

Attachment 2: Financial Reporting Requirements

Each special community benefit district (SCBD) that received tax funds during the fiscal year or held tax funds from a prior year is required to file an annual financial report. The following information provides the financial reporting requirements for the district's financial report. The County Controller will not disburse funds to any district that has not filed its annual financial report with the County Auditor.

Table of Contents:

1. Terminology
2. Balance Sheet Guidance
3. Statement of Revenues, Expenditures, and Changes in Fund Balance Guidance
4. Notes to the Financial Statements Guidance
5. Audit Requirements

1. Terminology

The following terms are used in this attachment:

- **Annual Report** – This submission includes the required financial statements including a Balance Sheet (Statement of Assets, Liabilities, and Fund Balance); Statement of Revenues, Expenditures, and Changes in Fund Balance; and Notes to the Financial Statements and any required audit report.
- **Basis of Accounting:**
 - **Accrual Basis** – Revenue and related assets are recognized when earned, regardless of when received, and expenditures are recognized when incurred, regardless of when paid.
 - **Cash Basis** – Revenue and related assets are recognized when received, regardless of when earned, and expenditures are recognized when paid, regardless of when the obligation is incurred.
- **Due Date** – Financial reports must be filed with the Office of the County Auditor by September 28, 2023. State law does not provide any extension to this deadline.
- **Fiscal Year 2023 (FY23)** – the period from July 1, 2022 to June 30, 2023.
- **Loan Agreement** – If the community association entered into a written loan instrument pledging tax funds in future years to repay the debt, then the community association must obtain the County Council's approval of the loan by ordinance. If the community association has not pledged future tax revenues to repay the debt, then the County Council's approval is not required.

2. Balance Sheet Guidance

The Balance Sheet guidance is specific for each accounting methodology:

- **Cash Basis Balance Sheet** (Example on “Balance Sheet” tab of Attachment 4)
 - **Assets**
 - **Cash Held by Community** – This includes checking accounts, savings accounts, investment accounts, petty cash funds, and reserve funds that hold district funds. You may list each account separately or list them in total.
 - **Cash Held by County** – This amount must equal the ending cash balance on the Office of Finance’s statement as of 6/30/23. This is labeled as **(D)** in Attachment 3.
 - **Deposits in Transit** (if applicable) – The expenditure column of the Office of Finance Statement includes all distributions to the entity. If all distributions were not received and deposited into your district account before June 30, 2023, report them as an asset titled “Deposits in Transit.” For example, item **(F)** in Attachment 3 refers to an undeposited distribution.
 - **Fund Balance** – represents the district’s net assets. For cash basis, the fund balance should equal the total assets. Also, the fund balance on the Balance Sheet must equal the ending fund balance on the Statement of Revenues, Expenditures, and Changes in Fund Balance.
- **Accrual Basis Balance Sheet** (Example on “Balance Sheet” tab of Attachment 5)
 - **Assets**
 - **Cash Held by Community** – Same as cash basis guidelines above.
 - **Cash Held by County** – Same as cash basis guidelines above.
 - **Deposits in Transit** (if applicable) – Same as cash basis guidelines above.
 - **Taxes Receivable** – This amount must equal the ending taxes receivable balance on the Office of Finance’s statement. This is labelled as **(C)** in Attachment 3.
 - **Other Receivables** – This amount would be any non-tax revenue earned but not yet received.
 - **Liabilities**
 - **Accounts Payable** – This includes expenditures incurred by the community but not yet paid as of June 30, 2023. For example, the district grass was mowed in June 2023, but this invoice was not paid until July 2023. The invoice amount is included as an account payable in this section.

- **Fund Balance** must equal total assets minus total liabilities. Also, the fund balance on the Balance Sheet must equal the ending fund balance on the Statement of Revenues, Expenditures, and Changes in Fund Balance.
- **The following items should not be reported on the District’s Balance Sheet**
 - **Assets**
 - **Real Estate** – The district is not a legal entity and thus cannot own property. The administering entity generally owns any community property.
 - **Furniture, Fixtures, and Equipment** – These types of items should be expensed when purchased, provided they are an allowable expense for the district and are not maintained as an asset on the district’s Balance Sheet.
 - **Liabilities**
 - **Loans** – Do not report loans entered into by the administering entity as a liability on the Balance Sheet, even if the loan proceeds are to be used for district purposes and repaid with district tax funds.

3. Statement of Revenues, Expenditures, and Changes in Fund Balance Guidance

The Statement of Revenues, Expenditures, and Changes in Fund Balance guidance is specific for each accounting methodology:

- **Cash Basis Statement of Revenues, Expenditures, and Changes in Fund Balance**
(Example on “Income Statement” tab of Attachment 4)
 - **Revenues**
 - **Property Tax Revenue** – The Actual Revenue column in the Office of Finance Spreadsheet represents the taxes assessed during the fiscal year. Actual Revenue **(A)** is shown as a negative number, but it represents positive revenue
 - Using the information provided on the Office of Finance spreadsheet, the cash basis revenues equals:
Total Actual Revenue (current year taxes assessed) **(A)**
+ Beginning Balance of Taxes Receivable (last year’s assessed taxes collected this year) **(B)**
– Ending balance of Taxes Receivable (this year’s taxes assessed but not collected) **(C)**

= Cash Basis Revenue (actual amount collected by the County during the year.)
 - **Interest Revenue** – Interest received or credited on all district funds during the reporting period.
 - **Other Revenue** – Other sources of revenue, such as rental income or advertising revenue no longer need to be reported, however, if you choose to do so, then those revenues are subject to appropriation and all other

requirements for SCBD tax revenue. This should not include revenue that belongs to the administering entity (e.g., profit from selling real estate, etc.). SCBD accounts should only be used for SCBD tax revenues, however, all co-mingled funds must be reported.

○ **Expenditures**

- **Budget to Actual Comparison of District Expenditures** – You must show a comparison of the budgeted expenditures to actual expenditures, by expenditure category.
 - Please ensure your budget amounts reconcile to the budget adopted for your district by the County Council, including funds escrowed for future projects and the County administrative fee.
 - Please remember that the budget adopted by the County Council includes the amounts budgeted for funds held for future use and the County Administrative Fee. These amounts should be reported in the budget column. The actual expenditures column for Funds Held for Future Use will always be \$0. If you end up spending funds you had budgeted to hold or save for future use, include the actual expenditure in the appropriate expenditure category for that expense (e.g., maintenance of community property).
- **Expenditure Categories:** Expenditure categories will vary depending on the purposes of the district, however, the following are additional categories to consider that may be necessary:
 - **Payments to Third Parties** – Any expenditure made directly by the County to a third party on the district’s behalf (for example, loan payments) should be included in the Expenditures section.
 - **County Administrative Fee** – The County Administrative Fee is shown on the Office of Finance's statement in the Expenditures column and should be included in the Expenditures section (shown as **(E)** in Attachment 3).
 - **Legal Fees** – Should be listed as a separate expenditure category in the financial statements, regardless of whether they are listed separately in the purposes of the district or the district’s budget request.
 - **Loan Payments** – Should be listed as a separate expenditure category in the financial statements, regardless of whether they are listed separately in the purposes of the district or the district’s budget request. This category should include both principal and interest payments on the loan, including loan repayments disbursed directly by the County to the lender on the district’s behalf.

- **Changes in Fund Balance**

- **Beginning Fund Balance** – The beginning fund balance as of July 1, 2022 must equal the ending fund balance as of June 30, 2022 on the prior year’s Balance Sheet. If there was an error in the ending fund balance reported on the prior year financial statements, a category titled Prior Period Adjustment should be added to the Changes in Fund Balance section for the amount of the correction. All prior period adjustments must include an explanation in the Notes to the Financial Statements (see guidelines below).
- **Changes in Fund Balance** must equal total revenue minus total expenditures. If revenues exceed expenditures, this is a positive amount added to the beginning fund balance. If expenditures exceed revenues, this is a negative amount subtracted from the beginning fund balance.
- **Ending Fund Balance** – The ending fund balance as of June 30, 2023 must equal:
$$\begin{array}{l} \text{Beginning Fund Balance} \\ +/- \text{ Change in Fund Balance} \\ +/- \text{ Prior Period Adjustments (if applicable)} \\ = \text{Ending Fund Balance} \end{array}$$

Please note that the ending fund balance on the Statement of Revenue, Expenditures, and Changes in Fund Balance must equal the fund balance on the Balance Sheet.

- **Accrual Basis Statement of Revenues, Expenditures, and Changes in Fund Balance**
(Example on “Income Statement” tab of Attachment 5)

- **Revenues**

- **Property Tax Revenue** – If you use the accrual basis of accounting to report your transactions, all taxes assessed by the County on behalf of the district are revenue in the year assessed, regardless of whether the taxes are collected by the County or disbursed to the district. The accrual basis revenues equal the total in the Actual Revenue column on the Office of Finance’s statement. This is shown as (A) in Attachment 3.
- **Interest Revenue** – Interest earned on all district accounts during the reporting period, regardless of when you received the interest.
- **Other Revenue** – Other sources of revenue, such as rental income or advertising revenue no longer need to be reported, however, if you choose to do so, then those revenues are subject to appropriation and all other requirements for SCBD tax revenue. This should not include revenue that belongs to the administering entity (e.g., profit from selling real estate, etc.). SCBD accounts should only be used for SCBD tax revenues, however, all co-mingled funds must be reported.

- **Expenditures**
 - Same as cash basis guidelines above except that all expenditures must be recorded in the year incurred, regardless of when paid.
- **Changes in Fund Balance**
 - Same as cash basis guidelines above.

4. Notes to the Financial Statements Guidance

(Examples on “Notes to the Financial Stmts” tab of Attachments 4 and 5 for Cash Basis and Accrual Basis, respectively)

- **Note 1 – Summary of Significant Accounting Policies**
 - Reporting Entity – a description including the district name, a statement that the district is a taxing district of Anne Arundel County, and the name of the entity responsible for administering the district (typically the community association); the purpose of the district as disclosed in the Anne Arundel County Code § 4-7-204.
 - Basis of Accounting – must include an explanation of the basis of accounting used to prepare the financial statements (cash or accrual).
- **Potential Additional Note – Loan Obligations**
 - Must include information about loans, if applicable. The administering entity for the district may enter into loan agreements to borrow funds on behalf of the district for large projects. These loans are repaid with district taxes. If district funds or appropriations are insufficient to cover exiting expenditures, the administering entity or community members may loan funds directly to the district. The required information in the notes for loan obligations are dependent upon the type of loan. The required information is as follows:
 - For all loan obligations, the note must include:
 - The date of the loan, the original amount of the loan, and the name of the financial institution that granted the loan;
 - The amounts and purposes for which the loan proceeds were disbursed during the fiscal year;
 - The principal and interest payments made during the fiscal year; and
 - The loan balance in the beginning of the year and the outstanding balance of the loan on June 30, 2023.
 - If district tax revenues were pledged as collateral for a loan, a statement to that effect along with a statement that the County Council approved the

loan, referencing the related bill or resolution number, or a statement indicating that the administering entity did not pledge the district tax revenues as collateral for the loan.

- The receipt or disbursement of loan proceeds from loans entered into by the administering entity or the related asset or liability should only be disclosed in the Notes to the Financial Statements, not on the district Balance Sheet or Statement of Revenues, Expenditures and Changes in Fund Balance.

- **Potential Additional Note – Prior Period Adjustments**

- Must include information about prior period adjustments if applicable. These may include errors discovered on financial statements for prior reporting periods that impact the current reporting period.

- **Potential Additional Note – Noncompliance**

- Must include information about noncompliance if applicable. This should include a note explaining any noncompliance with state or local laws, including commingling of funds with non-district funds or unallowable use of district funds that do not meet the purposes of the district. The note should explain the details of the noncompliance and resolution.

5. Audit Requirements

- Districts with expenditures of less than \$250,000 are required to have an audit every four years. The audit is only required of the financial statements for the fourth year, not an audit of the financial statements for all four years. Districts with expenditures of more than \$250,000 must have an annual audit.
- The district's audit may be performed by either an independent certified public accountant (CPA) or an audit committee approved by the Office of the County Auditor prior to the commencement of the audit.
- To obtain approval for the use of an audit committee, email your request to oca-scbd@aacounty.org or submit a written request to: Michelle Bohlayer, County Auditor Office of the County Auditor, 60 West Street, Suite 405, Annapolis, MD 21401 using the request template included as Attachment 6. The request must include the names of the proposed audit committee members; the proposed members' addresses, phone numbers, and email addresses; a statement of their relationship to the community association (i.e., member, past officer, etc.) and a statement of their relationships to any community association board members. The audit committee may not include individuals who currently serve on the community association's Board of Directors (Board) or served during the fiscal year under

audit. Also, the audit committee may not include individuals who are, or were, immediate relatives of current Board members or the Board members in office during the year under audit. The request must state affirmatively that the proposed members meet those requirements.

- Auditing Standards
 - Independent CPA
 - CPAs are required to provide two opinions:
 - An opinion on whether the SCBD's financial statements are fairly stated in all material respects based on an audit conducted in accordance with generally accepted auditing standards.
 - An opinion on management's assertion about compliance with state and County laws. The independent auditor may refer to Statements on Standards for Attestation Engagements (SSAE) No. 18 (AT-C Section 315) for specific guidance and reporting requirements for compliance attestation engagements.
 - The independent auditor's report should follow standard report language promulgated by the AICPA.
 - Audit Committee
 - Audit committees are not required to perform audits in accordance with generally accepted auditing standards. Audit committees perform the procedures they deem necessary to support their conclusions on whether the SCBD's financial statements are accurate and tax funds were received, deposited, and disbursed in accordance with approved appropriations and state and County laws.
 - Audit committees are required to submit one report. This report should address the audit committee's conclusion on the accuracy of the financial statements and the SCBD's compliance with state and County laws.
 - An example of an audit committee report is provided in Attachment 7. If the audit committee concludes that the financial statements are not accurate or that tax funds were not received, deposited, and disbursed in accordance with approved appropriations and state and County laws, the committee should modify the language in the report accordingly.