

SOP: Financial Management

Effective Date: [Date]

Last Updated: [Date]

Department Responsible: Finance / Accounting Department

1. Purpose

This Standard Operating Procedure (SOP) outlines the financial management processes within our property management organization. By following these guidelines, we aim to:

- Maintain accurate financial records
 - Ensure timely rent collection and payment of obligations
 - Develop sound budgets and forecasts
 - Provide transparent and consistent financial reporting
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2. Scope

This SOP applies to:

- All properties managed by the company
 - All staff involved in financial transactions, record-keeping, and reporting
 - The processes of rent collection, accounts payable/receivable, budgeting, and financial reporting
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3. Definitions

- **Accounts Payable (AP):** The funds owed by the company to vendors, suppliers, and other parties for goods or services received.
- **Accounts Receivable (AR):** The funds owed to the company by tenants or clients for rent, fees, or other charges.
- **Budgeting & Forecasting:** The process of projecting future income and expenses to guide financial decisions.

- **Financial Reporting:** The regular production of statements (e.g., income statement, balance sheet, cash flow) that reflect the financial health of a property or the overall portfolio.

4. Roles and Responsibilities

Role	Responsibility
Chief Operating Officer (COO)	- Provides overall financial strategy and approves major financial decisions or expenditures. - Collaborates with the Finance Department on budgeting priorities and capital projects.
Finance Director / Controller	Oversees all financial operations, ensuring compliance with accounting standards and regulations. - Manages budgeting, forecasting, and financial reporting processes.
Accounting Manager / Finance Manager	Supervises day-to-day financial transactions (AP/AR, rent collection, invoice processing). - Ensures timely completion of monthly, quarterly, and annual close activities.
Accounts Payable Specialist	Processes vendor invoices, ensures proper approvals, and schedules payments. - Maintains accurate records of expenses and reconciles vendor statements.
Accounts Receivable Specialist	Oversees tenant billing, rent collection, and follow-up on overdue accounts. - Coordinates with Property Managers to address delinquencies or disputes.
Property Manager	Collaborates with Finance for rent rate decisions, budgeting for property expenses, and reporting on property-level financials. - Communicates rent increases, payment methods, or financial notices to tenants.

5. Procedure

5.1 Rent Collection

1. Rent Billing and Invoicing

- Generate monthly rent invoices in the Property Management System (PMS) at least [X days] before the due date.
- Include all charges (rent, utilities, maintenance fees, etc.) if applicable.

2. Payment Methods

- Accept online payments (ACH, credit/debit card), checks, or money orders per company policy.

- Provide clear instructions on payment portals or mailing addresses.

3. Due Date and Grace Period

- Clearly state rent due date (e.g., 1st of the month) and any grace period (e.g., 5 days).
- Apply late fees or penalties as outlined in the lease if payment is not received by the end of the grace period.

4. Delinquency and Collections

- Issue reminders or late payment notices once the account is past due.
- Provide a timeline for cure (e.g., a 7-day notice before initiating eviction procedures).
- Coordinate with Property Management and Legal if further action (e.g., eviction) is required.

5. Receipt and Recording

- Record all rent payments in the PMS promptly.
 - Issue payment receipts electronically or physically upon request.
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5.2 Accounts Payable / Accounts Receivable

1. Invoice Processing (AP)

- Vendors submit invoices via email or mail.
- The Accounts Payable Specialist checks invoice accuracy, matches it to purchase orders or service agreements, and verifies approvals.

- Code the invoice to the correct expense category and property.
- Enter the invoice into the accounting system for payment.
- 2. **Payment Scheduling (AP)**
 - Process payments on scheduled pay cycles (e.g., weekly, bi-weekly).
 - Obtain necessary approvals for large invoices or capital expenditures as per company policy.
 - Issue payment via check, ACH, or credit card, depending on vendor agreement.
- 3. **Monitoring Receivables (AR)**
 - The Accounts Receivable Specialist monitors tenant ledgers for overdue balances.
 - Coordinate with Property Managers to follow up on delinquent tenants.
 - Escalate accounts if they remain unpaid after standard notices and grace periods.
- 4. **Reconciliation**
 - Reconcile bank statements monthly to ensure accuracy in AP/AR balances.
 - Investigate discrepancies promptly and update records accordingly.
- 5. **Reporting**
 - Generate AP and AR aging reports monthly to track outstanding invoices or tenant balances.
 - Provide these reports to the Finance Director or Controller for review.

5.3 Budgeting & Forecasting

1. **Annual Budget Preparation**
 - Initiate the budgeting process at least [X months] before the fiscal year begins.
 - Each Property Manager forecasts expected rents, occupancy rates, and operating expenses.
 - Finance consolidates property-level budgets into a portfolio-wide financial plan.
2. **Budget Review & Approval**

- Present draft budgets to the COO and Finance Director for review.
 - Adjust projections based on historical data, market trends, and strategic goals.
 - Obtain final sign-off on budgets prior to the new fiscal year.
3. **Forecast Updates**
 - Perform periodic (monthly or quarterly) reviews of actual performance vs. budget.
 - Adjust forecasts to account for changes in market conditions, occupancy, or unexpected expenses.
 4. **Capital Expenditures (CapEx)**
 - Identify and budget for major improvements or renovations separately from operating expenses.
 - Obtain necessary approvals for CapEx projects, following the company's expenditure thresholds.
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5.4 Financial Reporting

1. **Monthly Close Process**
 - Ensure all transactions (rent, invoices, expenses) are recorded by the 5th business day of the following month (or a company-defined cutoff).
 - Review general ledger accounts for accuracy.
 - Post any necessary adjusting journal entries (e.g., accruals, depreciation).
2. **Financial Statements**
 - Prepare monthly or quarterly financial statements for each property and for the overall portfolio:
 - **Income Statement (P&L):** Summarizes revenue, expenses, and net income.
 - **Balance Sheet:** Lists assets, liabilities, and equity.
 - **Cash Flow Statement:** Details operating, investing, and financing cash flows.
 - Distribute these statements to relevant stakeholders (COO, Property Managers, owners).
3. **Variance Analysis**

- Compare actual results with budgeted figures to identify significant discrepancies.
 - Provide explanations and action plans to address material variances.
4. **Tax Preparation and Filing**
 - Work with external or in-house tax professionals to gather needed documentation.
 - File necessary state and federal tax returns, ensuring timely payment of any tax liabilities.
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6. Safety and Compliance

1. **Accounting Standards**
 - Adhere to Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS), as applicable.
 2. **Regulatory Compliance**
 - Comply with local, state, and federal regulations regarding rental income, security deposits, and tax reporting.
 - Maintain awareness of any changes in laws or regulations that affect property financial management.
 3. **Internal Controls**
 - Implement segregation of duties (e.g., the individual who processes payments should not reconcile bank statements).
 - Regularly back up financial data and store it securely.
 4. **Audit Readiness**
 - Keep all financial records organized and accessible for internal or external audits.
 - Promptly address any audit findings or recommendations.
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7. Documentation and Record-Keeping

1. **Financial Records**
 - Retain invoices, receipts, bank statements, and tenant ledgers per company policy (e.g., minimum 7 years).
 - Store records in a secure digital or physical archive with restricted access.
2. **Lease Agreements & Modifications**

- Maintain copies of all leases, addendums, and rent change notices in the PMS.
- Ensure records reflect current rental rates and lease terms.

3. Reports & Statements

- File monthly and quarterly financial statements for historical reference.
- Archive annual budgets, forecasts, and tax returns.

8. KPIs and Continuous Improvement

- **Rent Collection Rate:** Percentage of rents collected on time vs. total billed.
- **Delinquency Rate:** Percentage of overdue rent relative to total AR.
- **AP Turnover:** Average time to pay vendor invoices.
- **Budget Variance:** Difference between projected and actual expenses/revenues.
- **Cash Flow Position:** Ongoing assessment of liquidity across the portfolio.

Regularly review and analyze these KPIs. Make adjustments to procedures, training, or strategy to improve financial performance and operational efficiency.

9. Training Requirements

- **Finance/Accounting Staff:** Regular updates on accounting standards, software changes, and best practices.
- **Property Managers:** Ongoing education on budget management, rent collection policies, and basic financial reporting.
- **Senior Management (COO, Directors):** Periodic reviews of updated regulations, strategic budgeting, and financial performance indicators.

10. Approval and Revision

Name/Title	Signature	Date
COO	[Signature/Initials]	[Date Signed]
Finance Director / Controller	[Signature/Initials]	[Date Signed]
Accounting Manager	[Signature/Initials]	[Date Signed]
Property Manager (Rep.)	[Signature/Initials]	[Date Signed]

End of SOP