REPORT NO. 2015-153
MARCH 2015

NASSAU COUNTY
DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2014

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2013-14 fiscal year are listed below:

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

Dr. John L. Ruis, Superintendent

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

The audit team leader was Donald D. Hemmingway, CPA, and the audit was supervised by Randy R. Arend, CPA. Please address inquiries regarding this report to Douglas R. Conner, CPA, Audit Manager, by e-mail at dougconner@aud.state.fl.us or by telephone at (850) 412-2730.

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

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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 Board had not adopted a policy prescribing the minimum insurance coverage requirements for design professionals, and District records did not evidence that design professionals had the contractually-required insurance.

Finding No. 2: The District could improve controls over land acquisition agreements.

Finding No. 3: Procurement procedures could be enhanced to provide for routine review of required statements of financial interests for consideration in making procurement decisions.

Finding No. 4: The District did not require documentation to evidence the eligibility for health insurance for employee and retiree dependent children over age 25.

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

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

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

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Title I and Improving Teacher Quality 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. However, we did note noncompliance and control deficiency findings as summarized below.

Federal Awards Finding No. 2014-001: The District received and recorded refunds of $1,341,681 in the General Fund for health insurance premium costs initially paid from Federal and non-Federal funds, without making a determination of the portion that should be credited to Federal programs.

Federal Awards Finding No. 2014-002: Required documentation to support personnel charges to the Title I program was not always maintained, contrary to Federal regulations.

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. 2014-133.**

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, 2014. 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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Nassau County District School Board, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 28 percent of the assets and 96 percent of the liabilities of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the school internal funds is based solely on the reports of the other auditors.

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

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

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

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the Nassau County District School Board as of June 30, 2014, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

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

Respectfully submitted,

David W. Martin, CPA
Tallahassee, Florida
March 18, 2015

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, 2014. 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 2013-14 fiscal year are as follows:

- As of June 30, 2014, assets exceed liabilities by $194,687,612.89. Of this amount, $1,692,198.12 represents unrestricted net position, which may be used to meet the District's ongoing obligations to citizens and creditors.
- In total, net position increased $268,478.67, which represents a 0.1 percent increase over the 2012-13 fiscal year.
- General revenues total $94,039,118.89, 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 $6,042,513.46, or 6 percent of all revenues.
- Expenses total $99,813,153.68. Only $6,042,513.46 of these expenses was offset by program specific charges, with the remainder paid from general revenues.
- At the end of the current fiscal year, the fund balance of the General Fund totals $9,902,077.48, which is $2,797,547.25 less than the prior fiscal year balance. The General Fund total assigned and unassigned fund balances was $7,295,617.39, or approximately 9 percent of total General Fund revenues.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

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

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

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

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

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

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

Notes to Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position over time may serve as a useful indicator of a government's financial health. The following is a summary of the District's net position as of June 30, 2014, compared to net position as of June 30, 2013:

Net Position, End of Year

	Governmental Activities	
	6-30-14	6-30-13
Current and Other Assets	$ 53,481,506.27	$ 52,408,606.71
Capital Assets	155,657,632.92	155,664,782.42
Total Assets	209,139,139.19	208,073,389.13
Long-Term Liabilities	11,440,571.94	11,263,555.10
Other Liabilities	3,010,954.36	2,390,699.81
Total Liabilities	14,451,526.30	13,654,254.91
Net Position:		
Net Investment in Capital Assets	150,849,831.32	150,509,167.49
Restricted	42,145,583.45	39,672,074.08
Unrestricted	1,692,198.12	4,237,892.65
Total Net Position	$ 194,687,612.89	$ 194,419,134.22

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

The restricted portion of the District's net position (22 percent) represents resources that are subject to external restrictions on how they may be used. The unrestricted net position (1 percent) may be used to meet the District's ongoing obligations to students, employees, and creditors.

The key elements of the changes in the District's net position for the fiscal years ended June 30, 2014, and June 30, 2013, are as follows:

Operating Results for the Fiscal Year Ended

	Governmental Activities	
	6-30-14	6-30-13
Program Revenues:		
Charges for Services	$ 2,210,531.14	$ 2,332,088.56
Operating Grants and Contributions	3,446,399.67	3,243,885.75
Capital Grants and Contributions	385,582.65	386,938.75
General Revenues:		
Property Taxes, Levied for Operational Purposes	38,445,004.47	40,020,861.41
Property Taxes, Levied for Capital Projects	9,032,842.28	8,510,242.76
Impact Fees	1,851,744.18	1,409,222.54
Grants and Contributions Not Restricted to Specific Programs	42,955,333.16	37,239,339.95
Unrestricted Investment Earnings	74,265.06	126,581.18
Miscellaneous	1,679,929.74	1,293,981.19
Total Revenues	100,081,632.35	94,563,142.09
Functions/Program Expenses:		
Instruction	51,373,217.80	47,968,758.99
Student Personnel Services	3,769,981.11	3,661,261.64
Instructional Media Services	1,299,989.94	1,281,928.53
Instruction and Curriculum Development Services	2,185,945.86	2,340,652.41
Instructional Staff Training Services	1,650,116.90	1,418,450.91
Instruction Related Technology	1,150,788.21	1,081,361.93
School Board	450,067.37	403,657.44
General Administration	833,826.64	950,977.57
School Administration	5,349,993.96	5,158,353.90
Facilities Acquisition and Construction	1,288,993.33	1,201,583.15
Fiscal Services	571,028.94	548,499.43
Food Services	5,340,294.31	5,300,609.67
Central Services	648,052.01	540,252.26
Student Transportation Services	5,060,570.81	4,891,754.50
Operation of Plant	8,199,472.77	8,209,956.83
Maintenance of Plant	2,686,567.88	2,836,417.78
Administrative Technology Services	1,152,298.97	951,942.41
Community Services	232,016.47	280,557.39
Unallocated Interest on Long-Term Debt	147,306.38	162,073.48
Unallocated Depreciation Expense	6,359,490.83	6,596,604.42
Loss on Disposal of Capital Assets	63,133.19	187,973.87
Total Functions/Program Expenses	99,813,153.68	95,973,628.51
Change in Net Position	268,478.67	(1,410,486.42)
Net Position - Beginning	194,419,134.22	195,829,620.64
Net Position - Ending	$ 194,687,612.89	$ 194,419,134.22

The largest revenue source is property tax (47 percent) followed by the State of Florida (39 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding

across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base.

Grants and contributions not restricted to specific programs revenues increased by $5,715,993.21, or 15 percent, primarily due to an increase in State FEFP revenues of $5,828,372, or 32 percent. The increase in State FEFP revenues was due mainly to an increase in the base student allocation and an adjustment to the FEFP funding formula to offset decreases in taxable assessed property values.

Property tax revenues for operational purposes decreased by $1,575,856.94, or 4 percent, as a result of decreases in taxable assessed property values and millage rates levied.

Instruction expenses represent 50 and 51 percent of total governmental expenses in the 2012-13 and 2013-14 fiscal years, respectively.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

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

The total fund balances of governmental funds increased by $449,859.14 during the fiscal year to $50,317,614.74 at June 30, 2014. Of the total fund balance, $5,069,433.65, or 10 percent, is unassigned; $950,253.23 is nonspendable; $42,071,744.12 is restricted; and $2,226,183.74 is assigned.

Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the current fiscal year, unassigned fund balance is $5,069,433.65, while the total fund balance is $9,902,077.48. As a measure of the General Fund's liquidity, it may be useful to compare the total assigned and unassigned fund balances to General Fund total revenues. The total assigned and unassigned fund balance is 9 percent of the total General Fund revenues, while total fund balance represents 13 percent of total General Fund revenues.

Total fund balance decreased by $2,797,547.25 during the fiscal year. Key factors comprising the change in fund balance are as follows:

- Total revenues increased by $4,602,958.38, or 6 percent, due mainly to an increase in State revenues of $5,966,901.92, partially offset by a decrease in property tax revenue of $1,575,856.94.
- Total expenditures increased by $4,587,904.94 or 6 percent, due mainly to an increase in salary and benefit costs as a result of employee pay raises and an increase in required retirement contribution rates.
- Total expenditures exceeded total revenues by $3,781,363.48, while other financing sources totaled $983,816.23.

The Special Revenue – Other Fund has total revenues and expenditures of $4,329,167.53 each, and the funding was used mainly for instruction. Because grant revenues attributed to the grants accounted for in this fund are not recognized until expenditures are incurred, this fund generally does not accumulate a fund balance. Revenues and expenditures each decreased by $87,957.95 from the previous fiscal year because of a reduction of Federal program funding.

The Special Revenue – Federal Economic Stimulus Fund has total revenues and expenditures of $189,001.21 each and the funding was mainly used for planning, research, and development activities reported in the central services function. Because grant revenues attributed to the grants accounted for in this fund are not recognized until expenditures are incurred, this fund generally does not accumulate a fund balance. Revenues and expenditures each increased by $30,690.77 from the previous fiscal year because of an increase in planning, research, and development activities related to the Race-To-The-Top Incentive Grants.

The Capital Projects – Local Capital Improvement Fund has a total fund balance of $29,456,864.05, which is restricted for the acquisition, construction, and maintenance of capital assets. Encumbrances of this fund total $3,743,313.09, the majority of which is earmarked for the additions and site work project at Hilliard Middle Senior High School. The fund balance increased in the current fiscal year as resources were accumulated in anticipation of future construction projects, including a new $21,000,000 elementary school in the Yulee area.

The Capital Projects – Other Capital Projects Fund had a total fund balance of $8,174,528.85. This fund accounts for the financial resources generated by the collection of impact fees to be used for educational capital outlay needs, including new construction, renovations, and remodeling projects. This fund has revenues $1,859,668.63, expenditures of $39,022.98, and no encumbrances at June 30, 2014. The fund balance increased in the current fiscal year as resources were accumulated in anticipation of future construction projects, including a new $21,000,000 elementary school in the Yulee area.

GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund final budgeted revenues and expenditures were in line with original budget amounts. Actual revenues are $1,230,323.19, or 2 percent greater than the final budgeted amounts, while actual expenditures are $6,234,561.16, or 7 percent, less than final budget amounts. The increase in revenues mainly resulted from unanticipated receipts of Medicaid administrative moneys and miscellaneous local revenues. The decrease in expenditures was primarily due to salary and related expenditures being less than projected. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by $7,475,327.19.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2014, is $155,657,632.92 (net of accumulated depreciation). This investment in capital assets includes land; construction in progress; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; and audio visual materials and computer software.

Major capital asset events included the following:

- Completion of additions and renovations at Fernandina Beach Middle School and air conditioning installation at the Fernandina Beach High School gymnasium costing approximately $3.2 million and $0.7 million, respectively.
- At June 30, 2014, construction in progress includes classroom additions and related site work at Hilliard Middle Senior High School.

Additional information on the District's capital assets can be found in notes I.F.5, II.D, and II.G to the financial statements.

Long-Term Debt

At June 30, 2014, the District has total long-term debt outstanding of $4,807,801.60 comprised of State School Bonds of $1,145,000, District Revenue Bonds of $2,234,220.60, and Qualified Zone Academy Bonds of $1,428,581. During the current fiscal year, retirement of debt was $347,813.33.

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

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

NASSAU COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET POSITION
June 30, 2014

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	$ 49,518,067.32
Investments	162,406.82
Accounts Receivable	10,523.95
Due from Other Agencies	1,705,652.74
Inventories	950,253.23
Restricted Investments	981,665.04
Capital Credits Receivable	152,937.17
Capital Assets:	
Nondepreciable Capital Assets	5,389,510.02
Depreciable Capital Assets, Net	150,268,122.90
TOTAL ASSETS	209,139,139.19
LIABILITIES	
Salaries and Benefits Payable	1,231,821.72
Payroll Deductions and Withholdings	507,777.45
Accounts Payable	404,252.24
Construction Contracts Payable	498,151.77
Construction Contracts Payable - Retainage	311,059.67
Due to Other Agencies	1,649.00
Advanced Revenue	56,242.51
Long-Term Liabilities:	
Portion Due Within One Year	1,020,276.74
Portion Due After One Year	10,420,295.20
TOTAL LIABILITIES	14,451,526.30
NET POSITION	
Net Investment in Capital Assets	150,849,831.32
Restricted for:	
State Required Carryover Programs	1,010,150.59
Debt Service	1,041,642.20
Capital Projects	37,697,987.57
Food Service	1,675,907.49
Other Purposes	719,895.60
Unrestricted	1,692,198.12
TOTAL NET POSITION	$ 194,687,612.89

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, 2014

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Governmental Activities:					
Instruction	$ 51,373,217.80	$ 20,761.00	$	$	$ (51,352,456.80)
Student Personnel Services	3,769,981.11				(3,769,981.11)
Instructional Media Services	1,299,989.94				(1,299,989.94)
Instruction and Curriculum Development Services	2,185,945.86				(2,185,945.86)
Instructional Staff Training Services	1,650,116.90				(1,650,116.90)
Instruction Related Technology	1,150,788.21				(1,150,788.21)
School Board	450,067.37				(450,067.37)
General Administration	833,826.64				(833,826.64)
School Administration	5,349,993.96				(5,349,993.96)
Facilities Acquisition and Construction	1,288,993.33			71,927.11	(1,217,066.22)
Fiscal Services	571,028.94				(571,028.94)
Food Services	5,340,294.31	2,143,876.37	3,446,399.67		249,981.73
Central Services	648,052.01				(648,052.01)
Student Transportation Services	5,060,570.81	45,893.77			(5,014,677.04)
Operation of Plant	8,199,472.77				(8,199,472.77)
Maintenance of Plant	2,686,567.88				(2,686,567.88)
Administrative Technology Services	1,152,298.97				(1,152,298.97)
Community Services	232,016.47				(232,016.47)
Unallocated Interest on Long-Term Debt	147,306.38			313,655.54	166,349.16
Unallocated Depreciation Expense*	6,359,490.83				(6,359,490.83)
Loss on Disposal of Capital Assets	63,133.19				(63,133.19)
Total Governmental Activities	$ 99,813,153.68	$ 2,210,531.14	$ 3,446,399.67	$ 385,582.65	(93,770,640.22)

General Revenues:	
Taxes:	
Property Taxes, Levied for Operational Purposes	38,445,004.47
Property Taxes, Levied for Capital Projects	9,032,842.28
Impact Fees	1,851,744.18
Grants and Contributions Not Restricted to Specific Programs	42,955,333.16
Unrestricted Investment Earnings	74,265.06
Miscellaneous	1,679,929.74
Total General Revenues	94,039,118.89
Change in Net Position	268,478.67
Net Position - Beginning	194,419,134.22
Net Position - Ending	$ 194,687,612.89

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

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

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NASSAU COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2014

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Local Capital Improvement Fund
ASSETS				
Cash and Cash Equivalents	$ 10,544,097.43	$	$	$ 30,223,504.61
Investments	51,387.81			57,301.70
Accounts Receivable	10,008.94	355.46		86.95
Due from Other Funds	305,129.70			
Due from Other Agencies	71,441.78	479,470.97	7,522.09	2,061.74
Inventories	876,413.90			
Restricted Investments				
TOTAL ASSETS	$ 11,858,479.56	$ 479,826.43	$ 7,522.09	$ 30,282,955.00
LIABILITIES AND FUND BALANCES				
Liabilities:				
Salaries and Benefits Payable	$ 1,231,821.72	$	$	$
Payroll Deductions and Withholdings	507,777.45			
Accounts Payable	216,802.91	170,569.82		16,879.51
Construction Contracts Payable				498,151.77
Construction Contracts Payable - Retainage				311,059.67
Due to Other Funds		297,607.61	7,522.09	
Due to Other Agencies		1,649.00		
Advanced Revenue		10,000.00		
Total Liabilities	1,956,402.08	479,826.43	7,522.09	826,090.95
Fund Balances:				
Nonspendable:				
Inventories	876,413.90			
Restricted for:				
State Required Carryover Programs	1,010,150.59			
Debt Service				
Capital Projects				29,456,864.05
Food Service				
Other Purposes	719,895.60			
Total Restricted Fund Balance	1,730,046.19			29,456,864.05
Assigned for:				
Health Insurance	698,152.35			
Special Education Programs	514,800.12			
Wellness Programs	189,837.41			
Local Programs and Other Purposes	823,393.86			
Total Assigned Fund Balance	2,226,183.74			
Unassigned Fund Balance	5,069,433.65			
Total Fund Balances	9,902,077.48			29,456,864.05
TOTAL LIABILITIES AND FUND BALANCES	$ 11,858,479.56	$ 479,826.43	$ 7,522.09	$ 30,282,955.00

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

Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
$ 7,083,895.22	$ 1,666,570.06	$ 49,518,067.32
23,277.43	30,439.88	162,406.82
	72.60	10,523.95
		305,129.70
1,067,356.20	77,799.96	1,705,652.74
	73,839.33	950,253.23
	981,665.04	981,665.04
$ 8,174,528.85	$ 2,830,386.87	$ 53,633,698.80
$	$	$ 1,231,821.72
		507,777.45
		404,252.24
		498,151.77
		311,059.67
		305,129.70
		1,649.00
	46,242.51	56,242.51
	46,242.51	3,316,084.06
	73,839.33	950,253.23
		1,010,150.59
	1,041,642.20	1,041,642.20
8,174,528.85	66,594.67	37,697,987.57
	1,602,068.16	1,602,068.16
		719,895.60
8,174,528.85	2,710,305.03	42,071,744.12
		698,152.35
		514,800.12
		189,837.41
		823,393.86
		2,226,183.74
		5,069,433.65
8,174,528.85	2,784,144.36	50,317,614.74
$ 8,174,528.85	$ 2,830,386.87	$ 53,633,698.80

NASSAU COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2014

Total Fund Balances - Governmental Funds		$ 50,317,614.74
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets, net of accumulated depreciation, used in the governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		155,657,632.92
Capital Credits are not available to liquidate liabilities in governmental funds, but are accrued as governmental activities in the statement of net position.		152,937.17
Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at fiscal year-end consist of:		
Qualified Zone Academy Bonds Payable	$ 1,428,581.00	
Bonds Payable	3,379,220.60	
Compensated Absences Payable	2,708,383.34	
Other Postemployment Benefits Payable	3,924,387.00	(11,440,571.94)
Net Position - Governmental Activities		$ 194,687,612.89

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

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NASSAU COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2014

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Local Capital Improvement Fund
Revenues				
Intergovernmental:				
Federal Direct	$ 72,708.59	$	$	$
Federal Through State and Local	250,926.92	4,323,773.73	189,001.21	
State	37,950,681.87			
Local:				
Property Taxes	38,445,004.47			9,032,842.28
Impact Fees				
Charges for Services - Food Service				
Miscellaneous	1,613,554.29	5,393.80		23,914.93
Total Local Revenues	40,058,558.76	5,393.80		9,056,757.21
Total Revenues	78,332,876.14	4,329,167.53	189,001.21	9,056,757.21
Expenditures				
Current - Education:				
Instruction	49,040,720.16	1,995,926.45		
Student Personnel Services	3,403,558.80	341,669.36		
Instructional Media Services	1,292,002.70			
Instruction and Curriculum Development Services	1,045,534.20	1,117,601.34	8,000.00	
Instructional Staff Training Services	1,111,340.87	528,101.18	1,418.83	
Instruction Related Technology	1,147,115.54			
School Board	448,641.82			
General Administration	715,672.49	114,075.44		
School Administration	5,314,908.27			
Facilities Acquisition and Construction	380,673.10			897,721.05
Fiscal Services	567,231.95			
Food Services	14,411.07			
Central Services	489,138.97	5,124.20	149,990.04	
Student Transportation Services	4,394,293.28	69,303.55		
Operation of Plant	8,175,313.33			
Maintenance of Plant	2,674,118.23			
Administrative Technology Services	1,146,610.08			
Community Services	230,499.69	0.17		
Fixed Capital Outlay:				
Facilities Acquisition and Construction	42,176.75			4,047,997.39
Other Capital Outlay	480,278.32	157,365.84	29,592.34	1,995,911.59
Debt Service:				
Principal				
Interest and Fiscal Charges				
Total Expenditures	82,114,239.62	4,329,167.53	189,001.21	6,941,630.03
Excess (Deficiency) of Revenues Over Expenditures	(3,781,363.48)			2,115,127.18
Other Financing Sources (Uses)				
Transfers In	921,569.77			
Insurance Loss Recoveries	62,246.46			
Transfers Out				(888,794.02)
Total Other Financing Sources (Uses)	983,816.23			(888,794.02)
Net Change in Fund Balances	(2,797,547.25)			1,226,333.16
Fund Balances, Beginning	12,699,624.73			28,230,530.89
Fund Balances, Ending	$ 9,902,077.48	$ 0.00	$ 0.00	$ 29,456,864.05

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

Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
$	$	$ 72,708.59
	3,391,263.67	8,154,965.53
	608,959.49	38,559,641.36
		47,477,846.75
1,851,744.18		1,851,744.18
	2,143,876.37	2,143,876.37
7,924.45	58,932.71	1,709,720.18
1,859,668.63	2,202,809.08	53,183,187.48
1,859,668.63	6,203,032.24	99,970,502.96
		51,036,646.61
		3,745,228.16
		1,292,002.70
		2,171,135.54
		1,640,860.88
		1,147,115.54
		448,641.82
		829,747.93
		5,314,908.27
9,025.43		1,287,419.58
		567,231.95
	5,311,071.03	5,325,482.10
		644,253.21
		4,463,596.83
		8,175,313.33
		2,674,118.23
		1,146,610.08
		230,499.86
29,996.85	29,480.48	4,149,651.47
	134,158.39	2,797,306.48
	347,813.33	347,813.33
	147,306.38	147,306.38
39,022.28	5,969,829.61	99,582,890.28
1,820,646.35	233,202.63	387,612.68
	81,224.25	1,002,794.02
		62,246.46
(114,000.00)		(1,002,794.02)
(114,000.00)	81,224.25	62,246.46
1,706,646.35	314,426.88	449,859.14
6,467,882.50	2,469,717.48	49,867,755.60
$ 8,174,528.85	$ 2,784,144.36	$ 50,317,614.74

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, 2014

Net Change in Fund Balances - Governmental Funds		$ 449,859.14
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays and donated assets in excess of depreciation expense in the current fiscal year.		
Capital Outlay Expenditures Governmental Funds	$ 6,946,957.95	
Depreciation Expense	(6,937,071.32)	
Donated Assets	46,097.06	55,983.69
The loss on the disposal of capital assets during the current fiscal year is reported in the statement of activities. In the governmental funds, the cost of capital assets was recognized as an expenditure in the fiscal year purchased. Thus, the change in net position differs from the change in fund balance by the undepreciated cost of the disposed assets.		(63,133.19)
Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of debt repayments in the current fiscal year.		
State School Bonds	250,000.00	
District School Bonds	97,813.33	347,813.33
The District accrues capital credits to be received in future years in the statement of activities, but the revenue does not provide current financial resources and is not reported in the governmental funds. This is the net increase in capital credits receivable in the current fiscal year.		
Current Year Accruals	152,937.17	
Prior Year Accruals	(150,151.30)	2,785.87
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.		94,182.83
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.		(619,013.00)
Change in Net Position - Governmental Activities		$ 268,478.67

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, 2014

	Agency Funds
ASSETS	
Cash and Cash Equivalents	$ 1,111,475.00
LIABILITIES	
Internal Accounts Payable	$ 1,111,475.00

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

NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

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

The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the 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 student transportation services function, while remaining depreciation expense is not readily associated with a particular function and is reported as unallocated.

B. Reporting Entity

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

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

C. Basis of Presentation: Government-wide Financial Statements

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

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

NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

D. Basis of Presentation: Fund Financial Statements

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

The District reports the following major governmental funds:

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

Additionally, the District reports the following fiduciary fund type:

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

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

E. Basis of Accounting

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized

NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

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

The agency funds have no measurement focus but utilize the accrual basis of accounting for reporting assets and liabilities.

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

1. Cash and Cash Equivalents

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

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

2. Investments

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

NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

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

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 1.84438408 at June 30, 2014. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the SBA, are effected by transferring eligible cash or securities to Florida PRIME, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within Florida PRIME.

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

3. Inventories

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

4. Restricted Assets

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

5. Capital Assets

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net position but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than $500. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation. The value of land acquired prior to December 30, 1973, is based on the Nassau County Property Appraiser's appraised value at the time and, as a result, $711,698.26 of stated land values are based on these appraised values. Interest costs 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, 2014

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

Description	Estimated 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.

6. Long-Term Liabilities

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

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

7. Net Position Flow Assumption

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

8. Fund Balance Flow Assumptions

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

NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

9. **Fund Balance Policies**

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

The committed fund balance classification may include amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board is the highest level of decision-making authority for the District that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation. The District reported no committed fund balance at June 30, 2014.

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

G. **Revenues and Expenditures/Expenses**

1. **Program Revenues**

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

2. **State Revenue Sources**

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

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

The State provides financial assistance to administer certain educational programs. SBE rules require that revenue earmarked for certain programs be expended only for the program for which the money is provided, and require that the money not expended as of the close of the fiscal year be carried forward into the following fiscal 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 fiscal year is presented in a subsequent note.

3. District Property Taxes

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

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

The Board adopted the 2013 tax levy on September 9, 2013. 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.

4. Educational Impact Fees

Nassau County (County) imposes an educational impact fee based on Ordinance No. 2005-56 adopted by the County Commission in July 2005. This ordinance was most recently amended on

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January 13, 2014, when Resolution 2014-005 revised the fees to be collected. The educational impact fee is collected for most new residential construction by the County and each municipality within the County based on interlocal agreements. The fees are to be used solely for the purpose of providing capital improvements to the public educational system necessitated by new residential development and are not to be used for any expenditure that would be classified as an operating, maintenance, or repair expense. The authorized capital improvements costs include, but are not limited to, school sites, buildings, relocatable classrooms, building contents, nonbuilding improvements, and vehicles.

5. Federal Revenue Sources

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

6. Compensated Absences

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

II. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash Deposits with Financial Institutions

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

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

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B. Investments

As of June 30, 2014, the District had the following investments and maturities:

Investments	Maturities	Fair Value
SBA:		
Florida PRIME (1)	40 Day Average	$ 1,097,807.91
Fund B	2.86 Year Average	132,393.62
Debt Service Accounts	6 Months	30,013.20
Dreyfus Cash Management Institutional Shares		
Money Market Mutual Fund (1)	44 Day Average	34,500,846.49
Commercial Paper (2)	October 8, 2014	981,665.04
Total Investments		$ 36,742,726.26

Notes: (1) These investments are reported as cash equivalents for financial statement reporting purposes.
(2) This investment is held by a paying agent in connection with the QZAB financing arrangement. (See note II.I.)

- Interest Rate Risk

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

Florida PRIME had a weighted average days to maturity (WAM) of 40 days at June 30, 2014. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Due to the nature of the securities in Fund B, the interest rate risk information required by GASB Statement No. 40 (i.e., specific identification, duration, weighted average maturity, segmented time distribution, or simulation model) is not available. An estimate of the weighted average life (WAL) is available. In the calculation of the WAL, the time at which an expected principal amount is to be received, measured in years, is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. The WAL, based on expected future cash flows, of Fund B at June 30, 2014, is estimated at 2.86 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; SEC registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District's investment policy limits investments to those prescribed by Section 218.415(17), Florida Statutes.

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

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

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

The District's investment in commercial paper is authorized under a forward delivery agreement with the QZABs paying agent. The forward delivery agreement authorizes the investment of the available sinking fund amounts in certain eligible securities, including United States Treasury securities, obligations issued by agencies of the United States Government, and short-term obligations issued by banks, corporations, or other borrower having a rating at the time of delivery of at least P-1 by Moody's Investors Service or A-1 by Standard & Poor's. As of June 30, 2014, the District's investment in commercial paper was rated A-1 by Standard & Poor's, and P-1 by Moody's Investors Service.

- Custodial Credit Risk

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

- Concentration of Credit Risk

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

Commercial paper issued by Fortis Funding, LLC, comprises 3 percent of the District's total investments and 54 percent of the investments reported in the other governmental funds.

C. Capital Credits

The District participates in the Okefenoke Rural Electric Membership Corporation, a nonprofit electric cooperative. Revenues in excess of operating expenses, unless otherwise determined by a vote of the membership, are distributed by the cooperative on a pro rata share basis to its members. Annually, the cooperative makes payments for designated prior years' capital credits. During the 2013-14 fiscal year, the District received $2,998.19 related to the 1988 capital credits and new credits of $5,784.06. At June 30, 2014, the accumulated credits to the District's accounts were $152,937.17.

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D. Changes in Capital Assets

Changes in capital assets are presented in the table below:

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	$ 4,150,079.53	$ 6,800.00	$	$ 4,156,879.53
Construction in Progress	1,859,867.86	4,142,851.47	4,770,088.84	1,232,630.49
Total Capital Assets Not Being Depreciated	6,009,947.39	4,149,651.47	4,770,088.84	5,389,510.02
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	10,214,050.11	79,887.60		10,293,937.71
Buildings and Fixed Equipment	201,004,089.84	4,690,201.24		205,694,291.08
Furniture, Fixtures, and Equipment	21,102,551.90	1,646,009.29	2,976,161.01	19,772,400.18
Motor Vehicles	8,834,859.55	1,090,638.71	24,964.00	9,900,534.26
Audio Visual Materials and Computer Software	4,062,601.38	106,755.54	13,273.00	4,156,083.92
Total Capital Assets Being Depreciated	245,218,152.78	7,613,492.38	3,014,398.01	249,817,247.15
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	6,852,671.15	321,478.82		7,174,149.97
Buildings and Fixed Equipment	64,531,378.03	3,852,279.62		68,383,657.65
Furniture, Fixtures, and Equipment	14,077,299.07	2,101,514.72	2,920,027.82	13,258,785.97
Motor Vehicles	6,141,305.38	577,580.49	17,964.00	6,700,921.87
Audio Visual Materials and Computer Software	3,960,664.12	84,217.67	13,273.00	4,031,608.79
Total Accumulated Depreciation	95,563,317.75	6,937,071.32	2,951,264.82	99,549,124.25
Total Capital Assets Being Depreciated, Net	149,654,835.03	676,421.06	63,133.19	150,268,122.90
Governmental Activities Capital Assets, Net	$ 155,664,782.42	$ 4,826,072.53	$ 4,833,222.03	$ 155,657,632.92

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Student Transportation Services	$ 577,580.49
Unallocated	6,359,490.83
Total Depreciation Expense - Governmental Activities	$ 6,937,071.32

E. Florida Retirement System

Essentially all regular employees of the District are eligible to enroll as members of the State-administered Florida Retirement System (FRS). Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules,

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Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. The FRS is a single retirement system administered by the Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined-benefit pension plan (Plan), with a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the FRS Investment Plan (Investment Plan).

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

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

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

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The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2013-14 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
FRS, Regular	3.00	6.95
FRS, Elected County Officers	3.00	33.03
DROP - Applicable to Members from All of the Above Classes	0.00	12.84
FRS, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.20 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, 2012, June 30, 2013, and June 30, 2014, totaled $3,499,420.75, $3,696,232.10, and $4,983,766.30, respectively, which were equal to the required contributions for each fiscal year.

There were 184 District participants in the Investment Plan during the 2013-14 fiscal year. The District's contributions including employee contributions to the Investment Plan totaled $656,621.64, which was equal to the required contribution for the 2013-14 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, Bureau of Financial Reporting Statewide Financial Reporting Section by mail at 200 E. Gaines Street, Tallahassee, Florida 32399-0364; by telephone at (850)413-5511; or at the Department's Web site (www.myfloridacfo.com). 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, Research and Education Section, by mail at P.O. Box 9000, Tallahassee, Florida 32315-9000; by telephone toll free at (877)377-1737 or (850)488-5706; by e-mail at rep@dms.myflorida.com; or at the Division's Web site (www.frs.myflorida.com).

F. Other Postemployment Benefits Obligations

Plan Description. The Other Postemployment Benefits Plan (OPEB Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District's health and hospitalization plan for medical and prescription drug coverage. The District subsidizes the premium rates paid by retirees

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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 2013-14 fiscal year, 58 retirees received other postemployment benefits. The District provided required contributions of $384,339 toward the annual OPEB cost, net of retiree contributions totaling $467,807, which represents 1.27 percent of covered payroll.

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

Description	Amount
Normal Cost (service cost for one year)	$ 627,340
Amortization of Unfunded Actuarial Accrued Liability	394,065
Annual Required Contribution	1,021,405
Interest on Net OPEB Obligation	109,077
Adjustment to Annual Required Contribution	(127,130)
Annual OPEB Cost (Expense)	1,003,352
Contribution Toward the OPEB Cost	(384,339)
Change in Net OPEB Obligation	619,013
Net OPEB Obligation, Beginning of Year	3,305,374
Net OPEB Obligation, End of Year	$ 3,924,387

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The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2014, and the two preceding fiscal years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011-12	$ 1,312,550	41.24%	$ 2,693,754
2012-13	956,494	36.06%	3,305,374
2013-14	1,003,352	38.31%	3,924,387

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

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

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

The District's OPEB actuarial valuation as of October 1, 2012, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2014, and the District's 2013-14 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3.3 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 3.3 percent per year, projected salary increases of 4 to 8.375 percent, and an annual healthcare cost trend rate of 8.5 percent beginning October 1, 2013, declining to an ultimate rate of 5.53 percent beginning October 2020. The investment rate of return and projected salary increase rate include a general price

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inflation of 3 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2014, was 25 years.

G. 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, 2014:

Major Funds				
General	Special Revenue - Other	Capital Projects - Local Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
$ 494,232.67	$ 279,730.10	$ 3,743,313.09	$ 83,722.72	$ 4,600,998.58

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

Project	Contract Amount	Completed to Date	Balance Committed
Hilliard Middle Senior High School Additions and Site Work:			
Architect	$ 313,199.30	$ 287,826.62	$ 25,372.68
Contractor	3,388,190.23	656,994.10	2,731,196.13
Direct Purchases	287,809.77	287,809.77	
Total	$ 3,989,199.30	$ 1,232,630.49	$ 2,756,568.81

H. Risk Management Programs

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

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The District's employee group health insurance plans are being provided through a minimum premium commercial insurance program administered by an insurance company. Premiums are established annually by the insurance company based on the District's claims experience, and the program is governed by an accounting and retention agreement. The agreement provides that when earned premiums are less than the sum of incurred claims less claims in excess of the pooling point, capitation charges, pooling charges, and administrative charges, the deficit is retained by the insurance company; when earned premiums are more than the sum of incurred claims less claims in excess of the pooling point, capitation charges, pooling charges, and administrative charges, 50 percent of the excess is returned to the District; and, if the District cancels the agreement prior to January 31, 2016, any excess earned premiums will not be available for return to the District. The District has experienced favorable claims experience, resulting in refunds for five of the past six plan years, the balance of which is reported as assigned fund balance in the General Fund.

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

I. Long-Term Liabilities

1. Qualified Zone Academy Bonds Payable

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

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2. Bonds Payable

Bonds payable at June 30, 2014, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2005B, Refunding	$ 1,075,000.00	5	2018
Series 2009A, Refunding	70,000.00	5	2019
District Revenue Bonds:			
Series 2012	2,234,220.60	3.18	2031
Total Bonds Payable	$ 3,379,220.60		

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

- State School Bonds

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

- District Revenue Bonds

  These bonds are authorized by Chapter 80-550, Laws of Florida, which provides that the bonds be secured from the pari-mutuel tax proceeds distributed annually to Nassau County from the State's Pari-mutuel Tax Collection Trust Fund pursuant to Chapter 550, Florida Statutes (effective July 1, 2000, tax proceeds were distributed pursuant to Section 212.20(6)(d)7.a., Florida Statutes (2001), now Section 212.20(6)(d)6.a., Florida Statutes (2013)). The annual distribution is remitted by the Florida Department of Financial Services to the District. As required by the bond resolution, the District has established the sinking fund and reserve account and has accumulated and maintained adequate resources in the sinking fund and reserve account.

  The District has pledged a total of $2,910,482.35 of pari-mutuel revenues in connection with the District Revenue Bonds, Series 2012. During the 2013-14 fiscal year, the District recognized pari-mutuel revenues totaling $223,250, and expended $171,152.82 (77 percent) of these revenues for debt service directly collateralized by these revenues. The pledged revenues are committed until final maturity of the debt on July 1, 2031. Approximately 77 percent of this revenue stream has been pledged in connection with debt service on the revenue bonds.

NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Annual requirements to amortize all bonded debt outstanding as of June 30, 2014, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2015	$ 317,250.00	$ 260,000.00	$ 57,250.00
2016	314,250.00	270,000.00	44,250.00
2017	320,750.00	290,000.00	30,750.00
2018	321,250.00	305,000.00	16,250.00
2019	21,000.00	20,000.00	1,000.00
Total State School Bonds	1,294,500.00	1,145,000.00	149,500.00
District Revenue Bonds:			
2015	171,152.82	100,889.30	70,263.52
2016	171,152.82	103,941.70	67,211.12
2017	171,152.82	107,454.71	63,698.11
2018	171,152.82	110,898.93	60,253.89
2019	171,152.82	114,453.55	56,699.27
2020-2024	855,764.10	629,444.33	226,319.77
2025-2029	855,764.10	737,209.12	118,554.98
2030-2031	343,190.05	329,928.96	13,261.09
Total District Revenue Bonds	2,910,482.35	2,234,220.60	676,261.75
Total	$ 4,204,982.35	$ 3,379,220.60	$ 825,761.75

3. Changes in Long-Term Liabilities

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Qualified Zone Academy Bonds Payable	$ 1,428,581.00	$	$	$ 1,428,581.00	$
Bonds Payable	3,727,033.93		347,813.33	3,379,220.60	360,889.30
Compensated Absences Payable	2,802,566.17	565,204.61	659,387.44	2,708,383.34	659,387.44
Other Postemployment Benefits Payable	3,305,374.00	1,003,352.00	384,339.00	3,924,387.00	
Total Governmental Activities	$ 11,263,555.10	$ 1,568,556.61	$ 1,391,539.77	$ 11,440,571.94	$ 1,020,276.74

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

NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

J. Fund Balance Reporting

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

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

K. Interfund Receivables and Payables

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	$ 305,129.70	$
Special Revenue:		
Other		297,607.61
Federal Economic Stimulus		7,522.09
Total	$ 305,129.70	$ 305,129.70

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

NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

L. Revenues and Expenditures/Expenses

1. Schedule of State Revenue Sources

The following is a schedule of the District's State revenue sources for the 2013-14 fiscal year:

Source	Amount
Florida Education Finance Program	$ 24,235,291.00
Categorical Educational Program - Class Size Reduction	12,009,559.00
School Recognition	465,065.00
Technology Transformation Grants for Rural School Districts	423,668.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	383,957.64
Workforce Development Program	366,523.00
Discretionary Lottery Funds	107,948.00
Food Service Supplement	56,636.00
Mobile Home License Tax	24,731.71
Miscellaneous	486,262.01
Total	$ 38,559,641.36

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

2. Property Taxes

The following is a summary of millages and taxes levied on the 2013 tax roll for the 2013-14 fiscal year:

	Millages	Taxes Levied
GENERAL FUND		
Nonvoted School Tax:		
Required Local Effort	5.211	$ 34,855,787
Basic Discretionary Local Effort	0.748	5,003,287
CAPITAL PROJECTS FUNDS		
Nonvoted Tax:		
Local Capital Improvements	1.400	9,364,441
Total	7.359	$ 49,223,515

NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

M. Interfund Transfers

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	$ 921,569.77	$
Capital Projects:		
Local Capital Improvement		888,794.02
Other		114,000.00
Nonmajor Governmental	81,224.25	
Total	$ 1,002,794.02	$ 1,002,794.02

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

OTHER REQUIRED SUPPLEMENTARY INFORMATION

NASSAU COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2014

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	$ 60,000.00	$ 60,000.00	$ 72,708.59	$ 12,708.59
Federal Through State and Local	5,900.00	13,934.69	250,926.92	236,992.23
State	38,436,522.00	37,884,964.10	37,950,681.87	65,717.77
Local:				
Property Taxes	38,264,712.00	38,265,062.43	38,445,004.47	179,942.04
Miscellaneous	765,487.00	878,591.73	1,613,554.29	734,962.56
Total Local Revenues	39,030,199.00	39,143,654.16	40,058,558.76	914,904.60
Total Revenues	77,532,621.00	77,102,552.95	78,332,876.14	1,230,323.19
Expenditures				
Current - Education:				
Instruction	52,004,438.22	52,067,397.76	49,040,720.16	3,026,677.60
Student Personnel Services	3,717,334.52	3,826,222.34	3,403,558.80	422,663.54
Instructional Media Services	1,297,397.67	1,347,472.22	1,292,002.70	55,469.52
Instruction and Curriculum Development Services	1,203,488.74	1,190,037.89	1,045,534.20	144,503.69
Instructional Staff Training Services	1,199,117.39	1,279,982.43	1,111,340.87	168,641.56
Instruction Related Technology	1,229,631.04	1,183,170.51	1,147,115.54	36,054.97
School Board	646,609.65	646,609.65	448,641.82	197,967.83
General Administration	1,233,305.63	782,356.46	715,672.49	66,683.97
School Administration	5,494,979.58	5,548,001.75	5,314,908.27	233,093.48
Facilities Acquisition and Construction	394,248.00	398,965.00	380,673.10	18,291.90
Fiscal Services	565,551.93	575,776.47	567,231.95	8,544.52
Food Services	1,900.00	16,295.74	14,411.07	1,884.67
Central Services	544,366.64	566,768.50	489,138.97	77,629.53
Student Transportation Services	4,427,524.75	4,525,494.45	4,394,293.28	131,201.17
Operation of Plant	8,585,507.84	8,602,269.13	8,175,313.33	426,955.80
Maintenance of Plant	3,192,054.52	3,106,227.93	2,674,118.23	432,109.70
Administrative Technology Services	1,758,604.54	1,378,505.75	1,146,610.08	231,895.67
Community Services	787,181.90	530,614.22	230,499.69	300,114.53
Fixed Capital Outlay:				
Facilities Acquisition and Construction		72,476.85	42,176.75	30,300.10
Other Capital Outlay		704,155.73	480,278.32	223,877.41
Total Expenditures	88,283,242.56	88,348,800.78	82,114,239.62	6,234,561.16
Deficiency of Revenues Over Expenditures	(10,750,621.56)	(11,246,247.83)	(3,781,363.48)	7,464,884.35
Other Financing Sources				
Transfers In	912,700.00	927,400.00	921,569.77	(5,830.23)
Insurance Loss Recoveries		57,795.74	62,246.46	4,450.72
Total Other Financing Sources	912,700.00	985,195.74	983,816.23	(1,379.51)
Net Change in Fund Balances	(9,837,921.56)	(10,261,052.09)	(2,797,547.25)	7,463,504.84
Fund Balances, Beginning	12,687,802.38	12,687,802.38	12,699,624.73	11,822.35
Fund Balances, Ending	$ 2,849,880.82	$ 2,426,750.29	$ 9,902,077.48	$ 7,475,327.19

Special Revenue - Other				Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
$ 5,712,392.34	$ 6,230,029.70	$ 4,323,773.73	$ (1,906,255.97)	$ 411,785.48	$ 477,299.48	$ 189,001.21	$ (288,298.27)
		5,393.80	5,393.80				
		5,393.80	5,393.80				
5,712,392.34	6,230,029.70	4,329,167.53	(1,900,862.17)	411,785.48	477,299.48	189,001.21	(288,298.27)
2,625,912.74	2,698,402.96	1,995,926.45	702,476.51	13,600.00	39,382.40		39,382.40
495,139.31	500,245.96	341,669.36	158,576.60				
1,578,464.77	1,412,045.76	1,117,601.34	294,444.42	16,000.00	8,000.00	8,000.00	
405,540.52	609,740.28	528,101.18	81,639.10	147,152.31	43,143.83	1,418.83	41,725.00
440,034.00	290,830.91	114,075.44	176,755.47		339.00		339.00
13,200.00	300.00		300.00				
100.00	51,792.59		51,792.59				
8,086.00	8,959.80	5,124.20	3,835.60	235,033.17	168,204.38	149,990.04	18,214.34
145,915.00	174,121.73	69,303.55	104,818.18				
	1,500.00		1,500.00				
	0.17	0.17					
	482,089.54	157,365.84	324,723.70		218,229.87	29,592.34	188,637.53
5,712,392.34	6,230,029.70	4,329,167.53	1,900,862.17	411,785.48	477,299.48	189,001.21	288,298.27
$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 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%
October 1, 2012	0	9,758,651	9,758,651	0.0%	36,866,124	26.5%

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

NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014

I. BUDGETARY BASIS OF ACCOUNTING

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

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

II. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

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

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

NASSAU COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
JUNE 30, 2014

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NASSAU COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Agriculture:			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Agriculture and Consumer Services:			
School Breakfast Program	10.553	13002	$ 635,848.78
National School Lunch Program	10.555 (2)	13001, 13003	2,676,114.93
Summer Food Service Program for Children	10.559	13006, 13007	77,799.96
Total United States Department of Agriculture			3,389,763.67
United States Department of Justice:			
Indirect:			
Florida Office of the Attorney General:			
Crime Victim Assistance	16.575	V13014	83,164.32
United States Department of Labor:			
Indirect:			
First Coast Workforce Development, Inc.:			
WIA Youth Activities	17.259	2014-08	184,221.19
National Science Foundation:			
Indirect:			
University of Florida:			
Education and Human Resources	47.076	None	223.13
United States Department of Education:			
Indirect:			
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027 (3)	263	1,642,079.26
Special Education - Preschool Grants	84.173	267	60,332.56
University of South Florida:			
Special Education - Grants to States	84.027 (3)	None	2,451.00
Total Special Education Cluster			1,704,862.82
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191, 193	140,985.55
Title I Grants to Local Educational Agencies	84.010	212, 223	1,699,158.75
Career and Technical Education - Basic Grants to States	84.048	161	151,453.72
Education for Homeless Children and Youth	84.196	127	44,034.46
English Language Acquisition State Grants	84.365	102	9,103.49
Improving Teacher Quality State Grants	84.367	224	392,181.45
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL111, RD211, RG311, RG411	189,001.21
Total United States Department of Education			4,330,781.45
United States Department of Defense:			
Direct:			
Air Force Junior Reserve Officers Training Corps	None	N/A	72,708.59
Total Expenditures of Federal Awards			$ 8,060,862.35

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

(2) Noncash Assistance - National School Lunch Program. Includes $407,127.05 of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.

(3) Special Education - Grant to States. Expenditures for CFDA No. 84.027 total $1,644,530.26.

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Legislative Auditing Committee

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

Report on the Financial Statements

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Nassau County District School Board, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 18, 2015, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the school internal funds as described in our report on the District's financial statements. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or

detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

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

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

Purpose of this Report

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

Respectfully submitted,

David W. Martin, CPA
Tallahassee, Florida
March 18, 2015

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The President of the Senate, the Speaker of the
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Report on Compliance for Each Major Federal Program

We have audited the Nassau County District School Board's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2014. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 2014-001 and 2014-002. Our opinion on each major Federal program is not modified with respect to these matters.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance as described in the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 2014-001 and 2014-002 that we consider to be significant deficiencies.

Management's Response

Management's response to the findings identified in our audit is included in Exhibit A. Management's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

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

Respectfully submitted,

David W. Martin, CPA
Tallahassee, Florida
March 18, 2015

NASSAU COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	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?	Yes
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes
Identification of major programs:	
CFDA Numbers:	Name of Federal Program or Cluster:
84.010	Title I Grants to Local Educational Agencies
84.367	Improving Teacher Quality State Grants
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, 2014

ADDITIONAL MATTERS

Finding No. 1: Design Professionals – Liability Insurance

In November 2011 and June 2013, the Board entered into contracts with two design professionals to prepare architectural plans for the $3.7 million Fernandina Beach Middle and Senior High School project and the $3.7 million Hilliard Middle Senior High School project, respectively, both of which were in progress during the 2013-14 fiscal year. The advertisements for these projects required the selected architects to maintain insurance against errors and omissions and professional liability, in sufficient amounts, to protect the District against any and all claims that could arise during the term of the projects. The contracts required one architect to maintain professional liability insurance of $1 million per claim on a claims-made basis and $1 million annual aggregate insurance, and the other architect to maintain $1 million per claim on a claims-made basis and $2 million annual aggregate insurance. The contracts also listed other types of coverages and limits including automobile liability, general liability, and workers' compensation coverages that were required to be maintained for the duration of the contract. Although the contracts contained insurance requirements, we noted policies and procedures relating to such insurance coverage could be enhanced as follows:

- The Board had not adopted a policy establishing insurance requirements for design professionals, such as architects and engineers, and District records did not evidence the basis for the differing insurance requirements of the two design professionals.
- The contracts did not address cancellation clauses, such as providing written notification to the District at least 30 calendar days prior to any cancellation or modification, nor did the contracts provide for the Board to be named as an additional insured on the architects' automobile, general, and workers' compensation liability certificates of insurance. In addition, the insurance certificates for the Hilliard Middle Senior High School project did not list the Board as a certificate holder and, although the Fernandina Beach Middle and Senior High School project listed the Board as the certificate holder, to have an interest in the automobile, general, and workers' compensation liability policy, the Board must be listed as an additional insured.
- District records did not evidence liability insurance coverage from the expiration of one policy period to the effective date of the next policy period for either construction project. For example, at the time of our review in June 2014, the automobile, general, and workers' compensation liability coverages had expired February 1, 2014, for the Hilliard Middle Senior High School project and April 1, 2014, for the Fernandina Beach Middle and Senior High School project. Subsequent to our inquiry, District personnel obtained copies of certificates of insurance evidencing the required liability coverages in February and April 2014.

Without a Board policy addressing the types and amounts of professional liability insurance coverage to be required for design professionals, it was not apparent how District personnel determined the professional insurance that should be provided by the architects to protect the District's investment in the construction projects. Developing a policy prescribing the types and amounts of insurance coverage for design professionals would help provide guidance to District personnel as to the Board's insurance philosophy and protect the District in the event that deficiencies in work performed by a design professional causes injury to a person or damage to property, or the design professional defaults on contractual obligations. Also, ensuring that insurance certificates designate the Board as a certificate

holder or as an additional insured, when appropriate, and that design professionals working on District projects maintain continuous insurance coverage in required amounts, would reduce the District's risk of loss in the event of an occurrence causing injury to persons or damage to property.

Recommendation: The Board should adopt a policy establishing liability insurance requirements for design professionals. Also, the District should implement procedures to ensure timely review of certificates of insurance evidencing that design professionals have obtained required insurance and designate the Board as certificate holder or additional insured, as appropriate.

Finding No. 2: Land Acquisition Agreement

Section 1013.14(1)(b), Florida Statutes, requires that the Board, prior to acquisition of real property, obtain at least one appraisal for each land purchase in an amount greater than $100,000 and not more than $500,000, and obtain at least two appraisals for each land purchase in an amount greater than $500,000.

On April 24, 2014, the Board approved an agreement with a land development company that required the company to provide 42 acres of land for a school site and access road in exchange for credits against future educational impact fees based on a mutually agreed upon appraiser's value of the property to be determined at a later date. On July 9, 2014, the District acquired the property; however, contrary to Section 1013.14(1)(b), Florida Statutes, the District did not obtain any appraisals before the acquisition and, without the appraisals, the Board had limited assurance of the property's value.

Subsequent to our inquiry, the District, in January 2015, received a draft appraisal obtained by the land development company indicating a market value of $1,100,000 as of July 9, 2014, for the 27-acre portion of the property intended for the school site. As of February 6, 2015, the District was considering obtaining another appraisal for the property to corroborate the initial appraisal.

Recommendation: The District should enhance its procedures to ensure that, before land acquisition agreements are executed, appraisals are obtained as required by law to establish the value of the property.

Follow-up to Management's Response:

The District indicates in its response that the acquisition of the property was not contrary to Section 1013.14(1)(b), Florida Statutes, as there was never any intent to purchase the property and the acquisition was the result of a donation agreement. However, the noncash exchange between the District and the land development company calculated the purchase price of the property in credits against the District's educational impact fees without the benefit of appraisals evidencing the value of the property.

Finding No. 3: Purchasing Procedures

Board-adopted policies prohibit conflicts of interest and the District had certain procedures to reduce the risk of contractual relationships that cause conflicts of interest. For example, the Executive Director of Business Services indicated that all purchase orders are approved by the Superintendent or the Executive Director of Business Services.

The Superintendent, Board members, and Executive Director of Business Services were required to file statements of financial interests pursuant to Section 112.3145, Florida Statutes. However, these statements of financial interests were not provided to personnel responsible for procurement decisions for review. Subsequent to our inquiry in October 2014, the Executive Director of Business Services reviewed the most recent required statements of financial

interests of the Superintendent and Board members, and noted no apparent conflicts of interest. Providing for routine review of required statements of financial interests by personnel responsible for procurement decisions would enhance the District's procurement practices and reduce the risk of questioned procurement transactions or contractual obligations.

Recommendation: The District should provide for routine review of required statements of financial interests by personnel responsible for making procurement decisions.

Finding No. 4: Health Insurance Plan – Participant Eligibility

Pursuant to Section 627.6562, Florida Statutes, if the District offers coverage under a group health insurance policy that insures dependent children of the policyholder, the policy must insure a dependent child of the policyholder at least until the end of the calendar year in which the child reaches the age of 25 if the child meets the required conditions. This section further requires that the District offer the policyholder the option to insure a child at least until the end of the calendar year in which the child reaches the age of 30 if the child is: 1) unmarried and does not have a dependent of his or her own; 2) is a resident of this state or a full-time or part-time student; and 3) is not provided coverage under certain conditions, such as a named subscriber, insured, enrollee, or covered person under any other group.

The District offers health insurance to its employees and retirees, and to eligible dependents. For the 2013-14 fiscal year, employee group health insurance premiums totaled $9.7 million, including employee and retiree contributions of $2.2 million and Board contributions of $7.5 million. District procedures provided that employees complete a benefit enrollment application upon hire, during open enrollment periods, or after a qualifying life event such as marriage, divorce, birth, adoption, loss of coverage, or death.

During the October 2013 through September 2014 plan year, the District insured five dependents over age 25. The District conducted an eligibility audit for employee dependents enrolled in the health insurance plan as of April 1, 2014, requiring employees to verify the eligibility of dependents by providing documentation such as birth certificates; however, District records did not evidence that District personnel made a determination that the five dependents over age 25 met the eligibility requirements specified in Section 627.6562, Florida Statutes. In response to our inquiry, the District developed a form in June 2014 listing the eligibility requirements for dependents age 26 to 30 and required that the form be completed and certified by the employee. The District subsequently provided us with copies of the forms for three of the five dependents indicating they were eligible for coverage; however, for the other two dependents, the forms were not returned and the dependents were not re-enrolled for coverage effective with the plan year beginning October 1, 2014. Without verifying the eligibility of all dependents covered through the District's health insurance plan, there is an increased risk that the dependents receiving insurance coverage may be ineligible participants.

Although employees and retirees are required to pay health insurance premiums for dependent coverage, future premium rates for the District's health insurance plan are based on claims experience. Therefore, claims for an ineligible dependent could result in future increases in health insurance premiums paid by the District for employees' healthcare coverage.

Recommendation: The District should continue its efforts to verify the eligibility of all dependents covered by the District's health insurance plan.

Finding No. 5: Adult General Education Classes

Section 1004.02(3), Florida Statutes, defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. The District received State funding for adult general education, and proviso language in Chapter 2013-40, Laws of Florida, Specific Appropriation 117, required that each school district report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with the Florida Department of Education (FDOE) instructional hours reporting procedures.

FDOE procedures stated that fundable instructional contact hours are those scheduled hours that occur between the date of enrollment in a class and the withdrawal date or end-of-class date, whichever is sooner. FDOE procedures also provided that school districts develop a procedure for withdrawing students for nonattendance and that the standard for setting the withdrawal date shall be six consecutive absences from a class schedule, with the withdrawal date reported as the day after the last date of attendance. FDOE procedures further provided that if a student transfers from one class to another, the instructional contact hours in the first class should be reported from the date of enrollment to the date of transfer and the instructional contact hours in the second class should be reported from the date of enrollment in the new class to the final withdrawal date or end of the class, whichever is sooner. 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 2013-14 fiscal year, the District reported to the FDOE 68,795 instructional contact hours for 260 students enrolled in 228 adult general education classes. We randomly selected a representative sample of 8,820 hours reported for 30 students enrolled in 221 adult general education classes to test the accuracy of the District's reporting procedures. Our test disclosed 54 net hours under-reported, as follows:

- The District over-reported 128 hours for 9 students enrolled in 22 classes because the District reported hours after the students should have been procedurally withdrawn, contrary to FDOE procedures.
- The District under-reported 70 hours for 5 students in 7 classes because incorrect enrollment dates were used.
- The District over-reported 36 hours for a student enrolled in 3 classes because, based upon the attendance records, the student did not meet the 12-hour minimum attendance threshold.
- The District over-reported 15 hours for a student enrolled in a class although District records did not evidence the student attended the class.
- The District under-reported 143 hours for 3 students who transferred classes because the District did not correctly report the scheduled hours from the date of enrollment to the date of transfer.
- The District under-reported 30 hours for 1 student in 2 classes and over-reported 10 hours for 1 student in 1 class because the District did not use the correct scheduled meeting times to determine the instructional contact hours. For example, for 1 class, the scheduled meeting time was 30 minutes per day; however, the District calculated the student's instructional contact hours using 75 minutes per day. This student was also not enrolled for the required minimum 12 hours when using the correct class meeting time.

In response to our inquiry, District personnel indicated that the misreported hours resulted from system programming errors and employee oversights.

Given the number of errors, the full extent of the class hours misreported was not readily available. Since future funding may be based, in part, on enrollment data reported to the FDOE, it is important that the District reports data correctly. Similar findings were noted in our report Nos. 2013-150 and 2014-133.

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

Finding No. 6: Information Technology – Access Privileges

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions inconsistent with their assigned job responsibilities.

In our report No. 2014-133, we noted that 56 user accounts had been granted administrator privileges within the District's network domain. Our current review indicated that, as of September 26, 2014, the District had reduced the number of user accounts with administrator privileges to ten users that worked in the District's IT Department; however, with these access privileges, the ten users could access certain confidential or sensitive information stored within documents and files, including finance and human resources information, and gave the ten employees the ability to modify information stored within the District's network. To provide for an appropriate separation of duties, the number of users with administrator privileges should be limited to the two network engineers responsible for performing network administration duties or services that require complete access to network resources.

The existence of unnecessary network access privileges increases the risk of unauthorized, disclosure, modification, or destruction of District data and IT resources.

Recommendation: The District should continue its efforts to ensure that assigned network administrative access privileges restrict employees to only those functions necessary for their assigned job responsibilities.

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

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed that certain District IT security controls related to data loss prevention needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues. Without adequate security controls related to data loss prevention, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised. A similar finding was noted in our report No. 2014-133.

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

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 2014-001:
Federal Agency: United States Department of Agriculture and United States Department of Education
Pass-Through Entity: Florida Department of Agriculture and Consumer Services and Florida Department of Education
Major Federal Programs: Title I Grants to Local Educational Agencies (CFDA No. 84.010) and Improving Teacher Quality State Grants (CFDA No. 84.367);
Nonmajor Federal Program: Child Nutrition Cluster (CFDA Nos. 10.553 and 10.555)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: Unknown

Allowable Costs/Cost Principles – Rebates to Federal Programs. Attachments A and B of United States Office of Management and Budget (OMB) Circular A-87 establish cost principles to be applied and guidance for determining allowable costs and applicable credits to Federal awards. Also, Circular A-87, Attachment B, 8.d, provides that employers' contributions or expenses for employee fringe benefits, including health insurance benefits, are allowable costs provided such benefits are granted under approved plans and are distributed equitably to grant programs and to other activities. In addition, Section C of Attachment A specifies that, to be an allowable cost under a grant program, the cost must be net of all applicable credits, and defines applicable credits as receipts or reductions of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs, including adjustments of overpayments and insurance refunds or rebates.

The Board provides health insurance coverage for its employees through purchased commercial insurance with minimum deductibles for each line of coverage. The premium costs incurred by the District for the insurance are charged to the various District programs (Federal and non-Federal) based on the actual costs incurred for the employees participating in the respective programs. For Federal program health insurance premiums, approximately 40 percent of the premiums are for employees funded by the Child Nutrition Cluster nonmajor Federal program and several other Federal programs pay the remaining Federal health insurance premium costs. The District received premium refunds from the commercial health insurance carrier totaling $1,341,681 for contract periods during the 2007-08 through 2012-13 plan years, and the District recorded these refunds in the General Fund.

Pursuant to negotiated bargaining agreements for the 2012-13 and 2013-14 fiscal years, the District paid $450 refunds from the General Fund to applicable Federal and non-Federal employees, or a total of $76,347 to Federal program employees and $996,978 to non-Federal program employees. While the $76,347 refunded to Federal program employees should be considered as a reduction of the amount due to Federal programs, District records did not evidence that District personnel made a determination of the allocable portion of the $1,341,681 refund applicable to the Federal Government for its share of the health insurance premium costs previously charged to Federal programs. Without such a determination, District records did not evidence that applicable refunds were made to the Federal Government for its share of the health insurance premium costs, contrary to OMB Circular A-87.

Recommendation: The District should consult with the Florida Department of Agriculture and Consumer Services and Florida Department of Education for resolution on the use and allocation of the premium refunds applicable to the District's group health insurance plans.

District Contact Person and Title: Susan Farmer, Executive Director of Business Services

Federal Awards Finding No. 2014-002:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Title I Grants to Local Educational Agencies (CFDA No. 84.010)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: None

Allowable Costs/Cost Principles – Documentation of Time and Effort. OMB Circular A-87 provides, for charges to Federal awards for salaries and wages, that for employees expected to work on multiple cost activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports (PARs) or equivalent documentation. These reports must reflect an after-the-fact distribution of the actual activity of each employee and must be signed by the employee. Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employee worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee. In addition, OMB Circular A-87 provides that budget estimates or other distribution percentages determined before services are performed do not qualify as support for charges to Federal awards.

For the 2013-14 fiscal year, the District reported total Title I program expenditures of $1,699,159, of which salary and benefits totaled $882,084. Our test of documentation to support Federal salary and benefit expenditures for ten employees paid from the Title I program disclosed that one employee's salary and benefits of $93,571 was budgeted and paid 30 percent from the Title I program and 70 percent from the District's General Fund. The salary and benefits costs were supported by PARs indicating the hours allocated each week for the Title I program and the General Fund cost objectives based on the budgeted allocations; however, as the PARs did not indicate the actual activity for each cost objective each day, they did not reflect an after-the-fact distribution of the employee's actual activity, contrary to OMB Circular A-87.

Subsequent to our inquiry, District personnel provided the employee's appointment calendars for three months to show support for the employee's actual activity for each cost objective each day; however, the calendars did not clearly identify the activities specifically related to the Title I program. Based on our review of other District records and interviews, the employee devoted at least the amount indicated in the Title I program budget allocation and, therefore, did not overcharge the program. However, absent monthly personnel activity reports reflecting an after-the-fact distribution of the employees' actual activities, there is an increased risk that personnel costs may be inappropriately charged to a Federal program.

Recommendation: The District should enhance its procedures to ensure that adequate required monthly personnel activity reports or equivalent documentation is maintained to support salary and benefits charges to the Title I program.

District Contact Person and Title: Kristi Simpkins, Director of Elementary Education

PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for findings included in our report No. 2014-133 except as shown in the following table:

Current Fiscal Year Finding Numbers	2012-13 Fiscal Year Audit Report and Finding Numbers	2011-12 Fiscal Year Audit Report and Finding Numbers
5	Audit Report No. 2014-133, Finding No. 5	Audit Report No. 2013-150, Finding No. 2
6	Audit Report No. 2014-133, Finding No. 6	NA
7	Audit Report No. 2014-133, Finding No. 7	NA

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

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

NASSAU COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2014

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
2014-133		There were no prior Federal audit findings.		

EXHIBIT A
MANAGEMENT'S RESPONSE

The Nassau County School District
1201 Atlantic Avenue
Fernandina Beach, Florida 32034

"Empowering others through a commitment to excellence"

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

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

March 9, 2015

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, 2014.

Finding No. 1: Design Professionals-Liability Insurance: Following normal procedures, Facilities Department personnel informally evaluates the limits of insurance coverage that are currently held by the design professional and determine whether their current coverage is sufficient for the project. In the case of these two projects the $1,000,000/$1,000,000 coverage was deemed sufficient. The apparent disparity in the coverage identified by the auditors is merely the difference between the normal coverage possessed by one architectural firm versus the other. The firms specific coverage is then included in the final contract with the design professional. To have requested the architect to reduce his normal coverage would have added additional costs to the Board.

The contract with the design professional does require the company to maintain the stipulated coverage for the duration of the contract (Section 2.5). As a Certificate Holder or Additional Insured the insurance company is required to notify us if there is a change in coverage.

The District will implement procedures for documenting its evaluation of the limits of insurance coverage held by design professionals, ensure that the Board is named as a "Certificate Holder" or "Additional Insured", where appropriate, and ensure that a new certificate of insurance is obtained prior to the expiration date of the old certificate.

Finding No. 2: Land Acquisition Agreement: Clearly, Section 1013.14, Florida Statutes, addresses "**Proposed *purchase* of real property by a board; confidentiality of records; procedure.**" Section 1013.14(1) (a) states that when a board "seeks to acquire by *purchase* any real property for educational purposes, every appraisal, offer, or counter offer must be in writing and is exempt from the provisions of

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

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

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Mr. David Martin, CPA
Page 2 Audit Response
March 9, 2015

s. 119.07(1) until an option contract is executed or, if no option contract is executed, until 30 days before a contract or agreement for *purchase* is considered for approval by the board".

Further, Section 1013.14(b) states that "each *purchase* in an amount in excess of $500,000, the board shall obtain at least two appraisals by appraisers approved pursuant to s. 253.025(6)(b). If the agreed to *purchase* price exceeds the average appraised value, the board is required to approve the *purchase* by an extraordinary vote". Obviously, this statute is applicable to the *purchase* of real property by a board and is not applicable to acquisition of real property through the provision of a donation agreement.

We contend that the acquisition of this property is not contrary to the provisions of Section 1013.14(1)(b) as there was never any intent to *purchase* said property from a land development company. Therefore, the requirements in Section 1013.14 appear to have no applicability to the Board's approval of the agreement which has been cited.

Additionally, the Donation and Development Agreement between the School Board of Nassau County and TerraPointe, LLC was executed under s. 163.3245, Florida Statutes, in "recognition of the benefits of long-range planning for specific areas, local governments or combinations of local governments" for the purpose of long-term planning by the Florida Legislature. Article 3.1 of the agreement referenced above describes the donation of property to the School Board as well as stipulating that the parties shall agree mutually to determine the value of the property. Further, Article 11.1 and 11.2 of said agreement stipulates the terms for applying credits against education impact fees and recoupment of the cost of access improvements by the School Board from Nassau County as provided in a Reservation Agreement previously executed. As we move forward, these issues will be addressed based upon the stipulations contained in the Donation and Development Agreement as well as the Reservation Agreement with Nassau County pursuant to their ordinances.

Finding No. 3: Purchasing Procedures: The Executive Director of Business Services will annually review the required statement of financial interest for the Board Members and Superintendent. A copy of the Executive Director's required statement of financial interest will be given to the Superintendent annually.

Finding No. 4: Health Insurance Plan – Participant Eligibility: The District implemented dependent audit procedures in April 2014 for ensuring that dependents covered under our health insurance plan were eligible. We will continue to operate under these new procedures to ensure that at the time of enrollment dependents are eligible for coverage.

Finding No. 5: Adult General Education Classes: The District has developed new streamlined procedures for entry of Adult Education enrollment and attendance data. Many of the concerns identified by the auditor dealt with the District's Adult High School program because students frequently finish and start new courses based on their individual performance. The Program Specialist will now directly enter this data instead of forwarding the data to be entered by other personnel. Our belief is that the new streamlined process will eliminate errors caused by miscommunication or time lags in the process and it will create individual ownership of the process. Additionally, all Adult Education teachers are now using the FOCUS SIS system to take daily attendance. This will reduce the

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Mr. David Martin, CPA
Page 3 Audit Response
March 9, 2015

opportunity for data entry errors to occur. By entering this data in real time, reports can then be used to monitor attendance and ensure the procedural withdrawal policies are accurately followed. Finally, based on the District's inquiry of proper procedure for reporting hours that do not meet the 12 hour enrollment threshold, the Florida Department of Education has advised our staff that we should be reporting those hours to the Department. Based on the 12 hour threshold the Department would then eliminate them from funding. We are hopeful that these new procedures will strengthen our reporting procedures to ensure that the issues identified by the auditor will be resolved.

Finding No. 6: Information Technology – Access Privileges: We have reassigned permissions to again reduce the number of network administrative access accounts.

Finding No. 7: Information Technology – Security Controls – Data Loss Prevention: District staff is in the process of identifying what data is confidential and will then ensure that procedures are in place which fully protects the data.

FEDERAL FINDINGS:

Finding No. 2014-001: Allowable Costs/Cost Principles – Rebates to Federal Programs: Since these Health Insurance Rebates are a mixture of employee monies and employer monies, the District chose to put these funds into a holding account until such time as a decision was made on how to utilize these funds. At the time that monies are spent from this source the amount spent for current federally funded employees is refunded to the Federal funds. At this time the District has only spent approximately 62 percent of the returned funds. Documentation of the analysis of the rebated premiums and the resulting rebates to employees through their negotiated agreements will be forwarded to the Florida Department of Agriculture and Consumer Services and the Florida Department of Education for additional support of the District's procedures for rebating these funds to the federal programs. The estimated completion date for this finding is October 31, 2015.

Finding No. 2014-002: Allowable Costs/Cost Principles – Documentation of Time and Effort: Since the audit field work District staff have reviewed the documentation being used by Title I personnel to track time and effort. New tracking forms were developed and implemented to enhance the time and effort reporting of employees funded from this grant.

Sincerely,

John L. Ruis

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

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

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