

**NASSAU COUNTY
DISTRICT SCHOOL BOARD**

**Financial, Operational, and Federal Single
Audit**

For the Fiscal Year Ended
June 30, 2011



BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2010-11 fiscal year are listed below:

| | <u>District No.</u> |
|--------------------------------------|---------------------|
| Donna Martin, Chair from 11-16-10 | 1 |
| Gail G. Cook | 2 |
| Muriel N. Creamer to 11-15-10, Chair | 3 |
| Amanda L. Young from 11-16-10 | 3 |
| James M. Adams to 5-31-11 (1) | 4 |
| Dr. Kathy Knight Burns, Vice Chair | 5 |

Dr. John L. Ruis, Superintendent

Note (1): Member resigned effective May 31, 2011. Position remained vacant as of June 30, 2011.

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 John Duffy, CPA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

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) 487-9175; 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

Our audit did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. 1: District records did not evidence that performance assessments of instructional personnel and school administrators were based primarily on student performance, contrary to Section 1012.34(3), Florida Statutes (2010).

Finding No. 2: The Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes (2010), and documenting the differentiated pay process of instructional personnel and school-based administrators using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes (2010).

Finding No. 3: Controls over electronic funds transfers could be enhanced.

Finding No. 4: 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. 5: District records did not evidence that the use of ad valorem tax levy proceeds for insurance premiums was consistent with Section 1011.71(5), Florida Statutes, resulting in \$88,916 of questioned costs.

Finding No. 6: The District needed to enhance its procedures to ensure timely deactivation of information technology (IT) access privileges for former employees.

Finding No. 7: The District did not have a written IT security incident response plan.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster; WIA Youth Activities; Title I, Part A Cluster; Special Education Cluster; State Fiscal Stabilization Fund Cluster; and Education Jobs Fund 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. 2011-114.

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, 2011. 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.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

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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 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, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. 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 9 percent of the assets and 69 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 on the report 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report 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, 2011, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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.

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 *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,



David W. Martin, CPA
February 20, 2012

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, 2011. 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 on pages 9 through 35.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2010-11 fiscal year are as follows:

- In total, net assets increased \$6,987,368.38, or 4 percent over the 2009-10 fiscal year.
- The District's assets exceeded its liabilities at June 30, 2011, by \$194,987,659.89 (net assets). Of this amount, \$8,911,654.93 (unrestricted net assets) may be used to meet the District's current and future obligations.
- General revenues total \$96,887,883.34, or 90 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$10,191,741.10, or 10 percent of all revenues.
- Expenses total \$100,092,256.06; only \$10,191,741.10 of these expenses was offset by program specific charges, with the remainder paid from general revenues. Total revenues exceeded total expenses by \$6,987,368.38.
- The fund balance of the General Fund totals \$16,340,293.95 at June 30, 2011, or 21 percent of total General Fund revenues. This fund balance includes \$803,176.75 of nonspendable funds, \$2,560,356.08 of restricted funds, and \$11,765,952.82 of unassigned funds.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

- Government-wide financial statements;
- Fund financial statements; and
- Notes to 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 assets 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 assets provides information about the District's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net assets, is a measure of the District's financial health. The statement of activities presents information about the change in the District's net assets, the results of operations, during the fiscal year. An increase or decrease in net assets 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. These represent most of the District's services, including its educational programs: basic, vocational, adult and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's educational finance program provide most of the resources that support these 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 entity-wide 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, the governmental funds utilize a spendable financial resources measurement focus rather than the economic resources measurement focus found in the government-wide financial statements. The financial resources measurement focus allows the governmental fund statements to provide information on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year.

The governmental fund statements provide a detailed short-term view that may be used to evaluate the District's near-term financing requirements. This short-term view is useful when compared to the long-term view presented as governmental activities in the government-wide financial statements. To facilitate this comparison, both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation of governmental funds to 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 – Federal Economic Stimulus Fund, and Capital Projects – Local Capital Improvement 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government’s financial position. The following is a summary of the District’s net assets as of June 30, 2011, compared to net assets as of June 30, 2010:

| | Net Assets, End of Year | |
|------------------------------|--------------------------------|--------------------------|
| | Governmental Activities | |
| | 6-30-11 | 6-30-10 |
| Current and Other Assets | \$ 60,899,947.11 | \$ 54,671,569.34 |
| Capital Assets | 149,095,859.36 | 147,766,699.92 |
| Total Assets | 209,995,806.47 | 202,438,269.26 |
| Long-Term Liabilities | 10,746,526.10 | 10,326,805.12 |
| Other Liabilities | 4,261,620.48 | 4,111,172.63 |
| Total Liabilities | 15,008,146.58 | 14,437,977.75 |
| Net Assets: | | |
| Invested in Capital Assets - | | |
| Net of Related Debt | 143,357,278.36 | 141,733,118.92 |
| Restricted | 42,718,726.60 | 42,140,004.92 |
| Unrestricted | 8,911,654.93 | 4,127,167.67 |
| Total Net Assets | \$194,987,659.89 | \$ 188,000,291.51 |

The largest portion of the District’s net assets (74 percent) reflects its 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.

The restricted portion of the District’s net assets (22 percent) represents resources that are subject to external restrictions on how they may be used. The unrestricted net assets (4 percent) may be used to meet the government’s ongoing obligations to students, employees, and creditors.

The key elements of the changes in the District’s net assets for the fiscal years ended June 30, 2011, and June 30, 2010, are as follows:

Operating Results for the Fiscal Year Ended

| | Governmental Activities | |
|--|-------------------------|------------------------|
| | 6-30-11 | 6-30-10 |
| Program Revenues: | | |
| Charges for Services | \$ 2,401,793.14 | \$ 2,510,824.88 |
| Operating Grants and Contributions | 5,772,691.23 | 5,247,591.34 |
| Capital Grants and Contributions | 2,017,256.73 | 1,404,648.04 |
| General Revenues: | | |
| Property Taxes, Levied for Operational Purposes | 49,318,664.68 | 49,850,649.28 |
| Property Taxes, Levied for Capital Projects | 9,652,274.10 | 10,029,504.52 |
| Grants and Contributions Not Restricted to Specific Programs | 36,895,998.47 | 30,503,165.00 |
| Unrestricted Investment Earnings | 230,163.76 | 423,592.43 |
| Miscellaneous | 790,782.33 | 628,644.97 |
| Total Revenues | 107,079,624.44 | 100,598,620.46 |
| Functions/Program Expenses: | | |
| Instruction | 51,479,332.73 | 48,727,464.55 |
| Pupil Personnel Services | 3,639,344.59 | 3,610,062.71 |
| Instructional Media Services | 1,406,946.95 | 1,396,033.91 |
| Instruction and Curriculum Development Services | 2,736,669.80 | 2,414,957.65 |
| Instructional Staff Training Services | 1,354,545.10 | 1,439,147.80 |
| Instruction Related Technology | 983,280.59 | 830,383.49 |
| School Board | 466,196.14 | 548,243.42 |
| General Administration | 985,857.54 | 994,891.32 |
| School Administration | 5,288,111.14 | 5,102,784.10 |
| Facilities Acquisition and Construction | 684,111.75 | 357,017.92 |
| Fiscal Services | 557,614.58 | 536,581.92 |
| Food Services | 4,915,639.92 | 4,812,727.44 |
| Central Services | 559,301.94 | 479,368.46 |
| Pupil Transportation Services | 4,745,923.67 | 4,411,581.24 |
| Operation of Plant | 8,563,538.19 | 8,224,972.75 |
| Maintenance of Plant | 3,033,935.58 | 2,770,333.90 |
| Administrative Technology Services | 853,115.52 | 862,056.80 |
| Community Services | 258,495.93 | 313,272.19 |
| Unallocated Interest on Long-Term Debt | 227,585.90 | 225,064.17 |
| Unallocated Depreciation Expense | 6,371,074.66 | 6,274,286.91 |
| Loss on Disposal of Capital Assets | 981,633.84 | |
| Total Functions/Program Expenses | 100,092,256.06 | 94,331,232.65 |
| Increase in Net Assets | \$ 6,987,368.38 | \$ 6,267,387.81 |

The majority of the District’s revenues for current operations are provided through the State’s Florida Education Finance Program (FEFP), other State educational programs, and local property taxes. The majority of these revenues are included in general revenues, which provide about 90 percent of total revenues, whereas program revenues provide only about 10 percent. The majority of program revenues (91 percent) are in the facilities acquisition and construction, food services, and pupil transportation services activities.

The FEFP funding formula is used to allocate State revenue sources for current operations, and utilizing student enrollment data, is designed to maintain equity in funding across all Florida school districts considering funding ability based on taxable local property values. The State’s tourism revenue plays a major role in the State’s ability to fund its share of the formula. The downturn in the national economy has affected local property values and the revenue collected by the State.

Grants and contributions not restricted to specific programs revenues increased by \$6,392,833.47 or 21 percent, primarily due to an increase in State FEFP revenues and one-time appropriation from the Federal Education Jobs Fund Act.

Capital grants and contributions revenue increased by \$612,608.69, or 44 percent. These revenues are primarily received from the State and are for the acquisition, construction, and maintenance of educational facilities. The increase in funding is mainly due to new construction projects during the 2010-11 fiscal year.

Instruction expenses represent 52 and 51 percent of total governmental expenses for the 2009-10 and 2010-11 fiscal years, respectively. Instruction expense increased \$2,751,868.18 due, in part, to new hiring to meet class-size reduction requirements, and step increases.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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 \$11,765,952.82, while the total fund balance is \$16,340,293.95. The unassigned fund balance increased by \$4,618,631.29 over unreserved fund balance at June 30, 2010, while the total fund balance increased by \$4,352,047.72 during the fiscal year. The key factor in this increase was that beginning in the 2009-10 fiscal year, the District began receiving one-time appropriations under the American Recovery and Reinvestment Act (ARRA). The intent of these funds is to help stabilize State and local government budgets in order to minimize and avoid reductions in education and other essential public services. Depending on the program, these funds are generally available for only one to two years. During the 2010-11 fiscal year, the District received a one-time appropriation under the Education Jobs Act which was enacted on August 10, 2010. The intent of these funds is to help school districts pay salaries and benefits of teachers, school administrators, and other essential school-based staff. The District shifted some General Fund costs to these Federal stimulus programs, thereby increasing the General Fund's fund balance.

The Special Revenue – Federal Economic Stimulus Fund has total revenues and expenditures of \$7,527,559.94 each, and the funding was mainly used for instructional related costs. Because grant revenues are not recognized until expenditures are incurred, this fund generally does not accumulate fund balance.

The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$31,209,267.11, which is restricted for the acquisition, construction, and maintenance of capital assets. Encumbrances of this fund total \$2,636,968.52, the majority of which is earmarked for projects at Yulee Middle, Fernandina Beach Middle, and West Nassau High Schools. The fund balance increased in the current fiscal year as resources were accumulated in anticipation of future construction projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of the 2010-11 fiscal year, the District amended its General Fund budget several times, which resulted in a decrease in total budgeted revenues of \$1,404,804.11, or 2 percent. At the same time, final appropriations are greater than the original budgeted amounts by \$1,399,570.63. Budget revisions were due primarily to changes in estimated State funding levels and corresponding adjustments to planned expenditures to ensure maintenance of an adequate fund balance.

Actual revenues are \$2,367,852.03, or 3 percent greater than the final budgeted amounts, while actual expenditures are \$8,650,189.95, or 11 percent, less than final budget amounts. The increase in revenues was due primarily to the collection of prior year taxes, which resulted from several years' of litigation and finalization of bankruptcy proceedings for area businesses. The decrease in expenditures was primarily due to continued cost containment

measures implemented by the District. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$11,017,238.59.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2011, amounts to \$149,095,859.36 (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 computer software.

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

- Construction in progress at June 30, 2011, for renovations and additions at Southside Elementary School; classroom additions at Yulee Middle School; auditorium, additions, and related site work at Fernandina Beach Middle School; and new construction and related site work at West Nassau High School.
- The District sold a parcel of land costing \$114,285.71, and had a loss on disposal of capital assets, primarily related to Atlantic Elementary School, in the amount of \$981,633.84.

Additional information on the District's capital assets can be found in Notes 5 and 15 to the financial statements.

Long-Term Debt

At June 30, 2011, the District has total long-term debt outstanding of \$5,738,581. This amount was comprised of \$1,850,000 of State School Bonds; \$2,460,000 of District Revenue Bonds; and \$1,428,581 of Qualified Zone Academy Bonds. The District retired \$295,000 of long-term bond debt during the fiscal year.

Additional information on the District's long-term debt can be found in Notes 6 through 8 to the financial statements.

REQUESTS FOR INFORMATION

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, Florida 32034.

BASIC FINANCIAL STATEMENTS

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS
June 30, 2011**

| | Governmental Activities |
|---|----------------------------|
| ASSETS | |
| Cash and Cash Equivalents | \$ 56,884,473.40 |
| Investments | 670,836.76 |
| Accounts Receivable | 24,400.69 |
| Due from Other Agencies | 1,628,434.77 |
| Inventories | 900,649.93 |
| Capital Credits Receivable | 139,662.16 |
| Restricted Investments | 651,489.40 |
| Capital Assets: | |
| Nondepreciable Capital Assets | 9,278,488.79 |
| Depreciable Capital Assets, Net | 139,817,370.57 |
| TOTAL ASSETS | \$ 209,995,806.47 |
| LIABILITIES | |
| Salaries and Benefits Payable | \$ 2,214,541.97 |
| Payroll Deductions and Withholdings | 504,986.81 |
| Accounts Payable | 484,376.89 |
| Construction Contracts Payable | 348,786.11 |
| Construction Contracts Payable - Retainage | 534,117.35 |
| Deferred Revenue | 37,822.60 |
| Matured Bonds Payable | 75,000.00 |
| Matured Interest Payable | 61,988.75 |
| Long-Term Liabilities: | |
| Portion Due Within One Year | 568,358.66 |
| Portion Due After One Year | 10,178,167.44 |
| Total Liabilities | 15,008,146.58 |
| NET ASSETS | |
| Invested in Capital Assets, Net of Related Debt | 143,357,278.36 |
| Restricted for: | |
| State Required Carryover Programs | 2,560,356.08 |
| Debt Service | 730,955.54 |
| Capital Projects | 37,849,931.90 |
| Food Service | 1,577,483.08 |
| Unrestricted | 8,911,654.93 |
| Total Net Assets | 194,987,659.89 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 209,995,806.47 |

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, 2011**

| Functions/Programs | Expenses | Program Revenues | | | Net (Expenses) Revenue and Changes in Net Assets |
|---|--------------------------|----------------------------|--|--|---|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government Governmental Activities |
| Governmental Activities: | | | | | |
| Instruction | \$ 51,479,332.73 | \$ 36,858.00 | \$ | \$ | \$ (51,442,474.73) |
| Pupil Personnel Services | 3,639,344.59 | | | | (3,639,344.59) |
| Instructional Media Services | 1,406,946.95 | | | | (1,406,946.95) |
| Instruction and Curriculum Development Services | 2,736,669.80 | | | | (2,736,669.80) |
| Instructional Staff Training Services | 1,354,545.10 | | | | (1,354,545.10) |
| Instruction Related Technology | 983,280.59 | | | | (983,280.59) |
| School Board | 466,196.14 | | | | (466,196.14) |
| General Administration | 985,857.54 | | | | (985,857.54) |
| School Administration | 5,288,111.14 | | | | (5,288,111.14) |
| Facilities Acquisition and Construction | 684,111.75 | | | 1,123,585.29 | 439,473.54 |
| Fiscal Services | 557,614.58 | | | | (557,614.58) |
| Food Services | 4,915,639.92 | 2,296,531.24 | 3,059,244.23 | | 440,135.55 |
| Central Services | 559,301.94 | | | | (559,301.94) |
| Pupil Transportation Services | 4,745,923.67 | 68,403.90 | 2,713,447.00 | | (1,964,072.77) |
| Operation of Plant | 8,563,538.19 | | | | (8,563,538.19) |
| Maintenance of Plant | 3,033,935.58 | | | 576,135.00 | (2,457,800.58) |
| Administrative Technology Services | 853,115.52 | | | | (853,115.52) |
| Community Services | 258,495.93 | | | | (258,495.93) |
| Unallocated Interest on Long-Term Debt | 227,585.90 | | | 317,536.44 | 89,950.54 |
| Unallocated Depreciation Expense* | 6,371,074.66 | | | | (6,371,074.66) |
| Loss on Disposal of Capital Assets | 981,633.84 | | | | (981,633.84) |
| Total Governmental Activities | \$ 100,092,256.06 | \$ 2,401,793.14 | \$ 5,772,691.23 | \$ 2,017,256.73 | (89,900,514.96) |
| General Revenues: | | | | | |
| Taxes: | | | | | |
| | | | | | 49,318,664.68 |
| | | | | | 9,652,274.10 |
| | | | | | 36,895,998.47 |
| | | | | | 230,163.76 |
| | | | | | 790,782.33 |
| Total General Revenues | | | | | 96,887,883.34 |
| Change in Net Assets | | | | | 6,987,368.38 |
| Net Assets - Beginning | | | | | 188,000,291.51 |
| Net Assets - Ending | | | | | \$ 194,987,659.89 |

* 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.

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2011**

| | General Fund | Special Revenue - Federal Economic Stimulus Fund | Capital Projects - Local Capital Improvement Fund | Other Governmental Funds | Total Governmental Funds |
|--|-------------------------|---|--|--------------------------------|--------------------------------|
| ASSETS | | | | | |
| Cash and Cash Equivalents | \$ 17,811,721.98 | \$ | \$ 31,981,804.25 | \$ 7,090,947.17 | \$ 56,884,473.40 |
| Investments | 117,900.76 | | 308,867.98 | 244,068.02 | 670,836.76 |
| Accounts Receivable | 24,400.69 | | | | 24,400.69 |
| Due from Other Funds | 413,853.76 | | | | 413,853.76 |
| Due from Other Agencies | 127,461.36 | 230,835.45 | 13,153.27 | 1,256,984.69 | 1,628,434.77 |
| Inventories | 803,176.75 | | | 97,473.18 | 900,649.93 |
| Restricted Investments | | | | 651,489.40 | 651,489.40 |
| TOTAL ASSETS | \$ 19,298,515.30 | \$ 230,835.45 | \$ 32,303,825.50 | \$ 9,340,962.46 | \$ 61,174,138.71 |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Salaries and Benefits Payable | \$ 2,214,541.97 | \$ | \$ | \$ | \$ 2,214,541.97 |
| Payroll Deductions and Withholdings | 504,986.81 | | | | 504,986.81 |
| Accounts Payable | 238,692.57 | 361.07 | 211,941.25 | 33,382.00 | 484,376.89 |
| Construction Contracts Payable | | | 348,499.79 | 286.32 | 348,786.11 |
| Construction Contracts Payable - Retainage | | | 534,117.35 | | 534,117.35 |
| Due to Other Funds | | 230,474.38 | | 183,379.38 | 413,853.76 |
| Deferred Revenue | | | | 37,822.60 | 37,822.60 |
| Matured Bonds Payable | | | | 75,000.00 | 75,000.00 |
| Matured Interest Payable | | | | 61,988.75 | 61,988.75 |
| Total Liabilities | 2,958,221.35 | 230,835.45 | 1,094,558.39 | 391,859.05 | 4,675,474.24 |
| Fund Balances: | | | | | |
| Nonspendable: | | | | | |
| Inventory | 803,176.75 | | | 97,473.18 | 900,649.93 |
| Restricted for: | | | | | |
| State Required Carryover Programs | 2,560,356.08 | | | | 2,560,356.08 |
| Debt Service | | | | 730,955.54 | 730,955.54 |
| Capital Projects | | | 31,209,267.11 | 6,640,664.79 | 37,849,931.90 |
| Food Services | | | | 1,480,009.90 | 1,480,009.90 |
| Total Restricted Fund Balance | 2,560,356.08 | | 31,209,267.11 | 8,851,630.23 | 42,621,253.42 |
| Assigned for: | | | | | |
| Textbooks | 697,970.63 | | | | 697,970.63 |
| Other Purchased Services | 355,488.34 | | | | 355,488.34 |
| Other Purposes | 157,349.33 | | | | 157,349.33 |
| Total Assigned Fund Balance | 1,210,808.30 | | | | 1,210,808.30 |
| Unassigned Fund Balance | 11,765,952.82 | | | | 11,765,952.82 |
| Total Fund Balances | 16,340,293.95 | | 31,209,267.11 | 8,949,103.41 | 56,498,664.47 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 19,298,515.30 | \$ 230,835.45 | \$ 32,303,825.50 | \$ 9,340,962.46 | \$ 61,174,138.71 |

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

NASSAU COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Total Fund Balances - Governmental Funds \$ 56,498,664.47

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 149,095,859.36

Capital credits are not available to liquidate liabilities in governmental funds, but are accrued governmental activities in the statement of net assets. 139,662.16

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 year-end consist of:

| | | | |
|---------------------------------------|----|--------------|-----------------|
| Qualified Zone Academy Bonds Payable | \$ | 1,428,581.00 | |
| Bonds Payable | | 4,310,000.00 | |
| Compensated Absences Payable | | 3,085,511.10 | |
| Other Postemployment Benefits Payable | | 1,922,434.00 | |
| | | | (10,746,526.10) |

Total Net Assets - Governmental Activities **\$ 194,987,659.89**

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

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2011**

| | General Fund | Special Revenue - Federal Economic Stimulus Fund | Capital Projects - Local Capital Improvement Fund | Other Governmental Funds | Total Governmental Funds |
|---|-------------------------|---|--|--------------------------------|--------------------------------|
| Revenues | | | | | |
| Intergovernmental: | | | | | |
| Federal Direct | \$ 159,814.88 | \$ | \$ | \$ | \$ 159,814.88 |
| Federal Through State and Local | 176,924.63 | 7,527,559.94 | | 7,953,730.82 | 15,658,215.39 |
| State | 26,608,680.63 | | | 1,206,590.42 | 27,815,271.05 |
| Local: | | | | | |
| Property Taxes | 49,318,664.68 | | 9,652,274.10 | | 58,970,938.78 |
| Impact Fees | | | | 1,049,830.12 | 1,049,830.12 |
| Charges for Services - Food Service | | | | 2,296,531.24 | 2,296,531.24 |
| Miscellaneous | 835,556.10 | | 116,888.95 | 94,113.77 | 1,046,558.82 |
| Total Revenues | 77,099,640.92 | 7,527,559.94 | 9,769,163.05 | 12,600,796.37 | 106,997,160.28 |
| Expenditures | | | | | |
| Current - Education: | | | | | |
| Instruction | 42,638,121.92 | 5,544,406.04 | | 2,839,005.02 | 51,021,532.98 |
| Pupil Personnel Services | 2,925,951.99 | 357,841.49 | | 325,096.77 | 3,608,890.25 |
| Instructional Media Services | 1,395,075.46 | | | | 1,395,075.46 |
| Instruction and Curriculum Development Services | 1,159,185.84 | 524,202.69 | | 1,028,915.09 | 2,712,303.62 |
| Instructional Staff Training Services | 475,973.62 | 450,789.16 | | 417,482.40 | 1,344,245.18 |
| Instruction Related Technology | 917,996.40 | 60,092.03 | | | 978,088.43 |
| School Board | 464,274.93 | | | | 464,274.93 |
| General Administration | 753,216.62 | 125,866.95 | | 100,804.30 | 979,887.87 |
| School Administration | 5,014,853.88 | 226,491.91 | | | 5,241,345.79 |
| Facilities Acquisition and Construction | 11,821.60 | | 253,150.83 | 419,139.32 | 684,111.75 |
| Fiscal Services | 552,478.48 | | | | 552,478.48 |
| Food Services | | | | 4,896,639.89 | 4,896,639.89 |
| Central Services | 491,759.22 | 62,659.67 | | 837.89 | 555,256.78 |
| Pupil Transportation Services | 4,013,324.37 | 39,083.14 | | 68,808.41 | 4,121,215.92 |
| Operation of Plant | 8,527,176.57 | 918.64 | | | 8,528,095.21 |
| Maintenance of Plant | 3,012,457.80 | | | | 3,012,457.80 |
| Administrative Technology Services | 847,478.40 | | | | 847,478.40 |
| Community Services | 173,312.10 | | | 83,135.68 | 256,447.78 |
| Fixed Capital Outlay: | | | | | |
| Facilities Acquisition and Construction | 17,500.00 | | 6,995,788.80 | 370,714.42 | 7,384,003.22 |
| Other Capital Outlay | 229,555.21 | 135,208.22 | 1,399,829.47 | 334,911.99 | 2,099,504.89 |
| Debt Service: | | | | | |
| Principal | | | | 295,000.00 | 295,000.00 |
| Interest and Fiscal Charges | | | | 227,585.90 | 227,585.90 |
| Total Expenditures | 73,621,514.41 | 7,527,559.94 | 8,648,769.10 | 11,408,077.08 | 101,205,920.53 |
| Excess of Revenues Over Expenditures | 3,478,126.51 | | 1,120,393.95 | 1,192,719.29 | 5,791,239.75 |
| Other Financing Sources (Uses) | | | | | |
| Transfers In | 801,771.16 | | | 81,224.25 | 882,995.41 |
| Proceeds from Sale of Capital Assets | 7,041.00 | | 200,000.00 | | 207,041.00 |
| Insurance Loss Recoveries | 65,109.05 | | | | 65,109.05 |
| Transfers Out | | | (882,995.41) | | (882,995.41) |
| Total Other Financing Sources (Uses) | 873,921.21 | | (682,995.41) | 81,224.25 | 272,150.05 |
| Net Change in Fund Balances | 4,352,047.72 | | 437,398.54 | 1,273,943.54 | 6,063,389.80 |
| Fund Balances, Beginning | 11,988,246.23 | | 30,771,868.57 | 7,675,159.87 | 50,435,274.67 |
| Fund Balances, Ending | \$ 16,340,293.95 | \$ 0.00 | \$ 31,209,267.11 | \$ 8,949,103.41 | \$ 56,498,664.47 |

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

**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, 2011**

Net Change in Fund Balances - Governmental Funds \$ 6,063,389.80

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 in excess of depreciation expense in the current fiscal year. 2,517,834.28

In the governmental funds, the cost of capital assets was recognized as an expenditure in the year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets. (1,188,674.84)

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments in the current fiscal year. 295,000.00

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 government funds. This is the net increase in capital credits receivable in the current period.

| | | | |
|-----------------------|----|---------------------|-----------|
| Current Year Accruals | \$ | 139,662.16 | |
| Prior Year Accruals | | <u>(125,122.04)</u> | |
| | | | 14,540.12 |

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. 13,989.02

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. (728,710.00)

Change in Net Assets - Governmental Activities \$ 6,987,368.38

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, 2011**

| | <u>Agency Funds</u> |
|---------------------------|-------------------------|
| ASSETS | |
| Cash and Cash Equivalents | \$ <u>867,816.00</u> |
| LIABILITIES | |
| Internal Accounts Payable | \$ <u>867,816.00</u> |

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

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **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 Nassau County School District (District) is considered part of the Florida system of public education. 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 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 or incomplete. Based on these criteria, no component units are included within the District's reporting entity.

➤ **Basis of Presentation**

Government-wide Financial Statements - Government-wide financial statements, i.e., the statement of net assets and the statement of activities, present information about the District as a whole. These statements include the nonfiduciary financial activity of the District.

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's 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, while remaining depreciation expense is not readily associated with a particular function and is reported as unallocated.

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. 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.

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

Fund Financial Statements - Fund financial statements report detailed information about the District in the governmental and fiduciary funds. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is reported in a separate column. Nonmajor funds are aggregated and reported in a single column. Because the focus of governmental fund financial statements differs from the focus of government-wide financial statements, a reconciliation is presented with each of the governmental fund financial statements.

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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 – Federal Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA) and other Federal stimulus programs.
- 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, 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 the schools in connection with school, student athletic, class, and club activities.

➤ **Basis of Accounting**

Basis of accounting refers to when revenues and expenditures, or expenses, are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Government-wide financial statements are prepared using the accrual basis of accounting, as are the fiduciary funds financial statements. 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.

Governmental fund financial statements are prepared using 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. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, other postemployment benefits, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned, or unassigned resources are available for use in governmental fund financial statements, it is the District's policy to use committed resources first, followed by assigned resources, and then unassigned resources as they are needed.

➤ **Deposits and Investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, cash with fiscal agent, and short-term, highly liquid investments with original maturities of three months

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

or less. Investments classified as cash equivalents consist of 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.

Investments consist of amounts placed in SBA Debt Service accounts for investment of debt service moneys, amounts placed with 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 Statutes, and those made locally. These investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

The District's investments in Florida PRIME, which SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2011, 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 0.78965331 at June 30, 2011. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by 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. The District's money market mutual fund is a Securities and Exchange Commission Rule 2a7-like external investment pool whereby shares are owned in the fund rather than the underlying investments.

➤ **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.

➤ **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 assets because they are set aside for repayment of the QZAB debt at maturity as required by applicable debt covenants.

➤ **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 assets 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

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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.

Interest cost 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.

➤ **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 assets.

In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due.

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.

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

➤ **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 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.

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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.

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the District on an annual basis. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Department.

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

➤ **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 2010 tax levy on September 16, 2010. 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.

➤ **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 improvement costs include, but are not limited to, school sites, buildings, relocatable classrooms, building contents, nonbuilding improvements, and vehicles.

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

➤ **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.

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

The Board follows procedures established by State statutes and State Board of Education 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 State Board of Education 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 School Board meeting prior to the due date for the annual financial report.
- 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.

3. INVESTMENTS

As of June 30, 2011, the District has the following investments and maturities:

| Investments | Maturities | Fair Value |
|--|-------------------|--------------------------------|
| State Board of Administration (SBA): | | |
| Florida PRIME (1) | 31 Day Average | \$ 385,287.27 |
| Fund B Surplus Funds Trust Fund (Fund B) | 7.16 Year Average | 615,834.74 |
| Debt Service Accounts | 6 Months | 55,002.02 |
| Dreyfus Cash Management Institutional Shares (1) | 53 Day Average | 40,435,959.87 |
| Commercial Paper (2) | October 11, 2011 | 651,489.40 |
| Total Investments | | <u>\$ 42,143,573.30</u> |

Notes: (1) Investments that have original maturities of three months or less are considered cash equivalents for financial statement reporting purposes.

(2) This instrument is held by a paying agent in connection with the Qualified Zone Academy Bonds financing arrangement (See Note 6).

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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 31 days at June 30, 2011. 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, 2011, is estimated at 7.16 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL.

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 State Board of Administration (SBA) Local Government Surplus Funds Trust Fund Investment Pool, known as Florida PRIME, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission (SEC) 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 further limits its investment choices.
- The District's investments in 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 SBA for managing interest rate risk and credit risk for this account.
- As of June 30, 2011, the District's investment in Florida PRIME is rated AAAM by Standard & Poor's. Fund B is unrated.
- As of June 30, 2011, the District's investment in the Dreyfus Cash Management Institutional Shares is rated AAAM by Standards & Poor's and Aaa by Moody's Investors Service.
- The District's investment in commercial paper is authorized under a forward delivery agreement with the Qualified Zone Academy Bonds 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 borrowers having a rating at the time of delivery of at least P-1 by Moody's Investors Services or A-1 by Standards & Poor's. As of June 30, 2011, the District's investment in commercial paper was rated P-1 by Moody's Investors Services and A-1 by Standards & Poor's.

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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 Qualified Zone Academy Bonds 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. More than 5 percent of the District's investments, reported in the Other Governmental Funds, are in commercial paper issued by Intesa Funding LLC. These investments are 7 percent of the District's total investments reported in this fund.

4. CAPITAL CREDITS

The District participates in the Okefenokee 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 2010-11 fiscal year, the District received \$2,029.80 related to the 1987 capital credits and new credits of \$16,569.92 for the 2010-11 fiscal year. At June 30, 2011, the accumulated credits to the District's accounts were \$139,662.16.

5. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below:

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

| | Beginning Balance | Additions | Deletions | Ending Balance |
|--|--------------------------|------------------------|------------------------|--------------------------|
| GOVERNMENTAL ACTIVITIES | | | | |
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 4,145,678.82 | \$ 103,618.89 | \$ 114,285.71 | \$ 4,135,012.00 |
| Construction in Progress | 4,052,195.55 | 7,490,438.77 | 6,399,157.53 | 5,143,476.79 |
| Total Capital Assets Not Being Depreciated | 8,197,874.37 | 7,594,057.66 | 6,513,443.24 | 9,278,488.79 |
| Capital Assets Being Depreciated: | | | | |
| Improvements Other Than Buildings | 7,059,983.60 | 676,689.29 | | 7,736,672.89 |
| Buildings and Fixed Equipment | 181,697,238.66 | 5,515,228.79 | 1,393,073.34 | 185,819,394.11 |
| Furniture, Fixtures, and Equipment | 18,986,363.35 | 1,804,486.89 | 1,141,243.15 | 19,649,607.09 |
| Motor Vehicles | 9,161,055.63 | 234,225.00 | | 9,395,280.63 |
| Audio Visual Materials and Computer Software | 4,296,396.36 | 60,793.00 | 202,609.55 | 4,154,579.81 |
| Total Capital Assets Being Depreciated | 221,201,037.60 | 8,291,422.97 | 2,736,926.04 | 226,755,534.53 |
| Less Accumulated Depreciation for: | | | | |
| Improvements Other Than Buildings | 6,153,945.96 | 178,936.12 | | 6,332,882.08 |
| Buildings and Fixed Equipment | 53,241,827.51 | 3,744,249.35 | 408,205.27 | 56,577,871.59 |
| Furniture, Fixtures, and Equipment | 12,497,213.64 | 2,352,722.07 | 1,052,475.84 | 13,797,459.87 |
| Motor Vehicles | 5,709,072.22 | 597,414.16 | | 6,306,486.38 |
| Audio Visual Materials and Computer Software | 4,030,152.72 | 95,167.12 | 201,855.80 | 3,923,464.04 |
| Total Accumulated Depreciation | 81,632,212.05 | 6,968,488.82 | 1,662,536.91 | 86,938,163.96 |
| Total Capital Assets Being Depreciated, Net | 139,568,825.55 | 1,322,934.15 | 1,074,389.13 | 139,817,370.57 |
| Governmental Activities Capital Assets, Net | \$ 147,766,699.92 | \$ 8,916,991.81 | \$ 7,587,832.37 | \$ 149,095,859.36 |

Depreciation expense was charged to functions as follows:

| Function | Amount |
|---|------------------------|
| GOVERNMENTAL ACTIVITIES | |
| Pupil Transportation Services | \$ 597,414.16 |
| Unallocated | 6,371,074.66 |
| Total Depreciation Expense - Governmental Activities | \$ 6,968,488.82 |

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

6. 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.

7. BONDS PAYABLE

Bonds payable at June 30, 2011, are as follows:

| Bond Type | Amount Outstanding | Interest Rates (Percent) | Annual Maturity To |
|--------------------------------|----------------------------|--------------------------------|--------------------------|
| State School Bonds: | | | |
| Series 2005B, Refunding | \$ 1,735,000 | 5.0 | 2018 |
| Series 2009A, Refunding | 115,000 | 4.0 - 5.0 | 2019 |
| District Revenue Bonds: | | | |
| Series 2001 | <u>2,460,000</u> | 4.25 - 5.00 | 2031 |
| Total Bonds Payable | <u><u>\$ 4,310,000</u></u> | | |

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 State Board of Education 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 State Board of Education and the State Board of Administration.

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

➤ **District Revenue Bonds**

These bonds are authorized by Chapter 80-550, Laws of Florida, Special Act of 1972, 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 are distributed pursuant to Section 212.20(6)(d)6.a., Florida Statutes (2001)). 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 issued the bonds in 2001 in the amount of \$3 million to provide for the refunding of the District Revenue Bonds, Series 1987A, and to finance costs of various capital improvements in the District. The District pledged, as sole security for the bonds, the entire annual distribution of sales tax proceeds of \$223,250. The pledge is committed until final maturity of debt, or December 11, 2027. Approximately 88 percent of this revenue stream has been pledged in connection with debt services on the revenue bonds.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2011, are as follows:

| Fiscal Year Ending June 30 | Total | Principal | Interest |
|-------------------------------------|------------------------|------------------------|------------------------|
| State School Bonds: | | | |
| 2012 | \$ 312,200.00 | \$ 220,000.00 | \$ 92,200.00 |
| 2013 | 316,350.00 | 235,000.00 | 81,350.00 |
| 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 |
| 2017-2019 | <u>663,000.00</u> | <u>615,000.00</u> | <u>48,000.00</u> |
| Total State School Bonds | <u>2,242,800.00</u> | <u>1,850,000.00</u> | <u>392,800.00</u> |
| District Revenue Bonds: | | | |
| 2012 | 195,902.50 | 75,000.00 | 120,902.50 |
| 2013 | 197,715.00 | 80,000.00 | 117,715.00 |
| 2014 | 199,215.00 | 85,000.00 | 114,215.00 |
| 2015 | 195,390.00 | 85,000.00 | 110,390.00 |
| 2016 | 196,480.00 | 90,000.00 | 106,480.00 |
| 2017-2021 | 986,250.00 | 525,000.00 | 461,250.00 |
| 2022-2026 | 991,000.00 | 675,000.00 | 316,000.00 |
| 2027-2031 | <u>974,500.00</u> | <u>845,000.00</u> | <u>129,500.00</u> |
| Total District Revenue Bonds | <u>3,936,452.50</u> | <u>2,460,000.00</u> | <u>1,476,452.50</u> |
| Total | <u>\$ 6,179,252.50</u> | <u>\$ 4,310,000.00</u> | <u>\$ 1,869,252.50</u> |

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

8. 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 | 4,605,000.00 | | 295,000.00 | 4,310,000.00 | 295,000.00 |
| Compensated Absences Payable | 3,099,500.12 | 259,369.64 | 273,358.66 | 3,085,511.10 | 273,358.66 |
| Other Postemployment Benefits Payable | 1,193,724.00 | 1,241,751.00 | 513,041.00 | 1,922,434.00 | |
| Total Governmental Activities | \$10,326,805.12 | \$1,501,120.64 | \$1,081,399.66 | \$ 10,746,526.10 | \$ 568,358.66 |

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

9. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

| Funds | Interfund | |
|---------------------------|----------------------|----------------------|
| | Receivables | Payables |
| Major: | | |
| General | \$ 413,853.76 | \$ |
| Special Revenue: | | |
| Federal Economic Stimulus | | 230,474.38 |
| Nonmajor Governmental | | 183,379.38 |
| Total | \$ 413,853.76 | \$ 413,853.76 |

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 one year.

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

| Funds | Interfund | |
|---------------------------|----------------------|----------------------|
| | Transfers In | Transfers Out |
| Major: | | |
| General | \$ 801,771.16 | \$ |
| Capital Projects: | | |
| Local Capital Improvement | | 882,995.41 |
| Nonmajor Governmental | 81,224.25 | |
| Total | \$ 882,995.41 | \$ 882,995.41 |

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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 to the General Fund and to provide Qualified Zone Academy Bonds sinking fund payments to a nonmajor governmental fund.

10. FUND BALANCE REPORTING

The District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Types Definitions*, for the fiscal year ended June 30, 2011. The objective of the statement is to improve the usefulness and understanding of fund balance information for users of the financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

The District reports its governmental fund balances in the following categories, as applicable:

➤ **Nonspendable**

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. Examples of items that are not in spendable form include inventory, prepaid amounts, long-term amounts of loans and notes receivable, and property acquired for resale. The District classifies its amounts reported as inventories as nonspendable.

➤ **Restricted**

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. The District classifies most of its fund balances other than General Fund as restricted, as well as unspent State categorical and earmarked educational funding reported in the General Fund, that are legally or otherwise restricted.

➤ **Committed**

The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision-making authority (i.e., the Board). These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same action it employed to previously commit the amounts. The District did not have any committed fund balances at June 30, 2011.

➤ **Assigned**

The portion of fund balance that is intended to be used for specific purposes, but is neither restricted nor committed. Assigned amounts include those that have been set aside for a specific purpose by an authorized government body or official, but the constraint imposed does not satisfy the criteria to be classified as restricted or committed. This category includes any remaining positive amounts, for governmental funds other than the General Fund, not classified as nonspendable, restricted, or committed.

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

➤ **Unassigned**

The portion of fund balance that is 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.

11. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District’s State revenue for the 2010-11 fiscal year:

| <u>Source</u> | <u>Amount</u> |
|---|------------------------------------|
| Florida Education Finance Program | \$ 13,212,823.00 |
| Categorical Educational Program - Class Size Reduction | 12,093,509.00 |
| School Recognition | 689,704.00 |
| Gross Receipts Tax (Public Education Capital Outlay) | 576,135.00 |
| Motor Vehicle License Tax (Capital Outlay and Debt Service) | 383,679.71 |
| Racing Commission Funds | 223,250.00 |
| Workforce Development Program | 190,911.00 |
| Food Service Supplements | 55,068.00 |
| Discretionary Lottery Funds | 41,173.00 |
| Mobile Home License Tax | 28,084.53 |
| Miscellaneous | <u>320,933.81</u> |
| Total | <u><u>\$ 27,815,271.05</u></u> |

Accounting policies relating to certain State revenue sources are described in Note 1.

12. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2010 tax roll for the 2010-11 fiscal year:

| <u>GENERAL FUND</u> | <u>Millages</u> | <u>Taxes Levied</u> |
|-----------------------------------|-------------------------|------------------------------------|
| Nonvoted School Tax: | | |
| Required Local Effort | 5.546 | \$ 41,815,853.55 |
| Basic Discretionary Local Effort | 0.748 | 5,639,786.95 |
| Critical Operating Needs | 0.250 | 1,884,955.53 |
| <u>CAPITAL PROJECTS FUNDS</u> | | |
| Nonvoted Tax: | | |
| Local Capital Improvements | <u>1.264</u> | <u>9,530,335.17</u> |
| Total | <u><u>7.808</u></u> | <u><u>\$ 58,870,931.20</u></u> |

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

13. FLORIDA RETIREMENT SYSTEM

All regular employees of the District are covered by the State-administered Florida Retirement System (FRS). Provisions relating to FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112 Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein eligibility, contributions, and benefits are defined and described in detail. Essentially all regular employees of participating employers are eligible and must enroll as members of FRS. FRS is a single retirement system administered by the Florida 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), a Deferred Retirement Option Program (DROP), and a defined contribution plan, referred to as the Public Employee Optional Retirement Program (PEORP).

Employees in the Plan vest at six years of service. All vested members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military 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, and 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 PEORP in lieu of the Plan. District employees participating in DROP are not eligible to participate in PEORP. Employer contributions are defined by law; however, the ultimate benefit depends in part on the performance of investment funds. PEORP is funded by employer 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 PEORP vest after one year of service.

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

FRS Retirement Contribution Rates

The Florida Legislature establishes, and may amend, contribution rates for each membership class of FRS. During the 2010-11 fiscal year, contribution rates were as follows:

| Class | Percent of Gross Salary | |
|--|-------------------------|-----------------|
| | Employee | Employer (A) |
| Florida Retirement System, Regular | 0.00 | 10.77 |
| Florida Retirement System, Elected County Officers | 0.00 | 18.64 |
| Deferred Retirement Option Program - Applicable to Members from All of the Above Classes | 0.00 | 12.25 |
| Florida Retirement System, 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 PEORP.

(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 for the fiscal years ended June 30, 2009, June 30, 2010, and June 30, 2011, totaled \$4,860,597.38, \$4,778,432.69, and \$5,334,844.02, respectively, which were equal to the required contributions for each fiscal year. There were 162 PEORP participants during the 2010-11 fiscal year. Required contributions made to PEORP totaled \$606,190.76.

The financial statements and other supplementary information of FRS are included in the comprehensive annual financial report of the State of Florida, which may be obtained from the Florida Department of Financial Services. Also, an annual report on 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.

Effective July 1, 2011, all members of FRS, except for DROP participants and reemployed retirees who are not eligible for renewed membership, are required to contribute 3 percent of their compensation to FRS.

14. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

Plan Description. The Other Postemployment Benefits Plan (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 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 Plan on average

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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

Funding Policy. Plan contribution requirements of the District and 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 other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2010-11 fiscal year, 91 retirees received other postemployment benefits. The District provided required contributions of \$513,041 toward the annual OPEB cost, net of retiree contributions totaling \$913,111, which represents 2.67 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 Plan, and changes in the District's net OPEB obligation:

| <u>Description</u> | <u>Amount</u> |
|---|---------------------|
| Normal Cost (service cost for one year) | \$ 746,517 |
| Amortization of Unfunded Actuarial Accrued Liability | <u>492,712</u> |
| Annual Required Contribution | 1,239,229 |
| Interest on Net OPEB Obligation | 42,974 |
| Adjustment to Annual Required Contribution | <u>(40,452)</u> |
| Annual OPEB Cost (Expense) | 1,241,751 |
| Contribution Toward the OPEB Cost | <u>(513,041)</u> |
| Increase in Net OPEB Obligation | 728,710 |
| Net OPEB Obligation, Beginning of Year | <u>1,193,724</u> |
| Net OPEB Obligation, End of Year | <u>\$ 1,922,434</u> |

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2011, and the two preceding years, were as follows:

| Fiscal Year | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|-------------|---------------------|---|------------------------|
| 2008-09 | \$ 1,021,342 | 42.89% | \$ 583,244 |
| 2009-10 | 1,059,436 | 42.38% | 1,193,724 |
| 2010-11 | 1,241,751 | 41.32% | 1,922,434 |

Funded Status and Funding Progress. As of October 1, 2010, the most recent valuation date, the actuarial accrued liability for benefits was \$14,284,847, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$14,284,847 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$34,139,349, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 41.8 percent.

Actuarial valuations of an ongoing 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 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 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 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, 2010, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2011, and the District’s 2010-11 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3.6 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 4 percent per year, and an annual healthcare cost trend rate of 9 percent initially beginning October 1, 2010, declining to an ultimate rate of 5 percent beginning October 1, 2019. The investment rate of return and payroll growth assumptions include a general price inflation of 3 percent. The unfunded

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2011, was 27 years.

15. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

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, 2011:

| Major Funds | | | | |
|-----------------|---|---|-----------------------------------|--------------------------------|
| General | Special Revenue - Federal Economic Stimulus | Capital Projects - Local Capital Improvement | Nonmajor Governmental Funds | Total Governmental Funds |
| \$ 1,210,808.30 | \$ 317,361.35 | \$ 2,636,968.52 | \$ 2,047,601.96 | \$ 6,212,740.13 |

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

| Project | Contract Amount | Completed to Date | Balance Committed |
|---|--------------------|----------------------|----------------------|
| Southside Elementary - Renovations and Additions: | | | |
| Architect | \$ 314,002.11 | \$ 313,374.10 | \$ 628.01 |
| Contractor and Direct Purchasing | 4,243,272.24 | 4,199,361.61 | 43,910.63 |
| Yulee Middle School - Classroom Additions: | | | |
| Architect | 150,000.00 | 118,751.39 | 31,248.61 |
| Contractor and Direct Purchasing | 1,274,000.00 | 92,701.00 | 1,181,299.00 |
| Fernandina Beach Middle School - Remodeling, Additions, and Related Site Work: | | | |
| Architect | 124,960.00 | 113,852.31 | 11,107.69 |
| Contractor and Direct Purchasing | 1,136,000.00 | 51,041.60 | 1,084,958.40 |
| West Nassau High School - New Construction and Related Site Work: | | | |
| Architect | 256,356.15 | 41,052.76 | 215,303.39 |
| Total | \$ 7,498,590.50 | \$ 4,930,134.77 | \$ 2,568,455.73 |

16. RISK MANAGEMENT

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 Risk Management Consortium 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 the

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

Consortium. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. The Consortium is self-sustaining through member assessments (premiums), and purchases coverage through commercial companies for claims in excess of specified amounts. The Board of Directors for the Consortium is composed of superintendents of all participating districts. The Putnam County District School Board serves as fiscal agent for the Consortium.

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.

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, 2011**

| | General Fund | | | Variance with Final Budget - Positive (Negative) |
|--|------------------------|------------------------|-------------------------|---|
| | Original Budget | Final Budget | Actual | |
| Revenues | | | | |
| Intergovernmental: | | | | |
| Federal Direct | \$ 125,000.00 | \$ 125,000.00 | \$ 159,814.88 | \$ 34,814.88 |
| Federal Through State and Local | | | 176,924.63 | 176,924.63 |
| State | 27,993,622.00 | 26,524,278.00 | 26,608,680.63 | 84,402.63 |
| Local: | | | | |
| Property Taxes | 47,366,971.00 | 47,366,971.00 | 49,318,664.68 | 1,951,693.68 |
| Miscellaneous | 651,000.00 | 715,539.89 | 835,556.10 | 120,016.21 |
| Total Revenues | 76,136,593.00 | 74,731,788.89 | 77,099,640.92 | 2,367,852.03 |
| Expenditures | | | | |
| Current - Education: | | | | |
| Instruction | 47,570,808.30 | 48,123,117.61 | 42,638,121.92 | 5,484,995.69 |
| Pupil Personnel Services | 3,048,242.34 | 2,998,594.18 | 2,925,951.99 | 72,642.19 |
| Instructional Media Services | 1,407,935.00 | 1,436,744.32 | 1,395,075.46 | 41,668.86 |
| Instruction and Curriculum Development Services | 1,080,742.37 | 1,197,888.01 | 1,159,185.84 | 38,702.17 |
| Instructional Staff Training Services | 594,695.34 | 639,413.10 | 475,973.62 | 163,439.48 |
| Instruction Related Technology | 1,001,240.94 | 918,988.64 | 917,996.40 | 992.24 |
| School Board | 645,715.95 | 644,453.48 | 464,274.93 | 180,178.55 |
| General Administration | 1,238,797.54 | 1,216,941.16 | 753,216.62 | 463,724.54 |
| School Administration | 5,178,877.00 | 5,202,184.89 | 5,014,853.88 | 187,331.01 |
| Facilities Acquisition and Construction | 129,000.00 | 100,000.00 | 11,821.60 | 88,178.40 |
| Fiscal Services | 543,137.55 | 560,773.55 | 552,478.48 | 8,295.07 |
| Central Services | 559,751.01 | 596,842.48 | 491,759.22 | 105,083.26 |
| Pupil Transportation Services | 4,020,808.12 | 4,008,258.79 | 4,013,324.37 | (5,065.58) |
| Operation of Plant | 8,506,202.87 | 8,877,265.93 | 8,527,176.57 | 350,089.36 |
| Maintenance of Plant | 3,418,015.13 | 3,447,047.06 | 3,012,457.80 | 434,589.26 |
| Administrative Technology Services | 907,144.31 | 872,810.56 | 847,478.40 | 25,332.16 |
| Community Services | 1,021,019.96 | 997,019.96 | 173,312.10 | 823,707.86 |
| Fixed Capital Outlay: | | | | |
| Facilities Acquisition and Construction | | 41,500.00 | 17,500.00 | 24,000.00 |
| Other Capital Outlay | | 391,860.64 | 229,555.21 | 162,305.43 |
| Total Expenditures | 80,872,133.73 | 82,271,704.36 | 73,621,514.41 | 8,650,189.95 |
| Excess (Deficiency) of Revenues Over Expenditures | (4,735,540.73) | (7,539,915.47) | 3,478,126.51 | 11,018,041.98 |
| Other Financing Sources | | | | |
| Transfers In | 818,251.00 | 818,251.00 | 801,771.16 | (16,479.84) |
| Proceeds from Sale of Capital Assets | | | 7,041.00 | 7,041.00 |
| Insurance Loss Recoveries | | 56,473.60 | 65,109.05 | 8,635.45 |
| Total Other Financing Sources | 818,251.00 | 874,724.60 | 873,921.21 | (803.39) |
| Net Change in Fund Balances | (3,917,289.73) | (6,665,190.87) | 4,352,047.72 | 11,017,238.59 |
| Fund Balances, Beginning | 11,988,246.23 | 11,988,246.23 | 11,988,246.23 | |
| Fund Balances, Ending | \$ 8,070,956.50 | \$ 5,323,055.36 | \$ 16,340,293.95 | \$ 11,017,238.59 |

| Special Revenue - Federal Economic Stimulus Fund | | | |
|--|---------------------|---------------------|--|
| Original Budget | Final Budget | Actual | Variance with Final Budget - Positive (Negative) |
| \$ 5,519,965.68 | \$ 7,527,559.94 | \$ 7,527,559.94 | \$ |
| <u>5,519,965.68</u> | <u>7,527,559.94</u> | <u>7,527,559.94</u> | |
| 3,441,637.48 | 5,544,406.04 | 5,544,406.04 | |
| 364,679.73 | 357,841.49 | 357,841.49 | |
| 623,430.44 | 524,202.69 | 524,202.69 | |
| 474,463.71 | 450,789.16 | 450,789.16 | |
| 59,878.00 | 60,092.03 | 60,092.03 | |
| 244,369.92 | 125,866.95 | 125,866.95 | |
| 258,866.35 | 226,491.91 | 226,491.91 | |
| | 62,659.67 | 62,659.67 | |
| 48,866.13 | 39,083.14 | 39,083.14 | |
| 3,773.92 | 918.64 | 918.64 | |
| | <u>135,208.22</u> | <u>135,208.22</u> | |
| <u>5,519,965.68</u> | <u>7,527,559.94</u> | <u>7,527,559.94</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 (A) | Actuarial Accrued Liability (AAL) (B) | Unfunded AAL (UAAL) (B-A) | Funded Ratio (A/B) | Covered Payroll (C) | UAAL as a Percentage of Covered Payroll [(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% |

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2011**

1. BUDGETARY BASIS OF ACCOUNTING

Budgets are prepared using the same modified accrual basis as is used to account for governmental funds.

2. EXPENDITURES OVER APPROPRIATIONS IN INDIVIDUAL FUNDS

For the fiscal year ended June 30, 2011, expenditures exceeded appropriations for the following individual funds:

| Fund | Expenditures | | |
|-------------------------------|-----------------|-----------------|-------------------------|
| | Budget | Actual | Variance Unfavorable |
| General: | | | |
| Pupil Transportation Services | \$ 4,008,258.79 | \$ 4,013,324.37 | \$ 5,065.58 |

3. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The October 1, 2010, unfunded actuarial accrued liability of \$14,284,847 was higher than the October 1, 2007, liability of \$12,460,837 as a result of benefit changes and other changes in liabilities and costs as discussed below:

- **Initial Cost of Coverage:** The total cost of coverage increased from \$451 per employee per month (as expected for year beginning October 1, 2007) to \$787 per month for the year beginning October 1, 2010, which is lower than the projected \$812 per employee per month. However, due to a decrease in the number of dependents, cost of coverage on a per member basis increased faster than expected from \$451 to \$610, compared to a projected \$582 per member per month, increasing the liability.
- **Medical Trend Assumption:** The assumed annual healthcare cost trend for medical and prescription costs was revised. In the original valuation, it was assumed the initial trends for cost and premiums would be 9 percent for the plan year beginning October 1, 2009, with subsequent decreases of 0.5 percent each year thereafter to the ultimate value of 5 percent. The revised trend rates for cost and premiums charged to retirees for the plan year beginning October 1, 2010, was 9 percent and is projected to be 9 percent for the plan year beginning October 1, 2011. For the plan year beginning October 1, 2012, the trend is projected to be 8.5 percent, with subsequent trend rates decreasing 0.5 percent each year thereafter to the ultimate rate of 5 percent. This increase modestly increased the cost and liability.
- **Demographic Assumptions:** Revisions were made for certain demographic assumptions to reflect changes made by the Florida Retirement System for its July 1, 2009, actuarial valuation, increasing the cost and liability.

The net effect was an increase in Plan’s accounting liabilities and on the Plan’s accounting expense.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2011**

| 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 Education: | | | |
| School Breakfast Program | 10.553 | 321 | \$ 582,467.82 |
| National School Lunch Program | 10.555 | 300, 350 | 2,111,579.58 |
| Florida Department of Agriculture and Consumer Services: | | | |
| National School Lunch Program | 10.555 (2) | None | <u>310,128.83</u> |
| Total United States Department of Agriculture | | | <u>3,004,176.23</u> |
| United States Department of Justice: | | | |
| Indirect: | | | |
| Florida Office of the Attorney General: | | | |
| Crime Victim Assistance | 16.575 | V09014 | <u>114,705.00</u> |
| United States Department of Labor: | | | |
| Indirect: | | | |
| First Coast Workforce Development, Inc.: | | | |
| WIA Youth Activities | 17.259 | 2011-08 | 130,396.14 |
| ARRA - WIA Youth Activities | 17.259 | 2010-S09 | <u>13,574.38</u> |
| Total United States Department of Labor | | | <u>143,970.52</u> |
| United States Department of Education: | | | |
| Indirect: | | | |
| Title I, Part A Cluster: | | | |
| Florida Department of Education: | | | |
| Title I Grants to Local Educational Agencies | 84.010 | 212, 220, 221, 226, 228 | 1,640,917.19 |
| ARRA - Title I Grants to Local Educational Agencies, Recovery Act | 84.389 | 226 | <u>306,666.94</u> |
| Total Title I, Part A Cluster | | | 1,947,584.13 |
| Special Education Cluster: | | | |
| Florida Department of Education: | | | |
| Special Education - Grants to States | 84.027 | 263 | 2,330,728.58 |
| Special Education - Preschool Grants | 84.173 | 267 | 42,530.90 |
| ARRA - Special Education - Grants to States, Recovery Act | 84.391 | 263 | 1,203,966.35 |
| ARRA - Special Education - Preschool Grants, Recovery Act | 84.392 | 267 | <u>29,577.79</u> |
| Total Special Education Cluster | | | 3,606,803.62 |
| Educational Technology State Grants Cluster: | | | |
| Florida Department of Education: | | | |
| Education Technology State Grants | 84.318 | 121 | 4,602.76 |
| ARRA - Education Technology State Grants, Recovery Act | 84.386 | 121 | <u>6,319.37</u> |
| Total Educational Technology State Grants Cluster | | | 10,922.13 |
| State Fiscal Stabilization Fund Cluster: | | | |
| Florida Department of Education: | | | |
| ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act | 84.394 | 591 | 3,556,838.18 |
| ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act | 84.397 | 592 | 50,177.48 |
| Putnam County District School Board: | | | |
| ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act | 84.397 | 87211 | <u>7,443.40</u> |
| Total State Fiscal Stabilization Fund Cluster | | | 3,614,459.06 |
| Florida Department of Education: | | | |
| Adult Education - Basic Grants to States | 84.002 | 191, 193 | 97,091.98 |
| Career and Technical Education - Basic Grants to States | 84.048 | 161 | 137,674.87 |
| Safe and Drug-Free Schools and Communities - State Grants | 84.186 | 103 | 558.52 |
| English Language Acquisition Grants | 84.365 | 102 | 11,602.03 |
| Improving Teacher Quality State Grants | 84.367 | 224 | 470,315.94 |
| ARRA - State Fiscal Stabilization Fund (SFSF) - Education for Homeless Children and Youth, Recovery Act | 84.387 | 127 | 5,824.09 |
| ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act | 84.395 | RL111 | 64,803.36 |
| Education Jobs Fund | 84.410 | 541 | <u>2,289,812.00</u> |
| Total United States Department of Education | | | <u>12,257,451.73</u> |

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2011**

| 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 Health and Human Services: | | | |
| Indirect: | | | |
| Florida Department of Health: Assistance Programs for Chronic Disease Prevention and Control | 93.945 | None | <u>\$ 83,135.68</u> |
| United States Department of Defense: | | | |
| Direct: | | | |
| Navy Junior Reserve Officers Training Corps | None | N/A | 89,800.35 |
| Air Force Junior Reserve Officers Training Corps | None | N/A | <u>70,014.53</u> |
| Total United States Department of Defense | | | <u>159,814.88</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 15,763,254.04</u> |

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. Represents the amount 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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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*

We have audited 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, 2011, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements was modified to include a reference to 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. Other auditors 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, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 as Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

Pursuant to Section 11.45(4), Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



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February 20, 2012



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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 WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the Nassau County District School Board's compliance with the types of compliance requirements described in the United States Office of Management and Budget (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, 2011. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the 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, 2011.

Internal Control Over Compliance

District management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing

our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine auditing procedures for the purpose of expressing our opinion on compliance 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.

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 that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

Pursuant to Section 11.45(4), Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA
February 20, 2012

**NASSAU COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

| | |
|---|---------------|
| Type of auditor's report issued: | Unqualified |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | No |
| Significant deficiency(ies) identified that are not considered to be a material weakness(es)? | None reported |
| Noncompliance material to financial statements noted? | No |

Federal Awards

| | |
|--|---|
| Internal control over major programs: | |
| Material weakness(es) identified? | No |
| Significant deficiency(ies) identified that are not considered to be a material weakness(es)? | None reported |
| Type of report the auditor issued on compliance for major programs: | Unqualified for all major programs |
| Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB <i>Circular A-133</i> ? | No |
| Identification of major programs: | Child Nutrition Cluster (CFDA Nos. 10.553 and 10.555); WIA Youth Activities (CFDA No. 17.259); Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389 - ARRA); Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391 - ARRA, and 84.392 - ARRA); State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394 - ARRA and 84.397 - ARRA); and Education Jobs Fund (CFDA No. 84.410) |
| Dollar threshold used to distinguish between Type A and Type B programs: | \$472,897 |
| 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, 2011**

ADDITIONAL MATTERS

Finding No. 1: Performance Assessments

Section 1012.34(3), Florida Statutes (2010),¹ required the District to establish annual performance assessment procedures for instructional personnel and school administrators. When evaluating the performance of these employees, the procedures were to primarily include consideration of student performance, using results from student achievement tests, such as the Florida Comprehensive Assessment Test (FCAT), pursuant to Section 1008.22(3), Florida Statutes (2010), at the school where the employee worked. Additional employee performance assessment criteria prescribed by Section 1012.34(3)(a), Florida Statutes (2010), included evaluation measures such as the employee's ability to maintain appropriate discipline, knowledge of subject matter, ability to plan and deliver instruction and use of technology in the classroom, and other professional competencies established by rules of the State Board of Education and Board policies. Section 1012.34(3)(d), Florida Statutes (2010), required that, if an employee was not performing satisfactorily, the performance evaluator had to notify the employee in writing and describe the unsatisfactory performance.

The District established performance assessment procedures generally based on criteria prescribed by Section 1012.34(3)(a), Florida Statutes (2010), except that District records did not evidence that instructional personnel and school administrators were evaluated based primarily on student performance. The student performance category on the instructional personnel evaluation forms only represented approximately 12 percent of the overall assessment rating while all other categories not related to student performance cumulatively represented approximately 88 percent of the overall assessment rating. Only 1 (4 percent) of the 25 categories used to evaluate school-based administrators was related to student performance.

District personnel indicated that they delayed revisions to performance assessments until the District's implementation of the Federal Race-to-the-Top grant requirements, which are subject to approval by the Florida Department of Education for the 2011-12 fiscal year. However, without measuring employee performance primarily based on consideration of student performance, performance assessments of instructional personnel and school administrators may not effectively communicate the employee's accomplishments or shortcomings. A similar finding was noted in our Report No. 2011-114.

Recommendation: The District should ensure its performance assessments of instructional personnel and school administrators consider student performance as required by law.

¹ Sections 1012.34 and 1008.22, Florida Statutes, were amended by Chapter 2011-1, Laws of Florida, effective July 1, 2011. For the 2011-12 fiscal year, pursuant to Section 1012.34(3)(a), Florida Statutes (2011), at least 50 percent of performance evaluations of instructional personnel and school administrators must be based upon data and indicators of student learning growth assessed annually by statewide or district assessments spanning three years of data. However, if three years of data is not available, the District must use the available data and the percentage of the evaluation based upon student learning growth may be reduced to not less than 40 percent for administrators and in-classroom instructional personnel, and to not less than 20 percent for instructional personnel who are not classroom teachers.

Finding No. 2: Compensation and Salary Schedules

Section 1001.42(5)(a), Florida Statutes, requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees, subject to the requirements of Chapter 1012, Florida Statutes. Section 1012.22(1)(c)2., Florida Statutes (2010),² provided that, for instructional personnel, the Board must base a portion of each employee's compensation on performance. In addition, Section 1012.22(1)(c)4., Florida Statutes (2010), required the Board to adopt a salary schedule with differentiated pay for instructional personnel and school-based administrators. The salary schedule is subject to negotiation as provided in Chapter 447, Florida Statutes, and was required to provide differentiated pay based on District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

While compensation of instructional personnel is typically subject to collective bargaining, the Board had not adopted formal policies and procedures to ensure that a portion of each instructional employee's compensation was based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes (2010). Such policies and procedures could establish and communicate the performance measures affecting instructional employee compensation. In addition, the Board had not adopted formal policies and procedures establishing the documented process to identify the instructional personnel and school-based administrators entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes (2010). Such policies and procedures could specify the prescribed factors to be used as the basis for determining differentiated pay, the documented process for applying the prescribed factors, and the individuals responsible for making such determinations.

The 2010-11 fiscal year salary schedule and applicable union contracts for instructional personnel and school-based administrators provided pay levels based on various factors such as job classification, years of experience, level of education, and other factors. However, the District's procedures for documenting compliance with Section 1012.22(1)(c), Florida Statutes (2010), could be improved, as follows:

- **Instructional Personnel.** Contrary to Section 1012.22(1)(c)2., Florida Statutes (2010), the instructional personnel salary schedule and union contracts did not evidence that a portion of the compensation of each instructional employee was based on performance.

The instructional personnel salary schedule and union contracts provided salary supplements for additional responsibilities beyond the standard work day, such as supplements for athletic and drama coaches and department chairpersons. These records also provided supplements for school demographics, such as a \$200 supplement for teachers employed in a school with 50 percent more free and reduced price lunch students, and provided supplements for level of job performance difficulties, such as personnel working at a low performing school. The salary schedule and union contracts also provided for a critical shortage teacher bonus of \$1,500 for the second year of employment to be based on certain eligibility criteria reviewed annually by the Superintendent and teachers' union president; however, no critical shortage area bonuses were paid for the 2010-11 fiscal year. In addition, District records did not evidence the establishment of specific criteria for determining critical shortage areas for instructional personnel or the application of such criteria by the Superintendent and teachers' union president. District personnel indicated that specific criteria for critical shortage areas had not been developed because contract language needed to be negotiated with the teachers' union. To document critical shortage areas, records could evidence the number of applicants, personnel turnover rates, and other factors demonstrating the difficulty of hiring and retaining instructional personnel.

² Section 1012.22, Florida Statutes, was amended by Chapter 2011-1, Laws of Florida, effective July 1, 2011. For the 2011-12 fiscal year, pursuant to Section 1012.22(1)(c)4.b., Florida Statutes, the District must base a portion of each employee's compensation upon performance demonstrated under Section 1012.34, Florida Statutes, and provide differentiated pay for instructional personnel and school administrators based upon district-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

- **School-based Administrators.** The school-based administrators' salary schedule evidenced consideration for additional responsibilities, school demographics, and job performance difficulties by the differing administrative pay grades for elementary, middle, and high schools based on school enrollment. However, the salary schedule did not evidence consideration of differentiated pay based on critical shortage areas for school-based administrators, contrary to Section 1012.22(1)(c)4., Florida Statutes (2010). District personnel indicated that the salary schedule did not provide differentiated pay for critical shortage areas because there were none; however, District records did not evidence that criteria had been established for determining critical shortage areas for school-based administrators.

District personnel indicated that salary schedule revisions to comply with the statutory performance and differentiated pay requirements were delayed to ensure consistency with Federal Race-to-the-Top grant requirements. However, without Board-adopted policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance, and sufficiently identifying the basis for differentiated pay, the District may be limited in its ability to demonstrate that each instructional employee's performance correlates to their compensation and the various differentiated pay factors are consistently considered and applied. A similar finding was noted in our report No. 2011-114.

Recommendation: The Board should adopt formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance, and differentiated pay of instructional personnel and school-based administrators is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c), Florida Statutes.

Finding No. 3: Electronic Funds Transfers

Section 1010.11, Florida Statutes, requires the Board to adopt written policies prescribing the accounting and control procedures for electronic funds transfers (EFTs) for any purpose including direct deposit, wire transfer, withdrawal, investment, or payment consistent with the provisions of Chapter 668, Florida Statutes. Pursuant to Section 668.006, Florida Statutes, the District is responsible for implementing control processes and procedures to ensure adequate integrity, security, confidentiality, and auditability of business transactions conducted using electronic commerce. In addition, State Board of Education (SBE) Rule 6A-1.0012, Florida Administrative Code (FAC), authorizes the District to make EFTs provided adequate internal control measures are established and maintained, such as a written agreement with a financial institution. An agreement must, among other things, contain the title of the bank account subject to the agreements and the manual signatures of the Board chair, superintendent, and employees authorized to initiate EFTs. Also, SBE Rule 6A-1.0012, FAC, requires the District to maintain documentation signed by the initiator and authorizer of EFTs to confirm the authenticity of EFTs.

The Board established an agreement with a bank to provide various services, including EFTs, and the agreement contained the signatures of the Board chair and superintendent. For making electronic payments, the District uses the bank's on-line authorization and approval system to establish security controls over its bank accounts and EFT transactions. Based on printouts from the on-line system, the District's executive finance director and an accountant were identified as system administrators who could add, delete, or revise the capabilities (user profiles) of individuals authorized to make transfers, and initiate and authorize EFTs. Also, two employees other than the designated system administrators were authorized to only initiate EFTs.

During the 2010-11 fiscal year, the District regularly made electronic disbursements for vendor payments, debt service payments, and direct deposit of employee pay and other payroll related activity, such as annuity, flexible benefit, and union dues. While the District used informal processes including oral instructions, e-mail directions, and other reviews to monitor and control electronic transmission of funds, the Board had not adopted written policies

prescribing the accounting and control procedures of EFTs, contrary to Section 1010.11, Florida Statutes. Further, although our review and inquiry disclosed that the initiator of EFT transactions documented their approval of transactions and system administrators who authorized EFTs were not the same as the EFT initiators, the bank agreement did not contain the signatures of the employees authorized to initiate and authorize EFTs. Additionally, our test of ten EFT transactions disclosed that the system administrators did not execute signed confirmations to authenticate the EFTs, contrary to SBE Rule 6A-1.0012, FAC.

District personnel indicated that controls are in place, such as separation of initiator and authorizers of EFTs and management review of EFT transactions, to compensate, in part, for the lack of formal policies and procedures. District personnel also indicated that the bank agreement did not contain the signatures of the employees authorized to initiate and authorize EFTs because the bank uses an on-line authorization and approval system that does not require written signatures. While our tests did not disclose any EFTs for unauthorized purposes, such tests cannot substitute for management's responsibility to establish effective internal controls. Without properly established policies and procedures governing EFT activities, there is an increased risk that errors or fraud could occur and not be timely detected.

Recommendation: The Board should adopt formal written policies and procedures to ensure adequate integrity, security, confidentiality, and auditability of business transactions conducted using electronic commerce consistent with applicable Florida Statutes and SBE Rules.

Finding No. 4: 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. Chapter 2010-152, Laws of Florida, Specific Appropriation 109, states that from the funds provided in Specific Appropriations 9 and 109, each school district shall report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with the Florida Department of Education (FDOE) instructional hours reporting procedures. Procedures provided by FDOE to the school districts 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. Also, students must be procedurally withdrawn for non-attendance after six consecutive absences from a class with the withdrawal date reported on the day after the last date of attendance. The yearly fundable instructional hours cannot exceed 1,300 contact hours.

For the 2010-11 fiscal year, the District reported to FDOE 200,409 adult general education contact hours for 546 students. Our tests of the 8,392 hours reported for 25 students enrolled in 143 classes disclosed that the District inadvertently overreported 129 hours for 2 students enrolled in 13 classes because the students were not procedurally withdrawn for non-attendance using the withdrawal date as the day after the last date of attendance. Our tests further disclosed 3 other students who had more than the 1,300 contact hour maximum reported, resulting in 188 hours overreported. We expanded our review and noted 15 additional students who had more than the 1,300 contact hour maximum reported, resulting in 1,015 hours overreported.

District personnel indicated that the errors mainly occurred because the District had not designated one employee to report the hours, and the employees were not trained in the reporting process. Given the control deficiencies above, the full extent of the course hours misreported was not readily available. Since future funding may be based, in part, on enrollment data submitted to FDOE, it is important that such data be submitted correctly.

Recommendation: The District should enhance its controls over the reporting of instructional contact hours for adult education classes to FDOE. Further, the District should determine the extent of hours overreported and contact FDOE for proper resolution.

Finding No. 5: Ad Valorem Taxation

Section 1011.71, Florida Statutes, allows the District to levy ad valorem taxes for capital outlay purposes within specified millage rates subject to certain precedent conditions. Section 1011.71(5), Florida Statutes, provides that the District may expend up to \$100 per unweighted full-time equivalent student from the revenue generated for certain specified purposes, including paying the cost of premiums for property and casualty insurance necessary to insure school district educational and ancillary plants. In addition, Chapter 2011-55, Laws of Florida, provides that the Commissioner of the Florida Department Education (FDOE) may waive compliance with Section 1011.71, Florida Statutes, if a district acted in good faith for payment of premiums for property insurance and casualty insurance made prior to January 1, 2011. The District accounts for the ad valorem tax levy proceeds in the Capital Projects – Local Capital Improvement (LCI) Fund.

The District is a member of the North East Florida Educational Consortium (NEFEC) and participates in NEFEC's Risk Management Program relating to property and casualty insurance. Several districts established the Program, self-sustained through member assessments (premiums), as 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. NEFEC initially assessed participating districts their applicable premiums without identifying the portions of the premium that were applicable to the specific coverage areas, and the District paid premiums totaling approximately \$1.7 million from its General Fund to participate in the Program. In April 2011, NEFEC provided participating districts with a methodology for determining the portion of premium costs attributable to property and casualty insurance for educational and ancillary plants. Using the methodology, District personnel determined that \$622,955 of the District's premium would be an allowable use of ad valorem tax levy proceeds; however, on June 21, 2011, the District transferred \$711,871 from the LCI Fund to the General Fund for property and casualty insurance. Because the premium payments were not paid or reimbursed from ad valorem tax levy proceeds until after January 1, 2011, the waiver does not apply and \$88,916 of funds transferred in excess of the allowable amount represent questioned costs.

District personnel indicated that the transfer was included in the original budget and, because more than the amount transferred was paid from the General Fund prior to January 1, 2011, the statutory waiver would apply. However, FDOE personnel advised us that a transfer of funds from the LCI Fund to the General Fund after January 1, 2011, is not considered as acting in good faith and would not waive the equal-dollar reduction on the payment of insurance premiums made prior to January 1, 2011. A similar finding was noted in our report No. 2011-114.

Recommendation: The District should enhance its controls to ensure that ad valorem tax levy proceeds are used only for authorized purposes. In addition, the District should document the allowability of the \$88,916 of questioned costs or restore this amount to the LCI Fund.

Finding No. 6: Information Technology – Timely Deactivation of Access Privileges

Effective management of information technology (IT) access privileges includes the timely deactivation of employee IT access privileges when employment is terminated. Prompt action is necessary to ensure that a former employee's IT access privileges are not misused by the former employee or others.

Monthly, the IT department reviews the Board agenda for employee terminations and identified former employees to deactivate their access privileges. However, our review of 12 employees who terminated employment from June 10, 2008, through June 30, 2011, disclosed that the network access privileges of 3 former employees had not been deactivated as of November 2, 2011. Subsequent to our inquiry, District management indicated that the employees' network privileges were deactivated.

Although our tests did not disclose any instances of errors or misappropriations as a result of the issue noted above, when the access privileges of former employees are not timely deactivated, the risk is increased that access privileges may be misused by the former employees or others.

Recommendation: **The District should ensure that the access privileges of former employees are timely deactivated.**

Finding No. 7: Information Technology – Security Incident Response Plan

Computer security incident response plans are established by management to ensure an appropriate, effective, and timely response to security incidents. These written plans typically detail responsibilities and procedures for identifying, logging, and analyzing security violations and include a centralized reporting structure, provision for a team trained in incident response, and notification of affected parties.

The District's *Acceptable Use Policy* requires employees to notify a system administrator if a security problem is identified; however, the District did not have a comprehensive written IT security incident response plan. Should an event occur that involves the potential or actual compromise, loss, or destruction of District data or IT resources, the lack of a written security incident response plan could result in the District's failure to take appropriate and timely actions to prevent further loss or damage to the District's data and IT resources.

Recommendation: **The District should develop a written IT security incident response plan to provide reasonable assurance that the District will respond in an appropriate and timely manner to events that may jeopardize the confidentiality, integrity, or availability of data and IT resources.**

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

There were no audit findings on Federal programs required to be reported under OMB Circular A-133, Section 510.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2011-114.

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, 2011*

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 |
|---|---|--|------------|----------|
| 2011-114 (1) | State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394 and 84.397) - Procurement | Improvements could be made in procedures to ensure the use of written contracts containing required contractual provisions for expenditures funded with Federal moneys. | Corrected. | |

EXHIBIT A
MANAGEMENT'S RESPONSE



The Nassau County School District

1201 Atlantic Avenue
Fernandina Beach, Florida 32034

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

(904) 491-9900
Fax (904) 277-9032
www.nassau.k12.fl.us

February 10, 2012

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, 2011.

Finding No. 1: Effective for the evaluations being performed for the 2011-2012 year we are now using an instrument which has been approved by the Florida Department of Education as meeting all the statutory requirements and the requirements of the Federal Race to the Top Grant.

Finding No. 2: The district's instructional differentiated pay schedule does identify a category for "Critical Shortage Area" which outlines discussions which would occur should a critical shortage area be identified by the superintendent. We have a non-written procedure that would trigger the steps in the salary schedule should a third posting occur for a position. We will endeavor to review the requirements of the statute more thoroughly and to establish written procedures for this category of differentiated pay for both the instructional and administrative schedules.

Finding No. 3: Subsequent to audit field work the district has adopted a policy concerning electronic fund transfers. Actual procedures were reviewed and where considered weak, additional documentation of approvals were implemented. Existing written documentation on wire transfer procedures will be updated to ensure that steps are included concerning documentation of the approval process.

Finding No. 4: Requirements for the reporting of adult education hours have been reviewed with appropriate personnel and steps have been taken to ensure that amendments were filed with the Department of Education to correctly report any discrepancies which were found. Adult education personnel are currently working on a department policy and procedure manual for all adult education employees to keep current with the requirements for reporting FTE and other adult education requirements.

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.

AN EQUAL OPPORTUNITY EMPLOYER

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

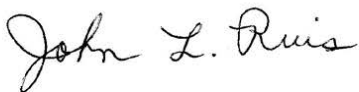
2011 Audit Response
Page 2

Finding No.5: In the prior fiscal year, we were cited for making a larger transfer than allowed for property and casualty insurance based on a difference in the interpretation of what constituted Property and Casualty Insurance. Nassau County participates in the Northeast Florida Educational Consortium's risk management program. As part of the calculation for this allowable transfer the school district included 100 % of some bundled policies which upon closer inspection included liability insurance not allowable under the statute. During the Legislative session a waiver was established that allowed those districts who the Department of Education had felt made an honest error would be relieved of their repayment. The waiver also covered any payments made for the current year through January 1, 2011. Since the statutory language addressed insurance "payments" and not the actual transfer of funds we proceeded to make the appropriate transfer adjustments in accordance with the new statutory language. As noted the actual transfer of funds did not take place until June subsequent to the legislative session which established the waiver. We were waiting on the new legislation to determine the appropriate transfer amount. If the Department of Education had interpreted the new legislation to be based on when the payment of premiums was made and not the transfer of funds we would have been in compliance with the statutory language.

Finding No. 6: Procedures are in place to handle the deactivation of employee access privileges however, there were several periods during the year when multiple Information Technology Staff were out for extended periods of time due to unexpected personal or family illness. While we tried to cover all mission critical operations during these absences sometimes errors do occur. Based on our review of 100% of the terminations over the same timeframe used by the auditor, these three discrepancies were the only ones found. One of the exceptions identified was for a part time position and the employee still was allowed access due to their full time position. We will continue to monitor terminations and ensure that their access privileges are deactivated in a timely manner.

Finding No. 7: As of this date we have developed a Security Incident Report which is now going through the staff review process.

Sincerely,



Dr. John L. Ruis
Superintendent of Schools