

# Financial Emergency Guidelines

## Financial Emergency Definition

Section 218.503(1), Florida Statutes, states that local governmental entities shall be subject to review and oversight by the Governor when any one of the following conditions occurs:

- (a) Failure within the same fiscal year in which due to pay short-term loans or failure to make bond debt service or other long-term payments when due, as a result of a lack of funds.
- (b) Failure to pay uncontested claims from creditors within 90 days after the claim is presented, as a result of a lack of funds.
- (c) Failure to transfer at the appropriate time, due to lack of funds:
  - 1. Taxes withheld on the income of employees; or
  - 2. Employer and employee contributions for
    - a. Federal social security; or
    - b. Any pension, retirement, or benefit plan of an employee
- (d) Failure for one pay period to pay, due to lack of funds:
  - 1. Wages and salaries owed to employees; or
  - 2. Retirement benefits owed to former employees.

Pursuant to Section 218.503(2), Florida Statutes, whenever it is determined by a local governmental entity that one or more of the above conditions have occurred or will occur if action is not taken to assist the local governmental entity, the local governmental entity shall notify the Governor and the Legislative Auditing Committee. Upon notification that one or more of the above conditions have occurred or will occur if action is not taken to assist the local government, the Governor or his or her designee shall contact the local governmental entity to determine what actions have been taken by the local governmental entity to resolve or prevent the condition. The Governor shall determine whether the local governmental entity needs State assistance to resolve or prevent the condition. If State assistance is needed, the local governmental entity is considered to be in a state of financial emergency.

## Potential Financial Emergency Conditions - Reporting in Management Letter

In accordance with Section 10.554(1)(i)5.a., Rules of the Auditor General, management letters issued in conjunction with audits performed of local governmental entities are required to include a statement describing the results of the auditor's determination as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. [See also Section 10.558(1), Rules of the Auditor General] If the local governmental entity meets one or more of the conditions described in Section 218.503(1), Florida Statutes, the management letter should also indicate whether such condition resulted from a deteriorating financial condition.

## Financial Condition Assessment - Detecting Deteriorating Financial Conditions

Section 10.556(8), Rules of the Auditor General, requires that the scope of the audit include the use of financial condition assessment procedures, based on the auditor's professional judgment, to assist the auditor in the detection of deteriorating financial conditions pursuant to Section 218.39(5), Florida Statutes. Example financial condition assessment indicators and related procedures developed by the Auditor General are available on the [Auditor General Web site](#). Local governmental entity auditors may incorporate the example indicators and related procedures into the methodology they deem appropriate to carry out their responsibilities pursuant to Section 218.39(5), Florida Statutes. The financial condition assessment should be done as of the fiscal year end; however, the auditor shall give consideration to subsequent events, through the date of the audit report that could significantly impact the local governmental entity's financial condition.

Pursuant to Section 10.554(1)(i)5.c., Rules of the Auditor General, the management letter must include the following information regarding the auditors application of financial condition assessment procedures pursuant to Section 10.556(8), Rules of the Auditor General:

- A statement that the auditor applied financial condition assessment procedures pursuant to Section 10.556(8), Rules of the Auditor General.
- If deteriorating financial conditions are noted, a statement that the local governmental entity's financial condition is deteriorating and a description of conditions causing the auditor to make this conclusion. If the auditor has reported that the local governmental entity has met one or more of the conditions specified in Section 218.503(1), Florida Statutes, this statement shall indicate whether such condition resulted from a deteriorating financial condition. Findings regarding deteriorating financial condition shall be prepared in accordance with Section 10.557(4)(b), Rules of the Auditor General.

Additionally, pursuant to Section 218.39(5), Florida Statutes, the auditor must notify each member of the governing body for which: (1) deteriorating financial conditions exist that may cause a condition described in Section 218.503(1), Florida Statutes, and (2) a fund balance deficit in total or for that portion of a fund balance not classified as restricted, committed, or nonspendable, or a total or unrestricted net assets deficit, as reported on the fund financial statements of entities required to report under governmental financial reporting standards or on the basic financial statements of entities required to report under not-for-profit financial reporting standards, for which sufficient resources of the local governmental entity, charter school, charter technical career center, or district school board, as reported on the fund financial statements, are not available to cover the deficit. Resources available to cover reported deficits include fund balance or net assets that are not otherwise restricted by federal, state, or local laws, bond covenants, contractual agreements, or other legal constraints. Property, plant, and equipment, the disposal of which would impair the ability of a local governmental entity, charter school, charter technical career center, or district school board to carry out its functions, are not considered resources available to cover reported deficits.