

HOA Budget Prep- Best Practices

Preparing an annual budget is one of the most important fiduciary duties of any HOA board. As non-profit corporations governed under the Davis-Stirling Act, California associations must ensure that budgets are accurate, transparent, and aligned with both current needs and long-term financial stability. Below are key best practices derived from financial planners, reserve study professionals, and HOA management experts.

Start Early and Review Historical Data

Budget season should begin no later than 90 days before year-end. Review at least two years of financials, including trends in operating expenses, utility costs, and vendor contracts. California Civil Code §5506 requires distribution of the annual budget package at least 30 to 45 days before the start of the new fiscal year, making early preparation essential.

Incorporate a Current Reserve Study

Civil Code §5566 mandates that associations perform a reserve study at least once every three years, with annual reviews and adjustments. Reserve study analysts emphasize the importance of aligning your reserve contributions with component aging and inflation rates. This prevents deferred maintenance, special assessments, and declining property values.

Use Realistic Forecasting and Professional Input

Work with your management company, CPA, and reserve analyst to project costs conservatively. Financial planners recommend accounting for inflation (typically 3–5%), insurance premium increases, and unexpected repairs. Avoid flat budgets, they may mask financial gaps that become more costly later.

Communicate Clearly and Transparently

The budget is not just a financial document; it's a communication tool. Share context for increases or savings with homeowners. Provide a clear breakdown of operating versus reserve expenses. Transparent communication helps build trust and homeowner support.

Align with Long-Term Financial Goals

Your HOA budget should support sustainability, not just survival. Wealth management experts stress the importance of maintaining adequate reserves, monitoring investment returns, and ensuring assessments remain both fair and sufficient to meet obligations.

Leverage Expert Management Support

Budget preparation can be challenging, but it doesn't have to be stressful. PMG helps HOA boards navigate this process with precision, ensuring compliance, financial balance, and long-term community success. Our team of accounting and management professionals brings decades of experience in helping non-profit associations achieve stability and transparency.

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