



A RESOURCE FROM THE HELSING GROUP

HOA BUDGET BASICS: WHAT BOARD MEMBERS NEED TO KNOW

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INTRODUCTION

Serving as a volunteer member on a Homeowners Association (HOA) board is a rewarding but demanding role. One of your most crucial responsibilities is overseeing the financial health of your community, primarily through the creation and management of the HOA budget.

This eBook, “HOA Budget Basics: What Board Members Need to Know,” is designed to provide you with the knowledge and tools to manage your HOA’s budget successfully. With expert insights from The Helsing Group, we aim to equip board members with:

- ▶ practical skills to navigate common budget challenges and avoid pitfalls
- ▶ ensure your HOA remains financially stable and transparent with homeowners



MANAGING AN HOA’S BUDGET EFFECTIVELY IS ABOUT MORE THAN JUST KEEPING TRACK OF EXPENSES; **IT IS ABOUT BUILDING A SECURE FINANCIAL FUTURE FOR YOUR ASSOCIATION WHILE ENSURING THAT HOMEOWNERS SEE THE BENEFITS OF A WELL-RUN COMMUNITY.**



LET’S DIVE INTO THE ESSENTIALS OF **CREATING AND MAINTAINING AN HOA BUDGET.**



UNDERSTANDING HOA BUDGETS

What Is an HOA Budget?

It is an essential roadmap that guides the board in making informed financial decisions and ensures that adequate funds are available to cover community expenses while maintaining reserves for future needs. At its core, an HOA budget is a financial plan that outlines the anticipated income and expenses for your community over a given period, typically a year.

An Effective HOA Budget Consists Of Three Key Components

INCOME

This includes assessments (monthly or yearly dues from homeowners) and any other revenue streams, such as fees for clubhouse rentals or fines.

EXPENSES

These are the costs the HOA incurs, including landscaping, maintenance, repairs, insurance, utilities, management fees, and administrative costs.

RESERVES

A portion of the budget set aside for long-term capital expenditures like roof replacements, repainting buildings, and repairing large common areas.

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BY UNDERSTANDING THESE COMPONENTS, YOU CAN ENSURE THAT THE HOA'S FINANCIAL PLAN IS **COMPREHENSIVE, COVERING BOTH DAY-TO-DAY EXPENSES AND FUTURE PROJECTS.**



RESPONSIBILITIES OF HOA BOARD MEMBERS REGARDING BUDGETS

Fiduciary Duties of Board Members

As a volunteer board member, you have a fiduciary responsibility to act in the best interests of your association. These duties include the obligation to act prudently, in good faith, and with due care when managing the association's funds. A major part of this is the creation and oversight of the HOA budget. **The key responsibilities include:**



Budget Preparation: You must ensure that the budget is accurate, realistic, and aligns with the community's needs.



Budget Approval: The board is responsible for reviewing and approving the budget before it is distributed to homeowners.



Financial Transparency: Board members must ensure that the HOA's financial information is clearly communicated to homeowners, and this is done via timely approval and distribution of the annual budget and CPA-reviewed Annual Financial Statements.



Monitoring and Adjusting: Once the budget is in place, it is crucial to regularly monitor financial performance and make adjustments when necessary.

Legal Obligations

In addition to fiduciary duties, board members have legal obligations under state law and governing documents, such as ensuring that assessments are sufficient to cover operating expenses and reserves. Ignoring these obligations can result in legal consequences for the HOA and its board members.

CREATING THE HOA BUDGET

//STEP 01

Setting Financial Goals

The first step in creating an HOA budget is to establish clear financial goals for the upcoming year. These goals should be aligned with the community's needs and the long-term vision for the association. **For example:**



MAINTENANCE OF COMMON AREAS

Ensuring that amenities like parks, pools, and landscaping are well-maintained.



PROPERTY UPGRADES

Investing in projects that improve the community's infrastructure or appearance.



ADEQUATE RESERVE FUNDING

Ensuring there are sufficient funds set aside for major repairs or replacements in the future.

//STEP 02

Gathering Necessary Data

Accurate budgeting starts with data collection.

This includes reviewing:

- ▶ Previous year's financial statements and actual expenses
- ▶ Vendor contracts and bids for services such as landscaping, maintenance, and utilities.
- ▶ Forecast increases in operating expenses (e.g., insurance, utilities).
- ▶ The reserve study, which provides estimates of long-term capital expenses.



WANT TO LEARN MORE
ABOUT RESERVE STUDIES?

[LEARN MORE](#)

//STEP 03

Identifying Expenses and Allocating Funds

Once data is collected, the next step is to categorize and list anticipated expenses. *Common expense categories include:*



MAINTENANCE AND REPAIRS

Routine upkeep of common areas, such as landscaping, pool care, and plumbing.



UTILITIES

Costs for electricity, water, and waste disposal for common areas..



INSURANCE

Policies that protect the HOA from liabilities, such as general liability, directors' and officers' insurance, and property insurance.



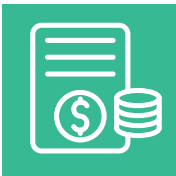
MANAGEMENT FEES

Costs for professional HOA management services.



ADMINISTRATIVE COSTS

Office supplies, postage, and other administrative expenses.



ALLOCATING FUNDS TO EACH CATEGORY SHOULD BE DONE CAREFULLY, ENSURING THAT **NO ESSENTIAL SERVICE IS UNDERFUNDED.**

//STEP 04

Allocating to Reserves

A critical aspect of creating a budget is funding the reserves. This portion of the budget ensures that the HOA has enough saved for future repairs and replacements of major components, such as roofing, siding, roads, and other shared infrastructure. Reserves should be allocated based on the reserve study, which gives an in-depth assessment of the lifespan and costs of major components in the community.

HAVING A COMPREHENSIVE RESERVE STUDY DONE IS INVALUABLE WHEN CREATING AN HOA BUDGET BECAUSE IT PROVIDES A DETAILED ASSESSMENT OF THE COMMUNITY'S LONG-TERM CAPITAL NEEDS.

A reserve study evaluates the condition and expected lifespan of major components, such as roofs, roads, and other shared assets, and offers cost estimates for their repair or replacement. This foresight enables the board to plan for future expenses, ensuring that reserves are adequately funded and reducing the risk of unexpected financial shortfalls or special assessments. By incorporating the findings of a reserve study into the budget, your HOA can maintain financial stability and protect the community's assets over time. Not all reserve studies are created equal.



HAVE YOU EVALUATED
WHETHER YOUR RESERVE
STUDY IS TRULY ADEQUATE?

[LEARN MORE](#)





//STEP 05

Reviewing and Approving the Budget

Once the budget has been drafted, the board must review it thoroughly. *Ask the following questions:*

- Does the budget reflect the community’s needs and Board’s priorities?
- Does the budget reflect actual reality or is it just an ideal assessment?
- Have all anticipated expenses been included?
- Is the reserve funding adequate?



AFTER REVIEWING AND MAKING NECESSARY ADJUSTMENTS, THE BOARD SHOULD **APPROVE THE BUDGET AND DISTRIBUTE IT TO HOMEOWNERS.**



COMMON BUDGET PITFALLS AND HOW TO AVOID THEM

Underestimating Expenses

One of the most common mistakes in budgeting is underestimating expenses. If the budget doesn't accurately reflect actual costs, the HOA may face shortfalls that can lead to deferred maintenance or, in the worst cases, special assessments.

TO AVOID THIS PITFALL



Use historical data as a guide



Split out flat fee expenses and variable expenses for more accurate budgeting and financials



Be generous with expense estimates



Account for inflation and price increases in vendor contracts

Overlooking Reserves

Inadequate reserve funding is another common mistake. Many HOAs overlook the importance of reserves until it's too late, leading to significant financial strain. Underfunded reserves can result in the need for special assessments or loans, which are burdensome for homeowners. Some underfunding is a result of an inadequate reserve study. Don't be a victim of using a deficient Reserve Study to set your budget.

TO AVOID THIS PITFALL



Conduct regular reserve studies (as required by state law or if no requirement, every 3-5 years).



Ensure the budget includes adequate contributions to reserves each year. If it doesn't, make a plan to increase contributions gradually until you reach an adequate contribution amount.

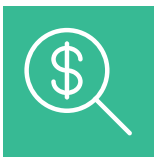


Finding the right reserve study firm is crucial to your property's financial health; if the firm's projections are off, you might find yourself having to levy a special assessment or take out a loan to cover an unexpected project.

Lack of Financial Oversight

After the budget is approved, it's crucial to monitor income and expenses regularly. Failing to track the HOA's financial performance throughout the year can lead to overspending or the inability to cover unexpected costs.

BUDGET MANAGEMENT AND MONITORING



Regular Budget Reviews

A well-managed budget requires ongoing monitoring. The board should review financial statements monthly to compare actual income and expenses with the budgeted amounts. Regular reviews help identify trends, such as overspending in certain categories, allowing the board to take corrective action before problems escalate.



Adjusting for Unexpected Costs

Despite careful planning, unexpected costs can arise. Whether it's emergency repairs or unexpected legal fees, the board must be prepared to adjust the budget accordingly. This may involve cutting non-essential expenses, utilizing reserve funds temporarily for emergencies, or increasing the Budget mid-year.



Maintaining Reserve Contributions

Even when financial challenges arise, it's essential to maintain regular contributions to the reserve fund. Cutting back on reserve contributions can have long-term consequences, leaving the community vulnerable to future financial crises.

RESOURCES FOR HOA BUDGET MANAGEMENT

Professional HOA Management Services

Managing an HOA budget can be complex, especially for volunteer board members with limited financial expertise. Partnering with a professional HOA management company like The Helsing Group can ease the burden.

[LEARN MORE](#)



Bookkeeping



Reserve Studies



HOA Management



Educational Materials

Continuous learning is crucial for board members. Organizations like ECHO – Educational Community for HOA Homeowners offer educational resources, webinars, and certification courses on HOA governance.

CONCLUSION

Effectively managing an HOA budget is key to the financial health and success of your community. By understanding the basics of budget creation, avoiding common pitfalls, and maintaining transparency with homeowners, you can ensure that your association remains financially stable for years to come.

For expert assistance with HOA management, including bookkeeping, reserve studies, and budget oversight, The Helsing Group is here to help. Let us partner with you to safeguard the financial future of your community.

ABOUT THE HELSING GROUP

The Helsing Group is a trusted leader in HOA management, providing comprehensive services, including bookkeeping, reserve studies, and expert advice on community governance. Our mission is to help associations thrive through sound financial planning and proactive management.



REACH OUT TO US TODAY TO
LEARN HOW WE CAN ASSIST
YOUR COMMUNITY!

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