

Trust Accounting for Property Managers

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What Are Trust Accounts And Why Use Them

If you're in the property management business, you should be familiar with trust accounts. A trust account is typically established by a property manager or real estate broker to hold and manage funds that are the property of their client (the property owner).

While requirements for setting up and maintaining trust accounts vary from state to state, all states are in agreement that using a trust account in some form is a necessity.

The recommended procedure for handling trust accounts is to establish two separate accounts, with security deposit transactions handled from one account, and rents collected and bills paid handled from the other.

While this may exceed the trust account requirements of some states and is usually not practical for those managing single family homes, the benefits of setting up and maintaining separate accounts are plentiful, including:

Improved Accuracy

- You'll be able to present your clients with a highly accurate reconciliation report at the end of each month including an accurate picture of all account activity, income, and expenses.
- Easier transaction tracking increases your ability to locate and pinpoint the date, amount, and reason for any transaction that goes into or out of the account.



Better Property Performance Tracking

 Managers can get a better handle on property performance based on the activity maintained for each client. Any disputed transactions can be easily located and verified by property management staff.

A Clean Audit Trail

- Establishing and maintaining trust accounts can significantly reduces the opportunity to commingle funds – a major point of contention in most trust account audits. If you choose to utilize a single trust account for your clients, you must make sure to keep it properly reconciled.
- Maintaining trust accounts properly reduces the chances of being audited, and if you are audited, will make the process a whole lot easier.

This e-book will provide you with the information you need to set up and manage trust accounts for your clients. To begin setting up trust accounts for your clients, keep the following in mind:

- 1. Locate and learn the trust account requirements that have been established in any state where you currently do business.
- 2. Only use federally insured institutions when setting up a trust account(s) for your client.
- 3. Implement and rigorously follow an approved regiment for each trust account established.
- 4. Expect an audit at any time and be prepared for it by keeping good records.

Know Your State Laws

State laws governing trust accounts vary widely from state to state. Whatever the law is in the state(s) where you do business, be sure to adhere to it.



If you currently utilize a single trust account for your clients, be sure that it is reconciled on a timely basis. A single trust account for multiple clients can quickly become a nightmare if adequate account reconciliation practices are not implemented and maintained.

Record keeping requirements also vary from state to state and cover areas such as the period of time that all records must be maintained. Some states even govern what the account can be named – so be sure to read the fine print.



If you have any questions about the trust account laws governing your state, contact the Department of Real Estate for your state, who should be able to answer any questions.

Once you know the law for your state, you may find it helpful to implement procedures that not only meet your respective state requirements, but exceed them.

Staying Out Of Trouble

Here's what property managers and brokers need to do to keep their firm out of trouble:

- Deposit all rental funds on a timely basis usually within 24 to 48 hours after receipt. Many property management companies are now using <u>online rent collection solutions</u> integrated with their property management software to avoid checks and collect rent faster.
- Keep tenant security deposits in a separate account.
- Keep all accounts reconciled on a monthly basis and investigate all discrepancies promptly.
 Bank accounts should balance to GL account activity.
- Start and maintain excellent record-keeping practices.

While you're adhering to your state's laws, and the suggestions above, it's important to note what you should *NEVER* do:

- Pay a bill using security deposit monies.
- Commingle funds between clients
- Use trust funds to pay business or brokerage bills.

Using a <u>web-based property management software</u> is an important component for staying in compliance. Look for a solution with an accounting system that will warn you if you try to co-mingle funds. It is also very important that your software offers detailed reporting so you always know what your balances are on each property.

While adhering to the suggestions above, remember that there's no guarantee that doing (or not doing) these things will help you avoid an audit. But they will help you get through the audit smoothly and (relatively) painlessly.



Record Keeping And Other Requirements

If the laws governing trust accounts weren't enough for property managers to memorize, you'll also have to be aware of the record-keeping requirements that are imposed by each state.

The checklist below can assist you with keeping track of all of the requirements:

WHAT YOU NEED	HAVE	MUST GET
A copy of the management agreement for all clients – past and present		
A copy of the lease agreement for all tenants – past and present		
All checkbooks or check registers corresponding to each trust account		
A record of all checks issued from each trust account-including cancelled and voided checks		
All bank statements for each trust account as well as the related reconciliation		
All bank deposit slips for each trust account		
Access to the utilized bookkeeping system – manual or computerized		
Copies of all financial reports that have been provided to property owners		
Any vendor invoices that have been paid, including invoice backup		
Copies of any security deposit refunds issued from the trust account		



Final Suggestions

Keeping your property management company compliant when it comes to trust account regulations is one of the most important things that you can do. Not only will it keep you out of trouble with your state governing agency, but all of that solid record-keeping ultimately produces detailed, accurate client statements that will only reflect positively on your business.

Go beyond the minimum requirements when setting up trust accounts, and most importantly, make sure they are reconciled on a timely basis, preferably within days of receiving the bank statement. Promptly investigate and correct any discrepancies for each account. Good record-keeping will ultimately make your life a lot easier, and your clients will appreciate it as well.

About the Author

Mary Girsch-Bock is a successful business and technology writer, specializing in property management and law office technology. A contributing writer for a variety of publications including the CPA Technology Advisor and PropertyManager.com, Mary's first book was published in 2006, and she is currently working on another. Mary has over ten years of property management experience and has worked in both the Chicago and Las Vegas area markets.

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