

**REPORT ON SIGNIFICANT FINANCIAL  
TRENDS AND FINDINGS  
IDENTIFIED IN LOCAL GOVERNMENTAL  
ENTITY 2012-13 FISCAL YEAR  
AUDIT REPORTS  
AND  
ANNUAL FINANCIAL REPORTS**

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# REPORT ON SIGNIFICANT FINANCIAL TRENDS AND FINDINGS IDENTIFIED IN LOCAL GOVERNMENTAL ENTITY 2012-13 FISCAL YEAR AUDIT REPORTS AND ANNUAL FINANCIAL REPORTS

## EXECUTIVE SUMMARY

This report provides a summary of significant financial trends and findings identified in local governmental entity audit reports prepared by independent certified public accountants and submitted to us, annual financial reports for unaudited entities submitted to the Florida Department of Financial Services, and other information for the 2012-13 fiscal year.

### Significant Financial Trends

- Our review of 1,297 local governmental entity 2012-13 fiscal year audit reports submitted to us as of September 30, 2014, disclosed the following:
  - Eighty-two (including 76 community development districts) were reported as meeting one or more of the conditions specified in Section 218.503(1), Florida Statutes,<sup>1</sup> which could result in these entities being declared to be in a state of financial emergency. The number of entities reported as meeting one or more of the specified conditions, while decreasing in recent years, significantly increased over the past five years.
  - Eighty-seven (including 64 community development districts) were reported as experiencing deteriorating financial conditions. The number of entities reported as experiencing deteriorating financial conditions decreased by 13 percent over the past five years.
- Our review of 445 community development district (CDD) 2012-13 fiscal year audit reports submitted to us as of September 30, 2014, disclosed that 110 reports contained indications of serious financial difficulties, indicating a potential need for parameters or additional oversight for CDD bond issues. Indications of financial difficulties identified in the 110 CDD audit reports included one or more of the following:
  - Ninety-five CDDs reported a net unassigned and assigned fund balance/unrestricted net position deficit as of September 30, 2013.
  - Seventy-five CDDs failed to make one or more scheduled bond debt service payments due to lack of funds (the condition specified in Section 218.503(1)(a), Florida Statutes).
  - Nineteen CDDs failed to pay uncontested claims from creditors within 90 days due to lack of funds (the condition specified in Section 218.503(1)(b), Florida Statutes).
  - For 63 CDDs, a developer or significant landowner failed to provide funding to the CDD for operational or debt service purposes.
  - For 50 CDDs, a developer or significant landowner filed for bankruptcy protection, foreclosure proceedings had been initiated, or agreements had been reached in lieu of foreclosure on CDD properties.
- Although taxable property values and taxes levied increased in 2013, there has been a significant decrease over the past six years. From 2007 through 2013, taxable property values decreased by approximately \$493 billion (27 percent) and \$71 billion (9 percent) for counties and municipalities, respectively. Taxes levied decreased by approximately \$1.6 billion (19 percent) for counties, and increased by approximately \$330 million (11 percent) for municipalities, over the same period. Contributing factors to the decline in county taxes levied include lower taxable property values, reductions in millage rates, and 2007 and 2008 legislation that limited the ad valorem revenue-raising

<sup>1</sup> All statutory references are to the 2013 Florida Statutes, except when otherwise noted.

capabilities of local governmental entities. Although these factors also affected municipalities, the overall increase in taxes levied for municipalities was due to increased ad valorem millage rates.

- Of 373 local governmental entity local pension plans (i.e., not part of the Florida Retirement System) that reported a funded ratio as of October 1, 2012, 227 (61 percent) had a funded ratio under 80 percent, and 48 (13 percent) had a funded ratio under 60 percent. This represents an improvement compared to the 235 (65 percent) local governmental entity local pension plans that reported a funded ratio under 80, and 61 (17 percent) local governmental entity local pension plans that reported a funded ratio under 60, as of October 1, 2011.
- Our review of 1,257 local governmental entity audit reports submitted to us as of July 31, 2014, and 182 local governmental entity annual financial reports, disclosed certain financial trends for numerous entities that may be indicative of deteriorating financial conditions, including high levels of ad valorem millage rates for lesser-populated counties; insufficient levels of unassigned/assigned fund equity; declining excess revenues over expenditures in governmental funds or decreasing operating incomes (or increasing operating losses) in proprietary funds; and low or declining levels of cash and investments, as compared to current liabilities.

### Significant Findings

- Our review of 2012-13 fiscal year audit reports for 1,579 entities (388 county agencies, 375 municipalities, and 816 special districts) submitted to us as of July 31, 2014, disclosed that 185 (12 percent) reported a significant deficiency(ies) and 222 (14 percent) reported a material weakness(es). The significant deficiencies and material weaknesses reported were primarily in the categories of separation of duties, general accounting records, and financial reporting.
- For many of the audit reports reviewed, the findings did not include one or more of the elements required by Chapter 10.550, Rules of the Auditor General.
- The 1,638 findings included in 2012-13 fiscal year audit reports was 217 (12 percent) less than the 1,855 findings included in 2011-12 fiscal year audit reports. In addition, of the 1,638 findings included in 2012-13 fiscal year audit reports reviewed, 675 were also included in the 2010-11 and 2011-12 fiscal year audit reports, compared to 748 audit findings reported in the 2011-12 audit reports that were also included in the 2010-11 and 2009-10 fiscal year audit reports. These decreases may, in part, be attributed to the requirement in Section 218.39(8), implemented in 2011, Florida Statutes, requiring the Auditor General to notify the Legislative Auditing Committee of local governmental entities that failed to take full corrective action in response to one or more recommendations included in the two preceding financial audit reports.

### Recommended Statutory and Fiscal Changes

- Considering the number of CDDs experiencing serious financial difficulties, the Legislature should consider amending Chapter 190 Florida Statutes, to establish parameters addressing the amount of bonds a CDD may issue and oversight responsibility for CDD bond issuances.

## BACKGROUND

Section 11.45(2)(g), Florida Statutes, establishes as one of the goals of the local government financial reporting system the timely, accurate, uniform, and cost-effective accumulation of financial and other information that can be used by the Legislature and other appropriate officials to improve the financial condition of local governments. Section 218.39(1), Florida Statutes, provides for local governmental entity audits to be performed by independent certified public accountants (CPAs). Section 218.39(5), Florida Statutes, requires that independent auditors notify local governmental entities of (1) deteriorating financial conditions that may cause a condition described in Section 218.503(1), Florida Statutes, to occur if actions are not taken to address such conditions or (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 for which sufficient resources of the local

governmental entity, as reported on the fund financial statements, are not available to cover the deficit. Chapter 10.550, Rules of the Auditor General, requires that the independent auditor's management letter include recommendations addressing deteriorating financial conditions disclosed by the audit.

Chapter 218, Part V, Florida Statutes, is entitled the "Local Governmental Entity, Charter School, Charter Technical Career Center, and District School Board Financial Emergencies Act." Section 218.503(2), Florida Statutes, requires a local governmental entity to notify the Governor and the Legislative Auditing Committee when one or more of the conditions specified in Section 218.503(1), Florida Statutes, has occurred or will occur if action is not taken to assist the entity. The local governmental entity's independent auditor is required by Chapter 10.550, Rules of the Auditor General, to state in the management letter whether or not the local governmental entity met one or more of the conditions specified in Section 218.503(1), Florida Statutes. Section 11.45(7)(e), Florida Statutes, requires us to notify the Legislative Auditing Committee and the Governor of any audit report reviewed that contains a statement that the local governmental entity met one or more of the specified conditions.

Section 11.45(7)(b), Florida Statutes, provides that we review, in consultation with the Florida State Board of Accountancy, all local governmental entity audit reports prepared by CPAs and submitted to us. If an entity is reported as meeting one or more of the conditions specified in Section 218.503(1), Florida Statutes, we also are required to notify the Governor and the Legislative Auditing Committee. The Governor is responsible for determining whether the local governmental entity needs State assistance to resolve the condition(s) and, if so, the entity is considered to be in a state of financial emergency.

Section 218.39(8), Florida Statutes, requires that we notify the Legislative Auditing Committee of local governmental entity audit reports that indicate that the local government failed to take full corrective action in response to a recommendation that was included in the two preceding financial audit reports.

Section 11.45(7)(f), Florida Statutes, requires that we annually compile and transmit to the President of the Senate, the Speaker of the House of Representatives, and the Legislative Auditing Committee a summary of significant financial trends and findings identified in local governmental entity audit reports and other information, such as annual financial reports for entities that are not required to provide for an audit.

## SIGNIFICANT FINANCIAL TRENDS

### Potential Financial Emergencies

Section 218.503(1), Florida Statutes, requires that local governmental entities be subject to review and oversight by the Governor if one or more specified conditions occur. These conditions include failure to pay short-term loans or make bond debt service payments when due as a result of a lack of funds; failure to pay uncontested claims from creditors within 90 days due to lack of funds; failure to transfer to the appropriate agencies, due to lack of funds, employee income taxes withheld or employer/employee contributions for Federal social security or an employee pension, retirement, or benefit plan; and failure to pay wages and salaries to employees due to a lack of funds. Section 10.554(1)(i)6.a., Rules of the Auditor General<sup>2</sup>, requires the auditor to state in the management letter whether or not the local governmental entity met one or more of the specified conditions.

Our review of the 1,297 local governmental entity 2012-13 fiscal year audit reports prepared by independent CPAs and received by us as of September 30, 2014, disclosed that a total of 82 entities (1 municipality and 81 special

<sup>2</sup> All Rules of the Auditor General references are to those effective September 30, 2013, except when otherwise noted.

districts) were reported as meeting one or more of the conditions specified in Section 218.503(1), Florida Statutes, which could result in these entities being declared to be in a state of financial emergency. Table 1 shows the number of local governmental entities reported as meeting one or more of the specified conditions for each of the past five fiscal years. As shown in Table 1, although the number of local governmental entities reported as meeting one or more of the specified conditions decreased the past two fiscal years, the 82 entities reported for the 2012-13 fiscal year is 47 (134 percent) more than the number reported for the 2008-09 fiscal year.

**Table 1**

Financial Emergency Condition	Fiscal Year				
	2008-09	2009-10	2010-11	2011-12	2012-13
Number of local governmental entities reported as meeting one or more of the below conditions.	35	86	92	90	82
Failure to pay short-term loans or make bond debt service payments when due as a result of lack of funds.	30	81	89	86	78
Failure to pay uncontested claims from creditors within 90 days due to lack of funds.	10	17	19	17	21
Failure to transfer to the appropriate agencies, due to lack of funds, employee income taxes withheld or employer/employee contributions for Federal social security or an employee pension, retirement, or benefit plan.	0	0	0	1	2
Failure to pay wages and salaries to employees due to lack of funds.	0	0	0	0	0

Source: Audit reports

As required by Section 10.554(1)(i)6.c.2., Rules of the Auditor General, if the auditor reported that the local governmental entity met one or more of the conditions specified in Section 218.503(1), Florida Statutes, the auditor was required to specify whether such condition was a result of deteriorating financial conditions. For 67 of the 82 entities reported as meeting one or more of the conditions as of September 30, 2013, the auditors indicated that the condition resulted from deteriorating financial conditions.

In addition to those entities that were reported as having met a condition in Section 218.503(1), Florida Statutes, as of September 30, 2013, we also reported to the Legislative Auditing Committee and the Governor a total of 3 entities (1 municipality and 2 special districts) for which either the notes to the financial statements or the auditors indicated a condition in Section 218.503(1), Florida Statutes, was met subsequent to September 30, 2013.

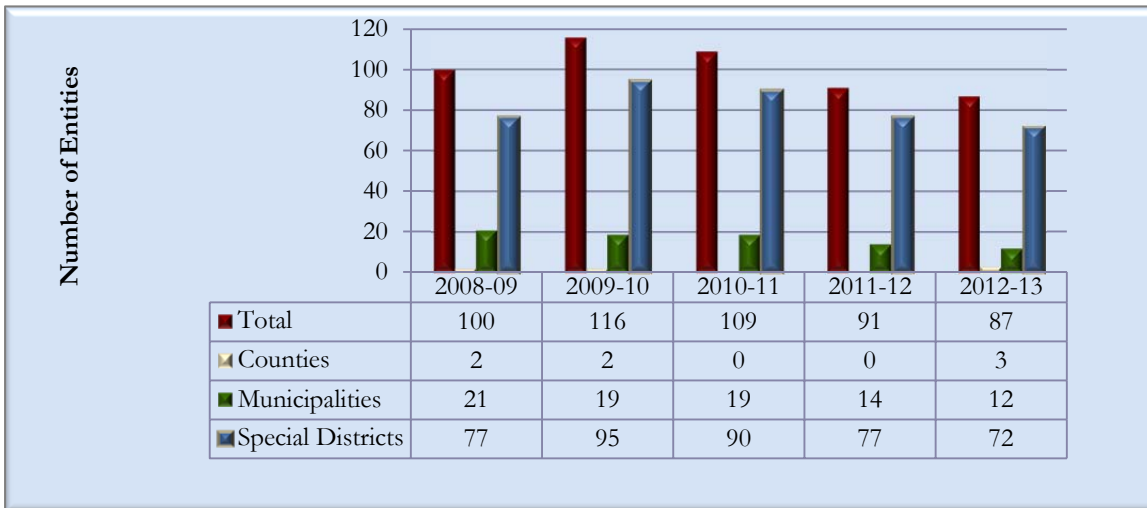
**Deteriorating Financial Conditions**

Section 218.39(5), Florida Statutes, requires auditors to notify local governmental entity officials or their designees when deteriorating financial conditions exist that may cause a condition described in Section 218.503(1), Florida Statutes, to occur if actions are not taken to address such conditions. Section 10.556(7), Rules of the Auditor General, requires auditors to use financial condition assessment procedures, and Section 10.554(1)(i)6.c.2., Rules of the Auditor General, requires auditors to report any deteriorating financial conditions noted as a result of the financial condition assessment. For example, a municipality’s failure to implement cost reductions or revenue enhancements to replenish fund equities and cash reserves may result in a condition specified in Section 218.503(1), Florida Statutes.

Auditors reported a total of 87 entities (3 counties, 12 municipalities and 72 special districts) as experiencing deteriorating financial conditions as of September 30, 2013. Table 2 shows the number of local governmental entities

reported as experiencing deteriorating financial conditions for the past five fiscal years. As shown in Table 2, the number of local governmental entities reported as experiencing deteriorating financial conditions for the 2012-13 fiscal year is 13 (13 percent) less than the number reported for the 2008-09 fiscal year.

**Table 2**



Source: Audit reports

**Community Development Districts**

The “Uniform Community Development District Act of 1980” (Act) authorized a uniform procedure in general law to establish an independent special district as an alternative method to manage and finance basic services for community development. A community development district (CDD) is a local unit of special-purpose government created pursuant to Chapter 190, Florida Statutes, and is limited to the performance of those specialized functions contained in the Act. A CDD is created primarily for the purpose of financing, and then operating and maintaining, communitywide improvements in new communities, such as roads, sidewalks, landscaping, and community recreational facilities. CDDs also have broad authority to finance, acquire, construct, operate, and maintain public improvements, such as water management, water supply, sewer, and wastewater management, subject to the regulatory jurisdiction and permitting authority of all applicable governmental bodies. A landowner (usually a developer) petitions the local government to create a CDD. To finance the provision of these services, CDDs have the authority to borrow money and issue bonds, certificates, warrants, notes, or other evidence of indebtedness, to levy tax and special assessments, and to charge, collect, and enforce fees and other user charges.

Section 190.016, Florida Statutes, authorizes CDDs to issue general obligation or revenue bonds as authorized by resolution or resolutions of the CDD board. Although the issuance of general obligation bonds is limited to 35 percent of the assessed value of the taxable property within the CDD, there is no limitation placed on the amount of revenue bonds CDDs may issue. Florida law does not provide for approval of the issuance of bonds by a State agency or other body. The majority of Florida CDDs issue revenue bonds, pledging special assessments on CDD property owners for repayment. As of September 30, 2013, Florida CDDs reported over \$5 billion in total debt according to annual financial report information for CDDs published by the Florida Department of Financial Services. Likely due to the recent housing market crisis, many CDDs are facing a financial crisis due to a lack of sufficient funds to make debt service payments on bonds or to pay obligations within 90 days. The lack of sufficient funds for newer CDDs appears to be primarily attributable to the failure of developers to provide funding. Developers are typically responsible for paying assessments on the unsold properties within a CDD and some have

agreements with CDDs to fund operations of the CDD for a certain time period. If the developer is unable to sell properties within the CDD for an extended period of time, the developer may lack sufficient funds to make the required payments. Many developers have filed for bankruptcy protection.

At September 30, 2013, there were 569 CDDs, and CDDs comprised 35 percent of all active special districts in Florida. Of the 569 active CDDs, 445 submitted 2012-13 fiscal year audit reports to us as of September 30, 2014,<sup>3</sup> (electronic copies of the CDDs’ audit reports are available on the Auditor General Web site at [www.myflorida.com/audgen/pages/specialdistricts%20a-c.htm](http://www.myflorida.com/audgen/pages/specialdistricts%20a-c.htm)).

As previously noted, there were 82 local governmental entities reported as meeting one or more of the conditions specified in Section 218.503(1), Florida Statutes, of which 76 (93 percent) were CDDs. Additionally, 2 CDDs were reported as not making their required debt service payments, subsequent to September 30, 2013. In our report No. 2010-113, we noted that 59 (14 percent) of the 419 2007-08 fiscal year CDD audit reports submitted to us indicated that the CDD was experiencing serious financial difficulties. Our review of the 445 2012-13 fiscal year CDD audit reports submitted to us disclosed that 110 (25 percent) contained indications of serious financial difficulties as shown on Exhibit A. Although audit reports for 6 CDDs that indicated serious financial difficulties in the 2012-13 fiscal year were created subsequent to September 30, 2008, several of the issues identified in our report No. 2010-113 have worsened for many CDDs since the 2007-08 fiscal year. For example, for the 2012-13 fiscal year, 95 CDDs reported a net unassigned and assigned fund balance/unrestricted net position deficit as of September 30, 2013, with deficits ranging from \$393 to \$34,651,319, whereas for the 2007-08 fiscal year, 39 CDDs reported deficits ranging from \$3,840 to \$11,461,841 as of September 30, 2008. This is likely due to the slow economic recovery of the housing market in Florida. Table 3 provides other indications of financial difficulties disclosed in CDD audit reports.

**Table 3**

Indication of Financial Difficulty	Fiscal Year	
	2007-08	2012-13
Failed to make one or more scheduled bond debt service payments due to lack of funds (the condition specified in Section 218.503(1)(a), Florida Statutes).	32	75
Failure to pay uncontested claims from creditors within 90 days due to lack of funds (the condition specified in Section 218.503(1)(b), Florida Statutes).	6	19
Developer or significant landowner failed to provide funding to the CDD for operational or debt service purposes.	37	63
Developer or significant landowner filed for bankruptcy protection, foreclosure proceedings had been initiated, or agreements had been reached in lieu of foreclosure on CDD properties.	29	50

Source: Audit reports

Because it is usually necessary for CDDs to issue some form of indebtedness to finance the construction or acquisition of the communitywide improvements, and such improvements are generally in place before properties are sold to other parties, CDDs often experience operating losses or deficit fund balances in the early years of their existence. In the past, these issues were relatively temporary for many CDDs as properties were sold within the

<sup>3</sup> For the 2012-13 fiscal year, 105 CDDs did not meet the threshold requiring an audit pursuant to Section 218.39, Florida Statutes. For the remaining 19 CDDs that did not submit audit reports, the entities were either required to provide for an audit and had not submitted the audit report to us by September 30, 2014, or we did not have sufficient information to determine whether an audit was required.

district and assessments were collected. However, likely due to the housing crisis, many CDDs are facing true financial crises due to a lack of sufficient funds to make debt service payments on bonds or to pay obligations within 90 days. The lack of sufficient funds for newer CDDs appears to be primarily attributable to the failure of developers to provide funding. Developers are typically responsible for paying assessments on the unsold properties within the district and some have agreements with CDDs to fund operations of the district for a certain time period. If the developer is unable to sell properties within the district for an extended period of time, the developer may lack sufficient funds to make the requirement payments. As noted above, many developers have filed for bankruptcy protection. While the economy is improving, the effects of the economic downturn, including the housing crisis, continue, which creates obstacles for CDDs to overcome financial difficulties.

**Millage Rates, Taxable Property Values, and Taxes Levied**

In 2007 and 2008, legislation was enacted and, as applicable, approved by the voters, that has limited the ad valorem revenue-raising capability of local governmental entities. These changes include increases in homestead exemptions, portability provisions, caps on the increase in value for nonhomestead properties, and required millage rate reductions/limitations. Additionally, while taxable market values of real property increased from 2012 to 2013, market values of real property are still considerably lower than the peaks prior to the housing crisis.

As noted in prior fiscal years, we found that, on average, lesser-populated counties had higher 2013 millage rates than higher-populated counties; however, higher-populated municipalities had higher 2013 millage rates than lower-populated municipalities, as shown in Table 4.

**Table 4**

Counties		Municipalities	
Population Range	Average 2013 Millage	Population Range	Average 2013 Millage
< 25,000	8.8827	< 1,000	3.3115
25,000 – 74,999	7.5583	1,000 – 2,999	4.8316
75,000 – 224,999	5.8694	3,000 – 9,999	4.7054
225,000 – 674,999	5.7939	10,000 – 24,999	4.8620
675,000 +	5.0722	25,000 – 99,999	5.2321
		100,000 +	6.2340

Source: Florida Department of Revenue, Property Valuations and Tax Data

For 2013, 7 counties and 3 municipalities established millage rates at or near the statutory maximum of 10 mills (9.5 mills or greater), compared to 7 counties and 2 municipalities for 2012. Entities with millage rates at or near the statutory maximum may be unable to raise additional funds when needed.

For 2013, the average ad valorem millage rate was 6.8729 for counties and 4.6539 for municipalities. The average millage rate has decreased eight percent for counties and increased five percent for municipalities since 2004. A summary of average millage rates, total taxable property values, and total taxes levied by counties and municipalities for the last ten years are shown in Tables 5 and 6.

**Table 5**

Counties			
Year	Average Millage	Taxable Property Values (1)	Taxes Levied (1)
2004	7.4974	\$1,105,948,754,799	\$6,570,744,816
2005	7.3751	\$1,309,754,176,278	\$7,586,284,807
2006	6.9451	\$1,635,033,562,670	\$8,928,231,811
2007	6.1970	\$1,805,873,056,801	\$8,111,079,346
2008	6.2996	\$1,701,867,814,355	\$7,791,725,395
2009	6.4761	\$1,513,040,958,619	\$7,160,149,619
2010	6.5173	\$1,331,000,184,069	\$6,563,758,622
2011	6.5857	\$1,283,395,747,554	\$6,217,195,940
2012	6.7232	\$1,274,129,214,427	\$6,226,308,983
2013	6.8729	\$1,313,088,962,720	\$6,531,531,203

**Table 6**

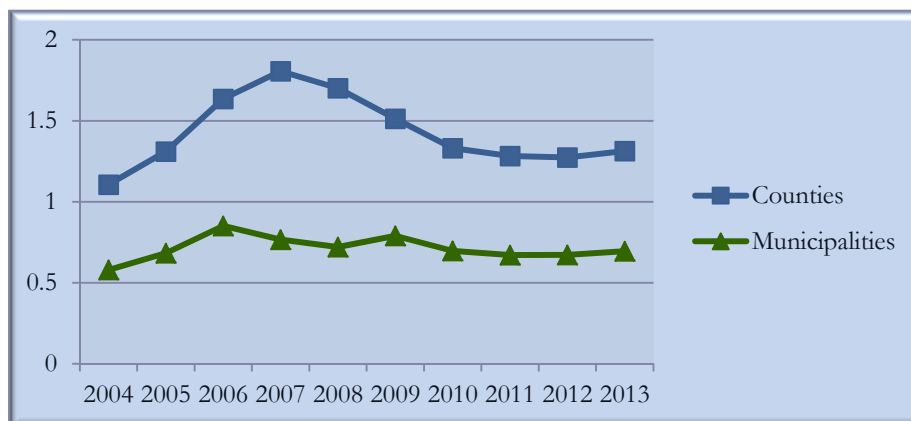
Municipalities			
Year	Average Millage	Taxable Property Values (1)	Taxes Levied (1)
2004	4.4413	\$580,472,238,718	\$2,812,833,290
2005	4.3675	\$683,319,146,683	\$3,272,616,315
2006	4.2689	\$850,654,287,997	\$3,948,085,738
2007	4.8943	\$766,269,119,373	\$3,005,327,370
2008	3.9841	\$720,590,444,269	\$3,073,819,779
2009	4.2082	\$789,797,843,364	\$3,586,619,289
2010	4.4030	\$697,303,250,081	\$3,253,881,973
2011	4.4754	\$670,933,673,115	\$3,160,580,722
2012	4.5917	\$672,164,583,098	\$3,210,789,207
2013	4.6539	\$695,368,291,486	\$3,334,857,594

Note (1): Amounts reported may not agree to our prior reports due to updates to information included in the Property Valuations and Tax Data by the Florida Department of Revenue.

Source: Florida Department of Revenue, Property Valuations and Tax Data

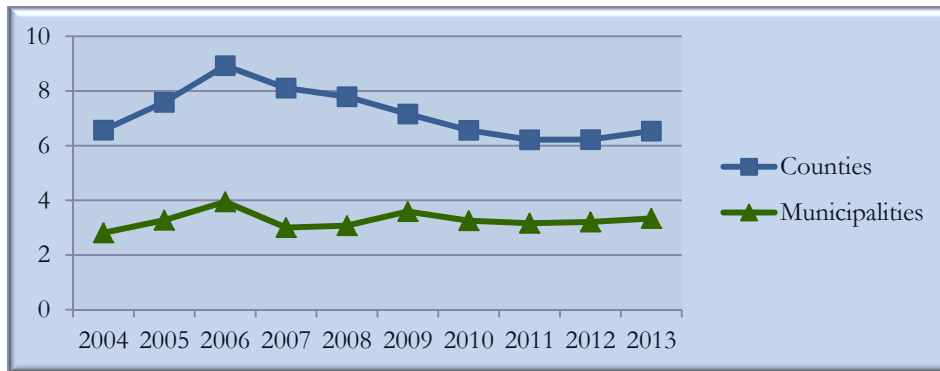
Average millage rates for counties increased in each of the past six years, and average millage rates for municipalities increased in each of the past five years. As shown in Tables 7 and 8, although there was an overall increase in the taxable property values and taxes levied since 2004, there was a significant decrease in taxable property values and taxes levied from 2008 through 2012 for counties and from 2007 to 2011 for municipalities. Although taxable property values decreased by approximately \$493 billion (27 percent) and \$71 billion (9 percent) for counties and municipalities, respectively, over the past six years, taxable property values increased from 2012 to 2013. Taxes levied decreased by approximately \$1.6 billion (20 percent) for counties and increased by approximately \$330 million (11 percent) for municipalities, over the same period.

**Table 7**  
**Taxable Property Values**  
**(In trillions)**



Source: Florida Department of Revenue, Property Valuations and Tax Data

**Table 8**  
**Taxes Levied**  
**(In billions)**



Source: Florida Department of Revenue, Property Valuations and Tax Data

**Pension Plans**

Historically, the use of defined benefit pension plans, where specified pension benefits are provided to retirees, has been prevalent in the public sector. The Government Finance Officers Association (GFOA) issues best practices to communicate enhanced techniques and provide information about effective strategies regarding public finance for state and local governments. The GFOA, in its best practice publication entitled *Sustainable Funding Practices of Defined Benefit Pension Plans*, indicates that a fundamental financial objective of a public employee defined benefit pension plan is to fund the long-term cost of benefits promised to plan participants. It is widely acknowledged that the appropriate way to attain reasonable assurance that pension benefits will remain sustainable is for a government to accumulate resources for future benefit payments in a systematic and disciplined manner during the active service life of the benefitting employees. Long-term funding is accomplished through contributions from the employer and employee, and from investment earnings.

Of the 1,257 local governmental entity 2012-13 fiscal year audit reports submitted to us as of July 31, 2014, 520 reported the existence of one or more employee defined benefit pension plans, including 66 counties, 285 municipalities, and 169 special districts. Employee defined benefit pension plans reported include plans for general employees, firefighters, police officers, or some combination thereof (mixed).

The 520 local governmental entities reporting employee defined benefit pension plans included 354 local governmental entities (66 counties, 147 municipalities, and 141 special districts) that were participants in the Florida Retirement System (FRS). In addition, 175 local governmental entities had a total of 405 local pension plans (i.e., not part of the FRS), including 3 county firefighter plans, 368 municipal plans (109 for general employees, 99 for firefighters, 119 for police officers, and 41 mixed), and 34 special district plans (15 for general employees and 19 for firefighters).

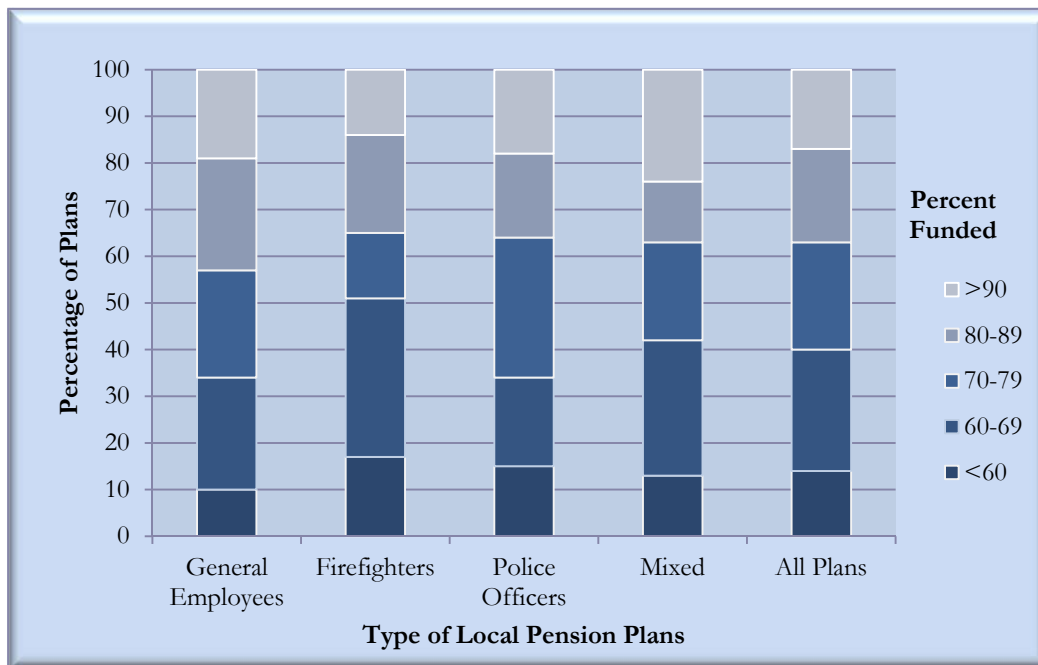
The funding status of employee defined benefit pension plans has been a concern in recent years, particularly due to the recent economic crisis. A pension plan’s funded ratio is the percentage of a plan’s liabilities that are covered by its assets. GFOA recommends that governments adopt funding policies that target a 100 percent or more funded ratio. Additionally, the Federal Pension Protection Act of 2006 provides that large private sector pension plans will be considered at risk of defaulting on their liabilities if they have less than 80 percent funded ratios under standard actuarial assumptions and less than 70 percent funded ratios under certain “worst-case” actuarial assumptions.

From July 1, 2008, to July 1, 2012, the funded ratio for the FRS declined from 105 percent to 86 percent. From October 1, 2008, to October 1, 2012, the average funded ratio for local pension plans declined from 79 percent to 76 percent<sup>4</sup> for the 354 plans for which funded ratios were reported both as of October 1, 2008, and October 1, 2012. The decline in funded ratios reported is due, at least in part, to the economic crisis, resulting in a significant decline in the financial markets from September 2008 to March 2009, which, in turn, negatively affected the funded status of pension plans.

For 373<sup>5</sup> local pension plans for which funded ratios were reported as of October 1, 2012, the average funded ratio was 77 percent. As shown in Table 9, 227 (61 percent) of the 373 local pension plans reported a funded ratio under 80 percent as of October 1, 2012. This represents an improvement compared to the 235 (65 percent) local governmental entity local pension plans that reported a funded ratio under 80 percent as of October 1, 2011.

Table 9 also indicates that 48 plans (13 percent) of the 373 local pension plans reported funded ratios less than 60 percent as of October 1, 2012. A list of local governmental entities that reported local pension plans with funded ratios of less than 60 percent is included as Exhibit B. This represents an improvement compared to the 61 (17 percent) local governmental entity local pension plans that reported a funded ratio under 60 percent as of October 1, 2011.

**Table 9  
Local Pension Plan Funded Ratio as of October 1, 2012**



Source: Audit reports

**Other Financial Trends**

Our examination of trends using financial and other information obtained for the counties, municipalities, and special districts evaluated for the 2003-04 through 2012-13 fiscal years disclosed certain significant financial trends as

<sup>4</sup> The funded ratios for local plans used in this report were derived from local governmental entity audit reports submitted to us for the 2008-09 through 2012-13 fiscal years. While the majority of the ratios reported were as of October 1, there are some entities that reported funded ratios as of other dates during the fiscal year. Additionally, there were some local governmental entities that reported funded ratios as of October 1, 2013, in their 2012-13 fiscal year audit reports.

<sup>5</sup> Of the 373 local pension plans for which funded ratios were reported as of October 1, 2012, 19 did not report funded ratios as of October 1, 2008.

discussed below. The financial trends presented below are based on a desk review of audit reports and annual financial reports and do not represent individual financial condition assessments of particular entities. Such assessments are the responsibility of local governmental entities and their independent auditors and require information that can only be obtained through examination of entity records and inquiry of entity management.

### ***Fund Equity and Results of Operations***

Effective for the 2010-11 fiscal year, local governments were required to implement the requirements of Governmental Accounting Standards Board (GASB) Statement No. 54, which established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Our review disclosed that 99 percent of the applicable local governments implemented GASB Statement No. 54 for the fiscal year ending September 30, 2013.

As shown in Table 10, 137 entities reported deficit unassigned and assigned<sup>6</sup>/unrestricted fund equities as of September 30, 2013, an increase of 99 percent compared to the 2007-08 fiscal year and an increase of 23 percent compared to the 2011-12 fiscal year. Although local governments are not statutorily required to maintain a specified level of unassigned and assigned/unrestricted fund equity, the ability of these entities to maintain adequate service levels and fund capital acquisitions may be diminished if sufficient fund equity is not maintained.

Although many entities use excess revenues in governmental funds to support proprietary fund operations, or vice versa, we noted that 762 entities (or 53 percent of reports reviewed) experienced net losses when both governmental and proprietary funds were taken into account for the 2012-13 fiscal year, which is consistent with 745 entities (or 52 percent of reports reviewed) for the 2007-08 fiscal year and 723 entities (or 53 percent of reports reviewed) for the 2011-12 fiscal year. The most significant changes were reported by counties, where the percentage of entities that experienced net losses grew from 53 percent to 79 percent when comparing the 2007-08 and 2012-13 fiscal years. Since the percentage of entities reporting net deficit unassigned and assigned/unrestricted fund equities increased over the same period, the increases in net losses may indicate the use of excess reserves from prior fiscal years to fund current fiscal year operations.

Additionally, of the entities that experienced net losses from 2012-13 fiscal year operations, 109 (or 8 percent of reports reviewed) also reported net deficit assigned and unassigned/unrestricted fund equities as of September 30, 2013, an increase of 11 percent compared to the 2007-08 fiscal year, and 15 percent compared to the 2011-12 fiscal year. Continued excess expenditures over revenues and deficit unassigned and assigned/unrestricted fund equities may leave such entities with insufficient funds to sustain current levels of services without borrowing funds from outside sources. Additionally, those entities have less resources available for emergencies and unforeseen situations.

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<sup>6</sup> For comparison purposes, unassigned/assigned fund balance classification pursuant to GASB Statement No. 54 is similar to unreserved fund balance used in prior reports.

Table 10<sup>7</sup>

Condition	Counties Fiscal Year			Municipalities Fiscal Year			Special Districts Fiscal Year			Totals Fiscal Year		
	2004	2008	2013	2004	2008	2013	2004	2008	2013	2004	2008	2013
Number of reports reviewed.	66	66	66	396	381	384	663	979	989	1,125	1,426	1,439 <sup>8</sup>
Reported net deficit total unassigned and assigned/unrestricted fund equity.	0	2	0	4	7	10	46	60	127	50	69	137
Reported no unassigned and assigned/unrestricted fund equity.	0	0	0	0	2	0	63	146	80	63	148	80
Experienced excess expenditures over revenues in governmental operations, or operating losses in proprietary operations.	53	53	58	293	296	276	323	490	528	669	839	862
Experienced net losses when both governmental and proprietary funds were taken into account.	42	35	52	195	228	189	317	482	521	554	745	762
Experienced net losses and reported net deficit unassigned and assigned/unrestricted fund equity.	0	1	0	3	5	6	30	92	103	33	98	109

Source: Audit reports and annual financial reports

**Other Trends**

A total of 135 audited entities (17 municipalities and 118 special districts) reported cash and investments in amounts that were not sufficient to cover current liabilities as of September 30, 2013, as compared to 94 as of September 30, 2008, and 100 as of September 30, 2012. In addition, 65 entities (63 special districts and 2 municipalities) reporting via annual financial reports reported cash and investments in amounts not sufficient to cover current liabilities as of September 30, 2013. Declining levels of cash and investments as compared to current liabilities may indicate that the local governmental entity has overextended itself or may be having difficulty raising the cash needed to meet its current needs.

<sup>7</sup> Table 10 includes 48 special districts and 1 municipality that reported no unassigned and assigned/unrestricted fund equity, and 29 special districts that reported deficit unassigned and assigned/unrestricted fund equity, on their 2012-13 fiscal year annual financial reports. Table 10 also includes 79 special districts and 3 municipalities that reported losses in either governmental or proprietary funds, and 79 special districts and 3 municipalities that reported net losses when both governmental and proprietary funds were considered, on their 2012-13 fiscal year annual financial reports. For the 2003-04 and 2007-08 fiscal years, pre-GASB 54 terminology was used for the fund equity amounts. For these years, unreserved/unrestricted fund equity was used.

<sup>8</sup> Includes 1,257 audit reports received through July 31, 2014, and 182 annual financial reports.

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**SIGNIFICANT FINDINGS**

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**Modified Audit Opinions**

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Audit findings of the greatest significance include those that have a material impact on the fair presentation of the financial statements and may result in a modification of the independent auditor's opinion on the financial statements. Modified opinions include: (1) qualified opinions, whereby the auditor states that, except for the effects of the matter(s) to which the qualification relates, the financial statements are fairly presented; (2) adverse opinions, whereby the auditor states that the financial statements are not fairly presented; and (3) disclaimers of opinion, whereby the auditor does not express an opinion. As shown in Table 11, 43 of the 1,579<sup>9</sup> audit reports reviewed (including 388 county agencies, 375 municipalities, and 816 special districts) for the 2012-13 fiscal year contained modified opinions.

The number of reports that included qualified opinions was 27 for the 2012-13 fiscal year, no change from the 2011-12 fiscal year. The qualified opinions were issued for not implementing the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45); inadequate documentation to support capital assets; improper valuation of real property; lack of sufficient evidence for expenditures; separation of duties; and subject matter of an investigation not being disclosed. The number of reports that included adverse opinions was 15 for the 2012-13 fiscal year, no change from the 2011-12 fiscal year, due primarily to entities excluding component units from their financial statements, but also due to the exclusion of land held for resale from the entity's financial statements. There was 1 report that included a disclaimer of opinion, due to a fund not being audited.

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<sup>9</sup> Includes all 2012-13 fiscal year audit reports submitted to us as of July 31, 2014.

Table 11

Entity Name	Qualified Opinion	Adverse Opinion	Disclaimer of Opinion
Baker County Board of County Commissioners	X		
Holmes County Board of County Commissioners	X		
Union County Board of County Commissioners	X		
Washington County Board of County Commissioners	X		
Alford, Town of	X		
Altha, Town of	X		
Callahan, Town of	X		
Chiefland, City of	X		
Chipley, City of	X		
Cross City, Town of	X		
Freeport, City of	X		
Gulf Stream, Town of	X		
Hastings, Town of	X		
Inglis, Town of	X		
Mangonia Park, Town of	X		
Newberry, City of	X		
Oakland, Town of			X
Otter Creek, Town of	X		
Pahokee, City of	X		
Valparaiso, City of	X		
Yankeetown, Town of	X		
Big Bend Water Authority	X		
Chapel Creek Community Development District		X	
Concorde Estates Community Development District		X	
East Niceville Fire District	X		
Glen St. Johns Community Development District		X	
Gramercy Farms Community Development District		X	
Magnolia West Community Development District		X	
Meadow Point IV Community Development District		X	
Montecito Community Development District	X		
New River Public Library Cooperative	X		
Portofino Isles Community Development District		X	
Portofino Landings Community Development District	X		
River Glen Community Development District		X	
Riverwood Estates Community Development District		X	
South Broward Hospital District	X		
Spring Ridge Community Development District		X	
St. Augustine Port, Waterway and Beach District	X		
Sterling Hill Community Development District		X	
Trails Community Development District		X	
Villa Vizcaya Community Development District		X	
Waterstone Community Development District		X	
Zephyr Ridge Community Development District		X	

Source: Audit reports

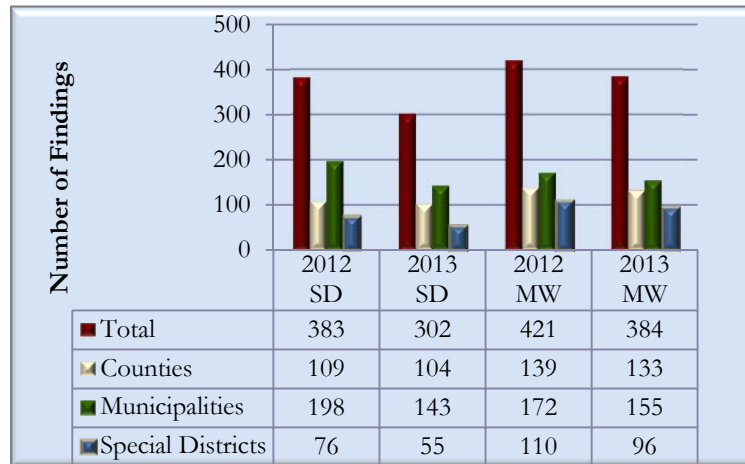
**Classification of Audit Findings**

Auditing standards require auditors to report significant deficiencies and material weaknesses in internal control that are disclosed during the course of a financial statement audit. A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Of the 1,579 audit reports reviewed, 185 (12 percent) reported a significant deficiency(ies), and 222 (14 percent) reported a material weakness(es). The significant deficiencies and material weaknesses reported were primarily in the categories of separation of duties, general accounting records, and financial reporting.

Of the 1,638 findings included in audit reports reviewed, 302 (18 percent) were considered significant deficiencies and 384 (23 percent) were considered material weaknesses. In addition, as shown in Table 12, the number of significant deficiencies decreased by 81 (from 383 to 302, or 21 percent), and the number of material weaknesses decreased by 37 (from 421 to 384, or 9 percent) compared to the prior fiscal year.

**Table 12**  
**Number of Findings Classified as Significant Deficiencies (SD) and Material Weaknesses (MW)**



Source: Auditor General

**Significant Deficiencies and Other Audit Findings**

We established categories of findings and classified the various audit findings included in the county, municipality, or special district audit reports accordingly. The number of audit reports reviewed in the 2012-13 fiscal year increased by 5 percent, and the total number of audit findings decreased by 12 percent compared to the prior fiscal year.

Summaries of the predominant and most significant audit findings included in audit reports reviewed for 388 county agencies, 375 municipalities, and 816 special districts for the 2012-13 fiscal year are presented below by category. In addition, a summary of the number of reports including predominant and significant audit findings by type of local governmental entity, with comparative prior fiscal year information, is included as Exhibit C.

**Separation of Duties.** For 49 (13 percent) of the county agency reports, 67 (18 percent) of the municipality reports, and 36 (4 percent) of the special district reports, findings were noted regarding an inadequate separation of duties or responsibilities. This represents 10 percent of all reports, a 1 percent decrease in the percentage of reports with similar findings compared to the prior fiscal year. Inadequate separation of duties or responsibilities increases the possibility that errors or fraud may occur without being timely detected and diminishes the local governmental entity's ability to properly safeguard assets. For many of these instances, the county agencies, municipalities, and special districts contended that, due to small staff, it is not economically feasible to further separate duties or responsibilities. However, the auditor frequently recommended that the county agency, municipality, or special district reassign duties and responsibilities or establish compensating controls.

**Policies and Procedures.** For 8 (2 percent) of the county agency reports, 19 (5 percent) of the municipality reports, and 9 (1 percent) of the special district reports, policies and procedures were not established or were not followed to ensure that public business was conducted in accordance with laws, rules, ordinances, or good business practices. This represents 2 percent of all reports, a 2 percent decrease in the percentage of reports with similar findings compared to the prior fiscal year.

**Budget Administration.** For 11 (3 percent) of the county agency reports, 28 (7 percent) of the municipality reports, and 45 (6 percent) of the special district reports, findings were noted regarding noncompliance with legal requirements for adopting and amending the budget, or inadequate budgetary controls. This represents 5 percent of all reports, a 1 percent increase in the percentage of reports with similar findings compared to the prior fiscal year. These findings included problems relating to failure to properly adopt a budget, inadequate budgetary policies, failure to budget for all funds or projects, and overexpended budgets. Examples included a sheriff whose budget for the 911 Fund was overexpended; a municipality whose council meeting minutes did not indicate the budget was adopted by ordinance as required by Section 116.241(3), Florida Statutes; and a special district that failed to post the tentative budget on the district's official Web site at least two days prior to the budget hearing. Budgetary problems affect an entity's ability to demonstrate to the citizenry its proper use of public resources, and could result in inefficient or inappropriate use of its resources, resulting in deteriorating financial conditions.

**General Accounting Records.** For 31 (8 percent) of the county agency reports, 79 (21 percent) of the municipality reports, and 33 (4 percent) of the special district reports, findings were noted regarding inadequate accounting or other records, lack of subsidiary records or failure to timely reconcile subsidiary records to general ledger control accounts, or improper recording of transactions to the accounting records. This represents 9 percent of all reports, a 3 percent decrease in the percentage of reports with similar findings compared to the prior fiscal year. Examples included a sheriff with outdated accounting software, making routine processes burdensome; a municipality that lacked supervisory approval of journal entries; and a special district that required adjusting journal entries to properly state current fiscal year revenue and fiscal year-end receivables. Recordkeeping deficiencies reduce an entity's ability to monitor its use of public resources and increases the risk of inappropriate or inefficient use of resources. Improper recording of transactions also affects the reliability of the entity's reporting of financial position and results of operations.

**Financial Reporting.** For 50 (13 percent) of the county agency reports, 69 (18 percent) of the municipality reports, and 63 (8 percent) of the special district reports, findings were noted relating to the reporting of financial data either externally or within the local governmental entity. This represents 12 percent of all reports and a 1 percent decrease in the percentage of reports with similar findings compared to the prior fiscal year. Examples included a sheriff with material audit adjustments necessary for the financial statements to be fairly presented; a municipality that failed to provide for a financial audit for the fiscal year ended September 30, 2012; and a special district that failed to include a

component unit in its financial statements. Financial reporting problems affect an entity's ability to demonstrate compliance with legal, contractual, and financial reporting requirements, and to provide assurance to interested parties (including its governing body) that it is in sound financial condition and is using its public resources in an efficient and appropriate manner.

**Cash.** For 16 (4 percent) of the county agency reports, 27 (7 percent) of the municipality reports, and 14 (2 percent) of the special district reports, findings were noted regarding inadequate controls or noncompliance with legal requirements pertaining to cash on hand or held by banks. This represents 4 percent of all reports, which was the same percentage of reports with similar findings in the prior fiscal year. These findings included inadequate or untimely bank reconciliations; stale-dated checks; inaccurate recording of cash transactions; and other cash accountability issues, including noncompliance with applicable legal requirements. Examples included a supervisor of elections that did not maintain a current Public Deposit Information and Acknowledgement Form, a municipality that did not post several deposits or electronic fund transfers, and a special district that did not prepare reconciliations of revenue recorded and daily cash deposits. Cash accountability deficiencies increase the risk of unauthorized disbursements or losses of cash occurring without being promptly detected.

**Capital Assets.** For 24 (6 percent) of the county agency reports, 38 (10 percent) of the municipality reports, and 25 (3 percent) of the special district reports, findings were noted regarding noncompliance with legal requirements pertaining to acquisitions or disposals of capital assets or the improper use of, and lack of accountability for, capital assets. This represents 6 percent of all reports, a 1 percent decrease in the percentage of reports with similar findings compared to the prior fiscal year. These findings included inadequate or lack of capital asset records, failure to timely reconcile subsidiary capital asset records to general ledger control accounts, failure to perform an annual inventory and compare the inventory to capital asset records, failure to properly identify or tag property, improper acquisitions of capital assets, and unauthorized disposals of capital assets. Examples included a board of county commissioners failing to conduct an annual inventory, a municipality with neglected and rundown buildings and facilities, and a special district that recorded duplicate additions to capital assets. Capital asset accountability problems affect an entity's ability to demonstrate that it has efficiently and appropriately acquired, disposed of, and safeguarded capital assets and increase the risk that such assets could be misappropriated without being promptly detected.

**Revenues/Collections.** For 23 (6 percent) of the county agency reports, 54 (14 percent) of the municipality reports, and 19 (2 percent) of the special district reports, findings were noted regarding inadequate controls or noncompliance with legal requirements pertaining to revenues and accounts receivable. This represents 6 percent of all reports, a 2 percent decrease in the percentage of reports with similar findings compared to the prior fiscal year. These findings included improper recording of revenue or accounts receivable transactions, improper documentation for receipts, lack of an adequate fee structure, untimely deposits, and deposits not made intact. Examples included a board of county commissioners that did not process open and active Medicare and Medicaid claims, a municipality that did not charge a late fee for customer accounts with balances over 30 days, and a special district that was not permitted to evaluate controls at the service organization provider. Revenue and accounts receivable problems affect an entity's ability to ensure that cash collections are safeguarded against loss from unauthorized use or disposition. Failure to assess and collect all revenues to which the entity is entitled could contribute to deteriorating financial conditions.

**Payroll and Personnel Administration.** For 14 (4 percent) of the county agency reports, 43 (11 percent) of the municipality reports, and 9 (1 percent) of the special district reports, findings were noted regarding inadequate controls or noncompliance with legal requirements pertaining to payroll and personnel administration. This represents 4 percent of all reports, which was the same percentage of reports with similar findings in the prior fiscal year. These findings included improper authorization and payment of salaries and benefits to employees, improper

recording of payroll/personnel transactions, failure to properly and timely remit payroll taxes withheld, or other payroll/personnel matters. Examples included a board of county commissioners that did not implement GASB Statement No. 45 or obtain the actuarial report necessary to determine the amounts to report in the financial statements; a municipality that lacked personnel, resulting in a growing transaction processing backlog, lost and misplaced documentation, and frequent duplication of effort due to the lack of coordinated efforts and oversight; and a special district that did not timely deposit payroll taxes. Payroll and personnel problems affect an entity's ability to demonstrate compliance with legal requirements and increase the risk of inappropriate or inefficient use of public resources.

**Purchasing/Contract Management.** For 12 (3 percent) of the county agency reports, 32 (9 percent) of the municipality reports, and 10 (1 percent) of the special district reports, findings were noted regarding procurement of goods or services, or contract or grant management. This represents 3 percent of all reports, a 2 percent decrease in the percentage of reports with similar findings compared to the prior fiscal year. These findings included lack of monitoring and compliance with contractor grant provisions, failure to use purchase orders, lack of documented prior approval for purchases, noncompliance with bid/quotation requirements, and lack of documentation of receipt of goods or services. Examples included a board of county commissioners for which supervisory personnel did not review or approve changes to the vendor master file, a municipality for which the expenditure requisition or approval documentation was approved after the invoice date of the transaction, and a special district that did not comply with cash management practices. Purchasing/contract management deficiencies affect an entity's ability to demonstrate compliance with legal and contractual requirements and to monitor its use of public resources, increasing the risk of inappropriate or inefficient use of public resources.

**Expenditures/Expenses.** For 17 (4 percent) of the county agency reports, 22 (6 percent) of the municipality reports, and 26 (3 percent) of the special district reports, findings were noted regarding the expenditure of public funds. This represents 4 percent of all reports, which was the same percentage of reports with similar findings in the prior fiscal year. These findings included expenditures/expenses that were not properly documented, approved, or recorded; were not executed efficiently; or were not made in accordance with laws, rules, ordinances, or other guidelines. Examples included a sheriff that paid travel costs not allowable under Section 112.061, Florida Statutes; a municipality that lacked documentation of approval due to paying invoices online; and a special district that did not indicate invoices were paid to avoid duplicate payment. Expenditure/expense deficiencies affect an entity's ability to demonstrate compliance with legal requirements, and increase the risk of inappropriate or inefficient use of public resources.

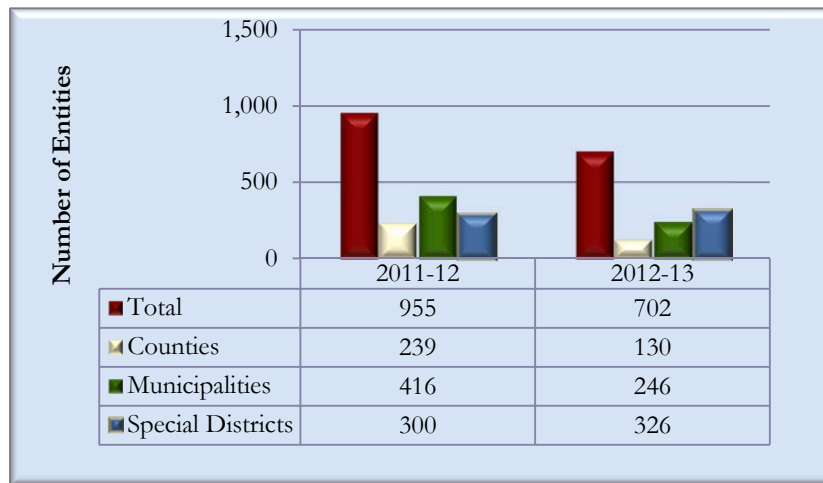
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### **Detail of Audit Findings**

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Chapter 10.550, Rules of the Auditor General, prescribes the required elements of audit report findings. Of the 1,638 findings included in audit reports reviewed, 702 (43 percent) did not include one or more of the required elements. Table 13 presents the total number of insufficiently detailed findings reported for the last two fiscal years.

**Table 13**  
**Insufficiently Detailed Findings**



Source: Auditor General

Although the total percentage of insufficiently detailed findings for the 2012-13 fiscal year decreased from 51 to 43 percent compared to the prior fiscal year, the total number and percentage of insufficiently detailed findings remains high. Most such findings did not adequately provide one or more of the following, contrary to Section 10.557(4)(b), Rules of the Auditor General:

- A description of the criteria or specific requirement upon which the audit finding was based (e.g., statutory, regulatory, or other citation).
- A description of the condition found, including facts that support the deficiency identified in the finding.
- A proper perspective for judging the prevalence and consequences of the finding, such as whether the findings represent an isolated instance or a systemic problem (e.g., the number of records examined and the quantity or dollar value of deficiencies noted).

Inadequately written audit findings affect the ability of audit report users to understand the exact nature of the problem addressed in the finding and necessary corrective action. This may have contributed to the percentage of repeated audit findings discussed below.

**Repeated Findings from Prior Fiscal Years**

The total number of findings included in audit reports we reviewed was 1,638 for the 2012-13 fiscal year compared to 1,855 for the 2011-12 fiscal year, a decrease of 217 or 12 percent. Of the 1,638 findings included in 2012-13 fiscal year audit reports reviewed, 675 (41 percent) findings for 356 local governmental entities (83 county agencies, 131 municipalities, and 142 special districts) were included in the entities' 2011-12 and 2010-11 fiscal year audit reports, compared to 748 (40 percent) findings reported in the 2011-12 audit reports that were included in the 2010-11 and 2009-10 fiscal year audit reports. These decreases may, in part, be attributed to the requirement in Section 218.39(8), implemented in 2011, Florida Statutes, requiring the Auditor General to notify the Legislative Auditing Committee of local governmental entities that failed to take full corrective action in response to one or more recommendations included in the two preceding financial audit reports.

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**RECOMMENDED STATUTORY AND FISCAL CHANGES**

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As discussed previously, our review of 2012-13 fiscal year CDD audit reports disclosed 110 CDDs for which the audit report contained indications of serious financial difficulties (see Exhibit A), including unassigned and assigned fund balance/unrestricted net position deficits, and failure to make bond debt service payments or pay uncontested claims from creditors within 90 days due to lack of funds. Further, the number of CDDs experiencing serious financial difficulties has increased significantly in the past five years.

Establishing parameters addressing the amount of bonds a CDD may issue, and additional oversight for CDD bond issuances, could provide additional assurance as to a CDD's ability to repay bondholders and pay creditors. For example, as noted in our report No. 2011-196, finding No. 4, our review of Texas law and correspondence from professional engineering staff with the Texas Commission on Environmental Quality (TCEQ)<sup>10</sup> revealed that the TCEQ must approve most applications for bond issues by certain types of districts in Texas<sup>11</sup>, whereas Florida has no approval requirement for bonds issued by CDDs. TCEQ staff also indicated that feasibility rules adopted in 1989, which ensure that district property taxes levied to pay district debt are limited because the rules limit the amount of bonds the district can issue at any one time, have been a major factor in low default rates in Texas.

Of the 110 CDDs that submitted audit reports to us for the 2012-13 fiscal year and reported indications of serious financial difficulties, the notes to the financial statements for 95 CDDs reported bonds outstanding, totaling approximately \$2.2 billion, ranging from \$1.65 million to \$290.5 million. All of these bonds are revenue bonds, which are not subject to the Section 190.016, Florida Statutes, general obligation bond limitation of 35 percent of the assessed value of the taxable property within the CDD. Florida law does not establish parameters addressing the amount of revenue bonds that CDDs can issue at any one time and there is currently no oversight entity responsible for CDD bond issuances. Without an oversight entity approving and, when deemed prudent, limiting the amount of revenue bonds that CDDs are able to issue, there is an increased risk of untimely repayment to the bondholders or default.

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**Recommendation:**     **The Legislature should consider amending Chapter 190 Florida Statutes, to establish parameters addressing the amount of bonds a CDD may issue and oversight responsibility for CDD bond issuances.**

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<sup>10</sup> TCEQ is responsible for the general supervision and oversight of districts and utilities, including the processing of petitions to create districts. Its bond review responsibilities involve evaluating the engineering and economic feasibility of all district bond issue applications.

<sup>11</sup> All debt secured by tax revenues must be approved by district voters. Except for bonds issued by river authorities or bonds sold to a state or Federal agency, the TCEQ must approve most district bonds.

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**OBJECTIVES, SCOPE, AND METHODOLOGY**

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The objectives of this project, for the audit reports submitted to us from local governmental entities, and the annual financial reports obtained from the Florida Department of Financial Services (FDFS), were to:

- Identify significant financial trends and findings based on our review of the audit reports; and
- Identify financial trends using information from the annual financial reports. Although all local governmental entities are required to file annual financial reports with the FDFS, all references to annual financial reports in this report pertain only to those we used in determining financial trends for unaudited entities. As a result, financial trends based on annual financial reports included herein are based, in part, on unverified amounts.

The scope of this project included a review of 2012-13 fiscal year audit reports for 66 counties (which included 388 individual county agency reports), 375 municipalities, and 816 special districts prepared by independent CPAs and submitted to us by July 31, 2014. The scope also included 9 municipality and 173 special district annual financial reports submitted to the FDFS pursuant to Section 218.32(1)(e), Florida Statutes, by entities that were not required to provide for an audit. In addition, the scope included a review of audit reports received for 1,297 entities (66 counties, 383 municipalities, and 848 special districts) through September 30, 2014, for the purpose of identifying entities that were reported as having met a condition specified in Section 218.503(1), Florida Statutes, or having deteriorating financial conditions.

Our methodology included a review of applicable audit reports and annual financial reports and a compilation of significant financial trends and findings. We included 1,257 entities (66 counties, 375 municipalities, and 816 special districts) in our analysis of significant financial trends (except for Table 10, where we also included annual financial reports for 9 municipalities and 173 special districts). We included 1,579 entities (388 county agencies, 375 municipalities, and 816 special districts) in our analysis of significant findings. We conducted this review in accordance with applicable generally accepted government auditing standards. We believe that the procedures performed provide a reasonable basis for the summaries of significant financial trends and findings included in this report.

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**AUTHORITY**

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Pursuant to the provisions of Section 11.45(7)(f), Florida Statutes, I have directed that this report be prepared to present the summary of significant financial trends and findings identified in local governmental entity audit reports prepared by independent certified public accountants or, for entities not required to provide for an audit, local governmental entity annual financial reports, for the fiscal year ended September 30, 2013.



David W. Martin, CPA  
Auditor General

**EXHIBIT A**  
**COMMUNITY DEVELOPMENT DISTRICTS FOR WHICH**  
**SERIOUS FINANCIAL DIFFICULTIES WERE NOTED IN 2012-13 FISCAL YEAR AUDIT REPORTS**

CDD Name	Creation Year	County	9/30/13 Net Assigned/ Unassigned Fund Balance and Unrestricted Net Position Deficit	9/30/13 Revenue Bonds Outstanding	Going Concern	Failure to Pay Claims within 90 Days Due to Lack of Funds	Failure to Make Bond Payment During or Subsequent to Fiscal Year End Due to Lack of Funds	Failure of Developer or Significant Landowner to Provide Funding	Bankruptcy, Foreclosure, or Similar Issues
Aberdeen CDD	2003	St. Johns	\$(2,605,001)	\$39,190,000			X	X	X
Amelia Concourse CDD	2006	Nassau	(1,190,929)	6,820,000			X	X	X
Arborwood CDD	2004	Lee	(3,000,789)	86,150,000			X	X	X
Arlington Ridge CDD	2003	Lake		14,940,000			X	X	X
Artisan Lakes CDD	2007	Manatee	(1,010)						
Avenues Walk CDD	2007	Duval	(27,576)						
Bartram Park CDD	2005	Duval	(10,500)	45,660,000					
Beach CDD	2007	Duval	(38,732)						
Belmont CDD	2006	Hillsborough		23,635,000			X	X	
Blackburn Creek CDD	2010	Sarasota	(5,435)	5,455,000					
Buckeye Park CDD	2007	Manatee	(1,086,601)	10,495,000	X	X	X	X	
CBL/BM Port Orange West CDD	2008	Volusia	(393)						
CFM CDD	2002	Lee	(6,223,842)	25,480,000			X	X	
Chapel Creek CDD	2005	Pasco	(3,045)	11,065,000			X		X
City Center CDD	2003	Polk	(5,338,119)	28,850,000	X	X	X	X	X
Clearwater Cay CDD	2005	Pinellas	(4,721,261)	28,205,000			X	X	X
Concorde Estates CDD	2003	Osceola	(4,071,221)	14,731,511					
Connerton West CDD	2004	Pasco	(3,463,292)	32,325,000			X		
Copper Creek CDD	2007	St. Lucie	(2,983)						
Coral Keys Homes CDD	2005	Miami-Dade	(23,943)						
Cordoba Ranch CDD	2006	Hillsborough	(13,306)	7,930,000					
Creekside CDD	2005	St. Lucie	(826,160)	10,295,000			X	X	X
Crossings At Fleming Island CDD	1989	Clay	(5,549,081)	74,365,000			X		X
Cypress Shadows CDD	2006	Lee	(815)	10,350,000					
Deer Run CDD	2007	Flagler	(1,746,876)	7,835,000			X	X	X
Durbin Crossing CDD	2003	St. Johns		52,755,000			X	X	X
Encore CDD	2010	Hillsborough	(6,431)						
Estancia at Wiregrass CDD	2013	Pasco	(39,714)						

**EXHIBIT A (CONTINUED)**  
**COMMUNITY DEVELOPMENT DISTRICTS FOR WHICH**  
**SERIOUS FINANCIAL DIFFICULTIES WERE NOTED IN 2012-13 FISCAL YEAR AUDIT REPORTS**

CDD Name	Creation Year	County	9/30/13 Net Assigned/ Unassigned Fund Balance and Unrestricted Net Position Deficit	9/30/13 Revenue Bonds Outstanding	Going Concern	Failure to Pay Claims within 90 Days Due to Lack of Funds	Failure to Make Bond Payment During or Subsequent to Fiscal Year End Due to Lack of Funds	Failure of Developer or Significant Landowner to Provide Funding	Bankruptcy, Foreclosure, or Similar Issues
Estates at Cherry Lake CDD	2005	Lake	\$(1,401,887)	\$10,410,000			X	X	
Fishhawk CDD III	2008	Hillsborough	(3,156)	8,075,000					
Glen St. Johns CDD	2006	St. Johns		5,625,000			X	X	
Grand Bay at Doral CDD	2006	Miami-Dade		93,664,074	X		X	X	X
Hemingway Point CDD	2012	Miami-Dade	(5,535)	2,135,000					
Heritage Isles CDD	1997	Hillsborough	(843,357)	2,625,000			X		
Heritage Plantation CDD	2005	Okaloosa	(2,037,917)	11,035,000		X	X	X	X
Highland Meadows CDD	2006	Polk	(46,074)	2,620,000			X	X	X
Highlands CDD	2003	Hillsborough		11,910,000			X		X
Indigo CDD	1995	Volusia		21,350,000			X	X	X
Lake Ashton CDD	2001	Polk	(1,179,174)	7,225,000			X	X	
Lake Ashton II CDD	2005	Polk	(29,771,853)	11,050,000			X		
Longleaf CDD	1998	Pasco		8,615,000			X	X	X
Madeira CDD	2006	St. Johns	(3,279,689)	22,645,000			X	X	
Magnolia Creek CDD	2006	Walton	(3,629,564)	21,225,000		X	X		X
Magnolia West CDD	2005	Clay	(660,609)	7,640,000		X	X	X	X
Mayfair CDD (Brevard County)	2007	Brevard	(40,705)			X			
Meadow Pointe IV CDD	2002	Pasco	(1,593,606)	25,779,026			X	X	
Mediterranea CDD	2006	Palm Beach	(696,722)	11,210,000		X	X	X	
Midtown Miami CDD	2003	Miami-Dade	(145,586)	95,575,000					
Montecito CDD	2005	Brevard	(14,365,933)	5,155,000		X	X	X	X
Naples Reserve CDD	2008	Collier	(11,734)						
Naturewalk CDD	2005	Walton		19,200,000			X	X	
New Port - Tampa Bay CDD	2005	Hillsborough	(18,773,207)	49,020,000		X	X	X	X
New River CDD	2005	Pasco	(183,772)	30,745,000		X			
Osprey Oaks CDD	2008	Palm Beach	(5,409)	1,650,000					
Overoaks CDD	1990	Osceola	(2,511,952)	13,742,995			X		

**EXHIBIT A (CONTINUED)**  
**COMMUNITY DEVELOPMENT DISTRICTS FOR WHICH**  
**SERIOUS FINANCIAL DIFFICULTIES WERE NOTED IN 2012-13 FISCAL YEAR AUDIT REPORTS**

CDD Name	Creation Year	County	9/30/13 Net Assigned/ Unassigned Fund Balance and Unrestricted Net Position Deficit	9/30/13 Revenue Bonds Outstanding	Going Concern	Failure to Pay Claims within 90 Days Due to Lack of Funds	Failure to Make Bond Payment During or Subsequent to Fiscal Year End Due to Lack of Funds	Failure of Developer or Significant Landowner to Provide Funding	Bankruptcy, Foreclosure, or Similar Issues
Palm River CDD	2006	Hillsborough	\$(4,751,380)	\$2,750,000	X	X	X	X	X
Parker Road CDD	2006	Alachua	(620,931)	17,345,000			X	X	
PBR CDD	2007	Brevard	(3,845)	12,605,000					
Pine Island CDD	2004	Lake		18,915,000			X	X	
Pioneer CDD	2006	Volusia	(287,547)						
Portico CDD	2005	Lee	(3,174)	13,135,000					
Portofino Cove CDD	2006	Lee	(2,846,396)	6,165,000			X	X	X
Portofino Isles CDD	2002	St. Lucie	(649,538)	11,835,000			X	X	X
Portofino Landings CDD	2006	St. Lucie	(315,693)	7,025,000		X	X	X	X
Portofino Springs CDD	2006	Lee	(8,969)	1,865,000			X		
Portofino Vista CDD	2006	Osceola	(3,590,423)	5,935,000			X	X	X
Reunion East CDD	2001	Osceola	(1,404,810)	63,955,000			X	X	X
Reunion West CDD	2001	Osceola	(2,316,089)	54,350,000			X	X	X
Ridgewood Trails CDD	2005	Clay		5,915,000			X		
River Bend CDD	2004	Hillsborough		17,065,000			X	X	X
River Glen CDD	2005	Nassau	(1,479,993)	9,600,000			X	X	X
River Hall CDD	2005	Lee		24,173,675					X
River Place on the St. Lucie CDD	2000	St. Lucie	(165,405)	2,340,000			X	X	X
Rivers Edge CDD	2006	St. Johns	(2,751)	12,720,000					
Riverwood Estates CDD	2006	Pasco	(15,662,272)	12,875,000		X	X	X	X
Saddle Creek CDD	2007	Polk	(2,948)						
Sandy Creek CDD	2004	St. Johns	(4,064)	1,795,000					
Shingle Creek CDD	2005	Osceola	(25,271,111)	82,650,000		X	X	X	X
Six Mile Creek CDD	2007	St. Johns	(3,765,406)	44,330,000		X	X	X	
Solterra Resort CDD	2004	Polk	(1,495)	5,420,000					
South Bay CDD (Hillsborough County)	2005	Palm Beach	(34,651,319)	50,070,000			X	X	X
South Shore Corporate Park Industrial CDD	2008	Hillsborough	(856)						
Spring Ridge CDD	2000	Hernando	(4,754,676)	5,510,000			X	X	X

**EXHIBIT A (CONTINUED)**  
**COMMUNITY DEVELOPMENT DISTRICTS FOR WHICH**  
**SERIOUS FINANCIAL DIFFICULTIES WERE NOTED IN 2012-13 FISCAL YEAR AUDIT REPORTS**

CDD Name	Creation Year	County	9/30/13 Net Assigned/ Unassigned Fund Balance and Unrestricted Net Position Deficit	9/30/13 Revenue Bonds Outstanding	Going Concern	Failure to Pay Claims within 90 Days Due to Lack of Funds	Failure to Make Bond Payment During or Subsequent to Fiscal Year End Due to Lack of Funds	Failure of Developer or Significant Landowner to Provide Funding	Bankruptcy, Foreclosure, or Similar Issues
Sterling Hill CDD	2003	Hernando	\$(2,782,399)	\$14,430,000			X	X	X
Stevens Plantation CDD	2003	Osceola	(6,334,518)	15,290,000			X	X	
Stoneybrook CDD	1998	Lee	(1,317,633)	9,791,456			X	X	
Stoneybrook South CDD	2006	Osceola	(5,879,379)	45,740,000			X	X	
Sweetwater Creek CDD	2006	St. Johns	(9,784,445)	30,715,381		X	X	X	X
SWI CDD	2007	Volusia	(206,334)	14,300,000			X		
Tern Bay CDD (New)	2004	Charlotte	(18,605,338)	56,455,000			X	X	X
Terra Bella CDD	2010	Pasco	(1,463)	3,455,000					
Tolomato CDD	2004	St. Johns		290,470,000			X	X	
Trails CDD	2006	Duval	(191,019)	9,685,000			X	X	X
Treeline Preserve CDD	2007	Lee	(1,724,566)	9,845,000			X	X	X
Triple Creek CDD	2007	Hillsborough	(11,082)	3,180,000					
Villa Vizcaya CDD	2006	St. Lucie	(3,029,118)	9,270,000			X	X	X
Villages of Avignon CDD	2006	Manatee	(621,832)	2,405,000	X	X	X	X	X
Villages of Westport CDD	2004	Duval		13,455,000			X	X	
Waterford Estates CDD	2006	Charlotte	(9,499,473)	12,715,000			X	X	X
WaterGrass CDD II	2013	Pasco	(11,250)						
Waterlefe CDD (Manatee County)	2000	Manatee	(13,453,522)	3,195,000			X	X	X
Waters Edge CDD (Manatee County)	2005	Manatee	(11,810)	10,080,645					
Waterset North CDD	2007	Hillsborough	(48,188)	7,545,000					
Waterstone CDD	2006	St. Lucie	(4,002,586)	16,585,000			X	X	X
Wentworth Estates CDD	2004	Collier	(766,709)	36,745,000					
Westridge CDD	2003	Polk	(6,413,755)	23,535,000			X	X	X
Westside CDD	2004	Osceola	(5,733,599)	32,460,000			X	X	X
Woodlands CDD, The	2004	Sarasota	(6,672,606)	29,957,908		X	X	X	
Wyld Palms CDD	2006	Citrus	(424,495)	15,455,000			X		X
Zephyr Ridge CDD	2005	Pasco	(8,528,360)	3,365,000		X	X	X	X

**EXHIBIT B**  
**LOCAL PENSION PLANS WITH FUNDED RATIOS LESS THAN 60 PERCENT**  
**AS OF OCTOBER 1, 2012**

<b>GENERAL EMPLOYEES PENSION PLANS</b>	<b>Percent Funded</b>
<b>MUNICIPALITIES</b>	
Cape Coral, City of	59.09
Coral Gables, City of	51.70
Fernandina Beach, City of	58.32
Fort Myers, City of	57.34
Hollywood, City of	56.20
Indian River Shores, Town of	43.47
Lake Worth, City of	56.30
Longboat Key, Town of (1)	59.84
Ocala, City of	46.14
Vero Beach, City of (1)	59.00
Winter Haven, City of (1)	58.87

<b>FIREFIGHTERS PENSION PLANS</b>	<b>Percent Funded</b>
<b>MUNICIPALITIES</b>	
Cocoa, City of	50.31
Fort Myers, City of	54.43
Haines City, City of (1)	56.94
Hollywood, City of	41.20
Lake Wales, City of (1)	59.99
Lake Worth, City of	47.20
Longboat Key, Town of	46.02
Milton, City of	46.55
Miramar, City of	54.00
Port Orange, City of	48.69
St. Pete Beach, City of (1)	48.45
Venice, City of	42.81
<b>SPECIAL DISTRICTS</b>	
Bonita Springs Fire Control and Rescue District	53.00
Destin Fire Control District	49.74
Englewood Area Fire Control District	58.31
Ocean City-Wright Fire Control District	34.19
Okaloosa Island Fire Control District	34.57

**EXHIBIT B (CONTINUED)**  
**LOCAL PENSION PLANS WITH FUNDED RATIOS LESS THAN 60 PERCENT**  
**AS OF OCTOBER 1, 2012**

<b>POLICE OFFICERS PENSION PLANS</b>	<b>Percent Funded</b>
<b>MUNICIPALITIES</b>	
Bal Harbour Village, Town of (1)	57.80
Cocoa Beach, City of	53.94
Edgewater, City of	54.98
Fort Myers, City of	48.62
Hollywood, City of	54.70
Lake Worth, City of	51.00
Longboat Key, Town of	47.99
Marco Island, City of	56.90
Miramar, City of	54.80
Naples, City of	59.00
Port Orange, City of	54.21
St. Pete Beach, City of (1)	57.52
Sunrise, City of	54.90
Tamarac, City of	51.50
Temple Terrace, City of	47.93

<b>MIXED PENSION PLANS</b>	<b>Percent Funded</b>
<b>MUNICIPALITIES</b>	
Dania Beach, City of	58.20
Delray Beach, City of	58.20
Fernandina Beach, City of	56.35
Hallandale Beach, City of	56.00
Plant City, City of	56.00

Note (1): In its 2012-13 fiscal year financial audit report, the entity reported a funded ratio as of October 1, 2013, above 60 percent.

**EXHIBIT C**  
**SUMMARY OF REPORTS INCLUDING PREDOMINANT AND SIGNIFICANT AUDIT FINDINGS**  
**BY FINDING CATEGORY BY LOCAL GOVERNMENTAL ENTITY TYPE**  
**FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2012, AND 2013**

Category	County Agencies		Municipalities		Special Districts		Total	
	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2012	Fiscal Year 2013
<b><i>Separation of Duties</i></b> - Findings related to inadequate separation of duties	60	49	62	67	40	36	162	152
<b><i>Policies and Procedures</i></b> - Findings related to general lack of policies and procedures	12	8	28	19	13	9	53	36
<b><i>Budget Administration</i></b> – Findings related to noncompliance with legal requirements relating to budgets or inadequate budgetary controls	16	11	35	28	36	45	87	84
<b><i>General Accounting Records</i></b> - Findings related to inadequate accounting or other records, failure to timely reconcile subsidiary records to control accounts, or inadequate recording of transactions (excludes capital assets)	45	31	83	79	52	33	180	143
<b><i>Financial Reporting</i></b> - Findings related to reporting of financial data externally or within the local governmental entity	52	50	74	69	70	63	196	182
<b><i>Cash</i></b> – Findings related to inadequate controls or noncompliance with legal requirements pertaining to cash on hand or held by banks	13	16	36	27	14	14	63	57
<b><i>Capital Assets</i></b> - Findings related to noncompliance with legal requirements pertaining to acquisition or disposal of capital assets and the improper use of, and lack of accountability for, capital assets	21	24	50	38	31	25	102	87
<b><i>Revenues/Collections</i></b> - Findings related to inadequate controls or noncompliance with legal requirements pertaining to revenues and accounts receivable	27	23	64	54	22	19	113	96
<b><i>Payroll and Personnel Administration</i></b> - Findings related to inadequate controls or noncompliance with legal requirements pertaining to payroll and personnel administration	19	14	40	43	8	9	67	66
<b><i>Purchasing/Contract Management</i></b> - Findings related to problems with procurement of goods or services and contract or grant management	13	12	40	32	16	10	69	54
<b><i>Expenditures/Expenses</i></b> - Findings related to the expenditure of public funds	9	17	27	22	22	26	58	65