



HOA Finance & Budgeting 101

a.k.a., Making sense of the madness of HOA accounting

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CFO/VP-FINANCE – RETIRED

LEMAY SHORES HOA PRESIDENT



**HOA LEADERSHIP
NETWORK**

By Board Leaders. For Board Leaders.



Your HOA is a Corporation

Board Members (“Executive Team”)

Fiduciary duty and authority as found in MCIOA and governing docs to protect and manage funds

Residents as Owners (“Stockholders”)

Provide revenue through monthly fees & special assessments

Residents as Buyers (“Consumers”)

Consume the products & services created by the HOA

Management Company (“Operations”)

Collects & spends on behalf of the HOA



Flow of Cash



Operating Account — Daily Operations

In: Monthly fees, special assessments, fines, loan proceeds, reserve transfers

Out: Admin expenses, vendor payments, loan payments, reserve contributions

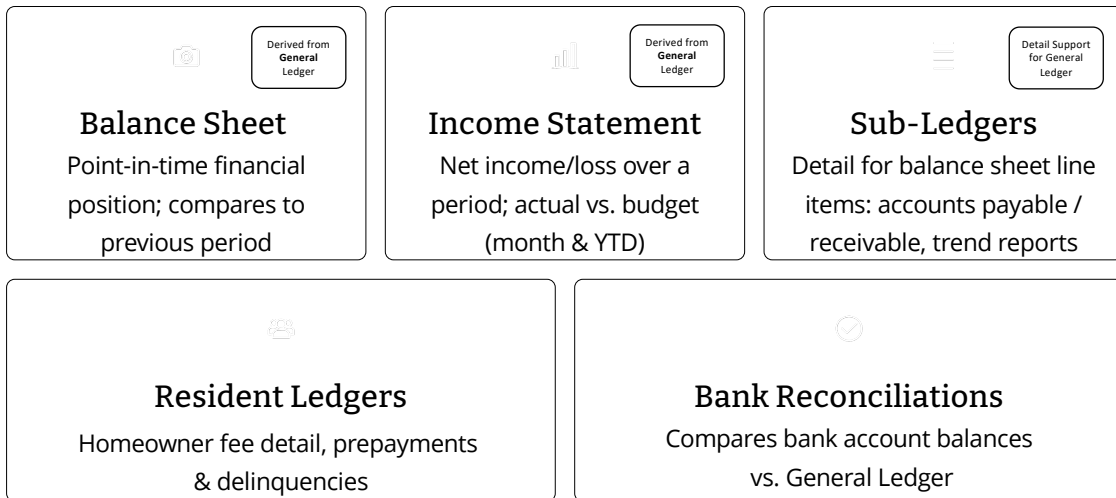
Reserve Account — Future Projects

In: Reserve contributions, investment returns

Out: Transfers to Operating Account for vendor projects or urgent needs



Typical HOA Financial Report Package



Balance Sheet — Point in Time

ASSETS
- What you own (Cash/Investmts/Property)
- What is owed to you (Accts Receivable)
- Prepaid service costs (Prepaid Expenses)
TOTAL ASSETS
LIABILITIES
- What you owe to others (Accts Payable)
- What you have, but didn't yet "earn" (Prepaid Assessments)
- What you should have paid for work rec'd (Accrued Expenses)
- What you owe in loans
TOTAL LIABILITIES
EQUITY
- Ownership Position
- Retained Earnings + current Net Income
TOTAL EQUITY
TOTAL LIAB & EQUITY

What to Check

- Do **Assets = Liabilities + Equity**?
- Review all sub-ledgers
 - Accounts Receivable, Prepaid Expenses, Accounts Payable, Prepaid Assessments, Accrued Expenses, Resident Ledgers, Physical Asset Ledgers, Bank Loan Statements, Bank Account Statements
- Verify prior year-end balance sheet and income statement align with current



Income Statement — Period of Time

REVENUE
- Monthly Fees Earned
- Special Assessment Fees
- Fines/Delinquency Fees
- Investment Income
TOTAL REVENUE
EXPENSE
Admin Expense
Legal, Audit/Taxes, Mgmt fees, etc.
Operational (Vendor) Expense
Lawn, Snow, Repairs, Ins, Trash, etc.
Financing Expense
Loan interest, fees
TOTAL EXPENSE
NET INCOME/LOSS

What to Check

- Are fees/fines collected as expected?
- Any surprises on the bank statement?
- Are all expenses supported by vendor invoices & consistent with contracts?
- Are expenses incurred this month for services rendered this month? Were vendors paid as expected?
- Does YTD = prior YTD + current month?
- What caused deviations to budget?
 - Timing, cost or contract changes?



Sub-Ledgers & Bank Reconciliations

Key Sub-Ledgers

- **Accounts Receivable ("A/R"):** Residents owing fees/fines and time outstanding
- **Accounts Payable ("A/P"):** Vendor payments not yet cleared the bank account
- **Accrued Expenses:** Services received, not invoiced
- **Prepaid Expenses:** Paid to vendors, services not yet received
- **Prepaid Resident Fees:** Residents paid in advance
- **Physical Assets:** HOA-owned assets, original & depreciated value
- **Resident Ledger:** Full record of fees, fines, and payments (homeowner detail)

Bank Reconciliation

G/L Cash Balance
± Uncleared Items
= Adjusted G/L Balance
vs. Bank Statement Balance
Difference = ZERO

- ❑ **Most important report — do you know where your funds are?**



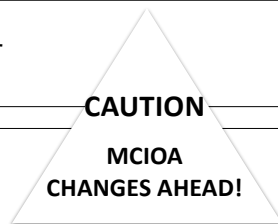
Year-End Financial Close Process

- ✓ Accrue Expense for services received without invoices.
Ensures that current year expense is not carried over into next year
- ✓ Third-party audit; adjusting entries posted
- ✓ Income taxes calculated and posted as current year expense
- ✓ Net Income rolled into Retained Earnings.
Becomes part of "Prior Year Retained Earnings" on next year's reports
- ✓ YTD income and expense amounts reset to \$0



Budgeting Guidelines

WHAT	Budget is a "Guideline", not a 'Rule"
WHY	Provides insight into benefits and risks
WHO	Treasurer, with input from Board & Manager
WHEN	Typically, in Fall – Implement on January 1



Budgeting Guidelines

- ✓ Revenue (homeowner fees) is typically stable and predictable – budget fines if significant
- ✓ Expense components: recurring expenses, new expenses, investment income, contingency
- ✓ Consider age of structures, vendor contract terms, inflationary increases (CPI-U).
- ✓ Obtain vendor quotes if feasible (especially insurance!)
- ✓ Expenses are seasonal; 3-Year expense trend is a good starting point.
- ✓ Approve in time for January homeowner charges
- ✓ Validate budget is entered properly in Management Company system

Total expenses, less non-fee revenue, ÷ residents ÷ 12 = new monthly fee.

HOAs are non-profit — so should your budget!



What to Tell Your Residents

Treasurer's Opinion

Financial health, audit opinion, reserve sufficiency, Insurance claim or litigation status

Where Does the Money Go?

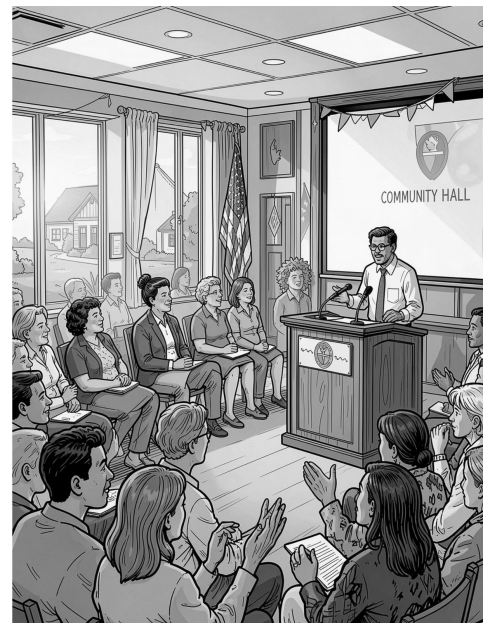
How fees are determined; what Operating & Reserve accounts cover; how unexpected costs are funded

How Are We Doing?

Last year's results, current YTD, expected year-end, and budget variances with explanations

Next Fiscal Year

Line-item budget vs. prior year, rationale for changes, new monthly fees, vendor commitments, cost-reduction actions



- ☉ Be open, honest, and transparent — and have support for all decisions. Don't assume financial literacy!