REPORT NO. 2013-150
MARCH 2013

NASSAU COUNTY
DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2012

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2011-12 fiscal year are listed below:

	District No.
Donna Martin, Chair	1
Gail G. Cook	2
Amanda L. Young	3
Dr. Kimberly Joyce Fahlgren from 9-2-11 (1)	4
Dr. Kathy Knight Burns, Vice Chair	5

Dr. John L. Ruis, Superintendent

Note (1): Board member position vacant from July 1, 2011, to September 1, 2011; Governor appointed the Board member to fill vacancy effective September 2, 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 Jillian M. Litchfield, and the audit was supervised by John P. 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.

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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: The District needed to enhance its procedures regarding out-of-field teaching assignments.

Finding No. 2: 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. 3: The District did not follow the competitive selection process required by Section 287.055, Florida Statutes, for a design-build contract.

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

Summary of Report on Federal Awards

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

Audit Objectives and Scope

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

- **Presented the District's basic financial statements in accordance with generally accepted accounting principles;**
- **Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;**
- **Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;**
- **Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and**
- **Taken corrective actions for findings included in our report No. 2012-113.**

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, 2012. 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.

AUDITOR GENERAL
STATE OF FLORIDA

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

INDEPENDENT AUDITOR'S
REPORT ON 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, 2012, 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 66 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 reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of 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 reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the Nassau County District School Board as of June 30, 2012, 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 (OMB) 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

David W. Martin, CPA
March 18, 2013

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, 2012. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements found immediately following the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2011-12 fiscal year are as follows:

- In total, net assets increased $841,960.75, which represents a 0.4 percent increase over the 2010-11 fiscal year.
- The District's assets exceeded its liabilities at June 30, 2012, by $195,829,620.64 (net assets). Of this amount, $7,603,891.10 (unrestricted net assets) may be used to meet the District's current and future obligations.
- General revenues total $88,092,562.03, or 94 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total $5,846,970.89, or 6 percent of all revenues.
- Expenses total $93,097,572.17. Only $5,846,970.89 of these expenses was offset by program specific charges, with the remainder paid from general revenues.
- The fund balance of the General Fund totals $15,597,649.82 at June 30, 2012, or 22 percent of total General Fund revenues. This fund balance includes $768,157.96 of nonspendable funds, $2,474,555.80 of restricted funds, $2,478,384.25 of assigned funds and $9,876,551.81 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 education 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 entitywide perspective contained in the government-wide statements. All of the District's funds may be classified within one of the broad categories discussed below.

Governmental Funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, 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, 2012, compared to net assets as of June 30, 2011:

Net Assets, End of Year

	Governmental Activities	
	6-30-12	6-30-11
Current and Other Assets	$ 59,491,466.27	$ 60,899,947.11
Capital Assets	151,148,440.11	149,095,859.36
Total Assets	210,639,906.38	209,995,806.47
Long-Term Liabilities	11,148,320.86	10,746,526.10
Other Liabilities	3,661,964.88	4,261,620.48
Total Liabilities	14,810,285.74	15,008,146.58
Net Assets:		
Invested in Capital Assets - Net of Related Debt	145,663,108.57	143,357,278.36
Restricted	42,562,620.97	42,718,726.60
Unrestricted	7,603,891.10	8,911,654.93
Total Net Assets	$ 195,829,620.64	$ 194,987,659.89

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 District'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, 2012, and June 30, 2011, are as follows:

Operating Results for the Fiscal Year Ended

	Governmental Activities	
	6-30-12	6-30-11
Program Revenues:		
Charges for Services	$ 2,291,726.73	$ 2,401,793.14
Operating Grants and Contributions	3,161,525.07	5,772,691.23
Capital Grants and Contributions	393,719.09	2,017,256.73
General Revenues:		
Property Taxes, Levied for Operational Purposes	44,325,373.39	49,318,664.68
Property Taxes, Levied for Capital Projects	8,459,012.47	9,652,274.10
Impact Fees	962,884.32	
Grants and Contributions Not Restricted to Specific Programs	32,249,671.69	36,895,998.47
Unrestricted Investment Earnings	60,201.75	230,163.76
Miscellaneous	2,035,418.41	790,782.33
Total Revenues	93,939,532.92	107,079,624.44
Functions/Program Expenses:		
Instruction	47,577,118.61	51,479,332.73
Pupil Personnel Services	3,455,936.14	3,639,344.59
Instructional Media Services	1,245,732.11	1,406,946.95
Instruction and Curriculum Development Services	2,306,809.89	2,736,669.80
Instructional Staff Training Services	1,176,450.65	1,354,545.10
Instruction Related Technology	996,204.25	983,280.59
School Board	515,969.89	466,196.14
General Administration	907,214.92	985,857.54
School Administration	4,858,677.85	5,288,111.14
Facilities Acquisition and Construction	830,616.36	684,111.75
Fiscal Services	503,174.77	557,614.58
Food Services	4,968,648.58	4,915,639.92
Central Services	491,828.52	559,301.94
Pupil Transportation Services	4,825,605.16	4,745,923.67
Operation of Plant	7,734,038.86	8,563,538.19
Maintenance of Plant	2,628,196.11	3,033,935.58
Administrative Technology Services	932,582.99	853,115.52
Community Services	235,543.02	258,495.93
Unallocated Interest on Long-Term Debt	246,286.89	227,585.90
Unallocated Depreciation Expense	6,603,467.41	6,371,074.66
Loss on Disposal of Capital Assets	57,469.19	981,633.84
Total Functions/Program Expenses	93,097,572.17	100,092,256.06
Increase in Net Assets	$ 841,960.75	$ 6,987,368.38

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 94 percent of total revenues, whereas program revenues provide only about 6 percent. The majority of program revenues (94 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 decreased by $4,646,326.78 or 13 percent and is specifically related to the decrease in Federal economic stimulus program funds.

Operating grants and contributions revenue decreased by $2,611,166.16, or 4.5 percent, mainly from student transportation funding being reclassified from program revenue to general revenue and included as part of the FEFP.

Capital grants and contributions revenue decreased by $1,623,537.64, or 80 percent. These revenues are primarily received from the State and are for the acquisition, construction, and maintenance of educational facilities. The decrease in funding is mainly due to impact fee revenues being reclassified from program revenue to general revenue and the reduction of certain State capital outlay appropriations.

Instruction expenses represent 51 percent of total governmental expenses in both the 2010-11 and 2011-12 fiscal years. Instruction expenses decreased by $3,902,214.12, or 8 percent from the previous fiscal year due to reduced staffing levels and employees assuming a 3 percent retirement contribution that was previously the District's responsibility.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The General Fund is the District's chief operating fund. Unassigned fund balance is $9,876,551.81 at the end of the current fiscal year, while the total fund balance decreased by $742,644.13 during the fiscal year to $15,597,649.82. The District began receiving one-time appropriations in the 2009-10 fiscal year under the American Recovery and Reinvestment Act (ARRA) to help stabilize the budget, minimize reductions in education services and, depending on the program, these appropriations were generally available for only one to two fiscal years. During the 2010-11 fiscal year, the District also received a one-time appropriation under the Education Jobs Act to help the District pay salaries and benefits of teachers, school administrators, and other essential school-based staff. In those fiscal years, the District shifted some General Fund costs to these Federal stimulus programs; however, the discontinuation of the programs in the current fiscal year resulted in increased costs in the General Fund and a decrease in total fund balance.

The Special Revenue – Federal Economic Stimulus Fund has total revenues and expenditures of $549,887.98 each. Revenues and expenditures each decreased $6,977,671.96 from the previous fiscal year because most Federal stimulus programs expired during the 2010-11 fiscal year. Because grant revenues attributed to the grants accounted for in this fund are not recognized until expenditures are incurred, this fund generally does not accumulate a fund balance.

The Capital Projects – Local Capital Improvement Fund has a total fund balance of $31,827,681.47, which is restricted for the acquisition, construction, and maintenance of capital assets. Encumbrances of this fund total

$5,771,753.36, the majority of which is earmarked for projects at West Nassau High, Callahan Elementary, Hilliard Middle Senior High, Callahan Middle, and Yulee Middle 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 2011-12 fiscal year, the District amended its General Fund budget several times, which resulted in a decrease in total budgeted revenues by $1,401,095.62, or 2 percent. At the same time, final appropriations are greater than the original budgeted amounts by $870,070.58. 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 $645,249.80, or 1 percent greater than the final budgeted amounts, while actual expenditures are $7,818,579.47, or 10 percent less than final budget amounts. The increase in revenues was due to changes in the FEFP calculations and unanticipated grant awards. The decrease in expenditures was primarily due to continued cost containment measures implemented by the District as well as salary and related expenditures being less than projected. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by $8,395,432.63.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities at June 30, 2012, is $151,148,440.11 (net of accumulated depreciation). This investment in capital assets includes land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; construction in progress; and audio visual materials and computer software.

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

- Completion of the renovations and additions at Southside Elementary School, costing approximately $4.6 million.
- Construction in progress at June 30, 2012, for new construction and related site work at West Nassau High School, and school parking and site work at Callahan Elementary School.

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, 2012, the District has total long-term debt outstanding of $5,485,331.54, comprised of State School Bonds of $1,630,000, District Revenue Bonds of $2,426,750.54, and Qualified Zone Academy Bonds of $1,428,581. The District refunded $2,460,000 of District Revenue Bonds during the fiscal year through issuance of sales tax refunding revenue bonds.

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 for 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, 2012

		Governmental Activities
ASSETS		
Cash and Cash Equivalents	$	55,919,586.23
Investments		619,470.76
Accounts Receivable		13,258.25
Due from Other Agencies		1,161,807.13
Inventories		876,304.59
Restricted Investments		757,252.91
Capital Credits Receivable		143,786.40
Capital Assets:		
Nondepreciable Capital Assets		7,023,280.05
Depreciable Capital Assets, Net		144,125,160.06
TOTAL ASSETS	$	210,639,906.38
LIABILITIES		
Salaries and Benefits Payable	$	1,399,455.31
Payroll Deductions and Withholdings		616,162.12
Accounts Payable		504,097.51
Construction Contracts Payable		703,789.47
Construction Contracts Payable - Retainage		396,698.19
Deferred Revenue		41,762.28
Long-Term Liabilities:		
Portion Due Within One Year		907,300.14
Portion Due After One Year		10,241,020.72
Total Liabilities		14,810,285.74
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		145,663,108.57
Restricted for:		
State Required Carryover Programs		2,129,671.96
Debt Service		835,397.51
Capital Projects		37,508,319.83
Food Service		1,744,347.83
Other Purposes		344,883.84
Unrestricted		7,603,891.10
Total Net Assets		195,829,620.64
TOTAL LIABILITIES AND NET ASSETS	$	210,639,906.38

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, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Change in Net Assets: Primary Government Governmental Activities
Primary Government					
Governmental Activities:					
Instruction	$ 47,577,118.61	$ 37,196.00	$	$	$ (47,539,922.61)
Pupil Personnel Services	3,455,936.14				(3,455,936.14)
Instructional Media Services	1,245,732.11				(1,245,732.11)
Instruction and Curriculum Development Services	2,306,809.89				(2,306,809.89)
Instructional Staff Training Services	1,176,450.65				(1,176,450.65)
Instruction Related Technology	996,204.25				(996,204.25)
School Board	515,969.89				(515,969.89)
General Administration	907,214.92				(907,214.92)
School Administration	4,858,677.85				(4,858,677.85)
Facilities Acquisition and Construction	830,616.36			86,765.28	(743,851.08)
Fiscal Services	503,174.77				(503,174.77)
Food Services	4,968,648.58	2,150,037.16	3,161,525.07		342,913.65
Central Services	491,828.52				(491,828.52)
Pupil Transportation Services	4,825,605.16	104,493.57			(4,721,111.59)
Operation of Plant	7,734,038.86				(7,734,038.86)
Maintenance of Plant	2,628,196.11				(2,628,196.11)
Administrative Technology Services	932,582.99				(932,582.99)
Community Services	235,543.02				(235,543.02)
Unallocated Interest on Long-Term Debt	246,286.89			306,953.81	60,666.92
Unallocated Depreciation Expense*	6,603,467.41				(6,603,467.41)
Loss on Disposal of Capital Assets	57,469.19				(57,469.19)
Total Governmental Activities	$ 93,097,572.17	$ 2,291,726.73	$ 3,161,525.07	$ 393,719.09	(87,250,601.28)

General Revenues:	
Taxes:	
Property Taxes, Levied for Operational Purposes	44,325,373.39
Property Taxes, Levied for Capital Projects	8,459,012.47
Impact Fees	962,884.32
Grants and Contributions Not Restricted to Specific Programs	32,249,671.69
Unrestricted Investment Earnings	60,201.75
Miscellaneous	2,035,418.41
Total General Revenues	88,092,562.03
Change in Net Assets	841,960.75
Net Assets - Beginning	194,987,659.89
Net Assets - Ending	$ 195,829,620.64

* 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, 2012

	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	$ 16,704,852.75	$	$ 32,594,825.68	$ 6,619,907.80	$ 55,919,586.23
Investments	138,260.43		270,122.98	211,087.35	619,470.76
Accounts Receivable	13,258.25				13,258.25
Due from Other Funds	138,024.53				138,024.53
Due from Other Agencies	88,148.66	18,753.90	14,540.47	1,040,364.10	1,161,807.13
Inventories	768,157.96			108,146.63	876,304.59
Restricted Investments				757,252.91	757,252.91
TOTAL ASSETS	$ 17,850,702.58	$ 18,753.90	$ 32,879,489.13	$ 8,736,758.79	$ 59,485,704.40
LIABILITIES AND FUND BALANCES					
Liabilities:					
Salaries and Benefits Payable	$ 1,399,455.31	$	$	$	$ 1,399,455.31
Payroll Deductions and Withholdings	616,162.12				616,162.12
Accounts Payable	237,435.33	12,649.16		254,013.02	504,097.51
Construction Contracts Payable			655,109.47	48,680.00	703,789.47
Construction Contracts Payable - Retainage			396,698.19		396,698.19
Due to Other Funds		6,104.74		131,919.79	138,024.53
Deferred Revenue				41,762.28	41,762.28
Total Liabilities	2,253,052.76	18,753.90	1,051,807.66	476,375.09	3,799,989.41
Fund Balances:					
Nonspendable:					
Inventory	768,157.96			108,146.63	876,304.59
Restricted for:					
State Required Carryover Programs	2,129,671.96				2,129,671.96
Debt Service				835,397.51	835,397.51
Capital Projects			31,827,681.47	5,680,638.36	37,508,319.83
Food Services				1,636,201.20	1,636,201.20
Other Purposes	344,883.84				344,883.84
Total Restricted Fund Balance	2,474,555.80		31,827,681.47	8,152,237.07	42,454,474.34
Assigned for:					
Health Insurance	684,047.80				684,047.80
Special Education Programs	484,020.56				484,020.56
Wellness Program	150,000.00				150,000.00
Textbooks	60,546.87				60,546.87
Local Programs and Other Purposes	1,099,769.02				1,099,769.02
Total Assigned Fund Balance	2,478,384.25				2,478,384.25
Unassigned Fund Balance	9,876,551.81				9,876,551.81
Total Fund Balances	15,597,649.82		31,827,681.47	8,260,383.70	55,685,714.99
TOTAL LIABILITIES AND FUND BALANCES	$ 17,850,702.58	$ 18,753.90	$ 32,879,489.13	$ 8,736,758.79	$ 59,485,704.40

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, 2012

Total Fund Balances - Governmental Funds		$ 55,685,714.99
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.		151,148,440.11
Capital credits are not available to liquidate liabilities in the governmental funds, but are accrued as governmental activities in the statement of net assets.		143,786.40
Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at fiscal year-end consist of:		
Qualified Zone Academy Bonds Payable	$ 1,428,581.00	
Bonds Payable	4,056,750.54	
Compensated Absences Payable	2,969,235.32	
Other Postemployment Benefits Payable	2,693,754.00	
		(11,148,320.86)
Total Net Assets - Governmental Activities		$ 195,829,620.64

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, 2012

	General Fund	Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Intergovernmental:					
Federal Direct	$ 65,642.29	$	$	$	$ 65,642.29
Federal Through State and Local	317,330.28	549,887.98		8,736,737.50	9,603,955.76
State	25,497,610.19			634,892.62	26,132,502.81
Local:					
Property Taxes	44,325,373.39		8,459,012.47		52,784,385.86
Impact Fees				962,884.32	962,884.32
Charges for Services - Food Service				2,150,037.16	2,150,037.16
Miscellaneous	1,922,050.03		44,328.64	72,854.92	2,039,233.59
Total Local Revenues	46,247,423.42		8,503,341.11	3,185,776.40	57,936,540.93
Total Revenues	72,128,006.18	549,887.98	8,503,341.11	12,557,406.52	93,738,641.79
Expenditures					
Current - Education:					
Instruction	43,669,486.58	172,123.55		3,315,248.12	47,156,858.25
Pupil Personnel Services	3,057,464.39	1,638.53		368,150.89	3,427,253.81
Instructional Media Services	1,235,337.48				1,235,337.48
Instruction and Curriculum Development Services	1,069,023.03	23,671.70		1,193,367.48	2,286,062.21
Instructional Staff Training Services	792,946.73	91,898.41		282,223.85	1,167,068.99
Instruction Related Technology	991,166.02				991,166.02
School Board	514,201.76				514,201.76
General Administration	676,592.07	109,933.60		115,334.55	901,860.22
School Administration	4,813,924.89			684.57	4,814,609.46
Facilities Acquisition and Construction	130,140.82		379,600.52	320,875.02	830,616.36
Fiscal Services	498,587.47				498,587.47
Food Services				4,950,375.67	4,950,375.67
Central Services	465,759.97	20,711.91		1,474.87	487,946.75
Pupil Transportation Services	4,034,983.02	5,940.97		131,452.89	4,172,376.88
Operation of Plant	7,700,302.57	2,923.22			7,703,225.79
Maintenance of Plant	2,609,549.17				2,609,549.17
Administrative Technology Services	869,154.54	58,079.00			927,233.54
Community Services	160,510.26			73,015.82	233,526.08
Fixed Capital Outlay:					
Facilities Acquisition and Construction			4,509,807.90	1,572,515.13	6,082,323.03
Other Capital Outlay	303,415.35	62,967.09	2,353,806.29	441,091.94	3,161,280.67
Debt Service:					
Principal				229,985.25	229,985.25
Interest and Fiscal Charges				208,001.10	208,001.10
Total Expenditures	73,592,546.12	549,887.98	7,243,214.71	13,203,797.15	94,589,445.96
Excess (Deficiency) of Revenues Over Expenditures	(1,464,539.94)		1,260,126.40	(646,390.63)	(850,804.17)
Other Financing Sources (Uses)					
Transfers In	622,491.12			81,224.25	703,715.37
District Revenue Refunding Bonds Issued				2,436,735.79	2,436,735.79
Payment to Refunding Bond Escrow Agent				(2,498,285.79)	(2,498,285.79)
Proceeds from Sale of Capital Assets	80,661.18				80,661.18
Insurance Loss Recoveries	18,743.51				18,743.51
Transfers Out			(641,712.04)	(62,003.33)	(703,715.37)
Total Other Financing Sources (Uses)	721,895.81		(641,712.04)	(42,329.08)	37,854.69
Net Change in Fund Balances	(742,644.13)		618,414.36	(688,719.71)	(812,949.48)
Fund Balances, Beginning	16,340,293.95		31,209,267.11	8,949,103.41	56,498,664.47
Fund Balances, Ending	$ 15,597,649.82	$ 0.00	$ 31,827,681.47	$ 8,260,383.70	$ 55,685,714.99

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, 2012

Net Change in Fund Balances - Governmental Funds		$ (812,949.48)
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.		
Capital Outlay Expenditures - Governmental Funds	$ 9,243,603.70	
Depreciation Expense - Governmental Fund Assets	(7,230,915.96)	
Donated Assets	178,023.38	2,190,711.12
In the governmental funds, the cost of capital assets was recognized as an expenditure in the fiscal year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets.		(138,130.37)
Long-term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. 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 by which repayments exceed proceeds in the current fiscal year.		
District Revenue Refunding Bonds Issued	$ (2,436,735.79)	
Repayments:		
State School Bonds	220,000.00	
District Revenue Bonds	9,985.25	
District Revenue Bonds Refunded	2,460,000.00	253,249.46
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	$ 143,786.40	
Prior Year Accruals	(139,662.16)	4,124.24
In the statement of activities, the cost of compensated absences is measured by the amounts earned during the fiscal 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.		116,275.78
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.		(771,320.00)
Change in Net Assets - Governmental Activities		$ 841,960.75

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, 2012

		Agency Funds
ASSETS		
Cash and Cash Equivalents	$	912,486.00
LIABILITIES		
Internal Accounts Payable	$	912,486.00

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

NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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.

  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.

NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

- 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.

The District reports the following fiduciary fund type:

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

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

NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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 the SBA debt service accounts for investment of debt service moneys, amounts placed with the SBA for participation in the Florida PRIME and Fund B Surplus Funds Trust Fund (Fund B) investment pools created by Sections 218.405 and 218.417, Florida Statutes, and those made locally. The investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

The District's investments in Florida PRIME, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2012, 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 0.83481105 at June 30, 2012. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the SBA, are effected by transferring eligible cash or securities to Florida PRIME, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within Florida PRIME.

Investments made locally consist of a money market mutual fund and commercial paper and are reported at fair value.

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 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 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.

NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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

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. Governmental fund types recognize debt premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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 the 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 the FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the year when the adjustments are made.

The State provides financial assistance to administer certain educational programs. State Board of Education rules require that revenue earmarked for certain programs be expended only for the program for which the money is provided, and require that the money not expended as of the close of the fiscal year be carried forward

NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

into the following year to be expended for the same educational programs. The Department generally requires that these educational program revenues be accounted for in the General Fund. A portion of the fund balance of the General Fund is restricted in the governmental fund financial statements for the balance of categorical and earmarked educational program resources.

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

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 2011 tax levy on September 15, 2011. 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 improvements costs include, but are not limited to, school sites, buildings, relocatable classrooms, building contents, nonbuilding improvements, and vehicles.

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.

NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

Budgetary Information. 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, 2012, the District has the following investments and maturities:

Investments	Maturities	Fair Value
SBA:		
Florida PRIME (1)(3)	38 Day Average	$ 934,301.29
Fund B	5.73 Year Average	541,326.16
Debt Service Accounts	6 Months	78,144.60
Dreyfus Cash Management Institutional Shares		
Money Market Mutual Fund (1)	35 Day Average	39,466,683.56
Commercial Paper (2)	October 9, 2012	757,252.91
Total Investments		$ 41,777,708.52

Notes: (1) These investments are reported as cash equivalents for financial statement reporting purposes.
(2) This instrument is held by a paying agent in connection with the QZABs financing arrangement (see note 6).
(3) Includes fiduciary fund investment of $416,270.

- 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 38 days at June 30, 2012. 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

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used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. At June 30, 2012, based on expected future cash flows, the WAL of Fund B is estimated at 5.73 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL. Participation in Fund B is involuntary.

- Credit Risk

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

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

As of June 30, 2012, the District's investment in Florida PRIME is rated AAAm by Standard & Poor's. Fund B is unrated.

As of June 30, 2012, the District's investment in the Dreyfus Cash Management Institutional Shares Money Market Mutual Fund is rated AAAm by Standard & Poor's and Aaa-mf by Moody's Investors Service.

The District's investment in commercial paper is authorized under a forward delivery agreement with the QZABs paying agent. The forward delivery agreement authorizes the investment of the available sinking fund amounts in certain eligible securities, including United States Treasury securities, obligations issued by agencies of the United States Government, and short-term obligations issued by banks, corporations, or other borrowers having a rating at the time of delivery of at least P-1 by Moody's Investors Service or A-1 by Standards & Poor's. As of June 30, 2012, the District's investment in commercial paper was rated A-1 by Standards & Poor's, and P-1 by Moody's Investors Service.

- Custodial Credit Risk

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

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- 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 Natixis U.S. Finance Company, LLC. These investments are 11.6 percent of the District's total investments reported in this fund.

4. CAPITAL CREDITS

The District participates in the Okefenoke Rural Electric Membership Corporation, a nonprofit electric cooperative. Revenues in excess of operating expenses, unless otherwise determined by a vote of the membership, are distributed by the cooperative on a pro rata share basis to its members. Annually, the cooperative makes payments for designated prior years' capital credits. During the 2011-12 fiscal year, the District received $2,910.38 related to the 1987 capital credits and new credits of $7,034.62. At June 30, 2012, the accumulated credits to the District's accounts were $143,786.40.

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5. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below:

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	$ 4,135,012.00	$ 15,082.53	$	$ 4,150,094.53
Construction in Progress	5,143,476.79	6,067,240.50	8,337,531.77	2,873,185.52
Total Capital Assets Not Being Depreciated	9,278,488.79	6,082,323.03	8,337,531.77	7,023,280.05
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	7,736,672.89	432,105.89		8,168,778.78
Buildings and Fixed Equipment	185,819,394.11	8,065,691.51		193,885,085.62
Furniture, Fixtures, and Equipment	19,649,607.09	2,547,641.03	1,783,787.99	20,413,460.13
Motor Vehicles	9,395,280.63	554,633.92	1,371,559.00	8,578,355.55
Audio Visual Materials and Computer Software	4,154,579.81	76,763.47	2,031.20	4,229,312.08
Total Capital Assets Being Depreciated	226,755,534.53	11,676,835.82	3,157,378.19	235,274,992.16
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	6,332,882.08	196,398.43		6,529,280.51
Buildings and Fixed Equipment	56,577,871.59	3,905,563.18		60,483,434.77
Furniture, Fixtures, and Equipment	13,797,459.87	2,400,530.37	1,645,657.62	14,552,332.62
Motor Vehicles	6,306,486.38	627,448.55	1,371,559.00	5,562,375.93
Audio Visual Materials and Computer Software	3,923,464.04	100,975.43	2,031.20	4,022,408.27
Total Accumulated Depreciation	86,938,163.96	7,230,915.96	3,019,247.82	91,149,832.10
Total Capital Assets Being Depreciated, Net	139,817,370.57	4,445,919.86	138,130.37	144,125,160.06
Governmental Activities Capital Assets, Net	$ 149,095,859.36	$ 10,528,242.89	$ 8,475,662.14	$ 151,148,440.11

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	$ 627,448.55
Unallocated	6,603,467.41
Total Depreciation Expense - Governmental Activities	$ 7,230,915.96

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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. 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 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, 2012, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2005B, Refunding	$ 1,530,000.00	5.0	2018
Series 2009A, Refunding	100,000.00	4.0 - 5.0	2019
District Revenue Bonds:			
Series 2012 Sales Tax, Refunding	2,426,750.54	3.18	2031
Total Bonds Payable	$ 4,056,750.54		

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.

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- District Revenue Bonds

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

  On April 24, 2012, the Board issued $2,436,735.79 in Sales Tax Refunding Revenue Bonds, Series 2012, with an average interest rate of 3.18 percent, to refund the outstanding $2,460,000 principal amount of Sales Tax Revenue Bonds, Series 2001, with an average interest rate of 4.91 percent. The net proceeds of $2,498,285.79 (net of $41,250 in issuance costs) plus an additional $102,800 of Series 2001 sinking fund moneys were used to redeem the outstanding Series 2001 bonds on April 25, 2012. As a result, $2,460,000 of the Sales Tax Revenue Bonds, Series 2001, were removed from the government-wide financial statements. The Refunding Bonds were issued to reduce the total debt service payments over the next 20 years by approximately $497,000.

  The District has pledged a combined total of $3,252,886.82 future sales tax revenues in connection with the Sales Tax Refunding Revenue Bonds, Series 2012, described above. During the 2011-12 fiscal year, the District recognized sales tax revenues totaling $191,250, and expended $187,157.54 (98 percent) of these revenues for debt service directly collateralized by these revenues. The pledged sales tax revenues are committed until final maturity of the debt on July 1, 2031. Approximately 89 percent of this revenue stream has been pledged in connection with the debt service on the revenue bonds until all such bonds outstanding have been redeemed.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2012, are as follows:

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Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2013	$ 316,350	$ 235,000	$ 81,350
2014	319,750	250,000	69,750
2015	317,250	260,000	57,250
2016	314,250	270,000	44,250
2017	320,750	290,000	30,750
2018-2019	342,250	325,000	17,250
Total State School Bonds	1,930,600	1,630,000	300,600
District Revenue Bonds:			
2013	171,152.82	94,718.17	76,434.65
2014	171,152.82	97,754.15	73,398.67
2015	171,152.82	100,887.44	70,265.38
2016	171,152.82	103,939.77	67,213.05
2017	171,152.82	107,452.73	63,700.09
2018-2022	855,764.10	591,035.67	264,728.43
2023-2027	855,764.10	692,070.70	163,693.40
2028-2031	685,594.52	638,891.91	46,702.61
Total District Revenue Bonds	3,252,886.82	2,426,750.54	826,136.28
Total	$ 5,183,486.82	$ 4,056,750.54	$ 1,126,736.28

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	4,310,000.00	2,436,735.79	2,689,985.25	4,056,750.54	329,718.17
Compensated Absences Payable	3,085,511.10	461,306.19	577,581.97	2,969,235.32	577,581.97
Other Postemployment Benefits Payable	1,922,434.00	1,312,550.00	541,230.00	2,693,754.00	
Total Governmental Activities	$ 10,746,526.10	$ 4,210,591.98	$ 3,808,797.22	$ 11,148,320.86	$ 907,300.14

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

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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	$ 138,024.53	$
Special Revenue:		
Federal Economic Stimulus		6,104.74
Nonmajor Governmental		131,919.79
Total	$ 138,024.53	$ 138,024.53

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	$ 622,491.12	$
Capital Projects:		
Local Capital Improvement		641,712.04
Nonmajor Governmental	81,224.25	62,003.33
Total	$ 703,715.37	$ 703,715.37

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

10. FUND BALANCE REPORTING

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.

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- 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 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, 2012.

- 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.

- Unassigned

  The portion of fund balance that is the residual classification for the General Fund. This balance represents amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned for specific purposes.

11. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District's State revenue sources for the 2011-12 fiscal year:

Source	Amount
Florida Education Finance Program	$ 12,286,776.00
Categorical Educational Program - Class Size Reduction	12,051,545.00
School Recognition	643,455.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	386,686.14
Workforce Development Program	223,609.00
Racing Commission Funds	223,250.00
Food Service Supplement	56,946.00
Discretionary Lottery Funds	35,406.00
Mobile Home License Tax	22,254.42
Miscellaneous	202,575.25
Total	$ 26,132,502.81

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

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12. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2011 tax roll for the 2011-12 fiscal year:

	Millages	Taxes Levied
GENERAL FUND		
Nonvoted School Tax:		
Required Local Effort	5.817	$ 41,238,328
Basic Discretionary Local Effort	0.748	5,302,780
CAPITAL PROJECTS FUNDS		
Nonvoted Tax:		
Local Capital Improvements	1.243	8,811,972
Total	7.808	$ 55,353,080

13. FLORIDA RETIREMENT SYSTEM

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

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

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

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

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2011-12 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	4.91
Florida Retirement System, Elected County Officers	3.00	11.14
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	4.42
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 the Investment Plan.

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

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions, including employee contributions, for the fiscal years ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled $4,778,432.69, $5,334,844.02, and $3,946,482.58, respectively, which were equal to the required contributions for each fiscal year.

There were 140 District participants in the Investment Plan during the 2011-12 fiscal year. The District's contributions, including employee contributions, to the Investment Plan totaled $446,700.86, which was equal to the required contribution for the 2011-12 fiscal year.

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

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14. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

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

Funding Policy. Plan contribution requirements of the District and OPEB Plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual OPEB costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2011-12 fiscal year, 91 retirees received other postemployment benefits. The District provided required contributions of $541,230 toward the annual OPEB cost, net of retiree contributions totaling $1,020,568 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 OPEB Plan, and changes in the District's net OPEB obligation:

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Description	Amount
Normal Cost (service cost for one year)	$ 796,069
Amortization of Unfunded Actuarial Accrued Liability	512,420
Annual Required Contribution	1,308,489
Interest on Net OPEB Obligation	69,208
Adjustment to Annual Required Contribution	(65,147)
Annual OPEB Cost (Expense)	1,312,550
Contribution Toward the OPEB Cost	(541,230)
Increase in Net OPEB Obligation	771,320
Net OPEB Obligation, Beginning of Year	1,922,434
Net OPEB Obligation, End of Year	$ 2,693,754

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2012, and the two preceding years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009-10	$ 1,059,436	42.38%	$ 1,193,724
2010-11	1,241,751	41.32%	1,922,434
2011-12	1,312,550	41.24%	2,693,754

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

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

The District's OPEB actuarial valuation as of October 1, 2010, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2012, and the District's 2011-12 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 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 rate of 3 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2012, was 26 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, 2012:

Major Funds				
General	Special Revenue - Federal Economic Stimulus	Capital Projects - Local Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
$ 605,766.24	$ 2,300.00	$ 5,771,753.36	$ 417,116.77	$ 6,796,936.37

NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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

Project	Contract Amount	Completed to Date	Balance Committed
West Nassau High School - New Construction and Related Site Work:			
Architect	$ 419,347.50	$ 336,673.30	$ 82,674.20
Contractor	4,635,000.00	1,220,091.12	3,414,908.88
Callahan Elementary School - Remodeling, Additions, and Related Site Work:			
Architect	81,840.00	74,474.40	7,365.60
Contractor	682,000.00	154,952.95	527,047.05
West Nassau High School - Gymnasium Air Conditioning			
Design-build Contractor	389,405.00	77,881.00	311,524.00
Hilliard Middle Senior High School - Gymnasium Air Conditioning			
Design-build Contractor	350,564.00	70,112.80	280,451.20
Callahan Middle School - Gymnasium Air Conditioning			
Design-build Contractor	458,075.00	91,615.00	366,460.00
Yulee Middle School - Gymnasium Air Conditioning			
Design-build Contractor	396,903.00	79,380.60	317,522.40
Total	$ 7,413,134.50	$ 2,105,181.17	$ 5,307,953.33

16. RISK MANAGEMENT PROGRAMS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Nassau County District School Board is a member of the North East Florida Risk Management Consortium (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 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, 2012

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	$ 60,000.00	$ 60,000.00	$ 65,642.29	$ 5,642.29
Federal Through State and Local			317,330.28	317,330.28
State	26,947,492.00	25,413,535.00	25,497,610.19	84,075.19
Local:				
Property Taxes	44,679,464.00	44,679,464.00	44,325,373.39	(354,090.61)
Miscellaneous	1,196,896.00	1,329,757.38	1,922,050.03	592,292.65
Total Local Revenues	45,876,360.00	46,009,221.38	46,247,423.42	238,202.04
Total Revenues	72,883,852.00	71,482,756.38	72,128,006.18	645,249.80
Expenditures				
Current - Education:				
Instruction	47,542,047.55	47,832,657.49	43,669,486.58	4,163,170.91
Pupil Personnel Services	3,070,493.40	3,140,069.37	3,057,464.39	82,604.98
Instructional Media Services	1,247,669.81	1,277,516.72	1,235,337.48	42,179.24
Instruction and Curriculum Development Services	1,295,024.19	1,296,333.31	1,069,023.03	227,310.28
Instructional Staff Training Services	920,405.30	962,049.37	792,946.73	169,102.64
Instruction Related Technology	1,230,685.14	1,153,133.19	991,166.02	161,967.17
School Board	601,312.50	656,294.66	514,201.76	142,092.90
General Administration	1,196,611.90	747,861.51	676,592.07	71,269.44
School Administration	4,918,103.91	5,039,305.00	4,813,924.89	225,380.11
Facilities Acquisition and Construction	170,600.00	145,600.00	130,140.82	15,459.18
Fiscal Services	497,878.44	504,222.44	498,587.47	5,634.97
Food Services	2,592.72			
Central Services	557,104.79	575,323.54	465,759.97	109,563.57
Pupil Transportation Services	3,914,471.92	4,073,726.55	4,034,983.02	38,743.53
Operation of Plant	8,225,837.11	8,277,911.32	7,700,302.57	577,608.75
Maintenance of Plant	3,305,433.18	3,337,072.99	2,609,549.17	727,523.82
Administrative Technology Services	946,911.93	909,982.68	869,154.54	40,828.14
Community Services	897,871.22	1,019,632.48	160,510.26	859,122.22
Fixed Capital Outlay:				
Facilities Acquisition and Construction		20,000.00		20,000.00
Other Capital Outlay		442,432.97	303,415.35	139,017.62
Total Expenditures	80,541,055.01	81,411,125.59	73,592,546.12	7,818,579.47
Excess (Deficiency) of Revenues Over Expenditures	(7,657,203.01)	(9,928,369.21)	(1,464,539.94)	8,463,829.27
Other Financing Sources				
Transfers In	737,219.16	737,219.16	622,491.12	(114,728.04)
Proceeds from Sale of Capital Assets			80,661.18	80,661.18
Insurance Loss Recoveries			18,743.51	18,743.51
Total Other Financing Sources	737,219.16	737,219.16	721,895.81	(15,323.35)
Net Change in Fund Balances	(6,919,983.85)	(9,191,150.05)	(742,644.13)	8,448,505.92
Fund Balances, Beginning	16,393,367.24	16,393,367.24	16,340,293.95	(53,073.29)
Fund Balances, Ending	$ 9,473,383.39	$ 7,202,217.19	$ 15,597,649.82	$ 8,395,432.63

Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
$ 952,840.16	$ 1,098,900.19	$ 549,887.98	$ (549,012.21)
952,840.16	1,098,900.19	549,887.98	(549,012.21)
139,585.09	186,123.55	172,123.55	14,000.00
2,250.00	1,638.53	1,638.53	
31,405.55	44,403.51	23,671.70	20,731.81
365,722.95	408,235.58	91,898.41	316,337.17
93,938.70	109,933.60	109,933.60	
246,186.64	162,694.14	20,711.91	141,982.23
40,571.00	41,006.97	5,940.97	35,066.00
3,180.23	2,923.22	2,923.22	
30,000.00	78,974.00	58,079.00	20,895.00
	62,967.09	62,967.09	
952,840.16	1,098,900.19	549,887.98	549,012.21
$ 0.00	$ 0.00	$ 0.00	$ 0.00

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) (1) (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%

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

NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2012

1. BUDGETARY BASIS OF ACCOUNTING

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

2. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The October 1, 2010, unfunded actuarial accrued liability of $14,284,847 was significantly 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 cost and 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.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NASSAU COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2012

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	$ 248,990.19
National School Lunch Program	10.555	300, 350	883,122.59
Florida Department of Agriculture and Consumer Services:			
School Breakfast Program	10.553	321	374,007.82
National School Lunch Program	10.555 (2)	300, 350	1,598,458.47
Total United States Department of Agriculture			3,104,579.07
United States Department of Justice:			
Indirect:			
Florida Office of the Attorney General:			
Crime Victim Assistance	16.575	V09014	101,051.36
United States Department of Labor:			
Indirect:			
First Coast Workforce Development, Inc.:			
WIA Youth Activities	17.259	2012-08	126,792.44
United States Department of Energy:			
Indirect:			
University of Central Florida:			
ARRA - State Energy Program	81.041	None	160,265.63
United States Department of Education:			
Indirect:			
Florida Department of Education:			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	212, 220, 221, 226, 228	1,842,119.02
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	226	120,972.50
Total Title I, Part A Cluster			1,963,091.52
Special Education Cluster:			
Special Education - Grants to States	84.027	263	2,835,512.50
Special Education - Preschool Grants	84.173	267	37,923.26
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	153,342.07
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	17,219.07
Total Special Education Cluster			3,043,996.90
Adult Education - Basic Grants to States	84.002	191, 193	209,052.48
Career and Technical Education - Basic Grants to States	84.048	161	172,622.88
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	26.55
English Language Acquisition Grants	84.365	102	13,308.58
Improving Teacher Quality State Grants	84.367	224	324,778.76
ARRA - Education Technology State Grants, Recovery Act	84.386	127	16,588.88
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL 111, RD211	207,927.46
Education Jobs Fund	84.410	541	33,838.00
Total United States Department of Education			5,985,232.01
United States Department of Health and Human Services:			
Indirect:			
Florida Department of Health:			
Assistance Programs for Chronic Disease Prevention and Control	93.945	None	72,989.27
United States Department of Defense:			
Direct:			
Air Force Junior Reserve Officers Training Corps	None	N/A	65,642.29
Total Expenditures of Federal Awards			$ 9,616,552.07

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 basis financial statements have been reported.

(2) Noncash Assistance - National School Lunch Program. Includes $285,767.79 of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.

DAVID W. MARTIN, CPA
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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, 2012, 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 includes 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

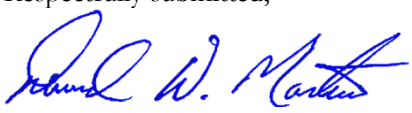
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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.

Our **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*** is 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
March 18, 2013

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The President of the Senate, the Speaker of the
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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 *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, 2012. 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, 2012.

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.

Restricted Purpose Relating to Testing of Internal Control Over Compliance

The purpose of the provisions of this report addressing internal control over compliance is solely to describe the scope of our testing of internal control over compliance with the requirements that could have a direct and material effect on a major Federal program, and the results of that testing, and not to provide an opinion on the effectiveness of internal control over compliance. These provisions of our report are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Circular A-133 in considering the entity's internal control over compliance. Accordingly, these provisions of our report are not suitable for any other purpose.

Respectfully submitted,

David W. Martin, CPA
March 18, 2013

NASSAU COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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 Circular A-133?	No
Identification of major programs:	Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391 - ARRA, and 84.392 - ARRA); Improving Teacher Quality State Grants (CFDA No. 84.367); and ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act (CFDA No. 84.395).
Dollar threshold used to distinguish between Type A and Type B programs:	$300,000
Auditee qualified as low-risk auditee?	Yes

NASSAU COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

ADDITIONAL MATTERS

Finding No. 1: Out-of-Field Teaching Assignments

State Board of Education (SBE) Rule 6A-1.0503, Florida Administrative Code (FAC), defines qualified instructional personnel and provides, in part, the parameters governing the assignment of instructional personnel to teach outside their field of certification. This rule allows the Board to approve instructional personnel to teach outside their field of certification only after a determination is made that an instructor with appropriate certification coverage is not available.

For the three high schools, we tested the District's compliance with SBE Rule 6A-1.0503, FAC, regarding out-of-field teaching assignments for the 2011-12 school year. Our tests disclosed that, while District procedures generally provided for timely Board approval of out-of-field teaching assignments, controls over such assignments for credit recovery programs could be enhanced, as follows:

- At one high school, one instructor was responsible for teaching 35 classes, 26 of which were credit recovery courses offered as electives during the regular school day. Based on the instructor's subject certifications, the instructor was considered out-of-field for 16 of the 26 credit recovery courses and 42 students were in the 16 out-of-field credit recovery courses. However, District records did not evidence that a determination was made that an instructor with appropriate certification coverage was not available, nor did the Board approve the instructor for these out-of-field teaching assignments.
- For the other two high schools, District records indicated that several department chairs were the assigned instructors for 166 students in credit recovery courses because the department chairs' certifications were most closely related to the classes offered. However, District records indicated that one department chair terminated employment with the District prior to the 2011-12 school year and the other department chairs did not teach or monitor progress of the students. In these circumstances, the District inaccurately identified the department chairs as teachers of record and District records did not evidence who the actual instructors were or whether the instructors were appropriately certified.

Reporting inaccurate instructional assignment information increases the risk that students may be taught by instructors who are not properly certified (i.e., out-of-field), and instructors assigned out-of-field duties without timely Board approval increases the risk that the best instructor may not be selected for the assignment.

Recommendation: The District should enhance procedures to ensure that the names and assignments of instructors teaching out-of-field are presented to the Board for approval. Such procedures should ensure that approval is only obtained after a determination is made that an instructor with appropriate certification coverage is not available.

Finding No. 2: Adult General Education Classes

Section 1004.02(3), Florida Statutes, defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. The District received State funding for adult general

education and proviso language in Chapter 2011-69, Laws of Florida, Specific Appropriation 96, required that each school district report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with Florida Department of Education (FDOE) instructional hours reporting procedures.

The FDOE procedures stated that fundable instructional contact hours are those scheduled hours that occur between the date of enrollment in a class and the withdrawal date or end-of-class date, whichever is sooner. The FDOE procedures also provided that school districts develop a procedure for withdrawing students for nonattendance and that the standard for setting the withdrawal date shall be six consecutive absences from a class schedule, with the withdrawal date reported as the day after the last date of attendance. Instructional contact hours for online classes and on-campus labs must be within the constraints of reasonable attendance hours, which should be the number of hours they are reasonably expected to attend. In addition, there is a minimum enrollment threshold of 12 hours of attendance for each program that must be met before a student can be counted for funding purposes.

For the 2011-12 fiscal year, the District reported to the FDOE 115,011 adult general education instructional contact hours for 407 students enrolled in 288 classes. To determine the propriety of hours reported, we tested 3,361 hours reported for 20 students enrolled in 78 classes and noted reporting errors, or unsupported hours reported, for 16 students in 61 classes, as follows:

- For seven students, incorrect withdrawal dates were used, resulting in 179 overreported hours.
- Because four students were not enrolled in the requisite 12 hour minimum, the District overreported the students by 122 hours.
- For two students that withdrew and reenrolled, the District underreported the students by 120 hours by reporting total hours based on the reenrollment date instead of the original enrollment date.
- For two students, the District inadvertently overreported 10.5 hours by reporting more hours than the hours between the date of enrollment and the end of class date.
- For one online student, the District maintained passing scores that were documented on the student's transcript; however, District records were not maintained to support the 124 hours of reported enrollment. For online classes, attendance was based on logging-on at least twice a week or submitting lessons; however, record of this attendance was deleted once the program was successfully completed (i.e. graduate or obtain GED). District personnel indicated that new procedures were being implemented to ensure that online records are printed so that hardcopies are retained as supporting documentation.

Since future funding may be based, in part, on enrollment data submitted to the FDOE, it is important that the District submit accurate and supported data. A similar finding was noted in our report No. 2012-113.

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

Finding No. 3: Construction Contracting

Section 1013.45(1), Florida Statutes, provides that the District may contract for the construction or renovation of facilities using various delivery methods, including competitive bids and the design-build process. The design-build process requires that the District select a firm using a competitive proposal or qualifications-based selection process prescribed in Section 287.055(9), Florida Statutes, including, but not limited to, consideration of no fewer than three design-build firms as the most qualified, based on the qualifications, availability, and past work of the firms.

To design and install air conditioning systems in four school gymnasiums, the District requested price quotes from two air conditioning manufacturing firms; required the firms to provide an existing contract with another governmental agency; selected the firm with the lowest price quote; and entered into a guaranteed maximum price (GMP) design-build contract of $1,599,947 with the firm based on a contract the firm had previously entered into with a county government. However, the District's contracting process did not comply with the selection process prescribed in Section 287.055(9), Florida Statutes, as the District considered the proposals of only two manufacturing firms. Further, unlike the District's contract, the county government's contract was a three-year energy management services agreement with an estimated annual cost of $160,000 per year and provided mainly for emergency repair work and maintenance services. District personnel indicated they thought it was allowable to base its contract on the county government's contract pursuant to SBE Rule 6A-1.012, FAC[1]; however, that rule applies to the general purchase of services or commodities not specifically addressed in the statutes whereas educational facilities contracting and construction services must comply with the requirements of Sections 1013.45 and 287.055, Florida Statutes.

The Legislature has recognized in Section 287.001, Florida Statutes, that fair and open competition is a basic tenet of public procurement and that such competition reduces the appearance and opportunity for favoritism and inspires public confidence that contracts are awarded equitably and economically. Without following the required selection process, the District's assurances related to the fair, equitable, and economical procurement of professional services are limited.

Recommendation: The District should enhance its procedures to ensure a formal competitive selection and negotiation process is held for selecting professional services as required.

Follow-up to Management's Response:

The District's response indicates that the accepted contract was $388,198 less than the comparable quote obtained from another contractor and was an economic advantage to the District. While we recognize that the District selected the lower of the two quotes obtained, the point of our finding is that the District's contracting process did not comply with the selection process prescribed in Section 287.055(9), Florida Statutes, as the District considered the proposals of only two manufacturing firms, and the terms of the county government's contract were different than the contract the District accepted.

Finding No. 4: Facilities Management

The District's facilities and maintenance department is responsible for managing construction and renovation projects and ensuring facilities are safe and suitable for their intended use. In addition, department personnel perform heating, ventilating, air conditioning (HVAC), electrical, plumbing, and other maintenance-related jobs. During the 2011-12 fiscal year, the department employed 41 employees and the department's operating cost was $2.6 million. Also, during the fiscal year, the District had expenditures totaling $6 million for capital projects fund construction and renovation projects and, as shown on the District's Five-Year Facilities Work Plan as approved by the Board on September 15, 2011, the District planned to spend an additional $26.1 million on construction and renovation projects over the next four years. At June 30, 2012, the historical cost of the District's educational and ancillary facilities was

[1] Pursuant to SBE Rule 6A-1.012(6), FAC, in lieu of requesting three bids or proposals, the District may make purchases at or below specified prices in contracts awarded by another government when the vendor awarded the contract will permit purchases by the District at the same terms, conditions, and prices awarded in such contract, and such purchases are to the District's economic advantage.

$205 million and, as shown on the FDOE's Florida Inventory of School Houses data, District facilities had an average age of 29 years.

Given the significant commitment of public funds to construct and maintain educational facilities, it is important that the District establish written policies and procedures for evaluating the effectiveness and efficiency of facility operations at least annually using performance data and established benchmarks, and establishing documented processes for evaluating facilities construction methods and maintenance techniques to determine the most cost effective and efficient method or technique. In addition, performance evaluations could include established goals for facility and maintenance operations and measurable objectives or benchmarks that are clearly defined to document the extent to which goals are achieved and accountability for facilities and maintenance department employees. While our review indicated that District procedures were generally adequate, we noted the following procedural enhancements could be made:

- **Construction Planning.** School districts benefit from long-range facilities construction planning activities that include consideration of stakeholder input, including District personnel, parents, real estate and construction professionals, county long-range planning personnel, and other community stakeholders. A committee comprised of such individuals may help the District with facility construction decisions based on actual or anticipated commercial or residential expansion efforts and population demographics.

  The District communicates information regarding long-range planning and the status of the facilities program through Board-approved educational plant surveys, which are completed every five years and FDOE-required Five-Year Facilities and Work Plans, which are updated each year. However, the District has not established committees to consider stakeholder input, comprised of District personnel, parents, real estate and construction professionals, county long-range planning personnel, and other community stakeholders with the responsibility of developing long-range construction priorities. The use of a long-range facilities construction planning committee may help the District establish facility planning opportunities and cost savings not considered by the District's current process.

- **Alternative Construction Methods or Maintenance Techniques.** The District primarily awards construction contracts to design professionals and construction contractors using traditional design-bid-build methods. In addition, maintenance-related jobs, such as HVAC replacement and repair, are routinely performed by maintenance personnel based on safety and suitability priorities. District personnel indicated that they had not established written policies and procedures for evaluating the various construction methods or maintenance-related job techniques and, while they consider alternative methods and techniques, they have not documented evaluations of the various approaches to determine for each major construction project or significant maintenance-related job which would be most cost effective and beneficial. Without Board-approved policies and procedures, and documented evaluations, there is an increased risk that the District may not use the most cost-effective and beneficial construction method or maintenance technique.

- **Accountability.** The District's facilities and maintenance department has established short-term and long-term goals; however, these goals did not address accountability for the department. For example, the goals for the department included such objectives as addressing issues that arise day-to-day, performing routine maintenance throughout the District, and staying current on new innovations related to new and replacement equipment installations to reduce long-term operational and maintenance costs. However, the goals did not sufficiently identify efficiency or cost-effectiveness outcomes.

  To adequately establish outcome measures, the department could set goals such as completing construction or maintenance projects that meet or exceed building code industry standards at the lowest possible cost. Progress in attaining the goals could be measured by developing accountability systems to monitor work orders for return assignments or corrective action because a project did not initially meet building code requirements, and to compare project costs to industry standards for similar work. Additional goals could include setting benchmark time frames for routine projects or jobs, and progress toward meeting the goal could be measured by comparing project or job completion times to industry standards for similar work. Establishing goals that focus on accountability and measurable objectives and benchmarks could assist the

District in determining whether its facilities and maintenance department is operating as cost-effectively and efficiently as possible.

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

PRIOR AUDIT FOLLOW-UP

Except for current Finding No. 2, The District had taken corrective actions for findings included in our report No. 2012-113.

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, 2012

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
2012-113		There were no prior Federal audit findings.		

EXHIBIT A
MANAGEMENT'S RESPONSE

The Nassau County School District
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Fernandina Beach, Florida 32034

"Empowering others through a commitment to excellence"

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

February 22, 2013

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, 2012.

Finding No. 1: Out-of-Field Teaching Assignments

Due to significant budget reductions in previous years, our Student Educational Alternative Setting (SEAS) program responsibilities (previously housed at a central location) were assumed by the respective schools under the In-School-Suspension (ISS) program setting. As a result, student assignments were extended beyond the previously established purpose of the ISS unit(s). The duties of the ISS teacher(s) were to monitor student progress for credit recovery purposes with credit(s) being earned based upon the successful completion of computer generated and graded assessments.

It is acknowledged that subject area certifications were out-of-field for some credit recovery courses and corrections for more accurate accounting are being implemented to provide greater oversight. The reporting of credit recovery courses assigned to department chairs apparently occurred while the ISS teacher was responsible for monitoring student progress. Subsequently, out-of-field teaching assignments for first semester credit recovery courses presently open were presented to the board for approval and compliance purposes.

Corrective actions have been implemented with a teacher at each high school assigned to the credit recovery program. These teachers are serving as academic advisors to the students enrolled in the program for their respective schools and as a district-wide teacher of record for courses aligned with their areas of certification. The academic advisor assists in monitoring student progress. The teacher of record is responsible for monitoring progress, grading assignments, and determining the final grade. These corrective actions have been taken pursuant to SBE Rule 6A-1.0503, FAC.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Finding No. 2: Adult General Education Classes

To enhance controls for accurate reporting of instructional contact hours, the Adult Education Department will maintain a student sign-in sheet as supporting documentation for student attendance. Also, instructors will enter attendance information directly into the student database on a daily basis. Additionally, all on-line hours and on-line course records will be saved locally and backed up regularly.

The Director of Adult and Career Education and the District's state reporting coordinator will meet annually to review controls in the reporting of instructional hours for adult general education classes. The District will also contact the FLDOE for resolution of instructional hours reported for adult education classes.

Finding No. 3: Construction Contracting

Florida Statutes provide for agencies, including school districts, to base contracts on those of other governmental entities that are to the economic advantage of the purchasing board and/or provide conditions more favorable to the agency, such as, s.287.055(10), s.287.056(2), and s.1013.45(4). The District's interpretation of SBER 6A-1.012(6), FAC as being applicable to the design and installation of air conditioning systems in four high school gymnasiums was certainly made in the spirit of the aforementioned statutes. SBER 6A-1.012, FAC, provides for the purchase of commodities or contractual services as well as for making purchases from contracts awarded by other city or county governmental agencies.

It must be noted that the accepted contract was $388,198 less than the comparable quote obtained from another contractor, which is a definite economic advantage to the District. The District's intent is to comply in the future with the Auditor General's application of s.1013.45 and interpretation of SBER 6A1-012 in its construction contracting and to determine the selection of contracted services in order to achieve the conditions that provide an economic advantage for the board.

Finding No. 4: Facilities Management

Construction Planning. The District is in complete compliance with Section 1013.31, Florida Statutes, regarding requirements for educational plant survey preparation and assessment of localized needs. The District also solicits and interacts with various stakeholders pursuant to Administrative Rule 7.55, SBNC, in the planning of construction projects based upon the primary goal of providing sufficient classroom facilities for students. The feedback and interaction we have historically engaged in has, as suggested, helped in establishing facility planning opportunities while cost savings in this process have been limited due to applicable codes and regulatory requirements mandated for school construction and rising technology demands for schools.

Alternative Construction Methods or Maintenance Techniques. The District has primarily used traditional design-bid-build methods for awarding construction contracts. Alternate methods and techniques have been considered but previously determined that the design-bid-

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

build method provided the most cost effective and beneficial option for construction projects in the District. It must also be noted that the District has not incurred long term indebtedness to the public for the construction, renovation, or maintenance of educational facilities through its construction planning methods or maintenance techniques. This has also been accomplished without levying the maximum capital outlay millage for several years

Accountability. The District has taken measures to remove, renovate, or take out of service school facilities that were not cost effective from an operational standpoint. Efforts to install and operate energy management systems for operational cost reduction have been continuously employed and expanded as well. Reports are reviewed annually related to energy costs and efforts undertaken to work with providers to take advantage of collaborative opportunities projected to reduce costs. Reducing long-term operational and maintenance costs related to new and replacement equipment installations are addressed annually in the facility budgeting process based upon the application of appropriate industry standards and/or innovations. Preventive maintenance procedures previously employed by the District have been difficult to sustain with current staffing levels in the facilities department due to funding reductions over the past five years.

The District will pursue the development of written policies and procedures to memorialize and document its facilities planning process. Also, we will review current departmental procedures and expectations for cost effective outcomes. Staffing considerations and maintenance-related job techniques for the department will be assessed accordingly.

Sincerely,

John L. Ruis

John L. Ruis, Ed.D.

JLR/rj