

Property Management Essentials:

Reconciling the Property Management Books



ECHO SUMMIT
PROPERTY MANAGEMENT

Professional property managers have very strict legal requirements regarding how they handle incoming and outgoing monies that belong to the tenant or the owner. There are also strict, but seldom followed requirements regarding bank reconciliations. While many property managers conduct monthly bank reconciliations (which reconcile their property management software general ledger balances with the final monthly bank statements), very few are conducting the necessary 3-way tie-over, which reconciles the bank statements and property management software WITH the individual owner and renter account ledgers.

Key Topics

- *Legal requirements per Colorado law*
- *Security Deposit and Rent escrow accounts*
- *Requirement for three-way ledger tie over*

30 June 2008 \$'000	30 June 2007 \$'000	30 June 2006 \$'000	30 June 2005 \$'000
809	3,262	1,771	6,262
48,691	49,140	42,687	31,535
7,131	5,867	6,319	7,291
2,521	2,438	1,210	1,139
1,150	947	740	958
<u>60,302</u>	<u>61,654</u>	<u>52,727</u>	<u>47,185</u>
15,876	6,000	-	-
1,498	3,071	1,270	1,148
1,066		2,334	3,887
	813	987	838,799
532	9,515		5
<u>426</u>	<u>901,757</u>	<u>87</u>	<u>9,288</u>
			<u>853,127</u>
728	963,411	92	900,312
		36	12,113
	11,691	1,129	6,548
24,072		22,503	23,315
<u>39,763</u>		<u>38,018</u>	<u>41,976</u>
57,497	52,435	51,694	45,523
958	1,223	1,512	1,568
<u>58,455</u>	<u>53,658</u>	<u>53,206</u>	<u>47,091</u>
98,218	93,695	91,224	89,067
<u>1,062,510</u>	<u>869,716</u>	<u>837,991</u>	<u>811,245</u>

In professional property management, there should be 3 bank accounts: 1) security deposit escrow, 2) rent escrow and 3) corporate operations. The third account, corporate operations, is where the company pays its operations bills, and receives any fee income derived from managing properties. There is no legal requirement to reconcile this account, as it has no bearing on tenants or owners. The security deposit and rental escrow accounts are very different. Monies going into these accounts do not belong to the property management company, which is why the accounts are established as escrow (or trust) accounts. It is critical that the property manager understands where every penny in these accounts is... on a tenant-by-tenant, and owner-by-owner basis, at any given point in time. This is a difficult task.

What many property managers do is reconcile the bank statements for the escrow accounts with the overall account ledger balance in their property management software (e.g. Yardi, TenantPro, AppFolio, Property Boss). However, what it required by law is a three-way reconciliation (or three-way tie over) between the bank statement, property management software and also the tenant and owner ledgers. Each month those ledgers need to balance to zero. This is mandatory to ensure there is no co-mingling of funds between owners and renters, and that all monies are appropriately accounted for.

As a property owner, when seeking out a professional property manger be sure to investigate how they keep their books reconciled each month.

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