

Exhibit H

Audit Threshold and Attestation Requirements

Topic:

During the 2013 legislative session, the threshold which triggers the requirement for a relief association to be audited was changed. Now, only relief associations “with assets of at least \$500,000 or liabilities of at least \$500,000 in the prior year or in any previous year” are required to have an audit report. (Minn. Stat. § 69.051, subd. 1.) Previously, relief associations with assets or liabilities of at least \$200,000 were required to have an audit report.

Several items related to the audit threshold change have arisen that the Office of the State Auditor would like to bring to the Working Group’s attention:

- 1) Relief associations that fall below the \$500,000 threshold are required to have their financial reporting form attested to by an accountant. The level of review required by the accountant is not clearly defined in the statute and the terminology should be updated to match current accounting standards.
- 2) Relief associations that are not audited are filing their reporting forms with the Office of the State Auditor late.
- 3) The statute that requires accountants to report evidence of theft or other misconduct that is discovered during the course of auditing a relief association does not clearly apply to accountants who are performing an attestation rather than an audit.

Reporting Information:

Relief associations with assets and liabilities that do not reach the audit threshold are required to have their financial reporting form attested to by an accountant. (Minn. Stat. § 69.051, subd. 1a.) The reporting forms and attestation are due to the Office of the State Auditor annually by March 31.

Relief associations with assets or liabilities above the audit threshold are required to submit their reporting forms and audit report to the Office of the State Auditor annually by June 30. After a relief association exceeds the new audit threshold, it maintains the audit requirement and the June 30 reporting deadline, even if the association’s assets and liabilities subsequently drop below the threshold.

Reporting Practice:

The number of relief associations required to have an audit and the number of relief associations required to have an attestation for the past several reporting years are listed below. The 2013 reporting year is the first year that the new \$500,000 threshold is in effect.

| Reporting Year | Attestation Only Required | Audit Required |
|----------------|---------------------------|----------------|
| 2013 | 446 | 210 |
| 2012 | 202 | 482 |
| 2011 | 225 | 488 |
| 2010 | 225 | 492 |
| 2009 | 244 | 473 |
| 2008 | 247 | 470 |
| 2007 | 256 | 461 |
| 2006 | 287 | 428 |
| 2005 | 322 | 392 |

A summary of form submission trends for the 2012 and 2013 reporting years are provided below. The majority of relief associations that have the attestation requirement instead of being audited filed their annual reporting forms to the Office of the State Auditor late, with about 45 percent of the associations in both years filing at least two months late. In contrast, relief associations with the audit requirement were much more likely to file early or on time. Late reporting may result in a relief association's receipt of its fire state aid to be delayed, which in turn results in missed investment opportunities.

2012 Reporting Year

| Attestation Only Required | | Audit Required | |
|---------------------------|------------------|------------------------|------------------|
| Days Early/Late | Percent of Plans | Days Early/Late | Percent of Plans |
| At Least 30 Days Early | 2% | At Least 30 Days Early | 15% |
| 0 to 30 Days Early | 16% | 0 to 30 Days Early | 33% |
| 1 to 30 Days Late | 27% | 1 to 30 Days Late | 26% |
| 31 to 60 Days Late | 10% | 31 to 60 Days Late | 10% |
| 61 to 90 Days Late | 5% | 61 to 90 Days Late | 5% |
| At Least 91 Days Late | 40% | At Least 91 Days Late | 11% |

2013 Reporting Year

| Attestation Only Required | | Audit Required | |
|---------------------------|------------------|------------------------|------------------|
| Days Early/Late | Percent of Plans | Days Early/Late | Percent of Plans |
| At Least 30 Days Early | 0% | At Least 30 Days Early | 20% |
| 0 to 30 Days Early | 26% | 0 to 30 Days Early | 42% |
| 1 to 30 Days Late | 18% | 1 to 30 Days Late | 14% |
| 31 to 60 Days Late | 12% | 31 to 60 Days Late | 14% |
| 61 to 90 Days Late | 9% | 61 to 90 Days Late | 5% |
| At Least 91 Days Late | 35% | At Least 91 Days Late | 5% |

Statutes and Optional Changes:

69.051 FINANCIAL REPORT, BOND, EXAMINATION.

Subdivision 1. Financial report and audit. (a) The board of the Bloomington Fire Department Relief Association and each volunteer firefighters relief association as defined in section 424A.001, subdivision 4, with assets of at least \$500,000 or liabilities of at least \$500,000 in the prior year or in any previous year, according to the applicable actuarial valuation or according to the financial report if no valuation is required, shall prepare a financial report covering the special and general funds of the relief association for the preceding fiscal year, file the financial report, and submit financial statements.

(b) The financial report must contain financial statements and disclosures which present the true financial condition of the relief association and the results of relief association operations in conformity with generally accepted accounting principles and in compliance with the regulatory, financing and funding provisions of this chapter and any other applicable laws. The financial report must be countersigned by:

(1) the municipal clerk or clerk-treasurer of the municipality in which the relief association is located if the relief association is a firefighters relief association which is directly associated with a municipal fire department; or

(2) by the municipal clerk or clerk-treasurer of the largest municipality in population which contracts with the independent nonprofit firefighting corporation if the volunteer firefighter relief association is a subsidiary of an independent nonprofit firefighting corporation and by the secretary of the independent nonprofit firefighting corporation; or

(3) by the chief financial official of the county in which the volunteer firefighter relief association is located or primarily located if the relief association is associated with a fire department that is not located in or associated with an organized municipality.

(c) The financial report must be retained in its office for public inspection and must be filed with the governing body of the government subdivision in which the associated fire department is located after the close of the fiscal year. One copy of the financial report must be furnished to the state auditor after the close of the fiscal year.

(d) Audited financial statements must be attested to by a certified public accountant or by the state auditor and must be filed with the state auditor within 180 days after the close of the fiscal year. The state auditor may accept this report in lieu of the report required in paragraph (c).

Subd. 1a. Financial statement. (a) The board of each volunteer firefighters relief association, as defined in section 424A.001, subdivision 4, that is not required to file a financial report and audit under subdivision 1 must prepare a detailed statement of the financial affairs for the preceding fiscal year of the relief association's special and general funds in the style and form prescribed by the state auditor. The detailed statement must show:

- (1) the sources and amounts of all money received;
- (2) all disbursements, accounts payable and accounts receivable;
- (3) the amount of money remaining in the treasury;
- (4) total assets, including a listing of all investments;

(5) the accrued liabilities; and

(6) all other items necessary to show accurately the revenues and expenditures and financial position of the relief association.

(b) The detailed financial statement required under paragraph (a) must be reviewed pursuant to nationally recognized standards for accounting and review services ~~certified~~ by a certified public accountant or by the state auditor. In addition to certifying the financial condition of the special and general funds of the relief association, the accountant or auditor conducting the review examination ~~shall give an opinion as to the condition of the special and general funds of the relief association,~~ and shall comment upon any exceptions to the report. The accountant must have at least five years of public accounting, auditing, or similar experience, and must not be an active, inactive, or retired member of the relief association or the fire department.

(c) The detailed statement required under paragraph (a) must be countersigned by:

(1) the municipal clerk or clerk-treasurer of the municipality; or

(2) where applicable, by the municipal clerk or clerk-treasurer of the largest municipality in population which contracts with the independent nonprofit firefighting corporation if the relief association is a subsidiary of an independent nonprofit firefighting corporation and by the secretary of the independent nonprofit firefighting corporation; or

(3) by the chief financial official of the county in which the volunteer firefighter relief association is located or primarily located if the relief association is associated with a fire department that is not located in or associated with an organized municipality.

(d) The volunteer firefighters' relief association board must file the detailed statement required under paragraph (a) in the relief association office for public inspection and present it to the governing body of the municipality within 45 days after the close of the fiscal year, and must submit a copy of the detailed statement to the state auditor within 90 days of the close of the fiscal year.

(e) A certified public accountant or auditor who performs the review under paragraph (b) is subject to the reporting requirements of section 6.67.