

## **Arizona Fire District Association**

### **HB2572: FIRE DISTRICTS; FINANCIAL STANDARDS**

#### **Implementation Guide and Checklist**

HB2572: fire districts; financial standards makes a number of changes to Arizona Revised Statute pertaining to the financial management of fire districts. HB2572 specifically changes a number of the requirements for budget, audit, financial oversight and the accompanying administrative and governance functions related to managing a fire district's finances. It is essential for fire district staff and governing boards to understand the new requirements and implement a plan for compliance. Many fire districts had already implemented these "benchmark" financial practices prior to the legislative mandate. HB2572 formalizes these best practice processes.

The effective date for HB2572: fire districts; financial standards is September 14, 2013. Implementing the provisions of HB2572 (monthly requirements) will begin with the month of October 2013. The annual budget adoption and certification requirements will apply for fiscal year 2015 (begins July 1, 2014), other than the web site posting requirements for budgets which is already in law. The annual audit requirements will also apply for those audits due for the fiscal year ended June 30, 2013.

Many of the new requirements involve more interaction between district staff and their outside auditors / financial reviewers. Districts should consult with the firm that they currently use for financial reviews/audits to verify the firm's ability to assist with the implementation of 2572.

Outlined below is an implementation guide and checklist designed to help navigate the changes:

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|  | Annual Budget Adoption | Post budget draft for consideration on district's web site for 20 days before public hearing & post in 3 public places. | NOTE: Newspaper publishing requirement eliminated.                           |
|  | Annual Budget          | Post adopted budget on district's website within 7 days of adoption & maintain on web site for 60 months.               | NOTE: AFDA will assist with this requirement for districts without websites. |

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|  | Annual Budget - Certification   | <p>Board Chair and Clerk must certify:</p> <ul style="list-style-type: none"> <li>a) District has not incurred any debt or liability in excess of taxes levied or to be collected</li> <li>b) District has not violated registered warrants requirements.</li> </ul> | <p>NOTE: Budget certification must accompany budget submittal to county – no later than August 1.</p> <p>Chair and Clerk should verify their certifications with counsel and the district's auditor prior to submitting them to the BOS.</p>   |
|  | Annual Budget – 2 Year Forecast | District required to estimate revenues and expenditures for following two years and determine financial viability taking into account levy limits, property value limits and past / anticipated expenditure trends.  | <p>NOTE: If a district identifies revenue shortfall in forecast, required to undertake merger, consolidation or shared services study / make public report at special board meeting.</p> <p>Estimates should generally be based on two previous fiscal years. Board should consult with auditor as to reasonableness of estimates.</p> |
|  | Annual Audit                    | Auditor is required to appear in person and provide governing board with audit findings.   | NOTE: District board required to vote to accept audit report.  |

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|  | Annual Audit   | <p>Auditor required to certify:</p> <ul style="list-style-type: none"> <li>a) District has not incurred any debt or liability in excess of taxes levied or to be collected</li> <li>b) District has not violated registered warrants requirements</li> </ul>                       |   |
|  | Outside Bank Accounts  | District may establish outside commercial bank accounts for payroll, special revenues, ambulance revenues.   |   |
|  | Monthly Financial Management                                 | District required to reconcile all balance sheet accounts for each calendar month. This is simply balancing the district's checkbook each month and sharing the monthly statement of credits and debits with the board.  | NOTE: No long-term assets or long-term liabilities.   |
|  | Monthly Financial Management                                 | <p>District required to produce monthly financial reports:</p> <ul style="list-style-type: none"> <li>a) Register of checks, warrants and deposits</li> <li>b) Statement of financial activities (income statement)</li> <li>c) Statement of net assets (balance sheet)</li> </ul> | NOTE: Reports required for each calendar month.   |
|  | Monthly Financial Management                                 | <p>District required to produce annual cash flow projection report and update each month with actual revenue &amp; expenditure data.</p> <p>This is an actual versus budget report. Material variances should be discussed in accompanying notes.</p>                              | NOTE: Cash flow projection report should identify funding shortfalls, lack of liquidity or adverse financial impact |
|  | Monthly Fire Board Financial Responsibility / Accountability | Fire board required to review monthly reports & reconciliations / evidence of review required.   | NOTE: Must occur within 30 days of end of preceding month   |

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|  | Monthly Fire Board Financial Responsibility / Accountability | Board chair required to report funding shortfalls, lack of liquidity or adverse financial impact identified in monthly financial reporting / review. | <p>NOTE: Reporting required via certified US Mail within 10 days of discovery to the BOS and County Treasurer.</p> <p>This report is for serious, material financial shortfalls that affect the ongoing financial viability of the district. A district with these concerns will consult with counsel and auditors prior filing any public reports.</p> |
|  | Monthly / Annual Cash Management                             | Revolving line-of-credit (RLC) is statutorily limited to 45% of direct property tax levy – RLC use must be factored in to cash flow projection       | <p>NOTE: <u>Statutorily compliant RLC use does not constitute an adverse financial impact or lack of liquidity</u></p>  |