



All About Security Deposits

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Understanding Terms

Security Deposit: A sum of money collected from the tenant and held for the duration of the tenant's lease.

Escrow: The bank account used to hold security deposit money. If you only have one bank all the money will be kept in checking.

Checking: The bank account used for everyday funds such as rent, management fees and other bills. If you have just one bank, security deposit money will also be kept here.

Bank Transfer: The act of transferring funds from one bank account to another. For example, transferring money from Checking to Escrow.

Security Deposit Interest: Interest earned from the bank account holding security deposit funds.

Liability: An account type used to withhold funds from the owner. Liabilities are not included in the owner's balance.

Releasing a Security Deposit: Using the security deposit funds being held by either giving the money back to the tenant or using it to pay charges.

Open Credits: Money that has not been applied to any charges and are held back as a liability from the owner.

Menu Paths: To help you better navigate through Promas, we use a standard menu path to describe what to click. Often times you will see "Item 1 > Item 2" which means after you click Item 1 you click Item 2. For example, AR > Tenant History > Select Tenant or Unit means to first click AR, then click Tenant History. Once on the Tenant History screen select the Tenant or Unit being addressed.

Types of Security Deposits

- Security Deposit (Most Common)
- Pet Deposit (Not Pet Fee)
- Last Month's Rent
- Security Deposit Held by Owner* (Not by Management Group)
- Any other money you want held until the tenant moves out

*See appendices A & B for more information

The Difference Between a Fee and a Security Deposit

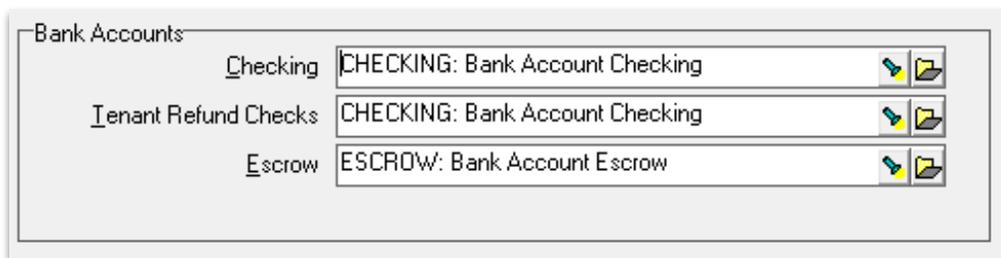
A security deposit is money that is withheld from being used until a tenant moves out. A fee is money that is given out right away. A prime example is a Pet Fee and Pet Deposit. A Pet Fee is money given to the owner. This is set up as an income or taxable income and will appear on the owner's statement. A Pet Deposit is money held until the tenant moves out. This is set up as a liability and will not appear on the owner's statement. Once the tenant moves out, a Pet Deposit can be released and used to pay a Pet Fee, pay other charges, or refunded to the tenant.

Bank Accounts

Bank accounts are defined in the Posting Table under Setup and assigned to each ledger under Profiles > Owner or Property, respectively. Most property managers only have one posting table.

- One Bank: Rent and Security Deposits are kept in the same bank account.
- Two Banks: One bank account is used exclusively for deposit money (Escrow) and one is used for rent, management fees, bill, etc (Checking).

Screenshot A shows the Bank Account Section of a posting table. If you only had one bank, then all the lines would say Checking. If you have two bank accounts, the corresponding account will appear on each line. Take note that you may have different bank account names, but we often refer to them as Checking and Escrow. To see what your banks are called, look under Setup > Posting Table > Edit the table (generally called standard).



Screenshot (A)

Two Bank Accounts

If you only use one bank, skip this section. If you use two banks, this is for you! Before you record security deposits into Promas, take a moment and think about how you will handle the money. If you plan to deposit the money into Checking, then transfer the money to Escrow, do the same procedure in Promas. If you plan to deposit it directly into Escrow, do the same in Promas. If you do deposit the money directly into Escrow, the Security Deposit Receipt is recommended described later in this document.



Types of Transfers

- Transfer Check (Under AP), used if you need a check to transfer money.
- Bank to Bank Transfer (Under GL), used when money is transferred online or over the phone.

Refer to the common issues section for more details on Transfer Checks.

Receiving a Security Deposit

	Charge First, Pay Second	Pay and and Charge Together
About	Charge the tenant for anything he/she will owe. This can include security deposits and rent and anything else that is part of your lease. Then as the tenant comes in and pays, use a receipt to pay off the charges.	Charges are entered on tab 2 New Charges of a receipt screen. It is done all at once.
Advantages	<ol style="list-style-type: none"> 1 If the tenant only pays a portion, you will see how much is still due. 2 Charges stay (as unpaid) if receipt is voided or NSF'd 3 Helps prevents errors if multiple people are entering into Promas. 	<ol style="list-style-type: none"> 1 If the tenant pays in full you can record everything at once. 2 If you are recording many tenant's security deposits who all paid in full 3 Faster
Disadvantages	<ol style="list-style-type: none"> 1 Wrong charge may be paid 2 Slower 	<ol style="list-style-type: none"> 1 If the tenant only pays a portion, you won't be able to see how much is still due. 2 Charges won't stay (as unpaid) if receipt is voided or NSF'd.
Steps	<ol style="list-style-type: none"> 1. Go to AR > Charge Tenant 2. Enter any charges the tenant will owe 3. Go to either AR > Tenant Receipt or >Security Deposit Receipt* 4. Record the amount the tenant has paid and verify the charges being paid <p>*SD Receipt will only show security deposit charges</p>	<ol style="list-style-type: none"> 1 Go to either AR > Tenant Receipt or >Security Deposit Receipt 2 Record the amount the tenant has paid and verify the charges being paid 3 Click New Charges at the bottom and add in the charges



This is what you do when you want to hold money for a tenant’s security deposit until they move out. There are two ways you can receive a security deposit and will default to the escrow bank defined in the posting table.

Recommended way: Charge first and Pay second.

Types of Receipts

- Tenant Receipt
- Security Deposit Receipt

	Charges the Appear	Default Bank Selected
Tenant Receipt	All Charges	Checking
Security Deposit Receipt	Only Security Deposit Charges	Escrow

There are two differences between these two types of receipts:

Recommended Receipt: Security Deposit Receipt

Releasing a Security Deposit

This is what you do when the tenant is moving out and you want to deal with the deposit you are holding.

	Release Deposit	Tenant Move Out
About	This releases the security deposit directly into open credits. There is an option for security deposit interest.	This releases the deposit, pays off unpaid charges and opens a refund check screen.
When Recommended	If you are paying security deposit interest.	If you are moving the tenant out of the unit.

The Move Out Process

Overall the same steps are applied regardless of the number of banks you have and if the tenant is getting the deposit back. Follow each step and read more details under each of the situations. If you have more than one bank, don't worry! That will be covered towards the end.

• **Step 1: Verify Tenant History**

Regardless of the situation you are following, the best place to start with a tenant move out is always Tenant History. Go to AR > Tenant History and select the Tenant or Unit. Verify the accuracy of this screen. Things to check include the deposit, unpaid charges and open credits.

Situation A: Tenant Gets Full Refund. The tenant is getting a full refund, this means the entire deposit is going back to the tenant. While checking the Tenant History you will want to make sure there are no unpaid charges. Any charges posted that do not belong can be voided. Partially paid charges that will not be paid can be reversed.

Situation B: Tenant Gets a Partial Refund. The tenant owes for something but is getting at least a portion of their deposit back. Verify the unpaid charges in the Tenant History under AR. Make any necessary changes.

Situation C: Tenant Gets No Refund. Verify the already entered charges and enter any additional charges by going to AR>Charge Tenant.

•• **Step 2: Tenant Move Out (or Release Security Deposit)**

You can choose the function you prefer, either AR, Release Deposit or AR, Tenant Move Out. Unless you are giving the tenant interest on his deposit, we recommend using Tenant Move Out in every situation. Go to AR>Tenant Move Out and select the Unit or Tenant. Verify the amount being released, the amount being applied to charges, and the amount to be refunded. When everything looks correct click Post.

Situation A: Tenant Gets Full Refund. Make sure the full security deposit is being released and the Less Refund Check amount is the full deposit.

Situation B: Tenant Gets Partial Refund. Since the tenant isn't getting a full refund, any charges posted in Step 1 will appear under tab 2 Current Charges. Click this tab to review the charges being paid and verify the amount in Less Refund Check (amount available to Tenant).

Situation C: Tenant Gets No Refund. In the Tenant Move Out screen you can unmark Write Refund Check since the tenant is not getting any money back. Any money not applied towards a charge in this screen will be added to the tenant's open credits. This will allow you to apply those funds as needed. So, if you are waiting for more bills to come in the money will be waiting to be used.

••**Step 3: Apply Open Credits and / or Write Refund Check**

This is the step where the deposit is used. Whether it is given back to the tenant with a refund check or used to pay charges (apply open credits), this is where you use the open credits to finish moving the tenant out.

Situation A: Tenant Gets Full Refund. The tenant is getting a full refund, so you will just need to write a refund check to the tenant. After you click post in the Tenant Move Out (under AR) screen, the Refund check will appear. If you clicked cancel or used Release Deposit you can get to the Refund Check screen by going to AP > Refund Check. You can enter in a new address for the tenant on the bottom right.

Situation B: Tenant Gets a Partial Refund. The tenant is getting a check for only a portion of their refund. This section will be split in two. One for if you already know how much the tenant is getting (Ready to Pay Now) and one for if you are waiting for bills to come in (Waiting for Bills).

Ready to Pay Now

You charged the tenant in Step 1 and if you did a Tenant Move Out the charges were paid in Step 2. It also means the Write Refund Check appeared after you clicked post. The remaining amount left over can then be given to the tenant. If you clicked cancel or used Release Deposit you can get to the Refund Check screen by going to AP > Refund Check.

Waiting for Bills

If you are waiting for bills to come in before deciding what to do with the deposit you can let the money go into Open Credits. As you find out the actual amounts you can charge the tenant and Promas will use the Open Credits to pay the charges. When ready, you can write the tenant a refund check for their portion due by going to AP > Refund Check.

Situation C: Tenant Gets No Refund. Similar to the tenant getting a partial payment, this part depends on whether you know the amounts going to each charge. Generally, when the tenant isn't getting any refund at all it's because the entire deposit is being forfeited. You can either charge security deposit forfeit for the entire security deposit amount or post the individual charges as the bills come in. The open credits will pay off the charges.

•••Step 4: Bank Transfer

Skip this step if you only have one bank account.

There are two ways to transfer money. One is with a Transfer Check (Under AP) and is done if you need a check to transfer the money. The other is with a Bank to Bank Transfer (Under GL) and is used if you do not need a check to transfer money. Any mention below of money being transferred, use one of these two methods; not both.

Situation A: Tenant Gets Full Refund. If the refund check is written out of Escrow, then you do not need to transfer money. If the refund check is written out of Checking, then transfer the full amount of the deposit from Escrow to Checking.

Situation B: Tenant Gets Partial Refund. If the Refund Check and Bills are paid out of Checking, then transfer the full amount of the deposit from Escrow to Checking. If the Refund Check is written from Escrow, and bills from Checking, transfer the bills portion from Escrow to Checking. Refund Check and Bills paid out of Escrow, then you do not need to transfer money.

Situation C: Tenant Gets No Refund. Invoices are paid out of Checking by default. Transfer the entire deposit from Escrow to Checking to either pay the bills or release the money to the owner.

Common Mistakes

Bank Transfer Not Done or Done Incorrectly

These mistakes can be caught in a number of ways. As mentioned below, if in the owner's GL History screen, Escrow and Deposits don't match, there is a mistake. You may also notice an issue when paying an owner their distribution check. If the check amount isn't what you expected, stop and go check the owner's GL History. You can also see ledgers with issues by going to Reports > Ledger Reports > Ledger Analysis.

- It is a good habit to run the Ledger Analysis report on a monthly basis. Some people like to run it at the same time they reconcile their bank.
- Keep in mind when entering a Transfer Check it posts two things: A Check and a Receipt. If you void one, you must remember to void the other. This means if you void the check, you must also void the receipt.
- Not using History Screens

General Ledger History

- The General Ledger History can tell you a lot of information. First and foremost, your goal is to have Escrow and Deposits match. If they do not match, this is an indication that a bank transfer needs to be done. If Escrow is higher, then transfer money from Escrow to Checking. If Escrow is lower, then transfer money from Checking to Escrow.
- Secondly, check if there are any liabilities. Typically liabilities are from open credits. If the open credits are supposed to be there then you are fine. If the money needs to be used (taken out of open credits) you can enter a Tenant Receipt with a payment of 0 to pay unpaid charges. In the scenario the liabilities are not open credits, run a Balance Sheet to see what they are.

Tenant History

- The Tenant History is a great place to see what has happened so far. All charges, receipts and deposits can easily be seen here. You can review the open credits tab to see the deposit being released and what happened to it. This includes editing any "Apply Open Credit" transactions to see what charges were paid. If something was paid incorrectly, you can void this and re-apply the open credits (*Sometimes when an apply open credit is voided, the money is put back into deposits. If this happens, just release the deposit again).

If Tenant Pays Rent and Security in One Check

- Enter the receipt into your checking account and pay the two charges. After you enter the receipt, enter a bank transfer from Checking to Escrow in the amount of the security deposit. Don't forget to make the transfer at the bank (whatever you do in Promas do in real life also).
- Compare Cross Reference to General Ledger History
- The cross reference screen will show the actual deposits being held by tenants and the actual amount of open credits, which can be compared to the amounts showing in GL History. Before moving money the amount of deposits should be verified.

Appendix A: Security Deposit Held by Owner

If the security deposit is being held by owner (HBO), a new account code and charge code should be created. Despite using a different charge code, the receiving and releasing process is the same as a regular deposit. This section will highlight differences.

Below are instructions for creating a new Account and new Charge code. This special setup allows for the deposit to be tracked on the tenant side and be released to the owner as income.

Create New Codes

- 1 Go to Setup > Account Codes and click New
- 2 Type in an ID of Dep HBO
- 3 Type in a long description of Security Deposit HBO or Deposit Held by Owner
- 4 Type in a Ledger code which is any number you want, e.g.9999
- 5 Select an Account Type of Other Income or Taxable Income
- 6 Don't mark anything else, click Save
- 7 Go to Setup > Charge Codes and click New
- 8 Type in an ID of Dep HBO
- 9 Type in a long description of Security Deposit HBO or Deposit Held by Owner
- 10 Under Account choose the Account code you just created
- 11 Mark the checkbox [X] Use to Track Security Deposits
- 12 With this box marked, the amount of the security deposit will show in Tenant History in the Security Deposits box and will appear on the Security Deposit report. This is a convenient method to determine what deposit are being held in total.

Tip: To break out those security deposits that are being held by the owner, set up a category of Deposit HBO, assign it to each tenant and run the Security Deposit report limited to that category. Categories can be created under Setup > Categories.

- 13 Click Save

Give Money to Owner

To give the money to the owner you can use AP > Scheduled Payables > Distribution Check or AP > Single Check to write the owner his check.



Refund the Deposit

When you move the tenant out keep in mind the owner has already been given the money. When you release the security deposit, it may draw the owner negative if there is not enough money to cover the entire security deposit. You may need the owner to send back the security deposit to you before releasing it. If the owner sends in money, record it under AR > Ledger Receipt.

Record Security Deposits previously given to owner

This means the owner already has the money but you want to record on the tenant that a security deposit is being held. Since you are not receiving any money, you will not enter a tenant receipt. Instead, you will adjust the tenant's open credits and apply those open credits towards your security deposit held by owner charge. This will subtract and add money to the owner's general ledger history. If you do not want this to appear on a current statement, date the adjustment and charge to a prior date.

- 1 Go to AR > Adjust Open Credits > Select the Tenant or Unit
- 2 Mark the <Increase Tenant Balance> radio button
- 3 Select Security Deposit HBO under account

Optional: Enter "Record SD previously given to owner" in the Memo field.

Tip: Copy/ Paste the Memo if you have more to post.

- 1 Click Post (or New if you have more to post)
- 2 AR > Charge Tenant > Select the Tenant or Unit
- 3 Select Security Deposit HBO under charge and enter the amount
- 4 Click Post (or New if you have more to post)
- 5 Verify in AR > Tenant History that the open credits applied towards the charge. If they did not, go to AR > Tenant Receipt. Change the Payment to 0 (zero) and verify Security Deposit HBO is being paid.
- 6 Click Post (or New if you have more to post)
- 7 Click OK when the message "\$\$ is being used from open credits. Please review the help if you do not understand open credits."



Appendix B: Security Deposit Interest

Interest is computed on security deposits based on the Rate Table assigned in the Tenant Profile if the Charge Code is marked Earns Interest as a Deposit. Interest is computed from the posting date of the security deposit receipt. To adjust the interest amount you must use the Release Security deposits function rather than the Tenant Move-out function.

To increase the interest amount:

Enter the difference in the Interest Adjustment field.

To decrease the interest amount:

Enter the adjustment amount as a negative number.

or

1. On the line item for the security deposit, clear the Pay Interest check box. This will clear the interest calculated.
2. Enter the new interest amount in the Interest Adjustment field.

Posting from Release Security deposits causes the total released amount to be added to the tenant open credits balance. This amount will be reflected as the Starting Open Credits in Tenant Move-out.