



ALAN G. HEVESI
COMPTROLLER

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER
110 STATE STREET
ALBANY, NEW YORK 12236

MARK P. PATTISON
DEPUTY COMPTROLLER
DIVISION OF LOCAL GOVERNMENT SERVICES
AND ECONOMIC DEVELOPMENT
Tel: (518) 474-4037 Fax: (518) 486-6479

October 2006

To: Fire District Treasurers

From: Division of Local Government Services and Economic Development

Subject: Fire District Legislation

Please give copies of this bulletin to others who may need this information.

Purpose of Bulletin

Recently enacted legislation requires fire districts with annual revenues of \$200,000 or more to obtain an annual audit by an independent certified public accountant or an independent public accountant. The new law also designates the Office of the State Comptroller (OSC) to prescribe the form and content of such audits. We will be sending your district a series of bulletins to fulfill this new statutory responsibility and to assist your district in understanding and complying with these newly-enacted auditing requirements. This bulletin highlights changes to fire district accounting and reporting requirements, and clarifies the new auditing requirements.

Accounting/Reporting Considerations

The Uniform System of Accounts (USA) *currently* prescribes a single-entry cash basis of accounting for fire districts and incorporates a double entry/modified accrual basis of accounting for "larger" districts. In either case, the principles of accounting which underlie the USA are the same: a clear separation of funds, budgetary controls of revenues and expenditures, and use of a uniform classification of accounts for budgeting, accounting and reporting.

The USA is currently being updated to define "larger" districts as those with revenues of \$500,000 or more. These "larger" districts will be required to maintain their financial records and report their financial activity on a double entry/modified accrual basis of accounting, and account for assets, liabilities and fund balances of their district, including accrual of revenues and expenditures. Districts with revenues of less than \$500,000 may continue to utilize the cash basis of accounting but must report cash and fund balance (they should be equal) on the balance sheet of each fund. An updated USA featuring both bases of accounting will soon be available.

Legislative Auditing Requirements

The new law phases in the audit requirements for fire districts over a three-year period. For fire districts with revenues of \$1 million or more (excluding bond/note proceeds), the audit requirements begin for the fiscal year ending in 2006. Districts with revenues over \$500,000 but less than \$1 million will be required to obtain an audit for fiscal year ending in 2007. Districts with revenues between \$200,000 and \$500,000 must obtain an audit for the fiscal year ending in 2008. The cost of obtaining this audit is excluded from the district's spending limit. Those districts with less than \$200,000 in revenues are not required to obtain an independent audit, but they are required to report to OSC the district's financial condition and resources for the fiscal year ending in 2006 and other such things as designated by the State Comptroller. Details of additional required information will be provided in an upcoming bulletin.

All fire district audits must be conducted in accordance with standards applicable to financial audits prescribed in the Government Auditing Standards issued by the Comptroller General of the United States. Beginning January 1, 2007, all districts must use a request for proposals (RFP) process when contracting for annual audits. OSC strongly encourages districts to begin using an RFP process immediately, and will be providing districts with an RFP template in the near future to assist them.

Beginning January 1, 2007, no audit contract may be for a term exceeding five consecutive years. Districts without an existing multi-year contract must issue an RFP before signing a new audit contract. If a district has an existing multi-year contract for a fixed term, it may continue to obtain audits under that contract for the duration of its term without issuing an RFP, but the district must issue an RFP upon expiration of the contract. A district may permit an auditor that is engaged under an existing contract to submit a proposal and can award the new contract to that auditor. However, boards should consider the appropriateness of changing the audit firm or partner to ensure independence and provide a fresh financial perspective.

OSC does not mandate local governments to fulfill their statutory filing requirement in accordance with Generally Accepted Accounting Principles (GAAP) and will continue to accept the annual financial reports with fund level statements in accordance with the USA. To minimize the costs associated with complying with these new audit requirements, districts that prepare their financial statements in conformity with the USA, an other comprehensive basis of accounting (OCBOA) prescribed by OSC, may be audited in accordance with Statement of Auditing Standards No. 62 to meet this new auditing requirement. Districts that have adopted GAAP financial reporting may continue to have their GAAP financial statements audited.

The new law requires all audit reports to be sent to OSC within 180 days following the end of the fiscal year. Districts are also required to prepare a corrective action plan within 90 days in response to any findings contained in the annual external audit report or management letter, or any audit report issued by OSC.

Additional Information

If you have questions pertaining to this bulletin, please contact the State Comptroller's regional office that serves your fire district. A listing of regional offices is enclosed.

- End of Bulletin -