

# 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:

<ul style="list-style-type: none"><li>• Acting with Care</li><li>• Disclosure</li><li>• Acting in Good Faith</li><li>• Loyalty</li><li>• Prudence</li><li>• Transparency</li><li>• Avoiding Conflicts of Interest</li><li>• Keeping Good and Accurate Records</li></ul>	<ul style="list-style-type: none"><li>• Keeping Trust Funds Separate from other Funds</li><li>• Providing Accounting of Financial and Physical Assets to the Client/Beneficiary</li><li>• Manage Trust Funds and Property Assets to Align with the Client/Beneficiary's Goals</li><li>• To Protect the Trust Account Funds (entitling the Trust Bank Account as Trust Account, For the Benefit of, etc.)</li></ul>
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**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](http://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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