

NASSAU COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2013



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2012-13 fiscal year are listed below:

	<u>District No.</u>
Donna Martin, Chair	1
Gail G. Cook	2
Amanda L. Young	3
Dr. Kimberly Joyce Fahlgren	4
Dr. Kathy Knight Burns, Vice Chair	5

Dr. John L. Ruis, Superintendent

The Auditor General conducts audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

The audit team leader was Sue Granger, and the audit was supervised by Randy R. Arend, CPA. For the information technology portion of this audit, the audit team leader was Deena Warren, and the supervisor was Heidi G. Burns, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Director, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 412-2863.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

**NASSAU COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

Our audit disclosed that the District's basic financial statements were presented fairly, in all material respects, in accordance with prescribed financial reporting standards.

Summary of Report on Internal Control and Compliance

We noted a certain matter involving the District's internal control over financial reporting and its operation that we consider to be a significant deficiency, as summarized below. However, this significant deficiency is not considered to be a material weakness.

SIGNIFICANT DEFICIENCY

Finding No. 1: Financial reporting procedures could be improved to ensure that account balances and transactions are properly reported.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States; however, we noted certain additional matters as summarized below.

ADDITIONAL MATTERS

Finding No. 2: Controls over monitoring school bus drivers could be enhanced.

Finding No. 3: The District's construction contract administration procedures could be improved.

Finding No. 4: Controls over facilities construction and maintenance activities could be enhanced.

Finding No. 5: Improvements were needed in controls over the reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

Finding No. 6: Some inappropriate or unnecessary information technology (IT) access privileges existed.

Finding No. 7: District IT security controls related to user authentication and data loss prevention needed improvement.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster and Race-to-the-Top programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs.

Audit Objectives and Scope

Our audit objectives were to determine whether the Nassau County District School Board and its officers with administrative and stewardship responsibilities for District operations had:

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and

- Taken corrective actions for findings included in our report No. 2013-150.

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2013. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

The methodology used to develop the findings in this report included the examination of pertinent District records in connection with the application of procedures required by auditing standards generally accepted in the United States of America; applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget Circular A-133.



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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Nassau County District School Board, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 29 percent of the assets and 94 percent of the liabilities of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the school internal funds is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of

material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the Nassau County District School Board as of June 30, 2013, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS, BUDGETARY COMPARISON SCHEDULE - GENERAL AND MAJOR SPECIAL REVENUE FUNDS, SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN, and NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is presented for purposes of additional analysis as required by the United States Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in

accordance with auditing standards generally accepted in the United States of America. In our opinion, the **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Nassau County District School Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 12, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Nassau County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2013. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements found immediately following the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2012-13 fiscal year are as follows:

- As of June 30, 2013, assets exceed liabilities by \$194,419,134.22. Of this amount, \$4,237,892.65 represents unrestricted net position, which may be used to meet the District's ongoing obligations to citizens and creditors.
- In total, net position decreased by \$1,410,486.42, which represents a 1 percent decrease from the 2011-12 fiscal year.
- General revenues total \$88,600,229.03, or 94 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$5,962,913.06, or 6 percent of all revenues.
- Expenses total \$95,973,628.51. Only \$5,962,913.06 of these expenses was offset by program specific charges, with the remainder paid from general revenues.
- At the end of the current fiscal year, the fund balance of the General Fund totals \$12,699,624.73, which is \$2,898,025.09 less than the prior fiscal year balance. The General Fund total assigned and unassigned fund balances was \$9,343,748.21, or 13 percent of total General Fund revenues.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to financial statements. This report also includes supplementary information intended to furnish additional details to support the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the District's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net position and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the District presented on the accrual basis of accounting. The statement of net position provides information about the District's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and the liabilities, the net position, is a measure of the District's financial health. The statement of activities presents information about the change in the District's net position, the results of operations, during the fiscal year. An increase or decrease in net position is an indication of whether the District's financial health is improving or deteriorating.

All of the District's activities and services are reported in the government-wide financial statements as governmental activities. The District's governmental activities include instruction, pupil support services, instructional support services, administrative support services, facility maintenance, transportation, and food services. Property taxes and State revenues finance most of these activities. Additionally, all capital and debt financing activities are reported as governmental activities.

Fund Financial Statements

Fund financial statements are one of the components of the basic financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements and prudent fiscal management. Certain funds are established by law while others are created by legal agreements, such as bond covenants. Fund financial statements provide more detailed information about the District's financial activities, focusing on its most significant or "major" funds rather than fund types. This is in contrast to the entitywide perspective contained in the government-wide statements. All of the District's funds may be classified within one of the broad categories discussed below.

Governmental Funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the District's most significant funds. The District's major funds are the General Fund, Special Revenue – Other Fund, Special Revenue – Federal Economic Stimulus Fund, Capital Projects – Public Education Capital Outlay Fund, Capital Projects – Local Capital Improvement Fund, and Capital Projects – Other Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its governmental funds. A budgetary comparison schedule has been provided for the General and major Special Revenue Funds to demonstrate compliance with the budget.

Fiduciary Funds: Fiduciary funds are used to report assets held in a trustee or fiduciary capacity for the benefit of external parties, such as student activity funds. Fiduciary funds are not reflected in the government-wide statements because the resources are not available to support the District's own programs. In its fiduciary capacity, the District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes.

The District uses agency funds to account for resources held for student activities and groups.

Notes to Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the District's progress in funding its obligation to provide other postemployment benefits to its employees.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position over time may serve as a useful indicator of a government's financial health. The following is a summary of the District's net position as of June 30, 2013, compared to net position as of June 30, 2012:

	Net Position, End of Year	
	Governmental	
	Activities	
	6-30-13	6-30-12
Current and Other Assets	\$ 52,408,606.71	\$ 59,491,466.27
Capital Assets	155,664,782.42	151,148,440.11
Total Assets	208,073,389.13	210,639,906.38
Long-Term Liabilities	11,263,555.10	11,148,320.86
Other Liabilities	2,390,699.81	3,661,964.88
Total Liabilities	13,654,254.91	14,810,285.74
Net Position:		
Net Investment in Capital Assets	150,509,167.49	145,663,108.57
Restricted	39,672,074.08	42,562,620.97
Unrestricted	4,237,892.65	7,603,891.10
Total Net Position	\$ 194,419,134.22	\$ 195,829,620.64

The largest portion of the District's net position (77 percent) is investment in capital assets (e.g., land; buildings; furniture, fixtures, and equipment), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, the resources used to repay the debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

The restricted portion of the District's net position (21 percent) represents resources that are subject to external restrictions on how they may be used. The unrestricted net position (2 percent) may be used to meet the District's ongoing obligations to students, employees, and creditors.

The key elements of the changes in the District's net position for the fiscal years ended June 30, 2013, and June 30, 2012, are as follows:

Operating Results for the Fiscal Year Ended			
	Governmental Activities		
	6-30-13	6-30-12	
Program Revenues:			
Charges for Services	\$ 2,332,088.56	\$ 2,291,726.73	
Operating Grants and Contributions	3,243,885.75	3,161,525.07	
Capital Grants and Contributions	386,938.75	393,719.09	
General Revenues:			
Property Taxes, Levied for Operational Purposes	40,020,861.41	44,325,373.39	
Property Taxes, Levied for Capital Projects	8,510,242.76	8,459,012.47	
Impact Fees	1,409,222.54	962,884.32	
Grants and Contributions Not Restricted to Specific Programs	37,239,339.95	32,249,671.69	
Unrestricted Investment Earnings	126,581.18	60,201.75	
Miscellaneous	1,293,981.19	2,035,418.41	
Total Revenues	94,563,142.09	93,939,532.92	
Functions/Program Expenses:			
Instruction	47,968,758.99	47,577,118.61	
Pupil Personnel Services	3,661,261.64	3,455,936.14	
Instructional Media Services	1,281,928.53	1,245,732.11	
Instruction and Curriculum Development Services	2,340,652.41	2,306,809.89	
Instructional Staff Training Services	1,418,450.91	1,176,450.65	
Instruction Related Technology	1,081,361.93	996,204.25	
School Board	403,657.44	515,969.89	
General Administration	950,977.57	907,214.92	
School Administration	5,158,353.90	4,858,677.85	
Facilities Acquisition and Construction	1,201,583.15	830,616.36	
Fiscal Services	548,499.43	503,174.77	
Food Services	5,300,609.67	4,968,648.58	
Central Services	540,252.26	491,828.52	
Pupil Transportation Services	4,891,754.50	4,825,605.16	
Operation of Plant	8,209,956.83	7,734,038.86	
Maintenance of Plant	2,836,417.78	2,628,196.11	
Administrative Technology Services	951,942.41	932,582.99	
Community Services	280,557.39	235,543.02	
Unallocated Interest on Long-Term Debt	162,073.48	246,286.89	
Unallocated Depreciation Expense	6,596,604.42	6,603,467.41	
Loss on Disposal of Capital Assets	187,973.87	57,469.19	
Total Functions/Program Expenses	95,973,628.51	93,097,572.17	
Change in Net Position	(1,410,486.42)	841,960.75	
Net Position - Beginning	195,829,620.64	194,987,659.89	
Net Position - Ending	\$ 194,419,134.22	\$ 195,829,620.64	

The largest revenue source is the State of Florida (34 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking

into consideration the District's funding ability based on the local property tax base. Grants and contributions not restricted to specific programs increased by \$4,989,668.26, or 15 percent, mainly because of increases in State revenues. State FEFP revenues increased by \$6,120,143, or 50 percent, while other State revenues increased by \$342,942.13, or 3 percent, from the previous fiscal year, resulting in an overall increase in State revenues of \$6,463,085.13, or 25 percent. The increase in State FEFP revenues was due mainly to effects of the FEFP funding formula to offset decreases in taxable assessed property values and an increase in the base student allocation.

Property tax revenues for operational purposes decreased by \$4,304,511.98, or 10 percent, as a result of decreases in taxable assessed property values and millage rates levied.

Instruction expenses represent 51 and 50 percent of total governmental expenses in the 2011-12 and 2012-13 fiscal years, respectively.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. Specifically, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as it represents the portion of fund balance that has not been limited to a particular purpose by an external party, the District, or a group or individual delegated authority by the Board to assign resources for particular purposes.

The total fund balances of governmental funds decreased by \$5,817,959.39 during the fiscal year to \$49,867,755.60 at June 30, 2013. Of the total fund balance, \$7,058,086.42, or 14 percent, is unassigned; \$952,423.09 is nonspendable; \$39,571,584.30 is restricted; and \$2,285,661.79 is assigned.

Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the current fiscal year, unassigned fund balance is \$7,058,086.42, while the total fund balance is \$12,699,624.73. As a measure of the General Fund's liquidity, it may be useful to compare the total assigned and unassigned fund balances to General Fund total revenues. The total assigned and unassigned fund balance is 13 percent of the total General Fund revenues, while total fund balance represents 17 percent of total General Fund revenues.

Total fund balance decreased by \$2,898,025.09 during the fiscal year. Key factors comprising the decrease in fund balance are as follows:

- Total revenues increased by \$1,601,911.58, or 2 percent, due mainly to an increase in State revenues.
- Total expenditures increased by \$3,933,788.56, or 5 percent, due mainly to an increase in salaries and related benefits.
- Total expenditures exceeded total revenues by \$3,796,416.92, while other financing sources totaled \$898,391.83.

The Special Revenue – Other Fund has total revenues and expenditures of \$4,417,125.48 each, and the funding was used mainly for instruction. Because grant revenues attributed to the grants accounted for in this fund are not recognized until expenditures are incurred, this fund generally does not accumulate a fund balance. Revenues and expenditures each decreased by \$1,218,000.26 from the previous fiscal year because of a reduction of Federal program funding.

Special Revenue – Federal Economic Stimulus Fund has total revenues and expenditures of \$158,310.44 each, and the funding was mainly used for central services. Because grant revenues and expenditures are accounted for in this fund like the Special Revenue - Other Fund, this fund generally does not accumulate a fund balance. Revenues and expenditures each decreased by \$391,577.54 from the previous fiscal year because of a reduction of Federal economic stimulus program funding.

The Capital Projects – Public Education Capital Outlay Fund has expenditures of \$436,518.59, mainly for maintenance of capital assets, and there was no fund balance remaining at June 30, 2013.

The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$28,230,530.89, which is restricted for the acquisition, construction, and maintenance of capital assets. Encumbrances of this fund total \$3,103,144.11, the majority of which is earmarked for projects at Fernandina Beach Middle and Fernandina Beach High Schools. The fund balance decreased in the current fiscal year due to the completion of renovations of various facilities.

The Capital Projects – Other Fund has a total fund balance of \$6,467,882.50. This fund accounts for the financial resources generated by the collection of impact fees to be used for educational capital outlay needs, including new construction, renovations, and remodeling projects. This fund has revenues of \$1,444,853.41, expenditures of \$47,306.98, and no encumbrances at June 30, 2013. The fund balance increased in the current fiscal year as resources were accumulated in anticipation of future construction projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund final budgeted revenues and expenditures were in line with original budget amounts. Actual revenues are \$1,116,789.43, or 2 percent greater than the final budgeted amounts, while actual expenditures are \$7,687,044.70, or 9 percent less than final budget amounts. The increase in revenues mainly resulted from unanticipated receipts of Medicaid administrative moneys and miscellaneous local revenues. The decrease in expenditures was primarily due to salary and related expenditures being less than projected. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$8,778,394.07.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2013, is \$155,664,782.42 (net of accumulated depreciation). This investment in capital assets includes land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; construction in progress; and audio visual and computer software.

Major capital asset projects during the current fiscal year included the following:

- Completion of new construction and related site work at West Nassau High School, costing approximately \$4.9 million.
- Completion of school parking and site work at Callahan Elementary School, costing approximately \$800,000.
- Completion of air conditioning installations at various high school and middle school gymnasiums, costing approximately \$1.5 million.
- At June 30, 2013, construction in progress includes renovations at Fernandina Beach Middle School and air conditioning installation at the Fernandina Beach High School gymnasium.

Additional information on the District's capital assets can be found in notes II.D and II.G to the financial statements.

Long-Term Debt

At June 30, 2013, the District has total long-term debt outstanding of \$5,155,614.93, comprised of State School Bonds of \$1,395,000, District Revenue Bonds of \$2,332,033.93, and Qualified Zone Academy Bonds of \$1,428,581. During the current fiscal year, retirement of debt was \$329,716.61.

Additional information on the District's long-term debt can be found in note II.I. to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Executive Director of Business Services, Nassau County District School Board, 1201 Atlantic Avenue, Fernandina Beach, FL 32034.

BASIC FINANCIAL STATEMENTS

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET POSITION
June 30, 2013**

	<u>Governmental Activities</u>
ASSETS	
Cash and Cash Equivalents	\$ 48,673,548.18
Investments	385,322.58
Accounts Receivable	27,638.63
Due from Other Agencies	1,351,973.13
Inventories	952,423.09
Restricted Investments	867,549.80
Capital Credits Receivable	150,151.30
Capital Assets:	
Nondepreciable Capital Assets	6,009,947.39
Depreciable Capital Assets, Net	<u>149,654,835.03</u>
TOTAL ASSETS	<u>208,073,389.13</u>
LIABILITIES	
Salaries and Benefits Payable	1,144,138.52
Payroll Deductions and Withholdings	445,254.35
Accounts Payable	345,142.50
Construction Contracts Payable	304,554.47
Construction Contracts Payable - Retainage	108,995.38
Due to Other Agencies	858.77
Unearned Revenue	41,755.82
Long-Term Liabilities:	
Portion Due Within One Year	916,318.61
Portion Due After One Year	<u>10,347,236.49</u>
TOTAL LIABILITIES	<u>13,654,254.91</u>
NET POSITION	
Net Investment in Capital Assets	150,509,167.49
Restricted for:	
State Required Carryover Programs	2,061,703.25
Debt Service	936,481.07
Capital Projects	34,698,670.63
Food Service	1,532,979.17
Other Purposes	442,239.96
Unrestricted	<u>4,237,892.65</u>
TOTAL NET POSITION	<u><u>\$ 194,419,134.22</u></u>

The accompanying notes to financial statements are an integral part of this statement.

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2013**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 47,968,758.99	\$ 27,112.78	\$	\$	\$ (47,941,646.21)
Pupil Personnel Services	3,661,261.64				(3,661,261.64)
Instructional Media Services	1,281,928.53				(1,281,928.53)
Instruction and Curriculum Development Services	2,340,652.41				(2,340,652.41)
Instructional Staff Training Services	1,418,450.91				(1,418,450.91)
Instruction Related Technology	1,081,361.93				(1,081,361.93)
School Board	403,657.44				(403,657.44)
General Administration	950,977.57				(950,977.57)
School Administration	5,158,353.90				(5,158,353.90)
Facilities Acquisition and Construction	1,201,583.15			75,573.95	(1,126,009.20)
Fiscal Services	548,499.43				(548,499.43)
Food Services	5,300,609.67	2,227,506.31	3,243,885.75		170,782.39
Central Services	540,252.26				(540,252.26)
Pupil Transportation Services	4,891,754.50	77,469.47			(4,814,285.03)
Operation of Plant	8,209,956.83				(8,209,956.83)
Maintenance of Plant	2,836,417.78				(2,836,417.78)
Administrative Technology Services	951,942.41				(951,942.41)
Community Services	280,557.39				(280,557.39)
Unallocated Interest on Long-Term Debt	162,073.48			311,364.80	149,291.32
Unallocated Depreciation Expense*	6,596,604.42				(6,596,604.42)
Loss on Disposal of Capital Assets	187,973.87				(187,973.87)
Total Governmental Activities	\$ 95,973,628.51	\$ 2,332,088.56	\$ 3,243,885.75	\$ 386,938.75	(90,010,715.45)
General Revenues:					
Taxes:					
Property Taxes, Levied for Operational Purposes					40,020,861.41
Property Taxes, Levied for Capital Projects					8,510,242.76
Impact Fees					1,409,222.54
Grants and Contributions Not Restricted to Specific Programs					37,239,339.95
Unrestricted Investment Earnings					126,581.18
Miscellaneous					1,293,981.19
Total General Revenues					88,600,229.03
Change in Net Position					(1,410,486.42)
Net Position - Beginning					195,829,620.64
Net Position - Ending					\$ 194,419,134.22

* This amount excludes the depreciation that is included in the direct expenses of the various functions.

The accompanying notes to financial statements are an integral part of this statement.

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**NASSAU COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2013**

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Public Education Capital Outlay Fund
ASSETS				
Cash and Cash Equivalents	\$ 12,693,114.46	\$	\$	\$
Investments	148,398.74			
Accounts Receivable	27,119.63			
Due from Other Funds	643,037.34			
Due from Other Agencies	111,172.83	329,440.07	2,555.34	428,689.34
Inventories	851,933.31			
Restricted Investments				
TOTAL ASSETS	\$ 14,474,776.31	\$ 329,440.07	\$ 2,555.34	\$ 428,689.34
LIABILITIES AND FUND BALANCES				
Salaries and Benefits Payable	\$ 1,144,138.52	\$	\$	\$
Payroll Deductions and Withholdings	445,254.35			
Accounts Payable	185,758.71	113,454.16		
Construction Contracts Payable				
Construction Contracts Payable - Retainage				
Due to Other Funds		211,792.66	2,555.34	428,689.34
Due to Other Agencies		858.77		
Unearned Revenue		3,334.48		
Total Liabilities	1,775,151.58	329,440.07	2,555.34	428,689.34
Fund Balances:				
Nonspendable:				
Inventories	851,933.31			
Restricted for:				
State Required Carryover Programs	2,061,703.25			
Food Service				
Debt Service				
Capital Projects				
Other Purposes	442,239.96			
Total Restricted Fund Balance	2,503,943.21			
Assigned for:				
Health Insurance	416,873.80			
Special Education Programs	663,092.90			
Wellness Program	189,503.11			
Local Programs and Other Purposes	1,016,191.98			
Total Assigned Fund Balance	2,285,661.79			
Unassigned Fund Balance	7,058,086.42			
Total Fund Balances	12,699,624.73			
TOTAL LIABILITIES AND FUND BALANCES	\$ 14,474,776.31	\$ 329,440.07	\$ 2,555.34	\$ 428,689.34

The accompanying notes to financial statements are an integral part of this statement.

Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$ 28,503,084.05 146,406.75	\$ 6,009,258.08 49,955.30	\$ 1,468,091.59 40,561.79 519.00	\$ 48,673,548.18 385,322.58 27,638.63 643,037.34
14,629.94	410,086.52	55,399.09 100,489.78 867,549.80	1,351,973.13 952,423.09 867,549.80
<u>\$ 28,664,120.74</u>	<u>\$ 6,469,299.90</u>	<u>\$ 2,532,611.05</u>	<u>\$ 52,901,492.75</u>
\$ 20,040.00 304,554.47 108,995.38	\$ 1,417.40	\$ 24,472.23	\$ 1,144,138.52 445,254.35 345,142.50 304,554.47 108,995.38 643,037.34 858.77 41,755.82
<u>433,589.85</u>	<u>1,417.40</u>	<u>38,421.34</u> <u>62,893.57</u>	<u>3,033,737.15</u>
		100,489.78	952,423.09
28,230,530.89	6,467,882.50	1,432,489.39 936,481.07 257.24	2,061,703.25 1,432,489.39 936,481.07 34,698,670.63 442,239.96
<u>28,230,530.89</u>	<u>6,467,882.50</u>	<u>2,369,227.70</u>	<u>39,571,584.30</u>
			416,873.80 663,092.90 189,503.11 1,016,191.98 2,285,661.79 7,058,086.42
<u>28,230,530.89</u>	<u>6,467,882.50</u>	<u>2,469,717.48</u>	<u>49,867,755.60</u>
<u>\$ 28,664,120.74</u>	<u>\$ 6,469,299.90</u>	<u>\$ 2,532,611.05</u>	<u>\$ 52,901,492.75</u>

NASSAU COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2013

Total Fund Balances - Governmental Funds	\$	49,867,755.60
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets, net of accumulated depreciation, used in the governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		155,664,782.42
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Capital Credits are not available to liquidate liabilities in governmental funds, but are accrued as governmental activities in the statement of net position.		150,151.30
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Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at fiscal year-end consist of:

Qualified Zone Academy Bonds Payable	\$	1,428,581.00	
Bonds Payable		3,727,033.93	
Compensated Absences Payable		2,802,566.17	
Other Postemployment Benefits Payable		3,305,374.00	
		(11,263,555.10)	

Net Position - Governmental Activities	\$	<u>194,419,134.22</u>
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The accompanying notes to financial statements are an integral part of this statement.

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**NASSAU COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2013**

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Public Education Capital Outlay Fund	Capital Projects - Local Capital Improvement Fund
Revenues					
Intergovernmental:					
Federal Direct	\$ 78,118.09	\$	\$	\$	\$
Federal Through State and Local	436,673.83	4,416,539.40	155,560.44		
State	31,983,779.95				
Local:					
Property Taxes	40,020,861.41				8,510,242.76
Impact Fees					
Charges for Services - Food Service					
Miscellaneous	1,210,484.48	586.08	2,750.00	513.53	154,777.27
Total Local Revenues	41,231,345.89	586.08	2,750.00	513.53	8,665,020.03
Total Revenues	73,729,917.76	4,417,125.48	158,310.44	513.53	8,665,020.03
Expenditures					
Current - Education:					
Instruction	45,490,681.22	2,197,426.39			
Pupil Personnel Services	3,260,939.23	379,746.31			
Instructional Media Services	1,274,981.14				
Instruction and Curriculum Development Services	1,212,879.09	1,096,958.34	16,531.81		
Instructional Staff Training Services	1,041,808.72	362,046.26	8,307.84		
Instruction Related Technology	1,078,163.12				
School Board	402,427.22				
General Administration	795,515.70	151,215.10			
School Administration	5,123,520.99	4,576.22			
Facilities Acquisition and Construction	145,200.00			235,282.45	811,088.88
Fiscal Services	545,125.20				
Food Services	54,590.81				
Central Services	438,187.87	3,179.69	95,928.55		
Pupil Transportation Services	4,229,536.41	62,452.01			
Operation of Plant	8,187,841.70				
Maintenance of Plant	2,823,267.49				
Administrative Technology Services	947,532.17		819.00		
Community Services	202,474.58	76,481.01			
Fixed Capital Outlay:					
Facilities Acquisition and Construction	22,224.83			201,236.14	7,325,447.94
Other Capital Outlay	249,437.19	83,044.15	36,723.24		3,252,133.51
Debt Service:					
Principal					
Interest and Fiscal Charges					
Total Expenditures	77,526,334.68	4,417,125.48	158,310.44	436,518.59	11,388,670.33
Excess (Deficiency) of Revenues Over Expenditures	(3,796,416.92)			(436,005.06)	(2,723,650.30)
Other Financing Sources (Uses)					
Transfers In	889,176.03				
Insurance Loss Recoveries	9,215.80				
Transfers Out					(873,500.28)
Total Other Financing Sources (Uses)	898,391.83				(873,500.28)
Net Change in Fund Balances	(2,898,025.09)			(436,005.06)	(3,597,150.58)
Fund Balances, Beginning	15,597,649.82			436,005.06	31,827,681.47
Fund Balances, Ending	\$ 12,699,624.73	\$ 0.00	\$ 0.00	\$ 0.00	\$ 28,230,530.89

The accompanying notes to financial statements are an integral part of this statement.

Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$
	78,118.09	8,196,458.42
	3,187,684.75	32,595,587.94
	611,807.99	
		48,531,104.17
1,409,222.54		1,409,222.54
	2,227,506.31	2,227,506.31
35,630.87	58,724.63	1,463,466.86
<u>1,444,853.41</u>	<u>2,286,230.94</u>	<u>53,631,299.88</u>
1,444,853.41	6,085,723.68	94,501,464.33
		47,688,107.61
		3,640,685.54
		1,274,981.14
		2,326,369.24
		1,412,162.82
		1,078,163.12
		402,427.22
		946,730.80
		5,128,097.21
10,011.82		1,201,583.15
		545,125.20
	5,233,087.12	5,287,677.93
		537,296.11
		4,291,988.42
		8,187,841.70
		2,823,267.49
		948,351.17
		278,955.59
33,267.40	568,766.58	8,150,942.89
4,027.76	60,729.23	3,686,095.08
	329,716.61	329,716.61
	<u>162,073.48</u>	<u>162,073.48</u>
<u>47,306.98</u>	<u>6,354,373.02</u>	<u>100,328,639.52</u>
<u>1,397,546.43</u>	<u>(268,649.34)</u>	<u>(5,827,175.19)</u>
	81,224.25	970,400.28
(96,900.00)		9,215.80
<u>(96,900.00)</u>		<u>(970,400.28)</u>
(96,900.00)	81,224.25	9,215.80
1,300,646.43	(187,425.09)	(5,817,959.39)
<u>5,167,236.07</u>	<u>2,657,142.57</u>	<u>55,685,714.99</u>
\$ 6,467,882.50	\$ 2,469,717.48	\$ 49,867,755.60

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2013**

Net Change in Fund Balances - Governmental Funds \$ (5,817,959.39)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays and donated assets in excess of depreciation expense in the current fiscal year.

Capital Outlay Expenditures - Governmental Funds	\$ 11,837,037.97	
Depreciation Expense	(7,178,818.85)	
Donated Assets	141,551.38	4,799,770.50

In the governmental funds, the cost of capital assets was recognized as an expenditure in the fiscal year purchased. Thus, the change in net position differs from the change in fund balance by the undepreciated cost of the disposed assets. (283,428.19)

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of debt repayments in the current fiscal year.

State School Bonds	\$ 235,000.00	
District Revenue Bonds	94,716.61	329,716.61

The District accrues capital credits to be received in future years in the statement of activities, but the revenue does not provide current financial resources and is not reported in the governmental funds. This is the net increase in capital credits receivable in the current fiscal year.

Current Year Accruals	\$ 150,151.30	
Prior Year Accruals	(143,786.40)	6,364.90

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds, expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences used in excess of the amount earned in the current fiscal year. 166,669.15

Other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net increase in the other postemployment benefits liability for the current fiscal year. (611,620.00)

Change in Net Position - Governmental Activities \$ (1,410,486.42)

The accompanying notes to financial statements are an integral part of this statement.

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
June 30, 2013**

	Agency Funds
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 1,019,647.00
	<hr/>
LIABILITIES	
Internal Accounts Payable	\$ 1,019,647.00
	<hr/>

The accompanying notes to financial statements are an integral part of this statement.

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities. All fiduciary activities are reported only in the fund financial statements. Governmental activities are normally supported by taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Nassau County School District's (District) governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense associated with the District's transportation department is allocated to the pupil transportation services function, while remaining depreciation expense is not readily associated with a particular function and is reported as unallocated.

B. Reporting Entity

The Nassau County District School Board (Board) has direct responsibility for operation, control, and supervision of District schools and is considered a primary government for financial reporting. The District is considered part of the Florida system of public education, operates under the general direction of the Florida Department of Education, and is governed by State law and State Board of Education rules. The governing body of the District is the Board, which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the Board. Geographic boundaries of the District correspond with those of Nassau County.

Criteria for determining if other entities are potential component units that should be reported within the District's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any legally separate entities for which the Board is financially accountable and other organizations for which the nature and significance of their relationship with the Board are such that exclusion would cause the District's basic financial statements to be misleading. Based on these criteria, no component units are included within the District's reporting entity.

C. Basis of Presentation: Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

The effects of interfund activity have been eliminated from the government-wide financial statements.

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

D. Basis of Presentation: Fund Financial Statements

The fund financial statements provide information about the District's funds including the fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Other Fund – to account for certain Federal grant program resources.
- Special Revenue – Federal Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA).
- Capital Projects – Public Education Capital Outlay Fund – to account for the financial resources generated by the State Capital Outlay and Debt Service Fund to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, and equipment.
- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction and renovation and remodeling projects.
- Capital Projects – Other Fund – to account for the financial resources generated by the collection of impact fees to be used for educational capital outlay needs, including new construction, renovation and remodeling projects.

Additionally, the District reports the following fiduciary fund type:

- Agency Funds – to account for resources of the school internal funds, which are used to administer moneys collected at several schools in connection with school, student athletic, class, and club activities.

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in and out. While reported in fund financial statements, transfers between the funds included in the governmental activities are eliminated.

E. Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 30 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 30 days of year-end). Expenditures are generally recognized when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, claims and judgments, other postemployment benefits, and compensated absences, are only recorded when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources. Allocations of cost, such as depreciation, are not recognized in governmental funds.

The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

F. Assets, Liabilities, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term, highly liquid investments with original maturities of three months or less. Investments classified as cash equivalents include a money market mutual fund and amounts placed with the State Board of Administration (SBA) in Florida PRIME, formerly known as the Local Government Surplus Funds Trust Fund Investment Pool.

Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes.

2. Investments

Investments consist of amounts placed in the SBA debt service accounts for investment of debt service moneys, amounts placed with the SBA for participation in the Florida PRIME and Fund B Surplus Funds Trust Fund (Fund B) investment pools created by Sections 218.405 and 218.417, Florida

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

Statutes, and those made locally. The investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

The District's investments in Florida PRIME, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost.

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 1.11845939 at June 30, 2013. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the SBA, are effected by transferring eligible cash or securities to Florida PRIME, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within Florida PRIME.

Investments made locally consist of a money market mutual fund and commercial paper and are reported at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note.

3. Inventories

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at cost on the moving weighted average basis, except that the United States Department of Agriculture donated foods are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures when used rather than purchased.

4. Restricted Assets

Certain invested assets held by a trustee under a trust agreement, in the name of the District, in connection with a Qualified Zone Academy Bonds (QZAB) Program sinking fund are classified as restricted assets on the statement of net position because they are set aside for repayment of QZAB debt at maturity as required by applicable debt covenants.

5. Capital Assets

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net position but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$500. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation. The value of land acquired prior to December 30, 1973, is based on the Nassau County Property Appraiser's appraised value at the time and, as a result, \$711,698.26 of stated land values are based on these appraised values.

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

Interest costs incurred during construction of capital assets are not considered material and are not capitalized as part of the cost of construction.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other Than Buildings	15 years
Buildings and Fixed Equipment	50 years
Furniture, Fixtures, and Equipment	3 - 15 years
Motor Vehicles	5 - 10 years
Audio Visual Materials and Computer Software	5 years

Current year information relative to changes in capital assets is described in a subsequent note.

6. Long-Term Liabilities

Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported as liabilities in the government-wide statement of net position. In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due.

Changes in long-term liabilities for the current year are reported in a subsequent note.

7. Net Position Flow Assumption

The District occasionally funds outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. To calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. Consequently, it is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

8. Fund Balance Flow Assumptions

The District may fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). To calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

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JUNE 30, 2013**

9. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board is the highest level of decision-making authority for the District that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation. The District reported no committed fund balance at June 30, 2013.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board has, by approval of the annual financial report, authorized the assignment of fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than program revenues. Revenues that are not classified as program revenues are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

2. State Revenue Sources

Significant revenues from State sources for current operations include the Florida Education Finance Program administered by the Florida Department of Education (Department) under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the Department. The Department performs certain edit checks on the reported number of FTE and related data, and calculates the allocation of funds to the District. The District is permitted to amend its original reporting for a period

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of five months following the date of the original reporting. Such amendments may impact funding allocations for subsequent years. The Department may also adjust subsequent fiscal period allocations based upon an audit of the District's compliance in determining and reporting FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the year when the adjustments are made.

The State provides financial assistance to administer certain educational programs. State Board of Education rules require that revenue earmarked for certain programs be expended only for the program for which the money is provided, and require that the money not expended as of the close of the fiscal year be carried forward into the following year to be expended for the same educational programs. The Department generally requires that these educational program revenues be accounted for in the General Fund. A portion of the fund balance of the General Fund is restricted in the governmental fund financial statements for the balance of categorical and earmarked educational program resources.

A schedule of revenue from State sources for the current year is presented in a subsequent note.

3. District Property Taxes

The Board is authorized by State law to levy property taxes for district school operations, capital improvements, and debt service.

Property taxes consist of ad valorem taxes on real and personal property within the District. Property values are determined by the Nassau County Property Appraiser, and property taxes are collected by the Nassau County Tax Collector.

The Board adopted the 2012 tax levy on September 10, 2012. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

Taxes become a lien on the property on January 1, and are delinquent on April 1, of the year following the year of assessment. State law provides for enforcement of collection of personal property taxes by seizure of the property to satisfy unpaid taxes, and for enforcement of collection of real property taxes by the sale of interest-bearing tax certificates to satisfy unpaid taxes. The procedures result in the collection of essentially all taxes prior to June 30 of the year following the year of assessment.

Property tax revenues are recognized in the government-wide financial statements when the Board adopts the tax levy. Property tax revenues are recognized in the governmental fund financial statements when taxes are received by the District, except that revenue is accrued for taxes collected by the Nassau County Tax Collector at fiscal year-end but not yet remitted to the District.

Millages and taxes levied for the current year are presented in a subsequent note.

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4. Educational Impact Fees

Nassau County (County) imposes an educational impact fee based on Ordinance No. 2005-56 adopted by the County Commission in July 2005. The educational impact fee is collected for most new residential construction by the County and each municipality based on interlocal agreements. The fees shall be used solely for the purpose of providing capital improvements to the public educational system necessitated by new residential development, and shall not be used for any expenditure that would be classified as an operating, maintenance, or repair expense. The authorized capital improvements costs include, but are not limited to, school sites, buildings, relocatable classrooms, building contents, nonbuilding improvements, and vehicles.

5. Federal Revenue Sources

The District receives Federal awards for the enhancement of various educational programs. Federal awards are generally received based on applications submitted to, and approved by, various granting agencies. For Federal awards in which a claim to these grant proceeds is based on incurring eligible expenditures, revenue is recognized to the extent that eligible expenditures have been incurred.

6. Compensated Absences

In the government-wide financial statements, compensated absences (i.e., paid absences for employee vacation leave and sick leave) are accrued as liabilities to the extent that it is probable that the benefits will result in termination payments. A liability for these amounts is reported in the governmental fund financial statements only if it has matured, such as for occurrences of employee resignations and retirements. The liability for compensated absences includes salary-related benefits, where applicable.

II. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash Deposits with Financial Institutions

Custodial Credit Risk-Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. All bank balances of the District are fully insured or collateralized as required by Chapter 280, Florida Statutes.

Cash balances from all funds are combined and invested to extent available. Earnings are allocated monthly to each fund balance on average daily balances.

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B. Investments

As of June 30, 2013, the District has the following investments and maturities:

Investments	Maturities	Fair Value
SBA:		
Florida PRIME (1)	40 Day Average	\$ 859,546.32
Fund B	3.98 Year Average	345,018.03
Debt Service Accounts	6 Months	40,304.55
Dreyfus Cash Management Institutional Shares		
Money Market Mutual Fund (1)	44 Day Average	25,488,134.01
Commercial Paper (2)	October 8, 2013	867,549.80
Total Investments		<u>\$ 27,600,552.71</u>

Notes: (1) Investments reported as cash equivalents for financial statement reporting purposes.

(2) This investment is held by a paying agent in connection with the QZAB financing arrangement. (See note II.I.)

➤ **Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

Florida PRIME had a weighted average days to maturity (WAM) of 40 days at June 30, 2013. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Due to the nature of the securities in Fund B, the interest rate risk information required by GASB Statement No. 40 (i.e., specific identification, duration, weighted average maturity, segmented time distribution, or simulation model) is not available. An estimate of the weighted average life (WAL) is available. In the calculation of the WAL, the time at which an expected principal amount is to be received, measured in years, is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. The WAL, based on expected future cash flows, of Fund B at June 30, 2013, is estimated at 3.98 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL. Participation in Fund B is involuntary.

➤ **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Section 218.415(17), Florida Statutes, limits investments to the SBA's Florida PRIME, or any other intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District does not have a formal investment policy that limits its investment choices.

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The District's investments in the SBA debt service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by the SBA for managing interest rate risk and credit risk for this account.

The District's investment in Florida PRIME is rated AAAM by Standard & Poor's. Fund B is unrated.

The District's investment in the Dreyfus Cash Management Institutional Shares Money Market Mutual Fund is rated AAAM by Standard & Poor's and Aaa-mf by Moody's Investors Service.

The District's investment in commercial paper is authorized under a forward delivery agreement with the QZABs paying agent. The forward delivery agreement authorizes the investment of the available sinking fund amounts in certain eligible securities, including United States Treasury securities, obligations issued by agencies of the United States Government, and short-term obligations issued by banks, corporations, or other borrower having a rating at the time of delivery of at least P-1 by Moody's Investors Service or A-1 by Standard & Poor's. As of June 30, 2013, the District's investment in commercial paper was rated A-1 by Standard & Poor's, and P-1 by Moody's Investors Service.

➤ **Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Section 218.415(18), Florida Statutes, requires the District to earmark all investments and 1) if registered with the issuer or its agents, the investment must be immediately placed for safekeeping in a location that protects the governing body's interest in the security; 2) if in book entry form, the investment must be held for the credit of the governing body by a depository chartered by the Federal Government, the State, or any other state or territory of the United States which has a branch or principal place of business in this State, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in this State, and must be kept by the depository in an account separate and apart from the assets of the financial institution; or 3) if physically issued to the holder but not registered with the issuer or its agents, must be immediately placed for safekeeping in a secured vault. The District does not have a formal investment policy that addresses custodial credit risk. The District's investment in commercial paper is being held by a paying agent in connection with the QZABs financing arrangement.

➤ **Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District does not have a formal investment policy that limits the amount the District may invest in any one issuer.

Commercial paper issued by Fortis Funding, LLC, comprises 37 percent of the District's total investments reported in the Other Governmental Funds.

C. Capital Credits

The District participates in the Okefenoke Rural Electric Membership Corporation, a nonprofit electric cooperative. Revenues in excess of operating expenses, unless otherwise determined by a vote of the membership, are distributed by the cooperative on a pro rata share basis to its members. Annually, the cooperative makes payments for designated prior years' capital credits. During the 2012-13 fiscal year, the District received \$2,724.61 related to the 1987 and 1988 capital credits and new credits of \$9,089.51. At June 30, 2013, the accumulated credits to the District's accounts were \$150,151.30.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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D. Changes in Capital Assets

Changes in capital assets are presented in the table below:

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 4,150,094.53	\$	\$ 15.00	\$ 4,150,079.53
Construction in Progress	2,873,185.52	8,150,957.89	9,164,275.55	1,859,867.86
Total Capital Assets Not Being Depreciated	7,023,280.05	8,150,957.89	9,164,290.55	6,009,947.39
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	8,168,778.78	2,045,271.33		10,214,050.11
Buildings and Fixed Equipment	193,885,085.62	7,119,004.22		201,004,089.84
Furniture, Fixtures, and Equipment	20,413,460.13	3,502,015.33	2,812,923.56	21,102,551.90
Motor Vehicles	8,578,355.55	259,804.00	3,300.00	8,834,859.55
Audio Visual Materials and Computer Software	4,229,312.08	65,812.13	232,522.83	4,062,601.38
Total Capital Assets Being Depreciated	235,274,992.16	12,991,907.01	3,048,746.39	245,218,152.78
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	6,529,280.51	323,390.64		6,852,671.15
Buildings and Fixed Equipment	60,483,434.77	4,047,943.26		64,531,378.03
Furniture, Fixtures, and Equipment	14,552,332.62	2,149,931.16	2,624,964.71	14,077,299.07
Motor Vehicles	5,562,375.93	582,214.43	3,284.98	6,141,305.38
Audio Visual Materials and Computer Software	4,022,408.27	75,339.36	137,083.51	3,960,664.12
Total Accumulated Depreciation	91,149,832.10	7,178,818.85	2,765,333.20	95,563,317.75
Total Capital Assets Being Depreciated, Net	144,125,160.06	5,813,088.16	283,413.19	149,654,835.03
Governmental Activities Capital Assets, Net	<u>\$ 151,148,440.11</u>	<u>\$ 13,964,046.05</u>	<u>\$ 9,447,703.74</u>	<u>\$ 155,664,782.42</u>

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 582,214.43
Unallocated	6,596,604.42
Total Depreciation Expense - Governmental Activities	<u>\$ 7,178,818.85</u>

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E. Florida Retirement System

Essentially all regular employees of the District are eligible to enroll as members of the State-administered Florida Retirement System (FRS). Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. The FRS is a single retirement system administered by the Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined-benefit pension plan (Plan), with a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the FRS Investment Plan (Investment Plan).

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service. Members of both Plans may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined-benefit plan. District employees participating in DROP are not eligible to participate in this program. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The Investment Plan is funded by employer and employee contributions that are based on salary and membership class (Regular, Elected County Officers, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in the Investment Plan vest at one year of service.

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The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2012-13 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
FRS, Regular	3.00	5.18
FRS, Elected County Officers	3.00	10.23
DROP - Applicable to Members from All of the Above Classes	0.00	5.44
FRS, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.03 percent for administrative costs of the Investment Plan.

(B) Contribution rates are dependent upon retirement class in which reemployed.

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions, including employee contributions, for the fiscal years ended June 30, 2011, June 30, 2012, and June 30, 2013, totaled \$5,334,844.02, \$3,499,420.75, and \$3,696,232.10, respectively, which were equal to the required contributions for each fiscal year.

There were 183 District participants in the Investment Plan during the 2012-13 fiscal year. The District's contributions, including employee contributions, to the Investment Plan totaled \$520,059.34 which was equal to the required contribution for the 2012-13 fiscal year.

Financial statements and other supplementary information of the FRS are included in the State's Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services. An annual report on the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services, Division of Retirement.

F. Other Postemployment Benefits Obligations

Plan Description. The Other Postemployment Benefits Plan (OPEB Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District's health and hospitalization plan for medical and prescription drug coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. The District does not offer any explicit subsidies for retiree coverage. Retirees are assumed to enroll in the Federal Medicare program for their primary

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coverage as soon as they are eligible. The OPEB Plan does not issue a stand-alone report, and is not included in the report of a public employee retirement system or other entity.

Funding Policy. Plan contribution requirements of the District and OPEB Plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual OPEB costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2012-13 fiscal year, 51 retirees received other postemployment benefits. The District provided required contributions of \$344,874 toward the annual OPEB cost, net of retiree contributions totaling \$511,670 which represents 1.39 percent of covered payroll.

Annual OPEB Cost and Net OPEB Obligation. The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the District's annual OPEB cost for the fiscal year, the amount actually contributed to the OPEB Plan, and changes in the District's net OPEB obligation:

Description	Amount
Normal Cost (service cost for one year)	\$ 589,730
Amortization of Unfunded Actuarial Accrued Liability	<u>381,476</u>
Annual Required Contribution	971,206
Interest on Net OPEB Obligation	88,894
Adjustment to Annual Required Contribution	<u>(103,606)</u>
Annual OPEB Cost (Expense)	956,494
Contribution Toward the OPEB Cost	<u>(344,874)</u>
Change in Net OPEB Obligation	611,620
Net OPEB Obligation, Beginning of Year	<u>2,693,754</u>
Net OPEB Obligation, End of Year	<u><u>\$ 3,305,374</u></u>

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The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2013, and the two preceding fiscal years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
_____	_____	_____	_____
2010-11	\$ 1,241,751	41.32%	\$ 1,922,434
2011-12	1,312,550	41.24%	2,693,754
2012-13	956,494	36.06%	3,305,374

Funded Status and Funding Progress. As of October 1, 2012, the most recent valuation date, the actuarial accrued liability for benefits was \$9,758,651, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$9,758,651, and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$36,866,124, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 26.5 percent.

Actuarial valuations of an ongoing OPEB Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the OPEB Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required schedule of funding progress immediately following the notes to financial statements presents multiyear trend information about whether the actuarial value of OPEB Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive OPEB Plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The District's OPEB actuarial valuation as of October 1, 2012, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2013, and the District's 2012-13 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3.3 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 3.3 percent per year, projected salary increases of 4 to 8.375 percent, and an annual healthcare cost trend rate of 8.5 percent beginning October 1, 2013, declining to an ultimate rate of 5.53 percent beginning October 2020. The investment rate of return and projected salary increase rate include a general price

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inflation of 3 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013, was 26 years.

G. Construction and Other Significant Commitments

Construction Contracts. Encumbrances include the following major construction contract commitments at fiscal year-end:

Project	Contract Amount	Completed to Date	Balance Committed
Fernandina Beach High - HVAC Project:			
Architect	\$ 48,601.01	\$ 44,226.92	\$ 4,374.09
Contractor	639,487.00	248,608.62	390,878.38
Fernandina Beach Middle - Additions and Renovations:			
Architect	233,514.71	209,503.83	24,010.88
Contractor	3,073,061.00	841,345.06	2,231,715.94
Total	<u>\$ 3,994,663.72</u>	<u>\$ 1,343,684.43</u>	<u>\$ 2,650,979.29</u>

Encumbrances. Appropriations in governmental funds are encumbered upon issuance of purchase orders for goods and services. Even though appropriations lapse at the end of the fiscal year, unfilled purchase orders of the current year are carried forward and the next year's appropriations are likewise encumbered.

The following is a schedule of encumbrances at June 30, 2013:

Major Funds			Nonmajor Governmental Funds	Total Governmental Funds
General	Special Revenue - Other	Capital Projects - Local Capital Improvement		
<u>\$1,003,016.15</u>	<u>\$204,654.96</u>	<u>\$3,103,144.11</u>	<u>\$139,223.57</u>	<u>\$4,450,038.79</u>

H. Risk Management Programs

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Nassau County District School Board is a member of the North East Florida Educational Consortium (NEFEC) under which several district school boards have established a combined limited self-insurance program for property protection, general liability, automobile liability, workers' compensation, money and securities, employee fidelity and faithful performance, boiler and machinery, and other coverage deemed necessary by the members of NEFEC. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. NEFEC is self-sustaining through member assessments (premiums), and purchases coverage through commercial companies for claims in excess of specified

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amounts. The Board of Directors for NEFEC is composed of superintendents of all participating districts. The Putnam County District School Board serves as fiscal agent for NEFEC.

Employee group health, hospitalization, and life insurance coverage are being provided through purchased commercial insurance with minimum deductibles for each line of coverage.

Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

I. Long-Term Liabilities

1. Qualified Zone Academy Bonds Payable

The District entered into a financing agreement dated October 1, 2003, under the Qualified Zone Academy Bonds (QZAB) Program. The QZAB Program provides no interest cost financing to purchase certain goods and services for schools located in eligible District areas (zones). The District received financing of \$1,428,581 from a local bank on October 8, 2003. Interest on the debt is "paid" by the United States Government through the issuance of Federal income tax credits to the holder of the QZAB debt (the bank). The rate of return to the bank was established by the United States Government at the time of the sale. Repayment of the original \$1,428,581 financing proceeds is due in full on October 8, 2017. In connection with the financing, the District entered into a forward delivery agreement requiring annual deposits to a sinking fund of \$81,224.25 for 14 consecutive years beginning October 8, 2004. The forward delivery agreement provides a guaranteed investment return whereby the required deposits, along with the accrued interest, will be sufficient to repay the debt at maturity. The invested assets accumulated pursuant to the forward delivery agreement are held under a custodial agreement until the debt matures. The financing proceeds were designated for the following equipment and improvements: wireless communication system at one school; energy management systems at seven schools; heating, ventilation, and air conditioning upgrades at one school; and reroofing of various buildings at two schools.

2. Bonds Payable

Bonds payable at June 30, 2013, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
<hr/>			
State School Bonds:			
Series 2005B, Refunding	\$1,310,000.00	5.0	2018
Series 2009A, Refunding	85,000.00	5.0	2019
District Revenue Bonds:			
Series 2012	2,332,033.93	3.18	2031
	<hr/>		
Total Bonds Payable	<u>\$3,727,033.93</u>		

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

The various bonds were issued to finance capital outlay projects of the District. The following is a description of the bonded debt issues:

➤ State School Bonds

These bonds are issued by the SBE on behalf of the District. The bonds mature serially, and are secured by a pledge of the District's portion of the State-assessed motor vehicle license tax. The State's full faith and credit is also pledged as security for these bonds. Principal and interest payments, investment of Debt Service Fund resources, and compliance with reserve requirements are administered by the SBE and the SBA.

➤ District Revenue Bonds

These bonds are authorized by Chapter 80-550, Laws of Florida, which provides that the bonds be secured from the pari-mutuel tax proceeds distributed annually to Nassau County from the State's Pari-mutuel Tax Collection Trust Fund pursuant to Chapter 550, Florida Statutes (effective July 1, 2000, tax proceeds were distributed pursuant to Section 212.20(6)(d)7.a., Florida Statutes (2001), now Section 212.20(6)(d)6.a., Florida Statutes (2011)). The annual distribution is remitted by the Florida Department of Financial Services to the District. As required by the bond resolution, the District has established the sinking fund and reserve account and has accumulated and maintained adequate resources in the sinking fund and reserve account.

The District has pledged a total of \$3,081,735.56 of pari-mutuel revenues in connection with the District Revenue Bonds, Series 2012. During the 2012-13 fiscal year, the District recognized pari-mutuel revenues totaling \$223,250, and expended \$171,152.82 (77 percent) of these revenues for debt service directly collateralized by these revenues. The pledged revenues are committed until final maturity of the debt on July 1, 2031. Approximately 77 percent of this revenue stream has been pledged in connection with debt service on the revenue bonds.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2013, are as follows:

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2014	\$ 319,750.00	\$ 250,000.00	\$ 69,750.00
2015	317,250.00	260,000.00	57,250.00
2016	314,250.00	270,000.00	44,250.00
2017	320,750.00	290,000.00	30,750.00
2018	321,250.00	305,000.00	16,250.00
2019	21,000.00	20,000.00	1,000.00
Total State School Bonds	1,614,250.00	1,395,000.00	219,250.00
District Revenue Bonds:			
2014	171,152.82	97,754.15	73,398.67
2015	171,152.82	100,887.44	70,265.38
2016	171,152.82	103,939.77	67,213.05
2017	171,152.82	107,452.73	63,700.09
2018	171,152.82	110,896.89	60,255.93
2019-2023	855,764.10	609,980.01	245,784.09
2024-2028	855,764.10	714,204.40	141,559.70
2028-2031	514,443.26	486,918.54	27,524.72
Total District Revenue Bonds	3,081,735.56	2,332,033.93	749,701.63
Total	\$ 4,695,985.56	\$ 3,727,033.93	\$ 968,951.63

3. Changes in Long-Term Liabilities

The following is a summary of changes in long-term liabilities:

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Qualified Zone Academy Bonds Payable	\$ 1,428,581.00	\$	\$	\$ 1,428,581.00	\$
Bonds Payable	4,056,750.54		329,716.61	3,727,033.93	347,754.15
Compensated Absences Payable	2,969,235.32	401,895.31	568,564.46	2,802,566.17	568,564.46
Other Postemployment Benefits Payable	2,693,754.00	956,494.00	344,874.00	3,305,374.00	
Total Governmental Activities	\$ 11,148,320.86	\$ 1,358,389.31	\$ 1,243,155.07	\$ 11,263,555.10	\$ 916,318.61

For the governmental activities, compensated absences and other postemployment benefits are generally liquidated with resources of the General Fund.

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

J. Fund Balance Reporting

In addition to committed and assigned fund balance categories discussed in the **Fund Balance Policies** note disclosure, fund balances may be classified as follows:

- **Nonspendable Fund Balance.** Nonspendable fund balance is the net current financial resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Generally, not in spendable form means that an item is not expected to be converted to cash.
- **Restricted Fund Balance.** Restricted fund balance is the portion of fund balance on which constraints have been placed by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. Restricted fund balance places the most binding level of constraint on the use of fund balance.
- **Unassigned Fund Balance.** The unassigned fund balance is the portion of fund balance that is the residual classification for the General Fund. This balance represents amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned for specific purposes.

K. Interfund Receivables and Payables

The following is a summary of interfund receivables and payables reported in the fund financial statements:

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 643,037.34	\$
Special Revenue:		
Other		211,792.66
Federal Economic Stimulus		2,555.34
Capital Projects:		
Public Education Capital Outlay		428,689.34
Total	<u>\$ 643,037.34</u>	<u>\$ 643,037.34</u>

Interfund balances generally arise due to expenditures being adjusted between funds. The interfund amounts represent temporary loans from one fund to another, and are expected to be repaid within a year.

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

L. Revenues and Expenditures/Expenses

1. Schedule of State Revenue Sources

The following is a schedule of the District's State revenue sources for the 2012-13 fiscal year:

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 18,406,919.00
Categorical Educational Program - Class Size Reduction	12,048,935.00
School Recognition	872,866.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	382,184.00
Workforce Development Program	366,523.00
Food Service Supplement	56,201.00
Mobile Home License Tax	24,195.58
Miscellaneous	437,764.36
	<hr/>
Total	\$ 32,595,587.94

Accounting policies relating to certain State revenue sources are described in note I.G.2.

2. Property Taxes

The following is a summary of millages and taxes levied on the 2012 tax roll for the 2012-13 fiscal year:

<u>GENERAL FUND</u>	<u>Millages</u>	<u>Taxes Levied</u>
Nonvoted School Tax:		
Required Local Effort	5.472	\$ 36,564,075
Basic Discretionary Local Effort	0.748	4,998,159
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.323	8,840,327
Total	7.543	\$ 50,402,561

NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

M. Interfund Transfers

The following is a summary of interfund transfers reported in the fund financial statements:

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$889,176.03	\$
Capital Projects:		
Local Capital Improvement		873,500.28
Other		96,900.00
Nonmajor Governmental Funds	81,224.25	
Total	<u>\$970,400.28</u>	<u>\$ 970,400.28</u>

Interfund transfers represent permanent transfers of money between funds. The transfers out of the Capital Projects – Local Capital Improvement Fund were to reimburse property insurance expenditures and lease payments on portables to the General Fund and to provide QZAB sinking fund payments to a nonmajor governmental fund. The transfer out of the Capital Projects – Other Fund was to reimburse the General Fund for lease payments on portables.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2013**

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 60,000.00	\$ 60,000.00	\$ 78,118.09	\$ 18,118.09
Federal Through State and Local State	7,200.00 32,662,256.00	7,200.00 31,880,649.00	436,673.83 31,983,779.95	429,473.83 103,130.95
Local:				
Property Taxes	39,899,746.00	39,899,746.00	40,020,861.41	121,115.41
Miscellaneous	635,738.20	765,533.33	1,210,484.48	444,951.15
Total Local Revenues	<u>40,535,484.20</u>	<u>40,665,279.33</u>	<u>41,231,345.89</u>	<u>566,066.56</u>
Total Revenues	<u>73,264,940.20</u>	<u>72,613,128.33</u>	<u>73,729,917.76</u>	<u>1,116,789.43</u>
Expenditures				
Current - Education:				
Instruction	49,813,297.25	49,853,223.14	45,490,681.22	4,362,541.92
Pupil Personnel Services	3,241,289.67	3,483,690.14	3,260,939.23	222,750.91
Instructional Media Services	1,281,886.73	1,307,862.28	1,274,981.14	32,881.14
Instruction and Curriculum Development Services	1,201,979.03	1,363,600.16	1,212,879.09	150,721.07
Instructional Staff Training Services	1,171,085.51	1,265,202.61	1,041,808.72	223,393.89
Instruction Related Technology	1,410,137.18	1,168,665.86	1,078,163.12	90,502.74
School Board	596,994.34	604,588.34	402,427.22	202,161.12
General Administration	1,208,982.08	863,969.57	795,515.70	68,453.87
School Administration	5,206,693.09	5,271,103.48	5,123,520.99	147,582.49
Facilities Acquisition and Construction	146,379.17	146,379.17	145,200.00	1,179.17
Fiscal Services	551,790.77	570,539.77	545,125.20	25,414.57
Food Services	2,115.08	54,943.18	54,590.81	352.37
Central Services	518,371.84	529,960.25	438,187.87	91,772.38
Pupil Transportation Services	4,340,018.81	4,565,851.30	4,229,536.41	336,314.89
Operation of Plant	8,533,782.77	8,753,401.52	8,187,841.70	565,559.82
Maintenance of Plant	3,392,399.39	3,477,641.39	2,823,267.49	654,373.90
Administrative Technology Services	1,056,774.31	1,076,037.10	947,532.17	128,504.93
Community Services	1,015,633.00	585,058.10	202,474.58	382,583.52
Fixed Capital Outlay:				
Facilities Acquisition and Construction		22,224.83	22,224.83	
Other Capital Outlay		249,437.19	249,437.19	
Total Expenditures	<u>84,689,610.02</u>	<u>85,213,379.38</u>	<u>77,526,334.68</u>	<u>7,687,044.70</u>
Deficiency of Revenues Over Expenditures	<u>(11,424,669.82)</u>	<u>(12,600,251.05)</u>	<u>(3,796,416.92)</u>	<u>8,803,834.13</u>
Other Financing Sources				
Transfers In	889,177.00	889,177.00	889,176.03	(0.97)
Insurance Loss Recoveries			9,215.80	9,215.80
Total Other Financing Sources	<u>889,177.00</u>	<u>889,177.00</u>	<u>898,391.83</u>	<u>9,214.83</u>
Net Change in Fund Balances	<u>(10,535,492.82)</u>	<u>(11,711,074.05)</u>	<u>(2,898,025.09)</u>	<u>8,813,048.96</u>
Fund Balances, Beginning	<u>15,632,304.71</u>	<u>15,632,304.71</u>	<u>15,597,649.82</u>	<u>(34,654.89)</u>
Fund Balances, Ending	<u>\$ 5,096,811.89</u>	<u>\$ 3,921,230.66</u>	<u>\$ 12,699,624.73</u>	<u>\$ 8,778,394.07</u>

Special Revenue - Other Fund				Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
\$ 5,569,952.85	\$ 6,093,819.16	\$ 4,416,539.40	\$ (1,677,279.76)	\$ 555,545.92	\$ 566,772.81	\$ 155,560.44	\$ (411,212.37)
	586.08	586.08				2,750.00	2,750.00
	586.08	586.08				2,750.00	2,750.00
<u>5,569,952.85</u>	<u>6,094,405.24</u>	<u>4,417,125.48</u>	<u>(1,677,279.76)</u>	<u>555,545.92</u>	<u>566,772.81</u>	<u>158,310.44</u>	<u>(408,462.37)</u>
2,625,962.19	2,989,337.48	2,197,426.39	791,911.09	50,924.00	13,600.00		13,600.00
432,784.19	506,104.98	379,746.31	126,358.67				
5,800.00	5,800.00		5,800.00				
1,098,338.43	1,120,821.07	1,096,958.34	23,862.73	20,731.81	32,531.81	16,531.81	16,000.00
497,423.55	589,072.21	362,046.26	227,025.95	199,023.29	154,887.04	8,307.84	146,579.20
732,238.41	551,291.57	151,215.10	400,076.47				
1,500.00	5,800.00	4,576.22	1,223.78				
100.00	100.00		100.00				
4,942.00	4,785.00	3,179.69	1,605.31	263,971.82	328,211.72	95,928.55	232,283.17
93,927.00	159,811.70	62,452.01	97,359.69				
	1,500.00		1,500.00				
76,937.08	76,937.08	76,481.01	456.07	20,895.00	819.00	819.00	
	83,044.15	83,044.15			36,723.24	36,723.24	
<u>5,569,952.85</u>	<u>6,094,405.24</u>	<u>4,417,125.48</u>	<u>1,677,279.76</u>	<u>555,545.92</u>	<u>566,772.81</u>	<u>158,310.44</u>	<u>408,462.37</u>
<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

NASSAU COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF FUNDING PROGRESS -
OTHER POSTEMPLOYMENT BENEFITS PLAN

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) (1)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
October 1, 2007	\$ 0	\$ 12,460,837	\$ 12,460,837	0.0%	\$ 35,285,901	35.3%
October 1, 2010	0	14,284,847	14,284,847	0.0%	34,139,349	41.8%
October 1, 2012	0	9,758,651	9,758,651	0.0%	36,866,124	26.5%

Note: (1) The District's OPEB actuarial valuation used the entry age normal cost method to estimate the actuarial accrued liability.

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2013**

I. BUDGETARY BASIS OF ACCOUNTING

The Board follows procedures established by State statutes and State Board of Education (SBE) rules in establishing budget balances for governmental funds, as described below:

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and SBE rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any Board meeting prior to the due date for the annual financial report.
- Budgets are prepared using the same modified accrual basis as is used to account for governmental funds.
- Budgetary information is integrated into the accounting system and, to facilitate budget control, budget balances are encumbered when purchase orders are issued. Appropriations lapse at fiscal year-end and encumbrances outstanding are honored from the subsequent year's appropriations.

II. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The October 1, 2012, unfunded actuarial accrued liability of \$9,758,651 was significantly lower than the October 1, 2010, liability of \$14,284,847 as a result of population changes and assumptions as discussed below:

- The number of retirees currently receiving postemployment health benefits through the District core plan decreased from 91 in the October 1, 2010, valuation to 51 in the October 1, 2012, valuation, decreasing the cost and liability. Conversely, the number of active employees eligible for future postemployment benefits increased from 926 in the October 1, 2010, valuation to 943 in the October 1, 2012, valuation, increasing the cost and liability.
- The total cost of coverage decreased modestly from \$787 per employee per month (as expected for year beginning October 1, 2010) to \$783 per employee per month for year beginning October 1, 2012. This is lower than the projected \$930 per employee per month, decreasing the cost and liability.
- The discount rate used in valuing future cash flows was lowered from 3.6 percent to 3.3 percent, increasing the cost and liability.
- Revisions were made in the assumed trend of Medical and prescription cost increases. In the October 1, 2012, valuation, it was assumed the trends costs and premiums would be 8 percent for the year beginning October 1, 2013, decreasing 0.5 percent each year thereafter to the ultimate value of 5 percent. Revisions were made to trend rates for costs and premiums charged to retirees beginning October 1, 2013, to be 8.5 percent higher for costs and premiums (to reflect actual premium increases), decreasing 0.5 percent each year thereafter to the ultimate value of 5.53 percent, increasing the cost and liability.
- Revisions have been made to the assumed rate of coverage acceptance and continuation. In the October 1, 2010, valuation, it was assumed that 50 percent of retiring employees under the age of 65 would elect to continue medical coverage through the District's plan. Additional data collected for the October 1, 2012, valuation, suggests that fewer retirees have been making that choice and, consequently, it is now assumed that 40 percent of employees will elect to keep the coverage upon retirement, decreasing the cost and liability.

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
JUNE 30, 2013**

- Revisions were made in the assumption pertaining to the cost of coverage for retirees eligible for Medicare. In the October 1, 2010, valuation, it was assumed that the employer's cost to the Plan for claims incurred by a retiree enrolled in both Parts A and B of Medicare would be 40 percent lower than the cost of the same claim incurred by a retiree who was not eligible for Medicare benefits. In the October 1, 2012, valuation, the percentage was revised to 45 percent, decreasing the cost and liability.
- Revisions were made to certain demographic assumptions to reflect changes made to the Florida Retirement System for its July 1, 2011, actuarial valuation, increasing the cost and liability.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2013**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Agriculture:			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Agriculture and Consumer Services:			
School Breakfast Program	10.553	321	\$ 628,227.14
National School Lunch Program	10.555 (2)	300, 350	2,559,457.61
Total United States Department of Agriculture			3,187,684.75
United States Department of Justice:			
Indirect:			
Florida Office of the Attorney General:			
Crime Victim Assistance	16.575	V12014	87,092.47
United States Department of Labor:			
Indirect:			
First Coast Workforce Development, Inc.:			
WIA Youth Activities	17.259	2013-08	142,381.17
National Science Foundation:			
Indirect:			
University of Florida:			
Education and Human Resources	47.076	None	20,376.87
United States Department of Energy:			
Indirect:			
University of Central Florida:			
ARRA - State Energy Program	81.041	None	643.87
United States Department of Education:			
Indirect:			
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027	263	2,022,330.01
Special Education - Preschool Grants	84.173	267	43,894.04
Total Special Education Cluster			2,066,224.05
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191, 193	136,071.34
Title I Grants to Local Educational Agencies	84.010	212, 223, 226	1,570,650.32
Career and Technical Education - Basic Grants to States	84.048	161	120,715.72
Education for Homeless Children and Youth	84.196	127	38,114.47
English Language Acquisition State Grants	84.365	102	10,304.44
Improving Teacher Quality State Grants	84.367	224	235,220.01
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL111, RG311	155,560.44
Washington County District School Board:			
Safe and Drug-Free Schools and Communities - State Grants	84.186	None	1,941.53
Total United States Department of Education			4,334,802.32
United States Department of Health and Human Services:			
Indirect:			
Florida Department of Health:			
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	COH9W	76,481.01
United States Department of Defense:			
Direct:			
Air Force Junior Reserve Officers Training Corps	None	N/A	78,118.09
Total Expenditures of Federal Awards			\$ 7,927,580.55

Notes: (1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the fiscal year as determined based on the modified accrual basis of accounting. The amounts reported on the Schedule have been reconciled to and are in material agreement with amounts recorded in the District's accounting records from which the basic financial statements have been reported.

(2) Noncash Assistance - National School Lunch Program. Includes \$263,964.05 of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.



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AUDITOR GENERAL STATE OF FLORIDA

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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Report on the Financial Statements

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Nassau County District School Board as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 12, 2014, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the school internal funds as described in our report on the Nassau County District School Board's financial statements. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Financial Statement Finding No. 1, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain additional matters that are discussed in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report.

Management's response to the findings described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is included in Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of the **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS** is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 12, 2014



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450



PHONE: 850-412-2722
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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Report on Compliance for Each Major Federal Program

We have audited the Nassau County District School Board's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2013. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2013.

Report on Internal Control Over Compliance

District management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 12, 2014

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No
Identification of major programs:	
CFDA Numbers:	Name of Federal Program or Cluster:
10.553 and 10.555	Child Nutrition Cluster
84.395	ARRA - State Fiscal Stabilization Fund (SFSF) – Race-to-the-Top Incentive Funds, Recovery Act
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

FINANCIAL STATEMENT FINDING

SIGNIFICANT DEFICIENCY

Finding No. 1: Financial Reporting

Preparation of fund financial statements pursuant to generally accepted accounting principles (GAAP) requires an analysis to determine the major governmental funds that require separate columnar presentation. The District must report a governmental fund as major when the fund's liabilities represent at least 10 percent of the total governmental fund liabilities.

Our review of the District's 2012-13 fiscal year annual financial report, as submitted to the Florida Department of Education and presented for audit, indicated improvements could be made in financial reporting procedures. District personnel made certain closing journal entries in preparation of its annual financial report that were not considered in making the major fund determination. As a result, the District's Special Revenue – Other Fund and the Capital Projects – Public Education Capital Outlay Fund were not identified and separately reported as major funds. Separately reporting major funds allows financial statement users to readily identify the District's most significant funds and their account balances and transactions, and ensures compliance with GAAP.

We extended our procedures to determine the adjustments to properly report the Special Revenue – Other Fund and the Capital Projects – Public Education Capital Outlay Fund as major funds on the financial statements, and District personnel accepted these adjustments. However, our extended audit procedures cannot substitute for management's responsibility to implement adequate controls over financial reporting.

Recommendation: **The District should improve its financial reporting procedures to ensure that major funds are properly identified and reported on the financial statements.**

ADDITIONAL MATTERS

Finding No. 2: Bus Drivers

State Board of Education (SBE) Rule 6A-3.0141(4) and (9), Florida Administrative Code (FAC), require that the District at least annually ensure that personnel, prior to transporting students on school buses, hold valid commercial driver licenses with passenger and school bus endorsements and be physically capable of operating the vehicles as determined by a physician and documented on a Florida Department of Education (FDOE) physical examination form. SBE Rule 6A-3.0141(8), FAC, and Board policy provide that school bus drivers with expired, suspended, or revoked commercial vehicle driving licenses, or infractions making the driver unqualified for the position in accordance with the District's Safe Driver Plan, will not be allowed to drive a school bus. The SBE rule further

provides that each school district shall establish a school board policy that specifies which infractions of the traffic code cause employees to be subject to a prescribed follow-up action.

The District's *Transportation Handbook* includes a Safe Driver Plan that provides, in part, a point system for driving infractions that requires administrative actions against drivers, ranging from verbal warnings to employment termination, based on the points accumulated. The Safe Driver Plan also provides that to qualify and remain employed by the District, every bus driver must establish and maintain an overall driving record that exemplifies careful driving habits, and report all accidents and violations involving either District-owned or non-District owned vehicles.

While District procedures for monitoring school bus drivers were generally adequate, our review disclosed that such procedures could be improved. Specifically, of our review of bus driver history records disclosed the following:

- During the 2012–13 fiscal year, while driving non-District owned vehicles, one driver received a speeding citation and another driver received a careless driving citation; however, the District assessed no points to the drivers' records and issued no documented warnings to the drivers, contrary to the District's Safe Driver Plan. Subsequent to our inquiry, the District's Safe Driver Plan Committee assessed points and issued a documented warning to one driver on July 10, 2013, and to the other driver on October 29, 2013.
- The Florida Department of Highway Safety and Motor Vehicles (FDHSMV) records disclosed that although one driver's commercial driver license was revoked as of August 6, 2012, for not maintaining and timely submitting a valid FDOE physical examination form, the District allowed the driver to drive regularly scheduled bus routes from the start of the school year, August 8, 2012, until the driver terminated employment effective September 5, 2012.

In response to our inquiries, District personnel indicated the errors in administering the Safe Driver Plan and permitting the driver to operate a school bus without maintaining and timely submitting the required FDOE physical examination form resulted from oversights.

To promote school bus safety and to reduce the risk of accidents caused by school bus drivers, it is important that District personnel consider all driving infractions, correctly assign points for driving infractions, and monitor the maintenance and timely submission of valid FDOE physical examination forms to ensure the drivers meet the requirements to operate school buses.

Recommendation: The District should enhance its procedures to ensure that driving infractions are appropriately considered in reviews of school bus driver history records and that points are assessed in accordance with the Safe Driver Plan. The District should also enhance procedures to ensure that school bus drivers maintain and timely submit valid FDOE physical examination forms.

Finding No. 3: Construction Contract Administration

Section 1013.45(1)(b), Florida Statutes, authorizes the District to contract for the construction or renovation of facilities with a design-build (DB) firm. Under a DB project, contractor profit and overhead are contractually agreed upon, and the contracted firm is responsible for all scheduling and coordination in both the design and construction phases, and is generally responsible for the successful, timely, and economical completion of the construction project. The DB firm may be required to offer a guaranteed maximum price (GMP), which allows, for projects in which actual costs are less than the GMP, the difference between the actual cost of the project and the GMP amount, or the net cost savings, to be returned to the District. As such, a GMP contract requires District personnel to closely monitor subcontractor bid awards and other construction costs.

In March 2012, the Board entered into a GMP contract with a DB firm to design and install air conditioning systems in four school gymnasiums with a total GMP of \$1,599,947. During 2012-13 fiscal year, the District made payments of \$1,307,857 to the DB firm for the contracted services and the project was completed in November 2012. Our review disclosed that the District's construction contract administration procedures could be improved, as follows:

- The District did not require that the DB firm obtain subcontractor bids, although the GMP proposal provided by the DB firm indicated that \$794,703.80 of the project would be performed by subcontractors. In response to our inquiries regarding subcontractor bids, District personnel indicated that the DB firm used subcontractors they had previous experience working with rather than soliciting bids.
- District personnel indicated that, upon receipt of pay requests from the DB firm, review procedures included verifying the mathematical accuracy of the request, recalculating retainage, and verifying that prior payments were properly applied to the pay request. However, District records did not evidence subcontractor contracts, change orders, and invoices for District personnel to reconcile line items on the schedule of values listed on the pay requests to these records. District personnel indicate the records were not obtained and reconciliations were not performed because they relied on the DB firm to perform these procedures.

Without bidding subcontractor services and monitoring and review procedures to reconcile subcontracts, change orders, and invoices to DB pay requests, the risk is increased that errors or fraud could occur without timely detection and that cost savings will not be maximized under the GMP.

Recommendation: The District should implement procedures to require bids for work to be performed by subcontractors on DB projects with a GMP, and properly monitor payments to the firm to ensure that such payments are adequately supported and consistent with submitted prices and related contracts. The District should also request supporting documentation from the DB firm for all construction costs and verify the accuracy of amounts invoiced to ensure that maximum cost savings were realized under the GMP.

Finding No. 4: Facilities Management

The District's facilities and maintenance department is responsible for managing construction and renovation projects and ensuring facilities are safe and suitable for their intended use. In addition, department personnel perform heating, ventilating, air conditioning (HVAC), electrical, plumbing, and other maintenance-related jobs. During the 2012-13 fiscal year, the department employed 39 employees and the department's operating cost was \$2.8 million. Also, during the fiscal year, the District had expenditures totaling \$7.7 million for capital projects fund construction and renovation projects and, as shown on the District's Five-Year Facilities Work Plan as approved by the Board on September 9, 2013, the District planned to spend \$69.7 million on construction and renovation projects and \$4.4 million on maintenance over the next five fiscal years. At June 30, 2013, the historical cost of the District's educational and ancillary facilities, including land purchases, was \$217 million and, as shown on the FDOE's Florida Inventory of School Houses data, District facilities had an average age of 30 years.

Based on our review of controls over the District's construction and maintenance activities as noted in our report No. 2013-150, we recommended that the District consider establishing a long-range facilities planning committee comprised of various stakeholders to periodically meet and assist the District in identifying long-range construction needs; develop written policies and procedures requiring documented periodic evaluations of alternative facilities construction methods and significant maintenance-related job techniques; and develop additional goals and objectives for the facilities and maintenance department to identify cost-effectiveness or efficiency outcomes for department personnel.

In his response, the District's Superintendent indicated the District would develop written policies and procedures to document its facilities planning process, review current departmental procedures and expectations for cost-effective

outcomes, and assess staffing considerations and maintenance-related job techniques. However, as of January 30, 2014, District records did not evidence consideration of establishing a long-range facilities planning committee comprised of various stakeholders to assist the District in identifying long-range construction needs, nor had the District developed written policies and procedures regarding the evaluation of alternative construction methods and maintenance-related techniques and additional goals and accountability objectives for the facilities and maintenance department.

Recommendation: The District should consider establishing a long-range facilities planning committee comprised of various stakeholders to periodically meet and assist the District in identifying long-range construction needs. Also, the District should consider developing written policies and procedures requiring periodic evaluations of alternative facilities construction methods and significant maintenance-related job techniques, and document these evaluations. In addition, the District should consider developing additional goals and objectives for the facilities and maintenance department to identify cost-effectiveness or efficiency outcomes for department personnel.

Finding No. 5: Adult General Education Classes

Section 1004.02(3), Florida Statutes, defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. The District received State funding for adult general education, and proviso language in Chapter 2012-118, Laws of Florida, Specific Appropriation 106, required that each school district report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with the FDOE instructional hours reporting procedures.

FDOE procedures stated that fundable instructional contact hours are those scheduled hours that occur between the date of enrollment in a class and the withdrawal date or end-of-class date, whichever is sooner. FDOE procedures also provided that school districts develop a procedure for withdrawing students for nonattendance and that the standard for setting the withdrawal date be six consecutive absences from a class schedule, with the withdrawal date reported as the day after the last date of attendance. In addition, there is a minimum enrollment threshold of 12 hours of attendance for each program that must be met before a student can be counted for funding purposes.

For the 2012-13 fiscal year, the District reported to the FDOE 98,523 instructional contact hours for 381 students enrolled in 173 adult general education classes. Our review of 3,766 hours reported for 15 students enrolled in 75 adult general education classes disclosed contact hours were over-reported by a net of 673 hours for 10 students in 18 classes, as follows:

- The District over-reported 361 hours for 4 students enrolled in 10 classes because they had six consecutive absences and were not procedurally withdrawn, contrary to FDOE procedures.
- The District over-reported 118 hours for 4 students enrolled in 4 classes because the District reported hours after the students should have been procedurally withdrawn, contrary to the FDOE procedures. Also, after exclusion of the over-reported hours for 1 of the 4 students, the student was not enrolled for the required minimum 12 hours.
- The District over-reported 206 hours for 2 students enrolled in 3 classes because District records did not evidence the students attended the classes.
- The District under-reported 12 hours for 1 student enrolled in 1 class because an incorrect enrollment date was used.

In response to our inquiries, District personnel indicated that the misreported hours resulted from system programming errors and employee oversights. Given the number of errors, the full extent of the class hours misreported was not readily available.

Since future funding may be based, in part, on enrollment data reported to the FDOE, it is important that the District reports data correctly. Similar findings were noted in our report Nos. 2012-113 and 2013-150.

Recommendation: The District should strengthen its controls to ensure accurate reporting of instructional contact hours for adult general education classes to the FDOE. The District should also determine the extent of adult general hours misreported and contact the FDOE for proper resolution.

Finding No. 6: Information Technology – Access Privileges

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions inconsistent with their assigned job responsibilities. For example, access privileges should typically be configured to enforce a separation of application end-user and IT duties whereby only the responsible end-users can originate or correct transactions and initiate change to data files and IT employees are restricted from performing end-user functions.

Our test of selected access privileges to the District's network and finance and human resources (HR) applications disclosed some access privileges that were unnecessary or permitted employees to perform incompatible functions. Specifically:

- One account used by Office of Technology Services staff for testing purposes had access privileges that allowed update access to all production functions within the finance and HR applications, including updating vendor, customer, and employee records; adding, changing, and deleting purchase order records; reposting general ledger transactions; and creating manual checks and related vouchers. In response to our inquiries, District management deleted this account.
- Fifty-six user accounts had been granted administrator privileges within the District's network domain. With these access privileges, the 56 users could access certain confidential or sensitive information stored within documents and files, including finance and HR information. These access privileges also gave the 56 employees the ability to modify information stored within the District's network. Administrator access privileges are typically limited to employees who are responsible for performing network administration duties or services that require complete access to network resources.

To compensate, in part, for the above deficiencies, the District had certain controls in place, such as independently prepared bank account reconciliations and monitoring of department budgets and related expenditures. However, the existence of inappropriate or unnecessary access privileges increased the risk of unauthorized disclosure, modification, or destruction of District data and IT resources.

Recommendation: The District should ensure access privileges assigned within the finance and HR applications enforce an appropriate separation of IT and application end-user duties. In addition, the District should limit the assignment of network administrative access to users or accounts with documented responsibilities for managing or accessing all District network resources.

Finding No. 7: Information Technology – Security Controls – User Authentication and Data Loss Prevention

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed that certain District IT security controls related to user authentication and data loss prevention needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues.

Without adequate security controls related to user authentication and data loss prevention, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised.

Recommendation: The District should improve IT security controls related to user authentication and data loss prevention to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in the previous audit reports. The following table provides information on District recurring audit findings:

Current Fiscal Year Finding Numbers	2011-12 Fiscal Year Audit Report and Finding Numbers	2011-10 Fiscal Year Audit Report and Finding Numbers
4	Audit Report No. 2013-150, Finding No. 4	NA
5	Audit Report No. 2013-150, Finding No. 2	Audit Report No. 2012-113, Finding No. 4

NA – Not Applicable (Note: Above chart limits recurring findings to two previous audit reports.)

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*NASSAU COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2013*

Listed below is the District's summary of the status of prior audit findings on Federal programs:

Audit Report No. and Federal Awards Finding No.	Program/ Area	Brief Description	Status	Comments
2013-150		There were no prior Federal audit findings.		

EXHIBIT A
MANAGEMENT'S RESPONSE



The Nassau County School District

1201 Atlantic Avenue
Fernandina Beach, Florida 32034

“Empowering others through a commitment to excellence”

John L. Ruis, Ed.D.
Superintendent of Schools

(904) 491-9900
Fax (904) 277-9042
info@nassau.k12.fl.us

March 11, 2014

Mr. David Martin, CPA
State of Florida Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Mr. Martin:

The following is our response to the findings of our audit for the fiscal year ended June 30, 2013.

Finding No. 1: Financial Reporting: We will update our procedures to ensure that the calculations for reporting on major funds are made subsequent to the final adjusting entries to ensure the accurate reporting of major governmental funds in accordance with GAAP. We do feel that it should be noted that the increases to the liability accounts which caused this error in reporting were for funds due between funds of the entity and not to outside vendors.

Finding No. 2: Bus Drivers: We believe that adequate procedures are in place to ensure that bus driver's licenses and traffic violations are monitored and dealt with appropriately. Two of the three infractions were, we believe, due to extenuating circumstances which our staff was working with the drivers to correct. Additional care will be taken in the future to ensure appropriate action is taken in a timely manner.

Finding No. 3: Construction Contract Administration: As was noted in last year's audit response, it was never the intent of the district to enter into a Design Build contract and/or the Guaranteed Maximum Price contract but to contract these services in a manner to provide conditions more favorable for purchase to the School Board. We have been in touch with the contractor and will follow through with the review of the necessary paperwork to address the auditors' concerns. Should the District decide to enter into a Design Build / GMP contract in the future we will ensure that proper procedures are followed in compliance with the Auditor General's application of s.1013.45 and SBER 6A-1.012.

Finding No. 4: Facilities Management: The District is in complete compliance with s.1013 regarding requirements for educational plant survey preparation and assessment of localized needs. The District

Our mission is to develop each student as an inspired life-long learner and problem-solver with the strength of character to serve as a productive member of society.

The Nassau County School District does not discriminate on the basis of race, color, national origin, gender, age, disability or marital status in its educational programs, services or activities, or in its hiring or employment practices.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Mr. David Martin, CPA
Page 2 Audit Response
March 11, 2014

also solicits and interacts with various stakeholders pursuant to Administrative Rule 7.55, SBNC, in the planning of construction projects based upon the primary goal of providing sufficient classroom facilities for students. We are not aware of any statutory or regulatory requirements for establishing such a committee and note that the findings from the 2012 audit indicate procedures here regarding this process are "generally adequate". The "procedural enhancements" alluded to in the findings appear to discount the interaction and feedback the district engages in on a regular basis with stakeholders such as the business community, school/parent groups, and District personnel.

Further, s.1013.45(1) states "Boards may employ" certain procedures for educational facilities and construction techniques such as construction management. The District's experience indicates that the use of traditional design-bid-build methods provide the most cost effective and beneficial option for planning/awarding construction project contracts.

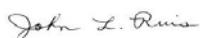
Though we have obtained policies and procedures from other districts for consideration in reviewing current departmental procedures, expectations for cost-effective outcomes, assessing staffing considerations, and maintenance-related job techniques, the development of written documents have not been completed at this time. Apparently, this is an audit issue for other districts within our region as it pertains to the effectiveness and efficiency of facility operations. Currently, we are involved in discussions with the Northeast Florida Educational Consortium (NEFEC) and the Panhandle Area Educational Consortium (PAEC) for sharing/developing policies and procedures that would adequately address these audit concerns as expressed for facility operations.

Finding No. 5: Adult General Education Classes: We implemented a new student software system during 2012-2013 and thought that the program was designed to automatically take the appropriate action. As your concerns show this was not the reality. During 2013-2014 we have provided additional instruction to staff to identify the proper procedures to address your concerns. Additionally, steps are being taken during each reporting period to review the data prior to submission to ensure the accuracy of the data being reported. District staff is working on reviewing data reported for 2012-2013 in order to ensure the accuracy of the data reported to the Department of Education.

Finding No. 6: Information Technology – Access Privileges: We are in the process of evaluating each of these accounts and making the necessary adjustments to their access privileges.

Finding No. 7: Information Technology – Security Controls: Upon identification of your concerns steps were taken by Information Technology to strengthen controls in these areas. The changes in our controls have been reported to your staff.

Sincerely,



John L. Ruis, Ed.D.
Superintendent of Schools