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# GHERTNER NEWS

A QUARTERLY PUBLICATION FOR GHERTNER & COMPANY HOMEOWNERS

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## A Homeowner's Guide To Community Association Finances

At the end of each year, community association Boards of Directors work to create a budget for the upcoming year, including setting the community association fees that each homeowner is required to pay. While paying dues isn't the most appealing aspect of living in a community association, the financial support of all homeowners is crucial to the community's success. To help you better understand community association finances, we're answering some commonly asked questions.

**What financial accounts does my community association have?**
Every association has at least two accounts, an operating account and a reserve account. The operating account is similar to your personal checking account, with funds used to cover day-to-day expenses for your community. The reserve account is similar to your personal savings account, with funds used to cover large capital projects or other HOA expenses. Healthy reserve accounts play a crucial role in helping communities avoid special assessments and addressing long-term needs. For condos and townhomes, it is recommended that a minimum of 10% (or more if needed) of your income be allocated to reserves.

**What expenses do my community association fees cover?**
This varies among communities, but can include insurance, administrative fees, legal fees, landscaping, utilities, or common area maintenance, as applicable.

**How does the board determine the annual budget and the price of community association fees?**
Your board uses financial reports from the current year and previous years, along with updated pricing for the coming year's contracts for various services, and the board's financial goals for the community to set your fee. Whether your community association fee stays the same or increases for a given year is driven by your community's individual circumstances. Inflation increases in maintenance costs and general overhead, capital improvements, and the overall economic environment all affect your community's fees.

**How do reserve studies aid the board in making financial decisions for the community?**
Reserve studies assess the condition and longevity of a community's common elements—ranging from a pool or clubhouse to the shared buildings/roofs of a condominium or townhome. It provides a financial plan for the community, considering the anticipated replacement costs of various items and the timing of their replacement. Reserve studies help your board fulfill its fiduciary duty to the community and make informed financial decisions for both short-term and long-term needs.

**Why does my community association need insurance, and how does it impact community association finances?**
Community association insurance ensures that the structures, services, and amenities you rely on (and your community association fees pay for) remain protected, no matter what happens. Due to rising labor and material costs, as well as an increase in natural disasters across the U.S., insurance rates are increasing. If your community files a claim, rates may be higher, resulting in higher HOA fees.

Understanding what your community association fees support is the first step toward appreciating their value. Your board is committed to using these funds responsibly for the success of your community. Your financial participation is an investment in your shared community.

**Please note that each community association's fees are different. Please review your community's financials and budget by logging in to portal.ghertner.com.*