



Everything You Need to Know About HOA Accounting

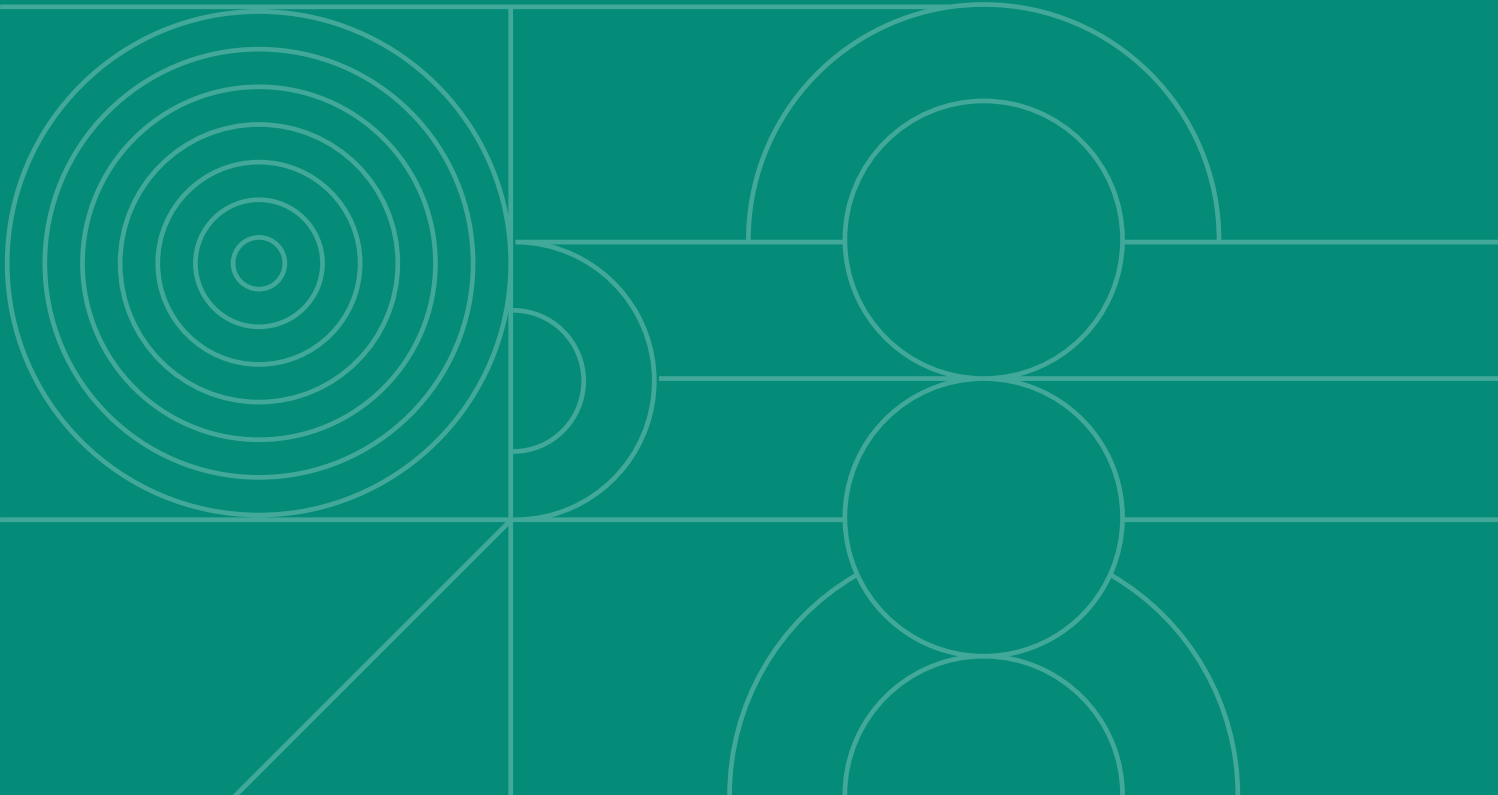


Table of contents

Your Responsibilities as an HOA Board Member..... 2

Setting and Following Your Annual Budget..... 4

Collecting Revenue: Integrate and Automate Collections 6

Ready for Tax Time? With HOA Accounting Software, You Will Be 8

Navigating the Corporate Transparency Act..... 9

Prepare Your Books for the Switch..... 9

Simplify HOA Management with the Right Accounting Software..... 9

Volunteering for your HOA is more than going to meetings, approving requests, enforcing violations, and planning events. It's also about being responsible for the organization's money. As an HOA volunteer, you're entrusted with fiduciary duties. You and your fellow board members must ensure the HOA uses its funds wisely, and you have to keep track of each transaction for auditing purposes. You might not have expected to become a part-time bookkeeper when you took on this role, but the good news is that there's [HOA accounting software](#) to simplify processes and make your life easier, especially regarding tax time and end-of-year planning.

What are fiduciary duties?

This term means that you act in a way that benefits someone else financially. As an HOA volunteer, your fiduciary duty is to the association and the residents. You can't act in your own self-interest and can be prosecuted if you make financially unsound or personally biased decisions.

Your Responsibilities as an HOA Board Member

Managing the association's finances is one of your most important responsibilities as an HOA board member. Mastering [bookkeeping essentials](#) will be crucial to your success.

You and other board members must maintain the following documents:

- Profit and loss statement
- Budget vs. actual
- General ledger
- Balance sheet
- Aging of accounts
- Accounts payable
- Delinquency report
- Bank reconciliation
(comparison of what's on your books vs. in the bank)



Here's a quick rundown of those things.

Profit and Loss Statements

Finance professionals also call these documents [income statements](#) or P&L statements. Your P&L statement summarizes all income and expenses in a given period. It shows the impact of revenue, financial gains, expenses, and losses. Typically, you share your P&L statement on a quarterly and annual basis.

Budget vs. Actual

Once a month, you need to compare your forecasted or projected [budget](#) to what's in your bank account. Comparing budget to actual gives you insights into your HOA's financial performance against your plan, enabling you to make better financial decisions.

A General Ledger

Your HOA's [general ledger](#) is your tool to keep track of the association's financial picture. It shows your assets, liabilities, equity, expenses, revenue, and gains. You'll use your general ledger to build the HOA's financial statements.

A Balance Sheet

The association's [balance sheet](#) tells you its financial value by listing and tallying its assets, liability, and equity.

It contains three essential pieces of information:

- Operating account balance, showing enough money to pay monthly bills
- Reserve fund balance, to ensure available funds for expected and unexpected expenses
- Receivables balance, so the HOA knows it's not spending more than it takes in

Aging of Accounts

How long has it been since the HOA received dues and fees from members? Which members owe the HOA money, and far delinquent are they? Conversely, does the HOA have any unpaid bills, and how old are those bills? Unpaid dues are known as an [aging of accounts](#) report. An aging report lets you effectively track who owes you, how much they owe, and how delinquent they are for effective account management.

A Delinquency Report

Not every resident in the HOA will pay their bills on time. That's where a [delinquency report](#) comes in. It shows who owes money to the HOA and how long they've been delinquent so the association can diagnose any cash flow problems and collect.

A Bank Reconciliation

The only way to know if your financial records match your bank account is to perform a [bank reconciliation](#). You should review your bank account monthly to ensure there's no fraud or irregular activity.

Setting and Following Your Annual Budget

The end of the summer might sound like it's too early to start setting your budget for next year. However, it's the perfect time for [planning next year's budget](#).



Mindset Matters

HOA board members come from a variety of professional backgrounds. Only some will have bookkeeping experience, and others might need help understanding why budgeting is so important. It helps to get into the right mindset. Think of the HOA as the national government. Every year, the national government has to plan what it will spend. The government has expenses such as maintenance and programs. Your HOA does too, and by preparing a budget, board members understand how much they have to spend based on how much the association has earned in revenue.

Where Do You Begin?

Creating a budget for your HOA sounds daunting, especially if it's your first time doing it. The good news is that you don't have to start from scratch.

Your previous budget gives you a sense of what you have to work with and what kind of expenditures you'll need to make this year. Other financial documents, such as P&L statements, the general ledger, and your balance sheet, provide insights into the HOA's financial resources.

Ask for Feedback from Residents

Your neighbors also have thoughts and opinions about how the HOA should spend its money. They might have noticed cracks in the pool liner or that the ceiling in the clubhouse has water damage.

Asking your residents for feedback on budgetary priorities might unleash a flood of comments, not all of which will be helpful or useful. Setting expectations is crucial. Residents need to understand you want to hear what they say, but not everything they ask for will be feasible.

Use the Right Digital Tools to Manage Your Budget

Is your HOA's current budget process based on Excel spreadsheets or accounting software designed for small businesses? It's time to move away from those methods and to HOA accounting software to meet your needs.

Here's how HOA software can help you at tax time or during budget season:

- It connects to your bank account to seamlessly import bank details into your accounting system.
- You get real-time updates about your financial health, so you can create accurate budgets.
- It can generate professional-looking reports and report packets to share with residents.
- The software automates recordkeeping, so no more worrying about entering data by hand or making mistakes with data entry.

Collecting Revenue: Integrate and Automate Collections

Without the revenue from the dues and fees your HOA collects, the association can't function. When your organization uses tools like spreadsheets or accounting software not built for HOAs, you'll find it more difficult to track what revenue is coming in, who's paid their dues and fees, and who hasn't.

That's where [HOA accounting software](#) comes in. It integrates with your bank to record every transaction. You no longer need to manually enter each transaction, which saves you time and effort. In addition, when your software automatically captures transactions, you don't have to worry about making mistakes with data entry.

Don't Wait Until the End of the Year to Collect Debt

If you haven't been reconciling your HOA bank account with your records, some residents may owe unpaid fees and dues. Unpaid dues and fees hurt the HOA for two reasons:

- The association won't be able to carry out its work.
- If some residents don't pay, more residents will think they can also get away without paying.

Don't wait until the end of the year to find out that debt has piled up. That's where HOA accounting software comes in: it simplifies recordkeeping so you can quickly and easily understand who owes you money.

By frequently reviewing your bank statements and reconciling them with the HOA records you've kept, you can follow up faster with residents who haven't paid their dues and fees. You won't be scrambling to collect money at the end of the year.



In a [2022 survey](#), 59% of HOA residents said an HOA should insist every homeowner pay assessments, and that attorneys should be involved if residents are delinquent in payments.

How HOA Accounting Software Simplifies Debt Collection

Asking your neighbors to pay their dues and fees is probably one of the least pleasant parts of volunteering for your HOA. That's where HOA accounting software comes in: it makes the process smoother, easier, and less uncomfortable for everyone involved.

The best software for HOA accounting offers access to homeowners and board members. Residents can make online payments through a secure portal, and they can even set up autopay options so they don't have to give it a second thought. The software also generates a payment record, eliminating any discrepancies or arguments.

You can communicate directly with residents within the portal. You don't need to have an awkward in-person conversation about an unpaid fee or dues—you can send a digital reminder. What if the digital reminders don't work, and residents don't pay up? Send violations directly through the portal. You can even send messages if it gets to the point where you need to bring in an external debt collector. With software for HOA accounting and communication, you can avoid awkward or potentially violent confrontations.



Ready for Tax Time? With HOA Accounting Software, You Will Be

In addition to revenue collection, one of your responsibilities as an HOA board member is to [file taxes](#). Because HOAs are non-profits and usually tax-exempt, you most likely won't owe money. However, the IRS still expects your HOA to file.

Doing your own taxes might make you want to curl up into a ball and hide under your desk, so the thought of filing your HOA's taxes may bring you to tears. It doesn't have to be that way, though. Using HOA-specific accounting software makes tax time much easier.

Here's why: [accounting software designed for HOAs](#) offers tools to organize and reconcile all your annual transactions. You have visibility into outstanding invoices (payable and receivable), so you can follow up with vendors or residents before the end-of-year close. That visibility also makes it easier to identify [bad debt](#)—debt you can't collect. You can include bad debt as a tax write-off, so keeping track of it is important.

HOA accounting software also simplifies tax time because it can automatically generate 1099 forms for contractors. You'll have to submit those when you file your taxes, so automating form generation saves you time and effort.



Which Form Does My HOA File?

Your HOA can file either Form 1120 or Form 1120-H. Form 1120-H is [specifically for HOAs](#). As an HOA, you can fill out either. A CPA can advise you on which to fill out. However, no matter what you do, keep track of your financial information with digital files so everything is easily accessible in one place.

Navigating the Corporate Transparency Act

In 2021, the US passed the [Corporate Transparency Act \(CTA\)](#) to curb financial crimes. The CTA requires many organizations doing business in the US to file [beneficial ownership reports \(BOIs\)](#) about the people who own or control them. This law applies to HOAs, too.

Filing a BOI isn't as scary as it sounds. With HOA accounting software, you gain visibility into your finances to fill out the BOI properly. Greater visibility increases transparency and decreases the likelihood of fraud. The more eyes on transactions, the lower the risk of a board member mismanaging funds. Moreover, storing financial information digitally means it's easier to share with residents.

A benefit of transparent financial information is better decision-making. When you have all of the data you need in front of you, you can make the best possible choices for your HOA. You're not relying on your gut, which could steer you wrong.

Prepare Your Books for the Switch

If you're using QuickBooks or spreadsheets to manage your HOA's finances, it's time to move to HOA-specific accounting software. Software designed for HOA needs helps you manage budgeting, tax time, end-of-year close, and reporting obligations effectively.

Yet, transitioning to new software might not sound worth it. After all, isn't it a gigantic headache? It doesn't have to be, with the right software for HOA accounting. You can [import your data](#) from QuickBooks or Excel with a spreadsheet.

Simplify HOA Management with the Right Accounting Software

When you signed up to volunteer on your HOA board, you might not have realized you would become a part-time accountant. However, managing your association's finances doesn't have to be difficult. The right tools automate transactions, increase transparency, and make it easier to run reports, file taxes, and meet legal obligations.

PayHOA offers an HOA accounting software solution for HOAs of any size or managerial priorities. To find out if PayHOA fits all your HOA management needs, [try our software free for 30 days](#).