

Trust Compliance Quick Guide

Maintaining accurate trust accounts is a legal requirement under Arizona statutes. Use this guide to ensure your property management firm remains in compliance with Department's requirements.

Legal Requirements & Statutes

- **A.R.S. §32-2174 (A)**: All property management accounts must be designated as trust accounts on the broker's records.
- **A.R.S. §32-2174 (D)**: Monies not subject to dispute or contingency must be deposited into the trust account within three banking days of receipt.
- **A.R.S. §32-2151 (A)**: Funds must be kept in a neutral escrow depository or a federally insured account in a depository located within Arizona.
- **A.R.S. §32-2151 (B)(3)**: Brokers are required to complete a monthly reconciliation between trust fund bank statements, client ledgers, and the trust fund account ledgers.

The Three-Way Reconciliation Formula

The core purpose of a trust account is for the broker to hold funds for owners and tenants. For a successful reconciliation, the following formula must always be true:

Adjusted Bank Balance = Owner Funds + Tenant Funds + Broker Funds

- **Adjusted Bank Balance**: Calculated as the Ending Bank Statement Balance + Uncleared Deposits - Outstanding Checks/Withdrawals.
- **Liabilities**: Total funds held for all owners and tenants, as verified by individual client ledgers.

The Fiduciary and Trustee Duties owed to Clients

The property manager owns a Real Estate Fiduciary and Trustee duty to their client. This includes:

- Acting with Care
- Disclosure
- Acting in Good Faith
- Loyalty
- Prudence
- Transparency
- Avoiding Conflicts of Interest
- Keeping Good and Accurate Records
- Keeping Trust Funds Separate from other Funds
- Providing Accounting of Financial and Physical Assets to the Client/Beneficiary
- Manage Trust Funds and Property Assets to Align with the Client/Beneficiary's Goals
- To Protect the Trust Account Funds (entitling the Trust Bank Account as Trust Account, For the Benefit of, etc.)

You may use the Department's Property Management Trust Account Reconciliation Form. The form can be located under the Auditing & Investigation Forms menu at www.azre.gov.



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Critical Compliance Red Flags

The Department may take disciplinary action for commingling or conversion of funds.

- **Overfunding:** An indication of **commingling** (mixing personal/brokerage funds with client funds), in violation of [A.R.S. §32-2153 \(A\)\(16\)](#).
- **Underfunding:** An indication of **conversion** (using one client's funds for another or for the broker's use), in violation of [A.R.S. §32-2153 \(A\)\(16\)](#).
- **Negative Owner Balances:** These cannot be used to offset other liabilities and are considered an indication of conversion, in violation of [A.R.S. §32-2153 \(A\)\(16\)](#).
- **Managing Outstanding Items:** The Department disallows outstanding deposits older than one month and outstanding checks older than nine months. If these items exist, brokers should resolve them immediately and perform a new reconciliation to meet Department standards.



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