



# **TRUST ACCOUNT RECONCILIATION**

## **Managing a Trust Account**

Managing trust accounts is a very serious obligation. The designated or self-employed broker is responsible to ensure that reconciliations are performed monthly and account balances are sufficient to satisfy all obligations to the property owners and tenants.

All monies held in the trust account are for the benefit of the owners and/or tenants and must be used for the intended purpose.

Monthly trust account reconciliations are required by A.R.S. § 32-2151(B)(2) and are intended to confirm the amount of funds on deposit in the trust bank account(s) is sufficient to pay the amount the broker holds in trust for tenants and owners (beneficiaries).

In performing an audit of a brokerage conducting Property Management Services, the Department's auditors seek to determine if there are sufficient funds in the broker trust account to pay all of the owner and tenant liabilities.

## **The funds the broker holds in trust include:**

For tenants – security deposits, other refundable deposits and pre-paid rents.

For owners – reserves and undistributed income.

If a broker is holding non-refundable deposits or fees in the trust account, they must be included in the total.

## **Trust account records should show at all times:**

1. When money is deposited to the trust account
2. How much was deposited
3. Who the trust money belongs to
4. When it was disbursed and to whom

This Trust Account activity is recorded in the Client / Tenant Ledgers and the Receipts and Disbursement Journal, also called a Checkbook Register.

## This is an example of a Receipts and Disbursement Journal:

Trustworthy Property Management  
Trust Account Receipts and Disbursement Journal  
Account # 0067 8716 1097

<u>DATE</u>	<u>SELLER OR LESSOR</u>	<u>BUYER OR LESSEE</u>	<u>RECEIVED</u>		<u>PAID OUT</u>			<u>PAID TO</u>	<u>DAILY BALANCE</u>
			<u>DATE</u>	<u>AMOUNT</u>	<u>DATE</u>	<u>CHECK #</u>	<u>AMOUNT</u>		
01/31/2014								Balance 01/31/2014	\$53,324.48
02/01/2014	Broker Deposit	Rents Rec'd	02/01/2014	\$15,000.00					68,324.48
02/01/2014	Broker Deposit	Owner Funds	02/01/2014	\$10,000.00					78,324.48
02/15/2014					02/15/2014	Transfer	\$10,000.00	Broker Management Fees	68,324.48
02/28/2014					02/28/2014	Owner Checks	12,000.00	Property Owners	56,324.48
02/28/2014					02/28/2014	Checks	45.00	Account Bank Fees	\$56,279.48
						N/A			
								Balance 02/28/2014	\$56,279.48

## How is a Trust Account Reconciliation Performed?

A trust account reconciliation is **a three step process**:

**Step One:** Reconcile the trust bank account(s) records (receipts and disbursement journal / checkbook register) with the monthly bank statement. This will determine the amount of funds available in the account (adjusted balance) and disclose any errors by the broker or the bank.

**NOTE:** If the broker maintains more than one trust bank account, each account must be reconciled.

**Step Two:** Determine the amount of trust funds held for beneficiaries (as of the date of the bank statement). These should be readily available and up-to-date in the broker's tenant and owner ledgers.

For tenants include security deposits, other refundable deposits, and pre-paid rent. For owners include reserves held and undistributed payments due to the owners.

**NOTE:** When determining amount due owners, use only positive balances. Negative account balances should not be used to offset the broker's liabilities.

**Step Three:** Reconcile the bank account record (adjusted balance) with the trust account records. The adjusted bank balance should equal or exceed (by not more than \$3,000) the total of the trust account records.

If the broker maintains one trust bank account and one ledger for tenant and owner funds, the broker will only perform one bank to trust account reconciliation.

If the broker maintains separate accounts for tenant and client funds, the broker will perform two reconciliations. Any errors should be corrected immediately upon discover.

**NOTE:** The trust account reconciliation should be completed at the same time each month to coincide with the date of the bank statement.

If the trust account reconciliation is not in balance (an overage or shortage exists), the reasons for the overage or shortage should be promptly identified and corrected.

After reviewing the trust account reconciliation and confirming the trust account is in balance, the broker should initial and date the reconciliation in confirmation of broker review.

## Performing the Reconciliation

The broker for Trustworthy Property Management is ready to complete the three-way trust account reconciliation for the month of February 2014.

The results of the trust account reconciliation depend on the reconciled trust account bank balance and the total broker liabilities (i.e., owner and tenant ledger balances).

**NOTE:** If the trust account is in balance, the total client / tenant ledger balances (“broker liabilities”) are equal to the reconciled trust account bank balance.

First, review the bank statement dated February 28, 2014.

# We'll Hold It For You

## Savings and Loan



Trustworthy Property Management, Inc .  
Property Management Trust Account  
P. O. Box 12345  
Apache Junction, AZ 85121

Account Number: 0067 8716 1097  
February 1, 2014 to February 28, 2014

### Account Summary

Beginning Balance on February 1, 2014	<b>\$48,324.48</b>
Deposits and other credits	25,000.00
Withdrawals and other debits	10,000.00
Checks	12,000.00
Service Fees	45.00
Ending Balance on February 28, 2014	<b>\$51,279.48</b>
Cleared Deposits	\$25,000.00
Uncleared Deposits	\$10,000.00
Cleared Checks / Withdrawals	\$22,000.00
Uncleared Checks / Withdrawals	\$ 5,000.00



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### Account Summary

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Deposits and other credits	25,000.00
Withdrawals and other debits	10,000.00
Checks	12,000.00
Service Fees	45.00
Ending Balance on February 28, 2014	\$51,279.48
Cleared Deposits	25,000.00
Uncleared Deposits	10,000.00
Cleared Checks / Withdrawals	\$22,000.00
Uncleared Checks / Withdrawals	\$5,000.00

### NOTE:

**Ending Balance**  
\$51,279.48

**Uncleared Deposits**  
\$10,000.00

**Uncleared Checks / Withdrawals**  
\$5,000.00

## Reconcile the trust bank account(s) records (receipts and disbursement journal / checkbook register) with the monthly bank statement:

Line “a” – Enter the Bank Statement Balance

Line “b” – Enter amount of Outstanding checks / withdrawals.

Line “c” – Enter amount of Outstanding deposits.

Bank Account Reconciliation	
<b>Bank Statement Balance</b>	a 51279.48
Less: Outstanding checks / withdrawals	b (5000.00)
Plus: Outstanding deposits	c 10000.00
<b>Adjusted Balance (d=a-b+c)</b>	d <b>56279.48</b>

The diagram consists of a red rectangular box on the right side of the table. Inside this box, the following text is listed from top to bottom: "Bank Statement Balance", "Outstanding Checks/Withdrawals", "Outstanding Deposits", and "Adjusted Bank Balance". Four black arrows originate from the left side of this red box and point to the right side of the table. The top arrow points to the value 51279.48 in row 'a'. The second arrow points to the value (5000.00) in row 'b'. The third arrow points to the value 10000.00 in row 'c'. The bottom arrow points to the value 56279.48 in row 'd'.

Your Adjusted Balance is equal to:

Bank Statement Balance

Less: Outstanding Checks / Withdrawals

Plus: Outstanding Deposits

# Balance the Receipts and Disbursement Journal Balance to the Adjusted Bank Balance:

Trustworthy Property Management  
Trust Account Receipts and Disbursement Journal  
Account # 0067 8716 1097

<u>DATE</u>	<u>SELLER OR LESSOR</u>	<u>BUYER OR LESSEE</u>	<u>RECEIVED</u>		<u>PAID OUT</u>			<u>PAID TO</u>	<u>DAILY BALANCE</u>
			<u>DATE</u>	<u>AMOUNT</u>	<u>DATE</u>	<u>CHECK #</u>	<u>AMOUNT</u>		
01/31/2014								Balance 01/31/2014	\$53,324.48
02/01/2014	Broker Deposit	Rents Rec'd	02/01/2014	\$15,000.00					68,324.48
02/01/2014	Broker Deposit	Owner Funds	02/01/2014	\$10,000.00					78,324.48
02/15/2014					02/15/2014	Transfer	\$10,000.00	Broker Management Fees	68,324.48
02/28/2014					02/28/2014	Owner Checks	12,000.00	Property Owners	56,324.48
02/28/2014					02/28/2014	N/A	45.00	Account Bank Fees	\$56,279.48
								Balance 02/28/2014	\$56,279.48

**Locate the Balance of the Receipts and Disbursement Journal on 02/28/2014.**

On the Bank Account Reconciliation form,

Line “d” – Enter balance of Receipts and Disbursement Journal.

## Compare the Adjusted Bank Balance to the Receipts and Disbursement Journal Balance:

The difference is equal to:

Adjusted Bank Balance

Less Check Book Balance from R & D Journal

Bank Account Reconciliation		
<b>Bank Statement Balance</b>	a	51279.48
Less: Outstanding checks / withdrawals	b	(5000.00)
Plus: Outstanding deposits	c	10000.00
<b>Adjusted Bank Balance (d=a-b+c)</b>	d	<b>56279.48</b>
<b>Check Book Balance from R &amp; D Journal</b>	e	56279.48
Difference (f+d-e)	f	<b>0.00</b>

Adjusted Bank Balance  
Check Book Balance  
from R & D Journal

Now, determine the broker's liabilities using the **Owner / Tenant Ledgers**:

Trustworthy Property Management, Inc. - **Owner Ledger**

<u>Portfolio Name</u>	<u>Balance</u>	<u>Minimum</u>	<u>Security Deposit Held</u>	<u>Unpaid Bills Amount</u>
Adair, Frank	\$1,500.00	\$450.00	\$1,462.39	\$0.00
Adams, George	(\$1,392.00)	\$1,000.00	\$3,242.72	\$0.00
Baker, Connie	\$2,000.00	\$400.00	\$200.00	\$0.00
Barker, Ted	\$750.00	\$750.00	\$2,979.80	\$0.00
Barnes, Edward	\$650.00	\$150.00	\$496.40	\$0.00
Bonneville, Ted	\$1,750.00	\$250.00	\$728.40	\$0.00
Cactus Run, LLC	\$250.00	\$250.00	\$927.08	\$0.00
Conner, Michael	\$1,045.00	\$250.00	(\$633.48)	\$0.00
Cruz, Frank	\$500.00	\$250.00	\$816.16	\$0.00
Downton, Abby	\$300.00	\$150.00	\$300.00	\$0.00
Edwards, Charles	(\$2,500.00)	\$500.00	\$1,037.40	\$0.00
Fineman, George	\$250.00	\$250.00	\$605.91	\$0.00
George, Carla	\$250.00	\$250.00	\$800.00	\$0.00
Horn, Tom	\$2,200.00	\$750.00	\$3,235.64	\$0.00
Iorio, Maria	\$250.00	\$250.00	\$1,200.00	\$0.00
Jackson, Harwood	(\$1,250.00)	\$500.00	\$1,955.76	\$0.00
Jarrell, Darrell	\$250.00	\$250.00	\$650.00	\$0.00
Jones, Donald	\$250.00	\$250.00	\$750.00	\$0.00
Laughlin, Terrence	\$750.00	\$500.00	\$2,039.80	\$0.00
Mendoza, Jose	\$1,500.00	\$500.00	\$1,971.23	\$0.00
Miller, Dick and Jane	\$150.00	\$150.00	\$652.90	\$0.00
Nyberg, Rose	\$500.00	\$500.00	\$1,920.00	\$0.00
Oxford Terrace, LLC	(\$1,500.00)	\$250.00	\$5,175.89	\$0.00
Poole, Hortense	\$50.00	\$50.00	\$100.00	\$0.00
Sun City Properties, LLC	\$500.00	\$500.00	\$1,645.00	\$0.00
Thomas, Nila	\$450.00	\$500.00	\$1,395.00	\$0.00
Thorne, Emily	\$250.00	\$250.00	\$1,170.00	\$0.00
Weaver, Ruth	\$250.00	\$250.00	\$875.00	\$0.00
Wedgewood, LLC	\$200.00	\$200.00	\$652.00	\$0.00
Zenith, Candy	\$100.00	\$100.00	\$400.00	\$0.00
<b>Total</b>	<b>\$10,253.00</b>	<b>\$10,650.00</b>	<b>\$38,751.00</b>	<b>\$0.00</b>

Run Date 02/28/2014

## Trustworthy Property Management, Inc.

## Owner Ledger

<u>Portfolio Name</u>	<u>Balance</u>	<u>Minimum</u>	<u>Security Deposit Held</u>	<u>Unpaid Bills Amount</u>
Adair, Frank	\$1,500.00	\$450.00	\$1,462.39	\$0.00
Adams, George	(\$1,392.00)	\$1,000.00	\$3,242.72	\$0.00
Baker, Connie	\$2,000.00	\$400.00	\$200.00	\$0.00
Barker, Ted	\$750.00	\$750.00	\$2,979.80	\$0.00
Barnes, Edward	\$650.00	\$150.00	\$496.40	\$0.00
Bonneville, Ted	\$1,750.00	\$250.00	\$728.40	\$0.00
Cactus Run, LLC	\$250.00	\$250.00	\$927.08	\$0.00
Conner, Michael	\$1,045.00	\$250.00	(\$633.48)	\$0.00
Cruz, Frank	\$500.00	\$250.00	\$816.16	\$0.00
Downton, Abby	\$300.00	\$150.00	\$300.00	\$0.00
Edwards, Charles	(\$2,500.00)	\$500.00	\$1,037.40	\$0.00
Fineman, George	\$250.00	\$250.00	\$605.91	\$0.00
George, Carla	\$250.00	\$250.00	\$800.00	\$0.00
Horn, Tom	\$2,200.00	\$750.00	\$3,235.64	\$0.00
Iorio, Maria	\$250.00	\$250.00	\$1,200.00	\$0.00
Jackson, Harwood	(\$1,250.00)	\$500.00	\$1,955.76	\$0.00
Jarrell, Darrell	\$250.00	\$250.00	\$650.00	\$0.00
Jones, Donald	\$250.00	\$250.00	\$750.00	\$0.00
Laughlin, Terrence	\$750.00	\$500.00	\$2,039.80	\$0.00
Mendoza, Jose	\$1,500.00	\$500.00	\$1,971.23	\$0.00
Miller, Dick and Jane	\$150.00	\$150.00	\$652.90	\$0.00
Nyberg, Rose	\$500.00	\$500.00	\$1,920.00	\$0.00
Oxford Terrace, LLC	(\$1,500.00)	\$250.00	\$5,175.89	\$0.00
Poole, Hortense	\$50.00	\$50.00	\$100.00	\$0.00
Sun City Properties, LLC	\$500.00	\$500.00	\$1,645.00	\$0.00
Thomas, Nila	\$450.00	\$500.00	\$1,395.00	\$0.00
Thorne, Emily	\$250.00	\$250.00	\$1,170.00	\$0.00
Weaver, Ruth	\$250.00	\$250.00	\$875.00	\$0.00
Wedgewood, LLC	\$200.00	\$200.00	\$652.00	\$0.00
Zenith, Candy	\$100.00	\$100.00	\$400.00	\$0.00
<b>Total</b>	<b>\$10,253.00</b>	<b>\$10,650.00</b>	<b>\$38,751.00</b>	<b>\$0.00</b>

**NOTE:** The negative owner balances of **\$6,642.00** should not be used to reduce or offset the broker liabilities to the property owners.

**Question:** What are the total broker liabilities to the property owners?

**Answer:** \$16,895.00, not the column total listed above. ( $\$10,253.00 + \$6,642.00 = \$16,895.00$ )

## Trustworthy Property Management, Inc. - Tenant Security Deposits

<u>Portfolio Name</u>	<u>Security Deposit Held</u>	<u>Bank Balance Breakdown Totals</u>	<u>Difference</u>
Adair, Frank	\$1,462.39	\$0.00	\$1,462.39
Adams, George	\$3,242.72	\$0.00	\$3,242.72
Baker, Connie	\$200.00	\$0.00	\$200.00
Barker, Ted	\$2,979.80	\$0.00	\$2,979.80
Barnes, Edward	\$496.40	\$0.00	\$496.40
Bonneville, Ted	\$728.40	\$0.00	\$728.40
Cactus Run, LLC	\$927.08	\$0.00	\$927.08
Conner, Michael	(\$633.48)	\$0.00	(\$633.48)
Cruz, Frank	\$816.16	\$0.00	\$816.16
Downton, Abby	\$300.00	\$0.00	\$300.00
Edwards, Charles	\$1,037.40	\$0.00	\$1,037.40
Fineman, George	\$605.91	\$0.00	\$605.91
George, Carla	\$800.00	\$0.00	\$800.00
Horn, Tom	\$3,235.64	\$0.00	\$3,235.64
Iorio, Maria	\$1,200.00	\$0.00	\$1,200.00
Jackson, Harwood	\$1,955.76	\$0.00	\$1,955.76
Jarrell, Darrell	\$650.00	\$0.00	\$650.00
Jones, Donald	\$750.00	\$0.00	\$750.00
Laughlin, Terrence	\$2,039.80	\$0.00	\$2,039.80
Mendoza, Jose	\$1,971.23	\$0.00	\$1,971.23
Miller, Dick and Jane	\$652.90	\$0.00	\$652.90
Nyberg, Rose	\$1,920.00	\$0.00	\$1,920.00
Oxford Terrace, LLC	\$5,175.89	\$0.00	\$5,175.89
Poole, Hortense	\$100.00	\$0.00	\$100.00
Sun City Properties, LLC	\$1,645.00	\$0.00	\$1,645.00
Thomas, Nila	\$1,395.00	\$0.00	\$1,395.00
Thorne, Emily	\$1,170.00	\$0.00	\$1,170.00
Weaver, Ruth	\$875.00	\$0.00	\$875.00
Wedgewood, LLC	\$652.00	\$0.00	\$652.00
Zenith, Candy	\$400.00	\$0.00	\$400.00
<b>Total</b>	<b>\$38,751.00</b>	<b>\$0.00</b>	<b>\$38,751.00</b>

Trustworthy Property Management, Inc.  
Tenant Security Deposits

<u>Portfolio Name</u>	<u>Security Deposit Held</u>	<u>Bank Balance Breakdown Totals</u>	<u>Difference</u>
Adair, Frank	\$1,462.39	\$0.00	\$1,462.39
Adams, George	\$3,242.72	\$0.00	\$3,242.72
Baker, Connie	\$200.00	\$0.00	\$200.00
Barker, Ted	\$2,979.80	\$0.00	\$2,979.80
Barnes, Edward	\$496.40	\$0.00	\$496.40
Bonneville, Ted	\$728.40	\$0.00	\$728.40
Cactus Run, LLC	\$927.08	\$0.00	\$927.08
Conner, Michael	(\$633.48)	\$0.00	(\$633.48)
Cruz, Frank	\$816.16	\$0.00	\$816.16
Downton, Abby	\$300.00	\$0.00	\$300.00
Edwards, Charles	\$1,037.40	\$0.00	\$1,037.40
Fineman, George	\$605.91	\$0.00	\$605.91
George, Carla	\$800.00	\$0.00	\$800.00
Horn, Tom	\$3,235.64	\$0.00	\$3,235.64
Iorio, Maria	\$1,200.00	\$0.00	\$1,200.00
Jackson, Harwood	\$1,955.76	\$0.00	\$1,955.76
Jarrell, Darrell	\$650.00	\$0.00	\$650.00
Jones, Donald	\$750.00	\$0.00	\$750.00
Laughlin, Terrence	\$2,039.80	\$0.00	\$2,039.80
Mendoza, Jose	\$1,971.23	\$0.00	\$1,971.23
Miller, Dick and Jane	\$652.90	\$0.00	\$652.90
Nyberg, Rose	\$1,920.00	\$0.00	\$1,920.00
Oxford Terrace, LLC	\$5,175.89	\$0.00	\$5,175.89
Poole, Hortense	\$100.00	\$0.00	\$100.00
Sun City Properties, LLC	\$1,645.00	\$0.00	\$1,645.00
Thomas, Nila	\$1,395.00	\$0.00	\$1,395.00
Thorne, Emily	\$1,170.00	\$0.00	\$1,170.00
Weaver, Ruth	\$875.00	\$0.00	\$875.00
Wedgewood, LLC	\$652.00	\$0.00	\$652.00
Zenith, Candy	\$400.00	\$0.00	\$400.00
Total	\$38,751.00	\$0.00	\$38,751.00

Run Date 02/28/2014

**NOTE: The negative tenant balance of \$633.48 should not be used to reduce or offset the broker liabilities to the tenants.**

**Question: What are the total broker liabilities to the tenants?**

**Answer: \$39,384.48, not the column total listed above. ( $\$38,751.00 + \$633.48 = \$39,384.48$ )**



**Using the owner and tenant liabilities as determined above, enter the client liabilities on the Trust Account Reconciliation:**

Line “g” – Enter the total owner funds.

Line “h” – Enter the total tenant funds.

Line “i” – Enter any additional trust monies held by the broker.

**Trust Account Reconciliation**

**Client/Tenant Liabilities**

Owner's Funds	g	16895.00
Tenant's Funds	h	39384.48
Other trust funds	i	0.00
<b>Total Client/Tenant Liabilities (j=g+h+i)</b>	<b>j</b>	<b>56279.48</b>

Total Adjusted Owner's Funds  
 (\$10,253.00 + \$6,642.00 = \$16,895.00)

Total Adjusted Tenant Funds  
 (\$38,751.00 + \$633.48 = \$39,384.48)

Other Monies Held in Trust

Total Liabilities

The total client / tenant liabilities are equal to:

Owner funds held in the trust account

Plus: Tenant funds held in the trust account

Plus: Other trust funds held by the broker

Line “j” – Enter the total client / tenant liabilities

**Now that the Adjusted Trust Account Bank Balance and Client Liabilities have been determined, complete the Trust Account Reconciliation.**

<b>Bank Account Reconciliation</b>	
<b>Bank Statement Balance</b>	a 51279.48
Less: Outstanding checks/ withdrawals	b (5000.00)
Plus: Outstanding deposits	c 10000.00
<b>Adjusted Balance (d=a-b+c)</b>	d <b>56279.48</b>
<b>Check Book Balance from R &amp; D Journal</b>	e 56279.48
Difference (f=d-e)	f 0.00

<b>Trust Account Reconciliation</b>	
<b>Client/Tenant Liabilities</b>	
Owner's Funds	g 16895.00
Tenant's Funds	h 39384.48
Other trust funds	i 0.00
<b>Total Client/Tenant Liabilities (j=g+h+i)</b>	j <b>56279.48</b>
<b>Bank Account Balance (adjusted) (d from above)</b>	56279.48
<b>Total Client/Tenant Liabilities (j from above)</b>	56279.48
<b>Variance Dollars (k=d-j)</b>	k <b>0.00</b>

Enter the Adjusted Trust Account Bank Balance.

Enter the Total Client Liabilities.

Is there a Variance? No

**The Trust Account is in Balance.**

# What are the results of the Trust Account Reconciliation if the Broker reduced his liabilities by using the Negative Owner and Tenant Balances?

## Trustworthy Property Management, Inc. Owner Ledger

<u>Portfolio Name</u>	<u>Balance</u>	<u>Minimum</u>	<u>Security Deposit Held</u>	<u>Unpaid Bills Amount</u>
Adair, Frank	\$1,500.00	\$450.00	\$1,462.39	\$0.00
Adams, George	(\$1,392.00)	\$1,000.00	\$3,242.72	\$0.00
Baker, Connie	\$2,000.00	\$400.00	\$200.00	\$0.00
Barker, Ted	\$750.00	\$750.00	\$2,979.80	\$0.00
Wedgewood, LLC	\$200.00	\$200.00	\$652.00	\$0.00
Zenith, Candy	\$100.00	\$100.00	\$400.00	\$0.00
<b>Total</b>	<b>\$10,253.00</b>	<b>\$10,650.00</b>	<b>\$38,751.00</b>	<b>\$0.00</b>

## Trustworthy Property Management, Inc. Tenant Security Deposits

<u>Portfolio Name</u>	<u>Security Deposit Held</u>	<u>Bank Balance Breakdown Totals</u>	<u>Difference</u>
Adair, Frank	\$1,462.39	\$0.00	\$1,462.39
Adams, George	\$3,242.72	\$0.00	\$3,242.72
Baker, Connie	\$200.00	\$0.00	\$200.00
Weaver, Ruth	\$875.00	\$0.00	\$875.00
Wedgewood, LLC	\$652.00	\$0.00	\$652.00
Zenith, Candy	\$400.00	\$0.00	\$400.00
<b>Total</b>	<b>\$38,751.00</b>	<b>\$0.00</b>	<b>\$38,751.00</b>

Note: The Owner and Tenant Balances as of February 28, 2014 have not changed.

# We'll Hold It For You

## Savings and Loan



Trustworthy Property Management, Inc.  
Property Management Trust Account  
P. O. Box 12345  
Apache Junction, AZ 85121

Account Number: 0067 8716 1097  
February 1, 2014 to February 28, 2014

### Account Summary

Beginning Balance on February 1, 2014	\$48,324.48
Deposits and other credits	25,000.00
Withdrawals and other debits	10,000.00
Checks	12,000.00
Service Fees	45.00
Ending Balance on February 28, 2104	\$51,279.48
Cleared Deposits	\$25,000.00
Uncleared Deposits	\$10,000.00
Cleared Checks / Withdrawals	\$22,000.00
Uncleared Checks / Withdrawals	\$5,000.00

**NOTE: The Bank Balance  
as of February 28, 2014 has  
not changed.**

**Trustworthy Property Management  
Trust Account Receipts and Disbursement Journal  
Account # 0067 8716 1097**

<u>DATE</u>	<u>SELLER OR LESSOR</u>	<u>BUYER OR LESSEE</u>	<u>RECEIVED</u>		<u>PAID OUT</u>			<u>PAID TO</u>	<u>DAILY BALANCE</u>
			<u>DATE</u>	<u>AMOUNT</u>	<u>DATE</u>	<u>CHECK #</u>	<u>AMOUNT</u>		
01/31/2014								Balance 01/31/2014	\$53,324.48
02/01/2014	Broker Deposit	Rents Rec'd	02/01/2014	\$15,000.00					68,324.48
02/01/2014	Broker Deposit	Owner Funds	02/01/2014	\$10,000.00					78,324.48
02/15/2014					02/15/2014	Transfer	\$10,000.00	Broker Management Fees	68,324.48
02/28/2014					4	Owner Checks	12,000.00	Property Owners	56,324.48
02/28/2014					02/28/2014	N/A	45.00	Account Bank Fees	\$56,279.48
02/28/2014					4			Balance 02/28/2014	\$56,279.48

**NOTE: The Check Book Balance from  
the R & D Journal has also not  
changed.**

### Bank Account Reconciliation

Bank Statement Balance	a	51279.48
Less: Outstanding checks/ withdrawals	b	(5000.00)
Plus: Outstanding deposits	c	10000.00
<b>Adjusted Balance (d=a-b+c)</b>	<b>d</b>	<b>56279.48</b>
Check Book Balance from R & D Journal	e	56279.48
Difference (f=d-e)	f	0.00

### Trust Account Reconciliation

Client/Tenant Liabilities		
Owner's Funds	g	10253.00
Tenant's Funds	h	38751.00
Other trust funds	i	0.00
<b>Total Client/Tenant Liabilities (j=g+h+i)</b>	<b>j</b>	<b>49004.00</b>
Bank Account Balance (adjusted) (d from above)		56279.48
Total Client/Tenant Liabilities (j from above)		49004.00
<b>Variance Dollars (k=d-j)</b>	<b>k</b>	<b>7275.48</b>

Using the Same Adjusted Bank Balance  
And Check Book Balance from the R & D Journal

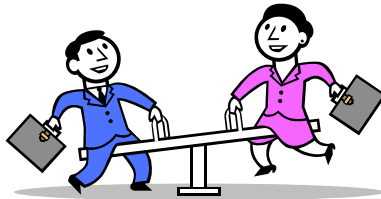
But the Total Owner and Tenant Balances  
Reduced by Individual Account Negative  
Balances,

The Total Broker Liabilities are  
incorrectly reported resulting in the  
Reconciliation being out-of-balance with  
the Adjusted Bank Balance. The  
Reconciliation is showing an Overage  
when none exists.

**Question: If the Broker mistakenly believes that the Trust Account has an Overage and transfers the perceived excess monies to the Operating Account, what would be the status of the Trust Account?**

**Answer: The Trust Account would have a shortage of **\$14,550.96**.**

**(Negative Owner/Tenant Accounts of \$7,275.48 + \$7,275.48 Transferred = **\$14,550.96**.)**



Again, the results of the trust account reconciliation depend on the reconciled trust account bank balance and the total broker liabilities (i.e., owner and tenant ledger balances). Make certain the adjusted trust account bank balance is reconciled to the broker liabilities each month.

# What are the results of the Trust Account Reconciliation if the Adjusted Bank Balance is greater than the Total Broker Liabilities and the Broker has not reduced the Liabilities due to individual account balances?

## Trustworthy Property Management, Inc. Owner Ledger

<u>Portfolio Name</u>	<u>Balance</u>	<u>Minimum</u>	<u>Security Deposit Held</u>	<u>Unpaid Bills Amount</u>
Adair, Frank	\$1,500.00	\$450.00	\$1,462.39	\$0.00
Adams, George	(\$1,392.00)	\$1,000.00	\$3,242.72	\$0.00
Baker, Connie	\$2,000.00	\$400.00	\$200.00	\$0.00
Barker, Ted	\$750.00	\$750.00	\$2,979.80	\$0.00
Wedge				
Wedgewood, LLC	\$200.00	\$200.00	\$652.00	\$0.00
Zenith, Candy	\$100.00	\$100.00	\$400.00	\$0.00
<b>Total</b>	<b>\$10,253.00</b>	<b>\$10,650.00</b>	<b>\$38,751.00</b>	<b>\$0.00</b>

## Trustworthy Property Management, Inc. Tenant Security Deposits

<u>Portfolio Name</u>	<u>Security Deposit Held</u>	<u>Bank Balance Breakdown Totals</u>	<u>Difference</u>
Adair, Frank	\$1,462.39	\$0.00	\$1,462.39
Adams, George	\$3,242.72	\$0.00	\$3,242.72
Baker, Connie	\$200.00	\$0.00	\$200.00
Weaver, Ruth	\$875.00	\$0.00	\$875.00
Wedgewood, LLC	\$652.00	\$0.00	\$652.00
Zenith, Candy	\$400.00	\$0.00	\$400.00
<b>Total</b>	<b>\$38,751.00</b>	<b>\$0.00</b>	<b>\$38,751.00</b>

Note: The Owner and Tenant Balances as of February 28, 2014 have not changed.



**We'll Hold It For You  
Savings and Loan**



Trustworthy Property Management, Inc.  
Property Management Trust Account  
P. O. Box 12345  
Apache Junction, AZ 85121

Account Number: 0067 8716 1097  
February 1, 2014 to February 28, 2014

**Account Summary**

Beginning Balance on February 1, 2014	<b>\$58,324.48</b>
Deposits and other credits	25,000.00
Withdrawals and other debits	10,000.00
Checks	12,000.00
Service Fees	45.00
Ending Balance on February 28, 2104	<b>\$61,279.48</b>
Cleared Deposits	\$25,000.00
Uncleared Deposits	\$10,000.00
Cleared Checks / Withdrawals	\$22,000.00
Uncleared Checks / Withdrawals	\$5,000.00

The Beginning and Ending Bank Balance have increased; however, The Uncleared Deposits and Uncleared Checks / Withdrawals remain the same.

**Trustworthy Property Management  
Trust Account Receipts and Disbursement Journal  
Account # 0067 8716 1097**

<u>DATE</u>	<u>SELLER OR LESSOR</u>	<u>BUYER OR LESSEE</u>	<u>RECEIVED</u>		<u>PAID OUT</u>			<u>PAID TO</u>	<u>DAILY BALANCE</u>
			<u>DATE</u>	<u>AMOUNT</u>	<u>DATE</u>	<u>CHECK #</u>	<u>AMOUNT</u>		
01/31/2014								Balance 01/31/2014	\$63,324.48
02/01/2014	Broker Deposit	Rents Rec'd	02/01/2014	\$15,000.00					78,324.48
02/01/2014	Broker Deposit	Owner Funds	02/01/2014	\$10,000.00					88,324.48
02/15/2014					02/15/2014	Transfer	\$10,000.00	Broker Management Fees	78,324.48
02/28/2014					02/28/2014	Owner Cks	12,000.00	Property Owners	66,324.48
02/28/2014					02/28/2014	N/A	45.00	Account Bank Fees	\$66,279.48
								Balance 02/28/2014	\$66,279.48

**Note: The Check Book Balance from the R & D Journal has increased.**

## Bank Account Reconciliation

Bank Statement Balance	a	61279.48
Less: Outstanding checks/ withdrawals	b	(5000.00)
Plus: Outstanding deposits	c	10000.00
Adjusted Balance (d=a-b+c)	d	66279.48
Check Book Balance from R & D Journal	e	66279.48
Difference (f=d-e)	f	0.00

## Trust Account Reconciliation

Client/Tenant Liabilities		
Owner's Funds	g	16895.00
Tenant's Funds	h	39384.48
Other trust funds	i	0.00
Total Client/Tenant Liabilities (j=g+h+i)	j	56279.48
Bank Account Balance (adjusted) (d from above)		66279.48
Total Client/Tenant Liabilities (j from above)		56279.48
Variance Dollars (k=d-j)	k	10000.00

Enter the Bank Statement Balance

Enter Outstanding Checks/Withdrawals

Enter Outstanding Deposits

Determine the Adjusted Bank Balance

Enter the Check Book Balance from the R & D Journal.

Enter the Adjusted Owner Funds  
(\$10,253.00 + \$6,642.00 = \$16,895.00)

Enter the Adjusted Tenant Funds  
(\$38,751.00 + \$633.48 = \$39,384.48)

Determine Total Liabilities

Enter Adjusted Bank Balance

Enter Total Liabilities

The Variance confirms the Bank Balance is greater than the Liabilities. The Reconciliation shows an Overage.

**What are the results of the Trust Account Reconciliation if the Adjusted Bank Balance is less than the Total Broker Liabilities and the Broker has appropriately adjusted the Total Liabilities?**

**Trustworthy Property Management, Inc.  
Owner Ledger**

<u>Portfolio Name</u>	<u>Balance</u>	<u>Minimum</u>	<u>Security Deposit Held</u>	<u>Unpaid Bills Amount</u>
Adair, Frank	\$1,500.00	\$450.00	\$1,462.39	\$0.00
Adams, George	(\$1,392.00)	\$1,000.00	\$3,242.72	\$0.00
Baker, Connie	\$2,000.00	\$400.00	\$200.00	\$0.00
Barker, Ted	\$750.00	\$750.00	\$2,979.80	\$0.00
Wedge				
Wedgewood, LLC	\$200.00	\$200.00	\$652.00	\$0.00
Zenith, Candy	\$100.00	\$100.00	\$400.00	\$0.00
<b>Total</b>	<b>\$10,253.00</b>	<b>\$10,650.00</b>	<b>\$38,751.00</b>	<b>\$0.00</b>

**Trustworthy Property Management, Inc.  
Tenant Security Deposits**

<u>Portfolio Name</u>	<u>Security Deposit Held</u>	<u>Bank Balance Breakdown Totals</u>	<u>Difference</u>
Adair, Frank	\$1,462.39	\$0.00	\$1,462.39
Adams, George	\$3,242.72	\$0.00	\$3,242.72
Baker, Connie	\$200.00	\$0.00	\$200.00
Weaver, Ruth	\$875.00	\$0.00	\$875.00
Wedgewood, LLC	\$652.00	\$0.00	\$652.00
Zenith, Candy	\$400.00	\$0.00	\$400.00
<b>Total</b>	<b>\$38,751.00</b>	<b>\$0.00</b>	<b>\$38,751.00</b>

Note: The Owner and Tenant Balances as of February 28, 2014 have not changed.

## We'll Hold It For You Savings and Loan



Trustworthy Property Management, Inc.  
Property Management Trust Account  
P. O. Box 12345  
Apache Junction, AZ 85121

Account Number: 0067 8716 1097  
February 1, 2014 to February 28, 2014

### Account Summary

Beginning Balance on February 1, 2014	<b>\$28,324.48</b>
Deposits and other credits	25,000.00
Withdrawals and other debits	10,000.00
Checks	12,000.00
Service Fees	45.00
Ending Balance on February 28, 2104	<b>\$31,279.48</b>
Cleared Deposits	\$25,000.00
Uncleared Deposits	\$10,000.00
Cleared Checks / Withdrawals	\$22,000.00
Uncleared Checks / Withdrawals	\$5,000.00

**The Beginning and Ending Bank Balances have decreased; however, The Uncleared Deposits And Uncleared Checks / Withdrawals remain unchanged.**

**Trustworthy Property Management**  
**Trust Account Receipts and Disbursement Journal**  
**Account # 0067 8716 1097**

<u>DATE</u>	<u>SELLER OR LESSOR</u>	<u>BUYER OR LESSEE</u>	<u>RECEIVED</u>		<u>PAID OUT</u>			<u>PAID TO</u>	<u>DAILY BALANCE</u>
			DATE	AMOUNT	DATE	CHECK #	AMOUNT		
01/31/2014								Balance 01/31/2014	\$33,324.48
02/01/2014	Broker Deposit	Rents Rec'd	02/01/2014	\$15,000.00					48,324.48
02/01/2014	Broker Deposit	Owner Funds	02/01/2014	\$10,000.00					58,324.48
02/15/2014					02/15/2014	Transfer	\$10,000.00	Broker Management Fees	48,324.48
02/28/2014					02/28/2014	Owner Checks	12,000.00	Property Owners	36,324.48
02/28/2014					02/28/2014	N/A	45.00	Account Bank Fees	\$36,279.48
								Balance 02/28/2014	\$36,279.48

**Note: The Check Book Balance from the R & D Journal has decreased.**

## 1. Bank Account Reconciliation

Bank Statement Balance	a	31279.48
Less: Outstanding checks/ withdrawals	b	(5000.00)
Plus: Outstanding deposits	c	10000.00
<b>Adjusted Balance (d=a-b+c)</b>	<b>d</b>	<b>36279.48</b>
Check Book Balance from R & D Journal	e	36279.48
Difference (f=d-e)	f	0.00

## Trust Account Reconciliation

Client/Tenant Liabilities		
Owner's Funds	g	16895.00
Tenant's Funds	h	39384.48
Other trust funds	i	0.00
<b>Total Client/Tenant Liabilities (j=g+h+i)</b>	<b>j</b>	<b>56279.48</b>
Bank Account Balance (adjusted) (d from above)		36279.48
Total Client/Tenant Liabilities (j from above)		56279.48
Variance Dollars (k=d-j)	k	(20000.00)

Enter the Bank Statement Balance

Enter Outstanding Checks/Withdrawals

Enter Outstanding Deposits

Determine the Adjusted Bank Balance

Enter the Check Book Balance from the R & D Journal

Enter the Adjusted Owner Funds  
(\$10,253.00 + \$6,642.00 = \$16,895.00)

Enter the Adjusted Tenant Funds  
(\$38,751.00 + 633.48 = \$39,384.48)

Determine Total Liabilities

Enter Adjusted Bank Balance

Enter Total Liabilities

The Variance confirms the Bank Balance is less than the liabilities. The Reconciliation shows a Shortage.

## Summary

Reconcile the adjusted trust account bank balance to the broker liabilities at the same time each month to coincide with the date of the bank statement.

Individual negative account balances should not be used to offset or reduce the broker's liabilities to the owners and tenants. (**NOTE:** If a broker manages multiple properties for an owner, the combined balance for the owner's properties may be used in determining the broker liabilities to the owner.)

Have negative balances made whole as quickly as possible. Owners with negative balances should not be funded using the other owners' accounts.

If the monthly reconciliation shows a variance (overage or shortage), determine the cause and make corrections as needed, including necessary accounting entries.

If you are unable to determine the cause of the variance, seek assistance from an accounting professional or an expert in the accounting software being used.

**DO NOT FORCE THE ACCOUNTS TO BALANCE.** This short term solution may result in a long term problem.

The broker should review the reconciliation, along with the supporting documentation each month and document the review with the broker's signature and date.