **Check Registers**

- These registers can be hand-written or maintained in accounting software.
- Someone other than the person who writes the checks should regularly review the check register. The Treasurer or a Finance Committee member is an appropriate reviewer.
- Keep all voided checks, and file with cancelled checks.
- Someone other than the person who writes the checks also should review cancelled checks every two or three months, scanning signatures, confirming regular vendors and looking for missing check numbers. The Treasurer or a Finance Committee member is an appropriate reviewer.

### **Accounts Receivable/Payment Requests**

- Gather supporting documentation such as check registers, copies of invoices and time sheets.
- Make sure you aren’t double-billing two different sources for the same activity or cost.
- Create an invoice, hand-written, typed or created from accounting software.
- Make a photocopy of the invoice and place in the Accounts Receivable file.  
(Tip: Review the Accounts Receivable file regularly to identify “aging” invoices. That is, did someone neglect to process our payment request again?)
- When payment is received, record the date and amount of the payment in the Receipts Journal. Then mark the invoice “Paid,” and move the copy of the invoice from the Accounts Receivable file to the Payment Request History folder for the appropriate contract.

### **Bank Statements/Bank Reconciliations**

- The person who has authority to sign checks should not be the person who reconciles the check register to the bank statements.
- Bank statements should be reconciled as soon as possible, but certainly within 10 days of receipt. This schedule will help identify any problems and allow for prompt corrective action.
- When finished, make a notation on the front page of statement that includes who reconciled the account and the date. File the reconciled account in the “Bank Statements” file.

## MAINTENANCE COMMITTEE

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**T**he role of the Maintenance Committee is determined by the extent to which members are involved in performing maintenance tasks at the co-op. If the co-op is member-maintained, the Maintenance Committee will oversee the effective operation of the co-op in relation to the upkeep of its building(s), grounds, and systems. If a management company has been hired to perform maintenance tasks, the role of the Maintenance Committee will be more narrowly defined by the board, or the board may decide not to use a Maintenance Committee at all.

The information in this section is designed to be useful both for co-ops that are member-maintained, and for co-ops that employ a management company.

Maintenance involves more than just taking care of the co-op's building(s) and grounds. It involves:

- Developing a systematic approach for responding to requests, complaints, and emergencies.
- Developing a preventive maintenance program.
- Keeping effective records.
- Involving members in maintenance of the co-op.
- Monitoring performance of the management company.

### Responding to Problems or Suggestions

A response system should be set up to deal with issues or problems that are spotted by members, staff, or persons in the community. Common problems include plumbing emergencies, lock outs, and broken fixtures. A good response system will provide for the following:

- Method of recording details of receipt of complaint or suggestion.
- Routing the issue to the appropriate person.
- Taking action, including keeping a record of the action.
- Following up, making sure the problem was satisfactorily corrected.

### Preventing Problems

The most economical and effective way of dealing with problems is to prevent them from occurring in the first place. A preventive maintenance program will accomplish the following objectives:

- Prevent costly major problems.
- Deal with minor problems, which can be fixed more quickly, easily, and economically than major problems.
- Prevent breakdowns and interruption of services.
- Utilize resources more efficiently.
- Foster deliberate rather than impulsive decisions about maintenance and repairs.
- Free up more resources to respond to member emergencies.
- Increase member satisfaction.

### Developing a Maintenance Schedule

In order to prevent problems, the first step is to develop a preventive maintenance schedule. Here's a simple way of creating a preventive maintenance program:

1. Begin by making a list of all tasks that need to be done now, or that you can imagine will need to be done in the future.
2. For each task, estimate how often the task needs completion. For example, the grass needs to be mowed every week, while window frames need to be painted every 10-15 years.
3. Assign a resource to each task. For example, some tasks can be completed with co-op resources (such as members), while other tasks require outside resources.



4. Set priorities for the tasks, using the following criteria:
  - Regulatory, safety, and health considerations.
  - Need, related to proper functioning of the co-op and its systems.
  - Cost, both long- and short-term.
  - Feasibility, both physical and economic.
  - Member comfort.
  - Market visibility.
  - Skills required.

It helps to document the process used to evaluate performance (or non-performance) of each preventive maintenance task, especially for major items. That way, when questions arise about why the task was not performed, you can refer to the decision-making record. Also, the record will serve as an ongoing evaluation of the effectiveness of your decision-making process. Lastly, you can only defer preventive maintenance for so long before it becomes obvious that arrangements must be made for its completion.

### Keeping Maintenance Records

Keeping accurate records is essential to any maintenance effort. Records help the board (and manager) keep track of maintenance completed and to be completed and evaluate the effectiveness of the maintenance program. Records help track problems related to poor workmanship, inferior materials, and resident abuse. Here's a suggestion for a filing system to keep accurate maintenance records:

**By unit**—You should maintain a file on each unit in the co-op. The file should contain all service requests, work performed, authorized improvements, membership transfers, violations, and any other information deemed relevant to the unit.

**By vendor**—You should maintain a file for each vendor that has provided services or materials to the co-op, with details of the materials or services.

**By equipment item**—You should maintain a file for each major capital item, or group of items, on co-op premises. For example, you will definitely need a separate file for the co-op's furnace or boiler, whereas you can maintain one file for all the washing machines. The file should contain equipment specifications, model and serial numbers, purchase information, instruction manuals, and repair history.

### Involving Members in Maintenance

Expectations of maintenance by members must be managed carefully. Each resident must be considered individually in terms of their willingness and ability to perform maintenance tasks. Because each resident is uniquely willing and able, it's difficult to develop and implement a mandatory labor-sharing plan for performing maintenance tasks.

When devising a member participation plan—especially if you are considering mandatory participation—make sure your plan exhibits the following characteristics:

**Flexible**—Make certain that you offer a variety of tasks that can be performed by persons of differing levels of interest and ability. If a member doesn't see anything on the list that they are willing or able to perform, ask the member to suggest a way they could contribute to the co-op. For example, maybe they would like to work on the newsletter. The idea is to involve everyone in the life of the co-op.

**Specific**—Make certain that you carefully specify the activities you expect members to perform and are clear about the expected results, including the timeliness of the task. Remember—in many ways, dealing with volunteer labor is no different than dealing with paid labor.

**Supervised**—Make certain that you provide adequate supervision of members, especially of members who have no previous track record of success.

## EXAMPLES OF OTHER COMMITTEES

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**T**he board can establish as many committees as it sees fit, assigning duties according to the board's needs and in accordance with members' abilities. Committees used by housing co-op often include:

**Nominating**—Recruits and screens new board members, manages the board election process, and announces the date, time and place of the Annual Membership Meeting.

**Social**—Organizes social, cultural, educational or recreational activities for residents. The committee might sponsor tot and teen activities, handicraft activities, exercise programs and sports teams.

**Grievance**—Receives and examines issues that members want to escalate to the board level and then makes a recommendation to the board, or simply deals with violations of house rules.

**Newsletter**—Helps the board communicate with members by publishing a co-op newsletter.

**Community Relations**—Acts as liaison between the co-op and outside groups, such as school boards and organizations, community safety and police, neighborhood organizations and other governmental agencies.

**Garden**—

Engages members in grounds improvement and beautification activities.

**Pets**—

Assists the board by recommending policies, maintaining pet registrations and monitoring complaints and violations.

# APPENDIX

## COOPERATIVE PRINCIPLES

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### **1. Voluntary and Open Membership**

Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership without gender, social, racial, political, or religious discrimination.

### **2. Democratic Member Control**

Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives, members have equal voting rights (one member, one vote), and cooperatives at other levels are also organized in a democratic manner.

### **3. Member Economic Participation**

Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members allocate surpluses for any of the following purposes: developing their cooperative, possibly by setting up reserves, part of which would at least be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

### **4. Autonomy and Independence**

Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, they do so on terms to ensure democratic control by their members and maintain their cooperative autonomy.

### **5. Education, Training, and Information**

Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. They inform the general public—particularly young people and opinion leaders—about the nature and benefits of cooperation.

### **6. Cooperation Among Cooperatives**

Cooperatives service their members most effectively and strengthen the cooperative movement by working together through local, national, and international structures.

### **7. Concern for Community**

Cooperatives work for the sustainable development of their communities through policies approved by their members.

## GLOSSARY OF TERMS

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**Acceleration Clause**—A clause in a mortgage that accelerates or hastens the time when the debt comes due. For example, most mortgages contain a provision that the note shall become due immediately upon the sale or transfer of title of the land, or upon failure to pay an installment or principal or interest.

**Accountability**—Being answerable for actions that are performed by others, and for the consequences of those actions.

**Accounts Payable**—Money owed by the cooperative to another party.

**Accounts Receivable**—Money owed to the cooperative by another party.

**Amortization**—That part of the payment made on a mortgage that serves to reduce the outstanding amount (principal) of the debt itself.

**Annual Meeting** —A meeting legally required of all cooperatives, to which all members of the cooperative are invited. At the meeting, members may elect representatives to the co-ops board, hear financial reports, amend the co-ops bylaws, or attend to other business.

**Appraisal**—An official estimation of the real or market value of property upon which taxes and insurance are based.

**Articles of Incorporation**—A document filed with the Secretary of State that describes how the corporation is organized, and how the co-op's equity formula works.

**Assessment**—Real estate value or tax levied on a person or property by a governmental unit.

**Assets**—Resources, properties and property rights owned by an individual or business enterprise, and that can be readily converted into cash.

**Articles of Incorporation**—A document filed with the State of Minnesota describing how a corporation is to be organized. A co-op's articles will also state the cooperative's limited equity formula.

**Audit**—A formal examination and verification of an organization's books and records by an impartial, trained, outside party, usually a certified public accountant (CPA).

**Balance Sheet**—A financial “snapshot” of a corporation showing what it owns and what it owes.

**Blanket Mortgage**—A loan taken out by a cooperative that covers all the building's debt.

**Board of Directors**—Elected by a co-ops' membership, the board of directors oversees the co-ops operations and finances on behalf of members.

**Budget**—An itemized plan that shows how resources will be used. Usually presented as forecasted financial statements.

**Bylaws**—Rules of the cooperative that aren't included in the Articles of Incorporation, and that cover general policies and practices. Bylaws cover such topics as voting, responsibilities of the co-op's officers, and other “governance” type issues.

**Capital**—Assets which will be put to long-term use. Major improvements or maintenance, buying property, and major appliance purchases are called capital expenses. Borrowed money for these expenses is called capital loans.

**Carrying Charge**—A carrying charge is the monthly payment that each member makes to the co-op that covers all the co-op's fixed and variable expenses, such as debt service, utilities, insurance, legal fees, and so on.

**Certificate**—Sometimes called a share, a certificate represents an individual's right to occupy a specific space in the housing co-op.

**Certificate of Title**—Proof of ownership of a cooperative. Usually contains the legal description of the land and buildings.

**Chattel Mortgage**—A mortgage on personal property.

**Closing**—The time when a “deal” is closed or legally completed. For housing co-ops, closing is the time when the co-op legally receives its property and commits to its loans.

**Collateral**—A piece of property used to guarantee a loan. If the borrower defaults on the loan, the lender may seize this property.

**Condominium**—A unit in an apartment building to which someone has title. In a condominium, residents actually have title to their own apartments (to the other side of the paint in their unit), but a separate corporation owns the building and common areas.

**Conversion**—The process of converting a building from rental housing to co-op housing.

**Cooperative**—A corporation jointly owned and governed either by its workers (a worker cooperative) or its customers (a consumer cooperative.) A housing cooperative is a kind of consumer cooperative.

**Cooperative Principles**—See Rochdale Principles.

**Covenant**—An agreement between two or more persons in which the persons agree to do or keep doing some specified thing.

**Debt Service**—The amount of money paid to a lender for a loan, including both interest and repayment of the loan itself.

**Deed**—A document under seal that states a transfer, bargain, or contract, usually conveying the title to real property from one party to another. There are two types of deed: Quitclaim and Warranty.

**Quitclaim**—The seller conveys property to the purchaser, with the title being only as good as the title held by the seller, who conveys all claim, interest or right to the property, as far as his own title is concerned.

**Warranty**—The seller conveys all claim, right, and title to the property, but also warrants the title to be clear, subject only to such matters as may be shown on the deed. The warranty is recognized by law as the subject for future restitution of loss to the purchaser if any defects in the title are conveyed by the seller.

**Default**—Not honoring a legal commitment is known as a default. One common type of default is not paying back a loan.

**Depreciation**—The amount of “wear and tear” on a piece of equipment or a building, reflected in the reduction in dollar value of that equipment or building. Usually, this amount is spread out over a period of time. The IRS lets you deduct depreciation each year from the co-op's earned income. (Note: Land does not depreciate.)

**Dissolution**—When a company decides or is forced to go out of business.

**Dividend**—That portion of a corporation's profit or surplus that is paid to shareholders in a corporation.

**Easement**—A right or interest in the land of another that entitles the holder to some use, privilege, or benefit, such as traveling over or placing pipelines, fences, or roads on the land.

**Encroachment**—An unlawful extension of one's right upon the land of another.

**Encumbrance**—A claim or lien upon an estate.

**Equity**—The difference between the market value of property and the total amount of all mortgages and liens against the property, which reflects the dollar value of the owner's interests. In accounting terms, equity equals assets less liabilities.

**Escrow**—Placing property (either real or cash) in the hands of a second party for delivery to a third party, according to terms of an agreement.

**Eviction**—The legal process of forcing a tenant or co-op member to surrender their membership and leave the building. Eviction always requires court action.

**Expenses**—The costs of operating the co-op, which usually fall into five main areas: loan payments, taxes, insurance, utilities, and maintenance.

**Fidelity Bond**—An insurance bond purchased by a firm to protect against loss of money because of misappropriation by persons handling the funds. Such bonds are often purchased by management companies who employ staff to manage property, and by cooperatives whose officers or employees have access to co-op funds.

**Fiduciary**—A person or entity to whom property or power is entrusted for the benefit of another person or entity.

**Financial Statement**—The Income Statement and Balance Sheet are called financial statements.

**Fiscal Year**—That twelve-month period used as a corporation's annual accounting and tax period, sometimes different than the calendar year.

**Foreclosure**—The process a lender goes through to recover its money after a borrower has defaulted on a loan.

**Governance**—The method, system, or process used to exercise authority; to make decisions on behalf of others.

**House Rules**—Rules developed by a co-op's members for the operation of a cooperative. House rules covers such issues as parking, garbage, maintenance, noise and resolving conflicts.

**Housing & Urban Development**—(HUD) An administrative agency of the federal government which sponsors a variety of programs, including rental assistance, loans for rehabilitation, and loans for the construction of cooperatives.

**Improvements**—(1) Any renovations, additions, or physical improvements to an existing building. (2) Accountants sometimes refer to buildings themselves as "improvements" to a piece of land. (3) From the tax point of view, an improvement must be a new feature, or add a use or extend the life of an existing feature.

**Income**—Cash, services, or other transfers of assets to a corporation.

**Income Statement**—A statement showing all income received and expenditures made over a period of time. Often includes comparisons to past and projected income and expenses.

**Incorporation**—The process of receiving recognition from the secretary of state that the co-op corporation exists as a legal entity.

**Indemnification**—To agree not to blame or sue someone for official actions taken on behalf of the co-op, and to protect someone from related lawsuits.

**Lease**—An agreement between a renter and a property owner that outlines the rights and responsibilities of both the lessee (renter) and the lessor (property owner.)

**Leasehold Co-op**—A cooperative which leases its building instead of owning it.

**Lessee**—Renter.

**Lessor**—Property-owner.

**Lien**—A claim on real estate, equipment or other possessions for payment of some debt or court ordered obligation. Liens are recorded in a city or town's land records to inform everyone that the property or possession cannot be sold until the lien is paid off.

**Limited Equity Cooperative**—A cooperative which limits the rate of appreciation of member equity. Generally, the price for which the co-op member can sell their unit is restricted, as explained in the co-op's bylaws.

**Limited Equity Formula**—The formula describing how member equity may appreciate, and which affects the price at which the member may attempt to sell their co-op unit.

**Liquidation**—The process of dissolving a corporation and selling off all its assets; usually this process is imposed on a corporation by a court.

**Management Company**—(or Management Service or Agent) A company which works for the cooperative to handle financial or property management.

**Market Rate Cooperative**—A cooperative which does not limit the rate of appreciation in member equity. Generally, the co-op member can sell their unit for whatever price the market will bear.

**Market Value**—The highest price a buyer would pay, the lowest offer a seller would accept.

**Maturity**—The date on which the balance of the loan is either due, or is paid off.

**Mechanic's Lien**—A claim on real estate, equipment or other possessions for payment of a contractor who is doing work in the co-op building. Liens are recorded in a city or town's land records to inform everyone that the property or possession cannot be sold until the lien is paid off.

**Member**—A person who has (a) been recommended for membership by the Membership Committee and approved by the board of directors; (b) executed a Subscription Agreement and an Occupancy Agreement; and, (c) paid all fees required to be paid by such person under said Agreements.

**Mortgage**—A real estate loan in which the lender uses the property as collateral.

**Mutual Housing Association**—A cooperative which services several different properties.

**National Association of Housing Cooperatives**—(NAHC) The national association of cooperatives in the United States.

**Net Income**—(Operating surplus) The “profit” at the end of a fiscal year, which reflects a surplus of income over expenses. Co-ops choose to use this money to improve the co-op, or they return it to members.

**Occupancy Agreement**—An agreement (in a form approved by the board of directors, and as specified in the co-op’s bylaws) between a person and the cooperative in which the person is granted the right to occupy a specific dwelling unit, and which spells out the rights and obligations of the member and the co-op.

**Officers**—The bylaws of a cooperative usually describe official positions to be held by members in the cooperative, such as President, Secretary, Vice President, and Treasurer. Sometimes a legal document will require the signature of corporate officers.

**Operating Income/Expense**—Expenses and income associated with the day-to-day operation of the co-op.

**Par Value**—The starting value for shares in a cooperative. (This value is meaningless except at the creation of a cooperative.)

**Perpetual Existence**—Corporations must tell the state how long they plan to be in business. Corporations which do not anticipate going out of business declare their existence to be perpetual.

**Prepayment Penalty**—Penalty levied for the payment of a debt before it actually comes due.

**Principal**—(1) The amount remaining to be paid on an outstanding loan. (2) Payments which reduce the amount of an outstanding loan.

**Pro Forma**—A “best guess” for various kinds of financial information. Types of pro forma’s: pro forma balance sheets, pro forma financial statements, pro forma development budgets.

**Promissory Note**—A note bearing evidence of debt, transferable by endorsement.

**Proprietary Lease**—The lease signed by a cooperative and a co-op member, which gives the member the right to occupy a specific unit within the co-op building.

**Proxy**—The authorization of one person to act on behalf of another; an individual acting as proxy for a second person. The proxy is entirely free to act as s/he sees fit, and is not bound by any directive from the person authorizing the proxy.

**Purchase-Sale Agreement**—A legal agreement that states the terms of sale of property. Purchase-Sale agreements usually include such things as the price of the property, how and when the money will be paid for the building, and any special conditions of the sale.

**Quorum**—The minimum number of people who must be present at an official meeting of the co-op in order to transact official co-op business. Requirements for quorum are usually set in the bylaws.

**Quit Claim Deed**—See Deed.

**Recitals**—Statements of various facts for the record.

**Resale**—The process of transferring co-op shares from a member who is selling their share(s) in the co-op to a member who is purchasing share(s) in the co-op.

**Reserves**—Money set aside from net income to meet expected or unexpected expenses; usually kept in a form (like a savings account) that is easily converted to cash. Reserves are commonly set up in housing cooperatives to cover maintenance and operating expenses.

**Right of First Refusal**—The right given by the bylaws to the co-op’s board of directors to refuse the option to purchase the membership of an outgoing member.

**Right of Way**—Privilege given to travel over another’s property.



**Rochdale (or Cooperative) Principles**—A set of seven principles, developed by the international cooperative community, which define how cooperatives ought to behave. Briefly, they are open membership, democratic control, limited return on member equity, one member one vote, continuous education, cooperation with other cooperatives, and sustainable community development.

**Satisfaction**—Settlement of a claim or demand; payment.

**Section 8 Assistance**—A program which assists low income people in paying rents. Under this program, a portion of the rent for those assisted comes from government.

**Security**—Something given, deposited, or pledged to secure the fulfillment of an obligation or the payment of a debt.

**Share**—Sometimes called a certificate, a share represents an individual's right to occupy a specific space in the housing co-op.

**Share Loan**—A loan taken out by a member to buy shares (representing a unit) in a housing cooperative.

**Sublease**—A lease between a current tenant and another person.

**Subordination**—The acceptance of a lower priority in payment in the event of liquidation. Represents an agreement to give up specific rights and privileges to somebody else.

**Subscription Agreement**—A written agreement between a person and the cooperative (in a form approved by the board of directors, and as specified in the co-op's bylaws) in which such person agrees to execute an Occupancy Agreement, make the required down payment, assume monthly carrying charges, and become a member of the cooperative.

**Subscription Funds**—Money paid along with a subscription agreement.

**Surety**—One legally liable in the case of another's default.

**Sweat Equity**—Non-monetary contribution made to the construction or improvement of a building, generally in the form of labor.

**Tenant**—A resident leasing property from a property-owner.

**Termination**—The act of ending an agreement.

**Title**—A legal document which represents current ownership of a piece of property (sometimes called a Deed.)

**Transfer Value**—The dollar amount for which a member's share investment in a co-op may be sold, as specified in the co-op's bylaws.

**Unencumbered Property**—Property that is free and clear of any assessments, liens, easements, or encumbrances.

**Unit**—That part of a housing cooperative that is designed for occupancy by one family.

**Vacancies**—Any unit in a building that is unoccupied, and not generating revenue for the co-op.

**Waiver**—An agreement that allows someone to be exempt from a policy or rule that applies to everyone else.

**Warranty Deed**—See Deed.

## LINKS TO CO-OP HOUSING ORGANIZATIONS

Organization	Address	Mission	Web Site
Center for Cooperatives	Univ. of California One Shields Ave. Davis, CA 95616	Contains general information regarding coops, a coop directory and research reports on cooperatives.	<a href="http://www.cooperatives.ucdavis.edu">http://www.cooperatives.ucdavis.edu</a>
Cohousing Association of the United States		Cohousing specific site with a community list that links to individual websites that have vacancy information. Also contains sample legal documents such as bylaws and pet policies.	<a href="http://www.cohousing.org">http://www.cohousing.org</a>
Cooperative Housing Coalition	1725 Eye St. NW Suite 600 Washington, DC 20006 202-336-7750	Policy-orientated lobbying arm of the NCB, NCBDC, NCBA, and NAHC. Good site for information regarding pending national legislation regarding cooperatives.	<a href="http://www.chc.coop">http://www.chc.coop</a>
Cooperative Housing Information Center		Contains a good general overview of the development process.	<a href="http://www.housinginfo.coop">http://www.housinginfo.coop</a>
Cooperative Living of Seattle		Group of Seattle-based activists working to promote and create housing cooperatives, urban communes, co-housing, and group houses.	<a href="http://www.seattlecoops.org">http://www.seattlecoops.org</a>
Council of New York Cooperatives and Condominiums		Nonprofit membership organization of New York-based cooperatives. Provides representation and facilitates education through workshops and frequent contact with the press.	<a href="http://www.cnyc.com">http://www.cnyc.com</a>
Greater Washington Mutual Housing Association, Inc.	017 New Jersey Ave. SE Washington, D.C. 20003 202-554-2993	Provides management services, resident training and technical assistance aimed at achieving financial security and a sense of community among residents and neighbors.	<a href="http://www.gwmha.org">http://www.gwmha.org</a>
Intentional Communities		Provides important information and access to crucial resources for seekers of community, existing and forming communities, and other friends of community.	<a href="http://www.ic.org">http://www.ic.org</a>
Inter Cooperative Council	337 E. William St. Ann Arbor, MI 48104 734-662-4414	Dedicated to affordable student housing in Ann Arbor, Michigan. Posts vacancies.	<a href="http://www.icc.coop">http://www.icc.coop</a>
Madison Community Coop	1202 Williamson St., Suite C Madison, WI 53703 608-251-2667	Affordable housing resource for the Madison area, with specific emphasis on the inclusion of low income and marginalized groups.	<a href="http://www.madisoncommunity.coop">http://www.madisoncommunity.coop</a>
Midwest Association of Housing Cooperatives		Michigan-based housing co-op advocacy group, providing board training and related resources through conferences and printed materials.	<a href="http://www.mahc.coop">http://www.mahc.coop</a>
National Association of Housing Cooperatives	1707 H Street, NW, Suite 201 Washington, DC 20006 202-737-0797	Joint association of housing coops. Provides education, networking, technical assistance, and representation for members.	<a href="http://www.coophousing.org">http://www.coophousing.org</a>

## LINKS TO CO-OP HOUSING ORGANIZATIONS Cont.

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Organization	Address	Mission	Web Site
NCB Development Corporation	1725 Eye Street, NW Suite 600 Washington, DC 20006 202-336-7700	Focuses on the financing and development of affordable housing, education, healthcare, and worker ownership.	<a href="http://www.ncbdc.org">http://www.ncbdc.org</a>
National Cooperative Business Association	1401 New York Ave. NW Suite 1100 Washington, DC 20005 202-638-6222	Membership organization for all types of coops (not limited to housing).	<a href="http://www.ncba.coop">http://www.ncba.coop</a>
North American Students of Cooperation	PO Box 7715 Ann Arbor, MI 48107	Membership organization of campus based co-op housing. Provides training, lobbying, and networking.	<a href="http://www.nasco.coop">http://www.nasco.coop</a>
Northcountry Cooperative Development Fund	219 Main St. SE Suite 500 Minneapolis, MN 55414 612-331-9103	Financial intermediary and co-op housing developer, offering loans and technical assistance to co-ops and their members.	<a href="http://www.ncdf.coop">http://www.ncdf.coop</a>
Potomac Association of Housing Cooperatives	838 W. Fairmount Ave. Baltimore, MD 21231 410-276-5114	Primary goal is the continuing education of coop boards and members.	<a href="http://www.potomacassoc.com">http://www.potomacassoc.com</a>
Senior Cooperative Foundation	215 Kaesen Ave. Box 27 Vermillion, MN 55085 866-730-2667	Contains links and posts vacancies in senior coops in Minnesota.	<a href="http://www.seniorco-opnet.org">http://www.seniorco-opnet.org</a>
University of Wisconsin Center for Cooperatives	230 Taylor Hall 427 Lorch St. Madison, WI 53706 608-262-3981	Comprehensive site with current news of interest to coops and a wealth of links.	<a href="http://www.wisc.edu/uwcc">http://www.wisc.edu/uwcc</a>
Urban Homesteading Assistance Board	120 Wall St. 20th Floor New York, NY 10005 212-479-3300	Provides training and technical assistance to low income, limited equity coops in New York.	<a href="http://www.uhab.org">http://www.uhab.org</a>

## TEN COMMON PROBLEMS FACING HOUSING COOPERATIVES

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From “Creating Space” by Cheryl Kartes

### **1. Feeling overwhelmed by all there is to be responsible for.**

Planning, setting goals, and creating and following policies are tools that will keep the group from falling into crisis management patterns. Put tasks in priority order, and schedule reasonable completion dates. As a creative group of people, you will always have more ideas than can be implemented. Use the committee process to implement the most important ideas, and postpone implementation of lower priority tasks till a later date.

### **2. Misunderstandings and frustration are caused either by a lack of policy or by policies that are unclear to those who need to implement them.**

It takes time to develop policies, and experience is the best teacher concerning the policies you will need for your co-op. The key features of effective policy statements are that they have arisen from a need, that they be written, clear, objective, and enforceable.

### **3. Volunteer tasks need to be balanced with management company tasks.**

Create job descriptions for all tasks, whether performed by the management company or by volunteers. Decide which tasks will be contracted. Clarify supervision responsibilities between volunteers and paid leadership. Prepare an evaluation process and schedule for both paid and unpaid positions.

### **4. Confronting members for past due payments.**

A co-op is a legal business entity and must operate like a business, even though it is one with a heart. Begin by restricting membership to those persons who can afford the unit, and who have a decent credit rating. Discuss options immediately with late-paying members and agree upon a course of action as soon as the payment is deemed late. If payment schedules are approved for monthly charges or for the security deposit, always get a written, signed, dated, and preferably notarized promissory note that details conditions for the approved payment plan. Remember that all co-op members become liable for expenses incurred on behalf of a delinquent member. It can be costly to other members to lose more than several months' carrying charges, plus incur the costs of filing an eviction. Develop eviction policies that are clear and fair. Become familiar with local eviction processes, and decide what conditions must be met to begin eviction proceedings.

### **5. Communication problems create tension or conflict.**

The diversity of a cooperative requires special attention to active listening and negotiation skills. It is essential that members listen to each others' viewpoints without becoming defensive or provocative. Clarify the problem or issue, evaluate possible solutions, and work together to find a solution acceptable to all parties. Focus on the areas of agreement instead of those of disagreement. Look at the issue from the angle of what is right rather than who is right. Plan the implementation of the solution, and then evaluate whether the solution was satisfactory.

### **6. Anxiety when a unit becomes available and a new member must be selected.**

A co-op is membership based, and the most important decision a co-op can make is the selection of new members. Be careful in your selection process. It's better to let a unit remain empty for a month than accept an inappropriate member. Build a waiting list for future vacancies.

The membership committee should be delegated full authority to select new members without threat of being overruled by the board. At least three members of the membership committee should commit to participate in all interviews for a vacant unit, providing a consistent review for all candidates. If a friend or relative is applying, the related member should avoid a potential conflict of interest by excluding him/herself from the selection process.

### **7. New members are uncertain how to become involved, and are unfamiliar with their fellow co-op members**

Create a process for welcoming and orienting new members. Build trust by answering questions warmly and openly. Ask about their interests and skills. Invite them, without exerting pressure, to participate in an easy or fun volunteer task. Remember that it is important to develop the co-op's human and social aspects as well as the business aspects.

### **8. Participation at meetings slacks off, leading to “burn out” of some members who assume too much responsibility**

Prepare good agendas, plan for meetings, avoid interpersonal conflicts, and maintain order at all co-op meetings. Plan fun social activities. Consider making participation at some meetings or activities mandatory. Create an expectation that everyone will participate. All members can serve as directors of the board. Keep people motivated by making them feel that what they have done is worthwhile, and that their contributions are considered valuable.

### **9. The need to train and educate members in the rights, responsibilities, options and operations of a cooperative**

To ensure that the members become effective participants in the co-op, establish a standard process for introducing new members to those things with which earlier members have become familiar. Create a “buddy system” so that a new member has one person they can always go to if they have a question.

### **10. No-one in the co-op has adequate skills to handle the budget and accounting for the cooperative**

The money must be handled in a scrupulous manner to ensure there are no questions in anyone's mind. It is better to pay for training or actual assistance from a professional accountant or property manager than to have anyone in the co-op question how the funds are being handled. A financial report should be presented monthly to the members.

## FREQUENTLY ASKED QUESTIONS ABOUT HOUSING CO-OPS

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### **Who owns a housing cooperative?**

Cooperative members each own a cooperative interest. Together, the members own 100% of the cooperative, while the cooperative owns 100% of the building, land, and any common areas. At the same time, the right to reside in each specific dwelling unit is allocated solely to a specific cooperative member and governed by that member's proprietary lease or occupancy agreement.

### **Who governs the cooperative?**

The members, as a group, are democratically responsible for overall cooperative governance, including electing the board of directors, amending the bylaws, and making decisions about the sale of the cooperative's property or dissolving the cooperative corporation. The members elect a board of directors, which is responsible for the operation of the cooperative. The board hires and oversees management, sets community policies, approves operating budgets, and approves candidates for cooperative membership.

### **What do you own as a member of a housing co-op?**

The main distinction between a housing co-op and other forms of home ownership is that in a housing co-op, residents don't directly own real estate. Instead, they buy shares or a membership in a cooperative housing corporation. The corporation owns or leases all real estate. Each member owns a cooperative interest.

Each cooperative interest is the combination of two things:

- The member's ownership interest in the cooperative corporation (represented by a certificate of membership or corporate shares), plus
- An exclusive right to occupy a particular dwelling unit that is owned by the cooperative corporation (represented by an occupancy agreement or proprietary lease).

Each ownership interest gives the member a pro-rata share in the ownership of the cooperative's property as a whole. The right to occupy a specific dwelling unit continues so long as the individual is both a member of the cooperative and abides by the occupancy agreement.

### **Why is being a cooperative member better than renting?**

Seven advantages make cooperative membership more attractive than renting.

**Ownership**—The members own the cooperative. A landlord owns rental housing.

**Control**—The residents govern the cooperative. A landlord governs rental housing.

**Operating at Cost**—In a cooperative, occupancy charges are equal to the actual cost of owning and operating the property. In rental property, rents go up far faster than actual costs because the landlord is in business to make a profit. Cooperative members keep the profit that a landlord would pocket.

**Individuality**—The cooperative allows members to customize their dwelling units. The landlord controls everything in rental housing.

**Homeowner Tax Advantages**—The cooperative passes income tax deductions through to its members. All of the income tax benefits of rental properties go to the landlord.

**Equity Growth Potential**—The cooperative (depending on its bylaws) passes equity growth potential to its members. A rental property passes equity growth to the landlord.

**Overall Value**—A cooperative maximizes benefits to its members. A rental property maximizes profits to the landlord.

**What monthly payments does a cooperative member make?**

The occupancy agreement requires each member to pay only his pro-rata share of the budgeted costs of the cooperative. There are no profits going to an absentee landlord. The cooperative's board of directors prepares an annual operating budget to cover the cost of operations, reserves, principle and interest on blanket mortgages, property insurance, and property taxes. In some cooperatives, all utility costs are included as part of the budget.

If an individual member has taken out a share loan, he or she must make the principle and interest payments directly to the share lender. Where utility costs are not part of the cooperative budget, the member must pay them directly to the utility companies, as well.

**How does a member acquire equity?**

It depends on how the bylaws of the cooperative are written. There are three different types of housing cooperatives as far as equity is concerned.

**Market-rate housing cooperatives**—In a market-rate cooperative, members buy or sell memberships or shares at whatever price the market will bear. Purchase prices and equity accumulation are very similar to condominium or single-family ownership.

**Limited-equity housing cooperatives**—In a limited-equity housing cooperative, there are restrictions on what outgoing members can get from sale of their shares. The restrictions are imposed in order to ensure that the co-op housing remain affordable. Generally, the co-op's members benefit from below-market interest rate mortgage loans, grants, real estate tax abatement, or other favorable financing, the terms of which require that the housing remain affordable to both the initial and future residents for a specified period of time. In some co-ops these limitations are voluntarily imposed by the members. Equity-limiting restrictions are usually found in the cooperative's bylaws. The documents may also establish maximum income limits for new members to further target the special benefits of the housing to families who are in most need of affordable housing.

**Zero-equity cooperatives**—In a zero-equity cooperative, the members do not build any equity. There are two types of zero-equity co-ops, distinguished by ownership: a leasehold co-op, and a true zero-equity co-op.

**Leasehold Cooperative**—The cooperative corporation leases the property from an outside investor, often a nonprofit corporation that is set up specifically for this purpose. Since the cooperative corporation does not own any real estate, the cooperative is not in a position to build up any equity (just as a renter doesn't build any equity). However, as a corporation, the cooperative is often in a position to buy the property if it comes up for sale later for conversion to a market rate or limited-equity cooperative. Some leasehold cooperatives allow outgoing members to redeem a share of the cash reserves built up by the cooperative corporation while they were occupants.

**Zero-equity Cooperative**—The cooperative corporation owns the property, but in order to guarantee low income individuals access to the most affordable housing, does not allow members to accumulate equity. In this scenario, members pay a lower-than-normal monthly carrying charge, and in return, forego accumulation of any equity.

**Do members need homeowners insurance?**

Yes, members need a policy, similar to condominium insurance. The co-op generally carries a blanket insurance policy that covers liability and damage to the cooperative's property from fire, water, or other disasters. However, this policy generally does not cover any damage to personal belongings inside members' units. Additional insurance is recommended to cover personal possessions and personal liability in the event of an accident in a member's unit.

**What is a share loan?**

Let's assume you're going to buy a \$100,000 home. Most likely, you would not be able to pay the seller \$100,000 in cash for the house. Instead, you would make a down payment, and you would get a mortgage from a lender to cover the remainder of the purchase price. In a co-op, since a member is actually buying a share(s) in a corporation rather than real estate, the member takes out what is called a "share loan" from a lender. A share loan is like a mortgage, providing the member with borrowed funds to buy the share(s) from the seller. Once the transaction is complete, and the buyer is a member of the co-op, monthly payments on the share loan are made to the lender, and monthly carrying charge payments are made to the co-op.

**What tax benefits are available to cooperative members?**

Co-op housing residents have the same potential tax benefits as other homeowners, including taking their share of the mortgage interest and real estate taxes as a deduction on Schedule A of their 1040 federal income tax return. The deduction can be substantial, but only if the co-op is able to pass the deduction on to its members (complicated rules apply to co-ops with substantial commercial income), and if the member itemizes deductions on his/her tax return. If the co-op is able to pass through the deduction, members should receive notification from the co-op of the deduction amount by January 31st of each year. Section 216 of the Internal Revenue Code covers the pass-through of mortgage interest and real property tax deductions from the cooperative to the shareholders.

In some states, homeowners receive favorable property tax treatment, similar to commercial and industrial uses. In most instances, cooperatives and their members receive the same benefit as single-family homeowners.

**Are members responsible for capital gains taxes when selling a co-op membership/share?**

Co-op shareholders are treated the same as single family homeowners when they sell. If the co-op has been a member's primary residence for two of the five years prior to selling, the first \$250,000 of gain (\$500,000 if married) is excluded from federal income tax. Be sure to check with a tax advisor for the latest exclusion amount. The exclusion can be used more than once.

Similar to single family homeowners, if for some reason the member does not meet the residency requirement when selling (such as having to sell in the first two years of ownership), a tax advisor should be consulted, because the member may be liable for taxes on all or a portion of any capital gain realized upon sale. Capital gain is calculated by adding the cost of capital improvements to the original purchase price, and then subtracting that adjusted basis from the selling price.

Contributions to capital repair reserves are treated as if they were capital improvements, so members should keep records of information from the co-op each year. Tax laws change frequently and are re-interpreted by IRS and the courts from time to time, so a tax advisor should always be consulted about specifics before buying or selling.

**Can a member rent out their unit?**

Some co-ops are generous in allowing subletting, but most cooperatives severely restrict subletting in order to preserve the owner/occupant character of the community. Co-ops that do allow subletting often have restrictions on the length of time for which a member may sublet. Each co-op has a different policy, the terms of which are usually be found in the occupancy agreement or proprietary lease.



## NEIGHBORHOOD ACTIVITY LOG

Use this form to document activities or incidents occurring in the co-op building or neighborhood that harm, frighten or concern you. Use the information generated by this form to settle neighborhood problems yourselves, or to direct your property manager or city service agencies to start working on situations that affect the quality of life in your community.

If you wish to be contacted by someone about your concerns, include your name, address, and phone number.

**Examples**

Suspicious activities	Suspected harassment	Speeding
Suspected violation of a law	Lease violations	Vandalism
Policy violation	Noise disturbances	Theft and burglaries
Unauthorized roommates/guests	Suspected drug activity	Improper trash buildup/litter
Unauthorized business	Suspected domestic violence	Odor/pet issues
Suspected damage to apartment	Unsupervised children	Vehicles blocking sidewalks

Name/address/phone (optional): \_\_\_\_\_

<b>WHEN?</b> Date and time	<b>WHAT?</b> What happened and how does it affect you?	<b>WHERE?</b> Street address or location	<b>WHO?</b> List person or vehicle. If vehicle, list license number, and vehicle and occupant description.

**What to do with your neighborhood logs**  
(Outline process to be followed in your co-op.)

Need help? Have questions? Contact (person in co-op).

## SAMPLE BOARD POLICIES AND DOCUMENTS

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### Board Conflict of Interest Policy

A conflict is defined as an employment relationship or financial interest that may be, or may appear to be, different than in the best interest of the co-op. For the purposes of this policy, a transaction that might present a financial or other benefit to the member or director's family, business associate or employer is deemed to present a conflict to that member/director.

This policy statement discourages, but does not prohibit, the existence of conflicts of interest. The policy does, however, require the members or board of directors of the co-op to consciously act on any identified conflicts of interest, and to discuss the best interest of the co-op without the interested member or director present. Where conflicts are permitted regarding any business relationship, such relationships shall be at competitive fees.

### Reimbursed Expenses

Directors serve without compensation, but are entitled to reasonable compensation for expenses incurred while conducting legitimate cooperative business. Any expenses incurred must have prior approval of the board of directors. Receipts must accompany all requests for reimbursement.

### Contracts

Members and directors may receive compensation for their freely executed contracts approved by the board or membership as the case may require, provided the contract is approved in compliance with this conflict of interest policy.

### Duty to Disclose

Any possible conflict of interest on the part of any member or director of the co-op shall be disclosed in writing to the membership or board of directors, depending on which group the matters is to be approved by, and made a matter of record in the meeting minutes.

### Voting Requirements

If the contract involving a member or director exceeds \$100 but is less than \$1000 in any fiscal year, a vote of the membership or board—with the involved member neither taking part in the deliberation nor voting—is required for approval. Any member or director having had a similar conflict of interest in the last 12 months should likewise not participate. If the transaction is \$1000 or greater, a majority vote approving the transaction—with the involved member not present and not voting—is required for approval, and notice of the transaction shall appear as a note in the annual financial statement of the co-op.

Approved \_\_\_\_\_ Secretary \_\_\_\_\_  
(date)

## Board Meeting Policy

**It shall be the policy of the board to assemble monthly to:**

- Discuss the general operation of the co-op and cooperative finances
- Make decisions
- Communicate board actions to the membership
- Field comments from the membership

**The essential components of a legal board meeting:**

- The President calls the meeting with a least 14 days notice communicated personally to each board member and posted in a public place.
- The Secretary confirms a quorum. A quorum must be present to do business, according to the bylaws.
- The President calls the meeting to order.
- The Secretary reviews the minutes of the last meeting, which are amended if necessary, and approved. (Board members should have received and read them in advance.)
- The Treasurer's report is presented and approved.
- Committee reports are presented.
- The board conducts business on its agenda. Any decisions or actions are taken with a legal vote:
  - The President asks for a motion and a second.
  - The Secretary reads the exact wording of the motion.
  - The motion is discussed and may be amended by majority vote.
  - The President calls for a vote.
- The board reviews its list of Action Items.
- Set date for next board meeting.
- Review agenda for next board meeting.
- Evaluate today's/tonight's meeting.
- Adjourn meeting

At all meetings of the board, the board members will respect each other in word and in deed by speaking politely, in a moderate tone of voice and not interrupting a speaker.

It shall be the policy of the board to require quarterly reports from the various committees to ensure continuity of anticipated activities of the committees, and to offer support and appropriate guidance. Monthly budget reports shall be available to members who request them.

Approved \_\_\_\_\_ Secretary \_\_\_\_\_  
(date)

## Grievance Policy

The primary purpose of the Grievance Committee is to handle complaints for the good of everyone involved. The Grievance Committee develops a grievance policy and procedure for members. The committee responds in a timely manner to all complaints and helps all those involved learn how to resolve conflicts peacefully.

The Grievance Committee chair shall be appointed by the board.

The responsibility of the committee is to meet as needed to conduct the business of the Grievance Committee, including:

- To develop a Grievance Procedure for approval by the Board.
- To develop and implement a plan to address and resolve concerns, issues and disputes pertaining to the co-op.
- To help ensure that residents will abide by House Rules and Bylaws.

The Grievance Committee may intervene in situations of two kinds:

- House Rule violations.
- Disputes between two members.

### House Rules Violation

The Grievance Committee will inform at least two board members before acting on a House Rules violation.

1. All complaints of rule violations should be submitted in writing (on a Complaint Form) to the Grievance Committee or board, and should include the name of the person who first noticed the violation. (This name need not be revealed to the violator.)
2. The Grievance Committee or board verifies that a rule violation or serious safety issue has indeed taken place.
3. The designated messenger of the Committee or board then calls or visits the violator and in a friendly manner points out the rule and the violation, asking the violator for the date the violation will be corrected by.
4. The messenger informs the violator of the Committee/board requirement that the violator receive a Rule Reminder.
5. The messenger fills in the rule and the stated correction date on the Rule Reminder, obtains signatures from the board or Grievance Committee chair (as applicable), and delivers it to the violator. (If violator does not state a correction date, the board or Committee sets a date.)
6. When the correction date arrives, the messenger checks to verify that correction has taken place.
7. If so, messenger sends a Thank You.
8. If not, the messenger informs the Committee or board, who authorize the sending of a Notice of House Rule Violation.

### Disputes Between Two People

1. The two people are strongly encouraged to speak directly with each other and work out the disagreement.
2. If not resolved, the two parties may bring the issue to the Grievance Committee.
3. One or two impartial members of the committee may meet with the parties to help mediate a solution agreeable to both parties. The agreement worked out will be documented (on the Agreement Form) and signed by both parties, witnessed, and a follow-up meeting may be scheduled.

## Complaint Form

**Complaint made by (please print):**

\_\_\_\_\_  
Name Date

\_\_\_\_\_  
Phone # Unit #

Describe complaint including all pertinent facts:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_ You may disclose my name to the above party if requested.

\_\_\_\_\_ Please do not disclose my name to the above party. I understand that the co-op will make every attempt to respect this request unless compelled to disclose by a court of law.

\_\_\_\_\_  
Complainant Signature

\_\_\_\_\_  
Received by (*Committee member*) Date

## Agreement Form

A meeting was held on \_\_\_\_\_ (date), and an agreement has been worked out as follows: (complete on reverse if needed)

I, \_\_\_\_\_, agree to \_\_\_\_\_

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I, \_\_\_\_\_, agree to \_\_\_\_\_

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*Sample wording:*

*I, (first party), agree to make sure my children do not play unattended in the laundry room.*

*I, (second party), agree to use respectful language when speaking to children in the co-op.*

Agreement is satisfactory to both parties:

Yes \_\_\_\_\_ Signature \_\_\_\_\_

Yes \_\_\_\_\_ Signature \_\_\_\_\_

Signatures of all others in attendance:

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Each party receives a copy and original is filed by the co-op.

## Rule Reminder

\_\_\_\_\_

Date

\_\_\_\_\_

To Unit #

It has been brought to our attention that you may be in violation of House Rule \_\_\_\_\_

\_\_\_\_\_

Article	Page	Paragraph
---------	------	-----------

based in the following manner:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

This letter is to advise you that a complaint has been documented regarding this rule, and we would like you to address this situation as soon as possible.

Please have this situation corrected by \_\_\_\_\_ (date).

We trust that this issue will be handled without any further involvement on our part. If you have any questions or need assistance in resolving this matter, please contact a member of this committee, whose names and numbers appear below:

Thanking you in advance,  
Your Grievance Committee

\_\_\_\_\_, Chair \_\_\_\_\_ (Phone)

\_\_\_\_\_, Member \_\_\_\_\_ (Phone)

\_\_\_\_\_, Member \_\_\_\_\_ (Phone)





## Board Minutes

**(Co-op name) Board of Directors**

**Meeting Minutes for (time, date)**

**Board Members Present:** (names)

**Board Members Absent:** (names)

**Others Members Present:** (names)

**Guest(s):** (names)

**Time Keeper:** (name)

**Facilitator:** (name)

**Minutes Taker:** (name)

**Call to Order:** The meeting was called to order by \_\_\_\_\_ at \_\_\_\_ p.m.

**Agenda Review:** Accepted as proposed, or list changes.

**Approval of Minutes from Previous Board Meeting:** List any corrections.

**Treasurer's Report:** Summarize the report and discussion. List all major points. Mention concerns for the future and ideas which were considered and then rejected. Do not write entire conversations. Usually, names of speakers are not important (except the name of the person reporting).

**(Committee reports, listed by committee):** For each committee, summarize the report and discussion. List all major points. Mention concerns for the future and ideas which were considered and then rejected. Do not write entire conversations. Usually, names of speakers are not important (except the name of the person reporting).

**Old Business:** Deal with any unfinished business from committee meeting(s), including:

- Presenters (if not named on the agenda)
- Clarifying information for the proposal
- Major points of discussion (see below)
- For any motions: Who made the motion, who seconded, summary of discussion, and the final vote (for, against, and abstained). Your board may wish to record each director's vote.
- Final outcome (passed, failed, tabled)

**New Business:** Deal with new business issues. Include same information as under Old Business.

**Announcements:**

**Action Items:** Most boards use this category to clarify who will do what by when.

**Executive Session:** If there was an executive session called, list the time that the executive session was started, and outcome or follow up required. Be careful not to publicize this portion of the minutes.

**Adjournment:** \_\_\_\_\_ motioned to adjourn, \_\_\_\_\_ seconded, all approved.

The Board meeting was adjourned at (time).

Next Board meeting scheduled for (time and date).

Respectfully Submitted,

Secretary (name of board Secretary)

**Attachments:** (list names of attached documents)

## Worksheet for Creating an Annual Board or Committee Work Plan

The goal of this exercise is to create an annual work plan that will help the board or committee manage its workload, and ensure that important tasks are completed over the course of the year.

**1. List duties and responsibilities** (from the board or committee job description).

**2. Brainstorm a list of tasks to fulfill these responsibilities**

"Brainstorming" means anything and everything goes! Come up with as many as ideas as possible. Just write, don't evaluate.

**3. Decide how often each task would need to be done**

Working from the brainstorm ideas, make note of how often each task needs to be done.

**4. Prioritize**

Decide which tasks must be done. Decide which tasks should be done. Decide which tasks it would be good to do if there's enough time.

**5. Assign tasks to certain months**

Specific dates are not important yet. Try to plan a well rounded year with an even work load: not too much, not too little. This is just a rough draft.

**6. Decide on the group's time commitment**

Look at all the tasks. How often will you meet? How long will your meetings be? Roughly how much time do you want to spend on board or committee work outside of meetings?

**7. Create a calendar**

Narrow down to what things you will do. Assign each task to a month(s). If you have specific dates, you may use them. Don't force yourselves to choose dates, though. **Remember to make note of when you'll start planning a project, not just when it will happen.**

This is not only a plan of work, but also a plan to work with. Month by month, fill in specific dates of meetings, project deadlines, and so on. You will have revisions to the work plan along the way, so make sure the work plan reflects those changes.

## Board Evaluation Tool

Directions: Using the scale provided below, rate your board in response to each statement.

- 0 = Doesn't exist on our board**
- 1 = We're working on it**
- 2 = We're in great shape on this**

### Board Selection and Composition

**Rating**

1. Most of the directors on the board are very interested in the success of the co-op. \_\_\_\_\_
2. The backgrounds of the directors are similar to the backgrounds of the members. \_\_\_\_\_
3. There is a mix of experienced and new board members; this allows for consistency over time as well as new thinking. \_\_\_\_\_
4. Board members understand, or are willing to learn, the basics of issues that relate to successfully operating a co-op. \_\_\_\_\_
5. There is a limit to the number of consecutive terms a board member can serve. \_\_\_\_\_
6. The co-op develops committee volunteers so they can become future board members. \_\_\_\_\_
7. New board members are carefully recruited and selected; relevant background information about the candidates is provided to the membership at large. \_\_\_\_\_

**Subtotal** \_\_\_\_\_

### Orientation and Training

8. There is a statement outlining the duties, responsibilities, and role of each board member. \_\_\_\_\_
9. Board members understand their legal responsibilities. \_\_\_\_\_
10. The co-op provides an orientation for new board members. \_\_\_\_\_
11. The co-op supplies a board manual to all board members. \_\_\_\_\_
12. The co-op makes training opportunities available to board members to increase skills related to their board responsibilities. \_\_\_\_\_

**Subtotal** \_\_\_\_\_

### Structure and Organization

13. The board has a policy for handling matters that must be dealt with between meetings. \_\_\_\_\_
14. The board coordinates the ongoing work of the board and its committees. \_\_\_\_\_
15. The co-op has active committees, with specific responsibilities. \_\_\_\_\_
16. Board-approved committee assignments are reviewed and evaluated periodically. \_\_\_\_\_
17. Working relationships among the board president, board, and committees are strong and productive. \_\_\_\_\_

- 18. Board and committee members are clear about their respective responsibilities. \_\_\_\_\_
- 19. Relations between the board and committees are characterized by mutual respect and good rapport. \_\_\_\_\_
- Subtotal** \_\_\_\_\_

**The Board at Work**

- 20. The board has developed and follows an annual work plan. \_\_\_\_\_
- 21. There are regularly scheduled board meetings. \_\_\_\_\_
- 22. Meetings begin and end on time, according to an agreed-upon schedule. \_\_\_\_\_
- 23. There is adequate preparation and distribution of material, including agendas and other documents, in advance of board meetings. \_\_\_\_\_
- 24. Board discussions are open, positive, focused, with active participation and clear decision-making. \_\_\_\_\_
- 25. Individual board members accept and carry out assignments within the area of their abilities. \_\_\_\_\_
- 26. Board members follow through on their commitments in a timely manner. \_\_\_\_\_
- 27. Committees are active and complete their assigned tasks in a timely manner. Ad hoc committees are disbanded when their task is done. \_\_\_\_\_
- 28. The board is aware of matters of local and state concern to the co-op. \_\_\_\_\_
- 29. Minutes of the board meetings are written, approved, and sent out in a timely manner. \_\_\_\_\_
- 30. Board members evaluate the condition and progress of the co-op, make and review policies, programs, finances, and long-range plans of the co-op. \_\_\_\_\_
- 31. Board members understand “conflict of interest,” disclose conflicts voluntarily, and do not try to influence decisions for their personal benefit. \_\_\_\_\_
- 32. All board members know the financial condition of the co-op, and there is a process in place for regular financial reporting and accountability to the board. \_\_\_\_\_
- 33. The board conducts regular reviews of itself and its work. \_\_\_\_\_
- Subtotal** \_\_\_\_\_
- Total Score** \_\_\_\_\_

**Analyzing Your Total Score**

- 54-64 You are in great shape. You have a healthy board with good working relationships. You realize that developing an effective board is a lifelong process.
- 42-53 You are on the way to a strong, effective board. Pay attention to your weak spots, and involve the entire board in developing solutions.
- 25-41 You have lots of room for improvement. The board needs to set priorities to work on, for both the short and long term, and then make and follow a corresponding plan.
- 0-24 You are probably experiencing problems on your board. Now is the time to devote serious attention to strengthening the structure, composition, and functioning of the board. If not, your programs, and ultimately the entire co-op, will suffer.

## Annual Meeting Checklist

\_\_\_\_\_ Bylaws checked to ensure all commitments and deadlines, particularly the Notice requirement, are being met.

\_\_\_\_\_ Committee reports prepared

### Membership Packet

Completed \_\_\_\_\_ Sent Out \_\_\_\_\_

Packet includes:

\_\_\_\_\_ Cover letter with date, time, location and any instructions required

\_\_\_\_\_ Agenda

\_\_\_\_\_ Minutes from last Annual Meeting for approval

\_\_\_\_\_ Copy of prior year's financial statement/audit for approval

\_\_\_\_\_ Year-to-date financial report by Treasurer

\_\_\_\_\_ Proposed budget for membership approval

\_\_\_\_\_ Ballot (if used)

\_\_\_\_\_ By-law changes (if any)

\_\_\_\_\_ House Rules changes (if any)

\_\_\_\_\_ Annual Report copy (original form sent to Secretary of State)

\_\_\_\_\_ Meeting space reserved (nearby, accessible, day care available).

\_\_\_\_\_ Guest speaker booked (accountant, staff, humorist, local politician, co-op leader from another co-op).

\_\_\_\_\_ Lots of good food.

\_\_\_\_\_ Raffle items and materials for doing raffle

\_\_\_\_\_ Voting Procedure

\_\_\_\_\_ for counting ballots and announcement of election results.

\_\_\_\_\_ for counting membership vote on agenda items.

\_\_\_\_\_ Assignment of directors' and committee chairs' roles at meeting

\_\_\_\_\_ Celebration and awards ceremony planned

### Tips

- Well in advance of the meeting, personally invite each member, face-to-face, and get a commitment from them to attend.
- Have a mixer activity or some other entertainment. People like to play and win. Give out awards and trophies. Celebrating even small successes reinforces positive behavior.
- Meetings are shorter when people can smell the food.

## SAMPLE COMMITTEE DOCUMENTS

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### Membership Committee Job Description

#### Purpose

Act as the board's oversight body in matters related to the cooperative's membership systems and structure, especially membership recruitment, screening, waiting list, investment, communications, administration, and co-op education. Comply with Fair Housing standards.

#### Specific Duties

- Evaluate all membership criteria, documents, and policies, including member selection policies. Documents include Membership Application, Income Verification, and Occupancy Agreement.
- Develop and review member outreach and marketing strategies.
- Follow board-approved new applicant policy and procedure, including: Receiving written application, credit history and reference checks, applicant interview, applicant evaluation, and recommendation for approval or denial to the board.
- Maintain prospective member waiting list.
- Orient and train new members.
- Develop and maintain a continuing education and training program, with corresponding materials, for cooperative members.
- Develop and maintain member communication and resource materials, including Resident Handbook.
- Develop and enforce policies about unit transfers and member participation requirements.
- Develop and enforce house rules.
- Hear grievances about participation requirements.
- Be responsible for the general promotion of cooperation through special education programs and through the development of services and activities.
- Develop and coordinate a program to educate the membership in the use of the electoral system.
- Submit minutes from every meeting to the board of directors.
- Perform such other duties and responsibilities as the board of directors may confer upon the committee from time to time.

#### Makeup

Minimum size: 3; Maximum size: 5

Composition: At minimum, one board member, and two members at large.

#### Meetings

The Committee will meet as often as deemed necessary for its functions. A yearly committee meeting schedule will be included with the annual board calendar.

#### Term

As set forth by the cooperative's bylaws, or by the board of directors.

## Finance Committee Job Description

### Purpose

Ensure that the cooperative is managed in a sound, business-like fashion. Review and analyze financial information that is to be presented to the board of directors. Plan for future financial needs of the cooperative. Ensure that adequate financial resources are available to maintain the cooperative's building and grounds, and to pay off debt services. Recommend use of cooperative funds in accordance with cooperative policies.

### Specific Duties

- Develop and monitor the cooperative's financial policies.
- Develop projections, long-term financial plans, and annual operating and capital budgets.
- Review with the board the cooperative's annual budget.
- Coordinate monthly budget reporting.
- Reconcile all accounts on a monthly basis.
- Arrange for and monitor the audit.
- Propose and review the carrying charge schedule, and develop collection policies and procedures.
- Monitor eviction for non-payment of carrying charges.
- Maintain share purchase and damage deposit funds.
- Review long and short-range financial performance reported by management and the auditor, and recommend budget amendments when necessary.
- Review costs of recommended budget changes and proposed unbudgeted expenses, and determine how those costs will affect monthly carrying charges.
- Develop policies and training needs of the board Treasurer, assist the Treasurer in performance of his/her duties, and monitor Treasurer training.
- If outside vendor is used for accounting services, work with the Treasurer to oversee vendor's management of Accounts Receivable and Accounts Payable.
- Develop and monitor investment policies and performance for the cooperative.
- Review the reserve schedule developed by the Maintenance/Property Management Committee.
- Hold an open hearing on each proposed annual budget and proposed increases in the rent schedule.
- Periodically report to members about the financial position of the cooperative, and make a special presentation at the annual membership meeting.
- Submit minutes from every meeting to the board of directors.
- Perform such other duties and responsibilities as the board of directors may confer upon the committee from time to time.

### Makeup

Minimum size: 3; Maximum size: 5

Composition: At minimum, one board member, and two members at large.

### Meetings

The Committee will meet as often as deemed necessary for its functions. A yearly committee meeting schedule will be included with the annual board calendar.

### Term

As set forth by the cooperative's bylaws, or by the board of directors.

## Maintenance Committee Job Description

### Purpose

Ensure that the physical property controlled by the cooperative is maintained in good working order and condition.

### Specific Duties

- Develop and implement property maintenance standards.
- Develop a list of preferred contactors and service people
- Recommend maintenance and property management policies to the board.
- Oversee the acquisition, maintenance, and lending policies of the cooperative's tools and tool lending library.
- Develop repair and emergency repair guidelines for the residents.
- Design and deliver preventive maintenance training for residents.
- Develop guidelines for and rule on resident requests to modify physical living space of units.
- Develop guidelines to use in calculating the maintenance/replacement reserve, and make corresponding recommendations to the board to establish and maintain such a reserve.
- Be responsible for motivating members to help keep the building in good physical condition.
- Serve as a channel whereby members can present their complaints or ideas on maintenance to management/the board.
- Develop and implement a regular inspection schedule for the general condition and maintenance of the building and surrounding grounds.
- Establish priorities for the expenditure of the maintenance budget.
- Prepare and submit an annual capital improvement plan.
- Develop house rules, and submit to board for approval. Monitor and enforce house rules.
- Submit minutes from every meeting to the board of directors.
- Perform such other duties and responsibilities as the board of directors may confer upon the committee from time to time.

### Makeup

Minimum size: 3; Maximum size: 5

Composition: At minimum, one board member, and two members at large.

### Meetings

The Committee will meet as often as deemed necessary for its functions. A yearly committee meeting schedule will be included with the annual board calendar.

### Term

As set forth by the cooperative's bylaws, or by the board of directors.



## Committee Minutes

**(Co-op name) (Committee name)**

**Meeting Minutes for (time, date)**

**Committee Members Present:** (names)

**Committee Members Absent:** (names)

**Others Members Present:** (names)

**Guest(s):** (names)

**Time Keeper:** (name)

**Facilitator:** (name)

**Minutes Taker:** (name)

**Call to Order:** The meeting was called to order by \_\_\_\_\_ at \_\_\_\_ p.m.

**Agenda Review:** Accepted as proposed, or list changes.

**Approval of Minutes from Previous Committee Meeting:** List any corrections.

**Old Business:** Deal with any unfinished business from previous committee meeting(s), including:

- Presenters (if not named on the agenda)
- Clarifying information for the proposal
- Major points of discussion (see below)
- For any motions: Who made the motion, who seconded, summary of discussion, and the final vote (for, against, and abstained). Your committee may wish to record each person's vote.
- Final outcome (passed, failed, tabled)

New Business, including same information as under Old Business.

**Action Items:** Most committees use this category to clarify who will do what by when.

**Adjournment:** \_\_\_\_\_ motioned to adjourn, \_\_\_\_\_ seconded, all approved.

The committee meeting was adjourned at (time).

Next committee meeting scheduled for (time and date).

Respectfully Submitted,

(name of minute taker)

## Interview Guide for Prospective Members

### Introductions

- Exchange names.
- Set a comfortable atmosphere.
- Give applicant some info about yourself (how you came to live in the Co-op, the experience of living in the Co-op).
- Explain the purpose of the interview.
- Does applicant have any questions before you start?

### General Qualifying Information

- Have all adult applicants attended an information session and when?
- Has the applicant(s) been denied at any other co-op? Yes \_\_\_\_\_ No \_\_\_\_\_ If Yes, Why?
- Are the results of the credit check good? Any bankruptcy?  
*If not good, point to any particular problems & ask for an explanation.*
- Are the results of the landlord check good?  
*If not, ask them to give their side of the story.*
- Have any of the applicant(s) been convicted of a crime and/or have any criminal charges pending?  
Yes \_\_\_\_\_ No \_\_\_\_\_ *If Yes, what are the dates and descriptions of the conviction(s)?*

### Understanding the Cooperative Model

1. What is your understanding of co-ops?
2. How did you hear about co-ops and (your co-op)?
3. Why do you want to join a co-op? What do you like about this co-op? Have you been inside and outside of the co-op?
4. How will it be different from where you are living now? What do you like/dislike about your current housing situation?
5. What do you think about the neighborhood?
6. What concerns do you have about living in a co-op? What do you think may be difficult for you?

### Participation

1. In what ways do you think it is reasonable to expect members to participate in functions of the co-op?
2. In the places where you lived before, have you done routine maintenance such as fixing taps, changing fuses, cleaning furnace filters, shoveling snow, keeping up the yard?
3. Being a member in a housing co-op is like owning your own home with others. What tasks would you say are important in running a house?
4. How would you participate in the co-op on a regular basis? What are your interests, skills, hobbies, strong points?
5. Which co-op committees would you be interested in joining?
6. Have you ever been involved with any group? (Work, volunteer, school, etc.) What was it like? What was difficult about it? What were the rewards?
7. Do you have any concerns about working with others or making decisions as a group?

### Cooperative Spirit

1. What have your relationships with neighbors been like in the past? Have you ever had problems? How did you deal with them? If you were that neighbor, how would you want them to deal with you?

## APPENDIX

2. What would you do in the situation where a neighbor was being too loud? What would you do if a neighbor asked you to make less noise?
3. Member payment of carrying charges (rent) on time is important because the co-op must pay its own bills on time. How would you suggest the co-op deal with members paying late carrying charges?
4. How are you involved in your neighborhood and community? Are you a member of a co-op? A social organization?
5. What is the most difficult thing about working with this group? What has been exciting or rewarding?
6. What types of decisions do you think you would be faced with in running a co-op?
7. Tell us about a time you were involved in a conflict. How did you handle it?

### **Non-Discrimination**

1. What type of person would you not want to live next to? Why?
2. Do you see any problems in mixing people from different social, economic and cultural backgrounds in a community of this size? Any benefits?
3. Do you think the co-op should be able to deny membership to an applicant based on the applicant's: Age? Race? Sexual Orientation? Religious Beliefs? National Origin? Household with children? Recipient of welfare or other public assistance? Disability?

### **Ability to Comply with Terms of the Lease**

1. Will you be able to purchase your share? Will you be able to pay monthly carrying charges on time every month?
2. Do you anticipate wanting to rent any part of the unit to someone that is not listed on the application?
3. Do you have any pets?  
*If yes, how many and what are the breeds of each. Any problems with them?*
4. Why do you wish to leave your current housing? Will you be breaking a lease? Are you in good standing with your current and past landlords?
5. Are there, or is there, any adult applicant(s) who is or planning to be a full-time students?  
*If Yes, who and when?*
6. If accepted, how long do you anticipate living at this co-op?
7. How secure do you feel about your job and income? How long do you plan to stay with your present job?
8. Do you have problems paying your current rent?

### **Follow-Up**

1. Do you have any other questions/concerns?
2. Inform the applicant of the next steps in the process: Committee reviews application and makes recommendation to the Board; Board votes on the recommendation; Committee notifies applicant by letter (or maybe a call) and explains next steps.
3. Explain that the process takes time. Thank the applicant for their time.

## Prospective Member Interview Results Form

Applicant(s) \_\_\_\_\_ Interview date \_\_\_\_\_

Co-op Member interviewer #1 \_\_\_\_\_

Co-op Member interviewer #2 \_\_\_\_\_

**IMPORTANT: Include an explanation for each decision.**

Criteria	Decision [Yes/NO/Maybe]	Explanation
Co-op Orientation		
Affordability		
Ability to Comply with Lease		
Cooperative Spirit		
Household Size		
Credit History		
Rent Payment History		
Stability of Income		
Accessible Unit		
Participation in Management		
Understanding of Cooperative Model		
Property Damage		
Neighbor Disturbances		
Low/Moderate Income		
Non-Discrimination		
Full-Time Student		
Ability to Purchase Share		
Criminal History		

Membership Committee recommends the following: APPROVE \_\_\_\_\_ DENY \_\_\_\_\_

Committee Chair Signature(s) \_\_\_\_\_ Date \_\_\_\_\_

Board of Directors votes to: APPROVE \_\_\_\_\_ DENY \_\_\_\_\_

Board Chair/Vice Chair Signature(s) \_\_\_\_\_ Date \_\_\_\_\_

## Reference/Credit Check Results Memo

(Your Co-op)  
(Address, Phone number)

### MEMORANDUM

**To:** (Co-op Board Chair name)  
**From:** (Name of person doing reference and credit checks)  
**Date:** (Date)  
**RE:** Applicant reference results

I have completed applicable processing for the applicant listed below, and have listed my findings below:

Applicant and Phone Number	Application Date	Type of Reference	Outcome	Explanation	Score [3=Best]
				<b>TOTAL</b>	

Please feel free to contact me with any questions regarding this applicant and/or the member selection process.

Sincerely,

(Name of person doing reference and credit checks)  
 Cc: (Other affected parties)

## Notice of Adverse Action

---

 To (Applicant)

 Date
 

---

 Desired unit #
 

---

We, the Board of Directors of \_\_\_\_\_, have reviewed your Application for Membership and Credit Report. We have decided to deny your application.

### Listed below are the reasons for denial:

\_\_\_\_\_ Your application is missing the following information, which may be supplied and the application re-submitted \_\_\_\_\_

\_\_\_\_\_ Your application was denied for failure to meet the following credit basis-for-approval item(s); numbers refer to the attached Adverse Action Code list: \_\_\_\_\_

\_\_\_\_\_ Your application was denied because \_\_\_\_\_

---

Our decision was based in whole or in part on information obtained in a report from the consumer reporting agency listed below. You have a right under the Fair Credit Reporting Act to know the information contained in your credit file at the consumer-reporting agency. The reporting agency played no part in our decision and is unable to supply specific reasons why we have denied your application for membership.

You have a right to receive a free copy of your report from the reporting agency, if you request it within 60 days of this notice. In addition, if you find that any information contained in the report you receive is inaccurate or incomplete, you have the right to dispute the matter with the reporting agency.

---

 Name of Agency Used

---

 Address

 Toll Free Telephone
 

---

If you have any questions regarding this notice, you should contact:

(co-op contact person) \_\_\_\_\_ at telephone \_\_\_\_\_

The Federal Equal Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, disability, sex, marital status, age (provided that the applicant has the capacity to enter into a binding contract) or sexual orientation; because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The Federal Agency that administers compliance with this law concerning the creditor is:

### Federal Trade Commission

Consumer Response Center--FCRA  
 Washington, DC 20580  
 202-326-3761

## APPENDIX

### Adverse Action Codes

<b>Code #</b>	<b>Basis for Disapproval</b>
1	Insufficient number of credit references
2	Unacceptable type of credit reference
3	Unable to verify references
4	Income insufficient for amount of credit requested
5	Excessive obligations in relation to income
6	Unable to verify Income
7	Temporary or irregular income
8	Temporary or irregular employment
9	Unable to verify employment
10	Length of employment
11	Length of residence
12	Temporary residence
13	Unable to verify residence
14	No credit file
15	Limited credit experience
16	Poor credit performance with prior landlord
17	Bankruptcy
18	Lack of established earning record
19	Slow or past due on trade or loan payments
20	Delinquent past or present credit obligations with other creditors
21	Garnishment of wages, attachment, foreclosure, repossession, collection, eviction or judgment on record.



Northcountry  
Cooperative  
Development Fund

219 Main Street, Suite 500  
Minneapolis, MN 55414

phone: 612.331.9103  
e-mail: [info@ncdf.coop](mailto:info@ncdf.coop)  
[www.ncdf.coop](http://www.ncdf.coop)