

**SINGLE AUDIT REPORTS
AND
MANAGEMENT LETTER
NASSAU COUNTY, FLORIDA
SEPTEMBER 30, 2009**

Purvis
Gray &
Company

**SINGLE AUDIT REPORTS
AND
MANAGEMENT LETTER**

NASSAU COUNTY, FLORIDA

SEPTEMBER 30, 2009

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NASSAU COUNTY, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR YEAR ENDING SEPTEMBER 30, 2009

Federal Grantor/Pass-Through Grantor/ Grant Program	Grant ID Number	Federal CFDA Number	Federal Expenditures
United States Department of Justice			
Direct:			
State Criminal Alien Assistance Program	2008-AP-BX-1177	16.606	\$ 1,145
Edward Byrne Memorial Justice Assistance Grant Program	2006-DJ-BX-1096	16.738	32,707
Edward Byrne Memorial Justice Assistance Grant Program	2008-DJ-BX-0362	16.738	9,141
Edward Byrne Memorial Justice Assistance Grant Program	2008-JAGC-NASS-Q9-228	16.738	28,190
Subtotal Expenditures - CFDA No. 16.738			<u>70,038</u>
Indirect:			
Florida Department of Law Enforcement: Florida Office of the Attorney General: Victims of Crimes Act (VOCA)	V-8235	16.575	31,686
Total United States Department of Justice			<u>102,869</u>
United States Department of Health and Human Services			
Indirect:			
Florida Department of Revenue: Child Support Enforcement	CSP45	93.563	5,023
United States Department of Homeland Security			
Indirect:			
Florida Division of Emergency Management: Emergency Management Performance Grant	08-BG-24-04-55-01-226	97.042	26,236
Emergency Management Performance Grant	09-BG-20-04-55-01-265	97.042	3,925
Subtotal Expenditures - CFDA No. 97.042			<u>30,161</u>
Florida Department of Community Affairs Public Assistance Grant	08-PA-B9-04-5-13-610	97.036	281,564
Homeland Security Grant Program	07-DS-5N-04-55-01-304	97.067	445
Homeland Security Grant Program	08-DS-60-04-55-01-272	97.067	38,874
Subtotal Expenditures - CFDA No. 97.067			<u>39,319</u>
Total United States Department of Homeland Security			<u>351,044</u>
United States Election Assistance Commission			
Indirect:			
Florida Department of State: Help America Vote Act - Federal Election Activities	POL07	90.401	2,269
Help America Vote Act - Federal Election Activities	FEA07	90.401	6,040
Help America Vote Act - Federal Election Activities	FEA08	90.401	12,585
Subtotal Expenditures - CFDA No. 90.401			<u>20,894</u>
Total United States Election Assistance Commission			<u>20,894</u>
Federal Communications Commission			
Direct:			
Universal Discount for Schools and Libraries (E-Rate)	BEN 154417	None	16,342
Total Federal Expenditures			<u>\$ 496,172</u>

NASSAU COUNTY FLORIDA
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE PROJECTS
FOR YEAR ENDING SEPTEMBER 30, 2009

Grant Agency/Grant Title	State CSFA Number	Contract/Grant Number	Expenditures
State Courts System			
Small County Courthouse Facilities	22.004	CFGIA	\$ 22,915
Small County Courthouse Facilities	22.004	GIA08	291,084
Total State Courts System			<u>313,999</u>
Florida Department of Environmental Protection			
Small County Consolidated Solid Waste Grants	37.012	SC925	277,316
Florida Recreation Development Assistance Program	37.017	04-07-96-03-FJ-J1-041	200,000
Total Florida Department of Environmental Protection			<u>477,316</u>
Florida Department of State			
State Aid to Libraries Grant Program	45.030	08-ST-039	10,524
State Aid to Libraries Grant Program	45.030	09-ST-38	385,486
Subtotal Expenditures - CSFA No. 45.030			<u>396,010</u>
Community Libraries in Caring Program (CLIC)	45.042	09-CLIC10	5,000
Total Florida Department of State			<u>401,010</u>
Florida Department of Community Affairs			
Emergency Management Programs	52.008	09-BG-03-04-55-01-226	98,726
Local Emergency Management and Mitigation Initiatives	52.010	07-EC-33-04-55-01-504	546,357
Growth Management Implementation	52.033	08-DR-90-04-55-01-014	28,201
Total Florida Department of Community Affairs			<u>673,284</u>
Florida Housing Finance Corporation			
State Housing Initiatives Partnership Program	52.901	06/07	749,803
State Housing Initiatives Partnership Program	52.901	07/08	243,160
State Housing Initiatives Partnership Program	52.901	08/09	358,744
Total Florida Housing Finance Corporation			<u>1,351,707</u>
Florida Department of Transportation			
Small County Road Assistance Program	55.016	417321-1-58-01	1,316,440
Transportational Regional Incentive Program	55.026	212557-3-38	275,000
Total Florida Department of Transportation			<u>1,591,440</u>
Florida Department of Children and Families			
Community Forensic Beds and Competency Restoration Training	60.114	DH 660	130,747
Community Forensic Beds and Competency Restoration Training	60.114	DH 677	61,739
Subtotal Expenditures - CSFA No. 60.114			<u>192,486</u>
Public Safety, Mental Health and Substance Abuse	60.115	MOU# LHZ07	30,798
Total Florida Department of Children and Families			<u>223,284</u>
Florida Department of Health			
Emergency Medical Services Matching Awards	64.003	M8096	75,000
Emergency Medical Services Matching Awards	64.003	M8097	31,897
Total Florida Department of Health			<u>106,897</u>
Florida Department of Management Services			
Wireless 911 Emergency Telephone System	72.001	08-03-16	341,385
Total State Expenditures			<u>\$ 5,480,322</u>

**NASSAU COUNTY, FLORIDA
NOTE TO SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE PROJECTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

Note 1 - Basis of Presentation

The accompanying schedules of expenditures of federal awards and state financial assistance projects includes the federal and state award activity of Nassau County, Florida, and is presented on the modified accrual basis of accounting.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR STATE FINANCIAL ASSISTANCE PROJECTS AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE FLORIDA DEPARTMENT OF FINANCIAL SERVICES,
STATE PROJECTS COMPLIANCE SUPPLEMENT**

The Honorable Board of County Commissioners
Nassau County, Florida

Compliance

We have audited the compliance of Nassau County, Florida (the County), with the types of compliance requirements described in the Executive Office of the *Governor's State Projects Compliance Supplement*, that are applicable to each of its major state financial assistance projects for the year ended September 30, 2009. The County's major state financial assistance projects are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major state financial assistance projects is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; *Audits of States, Local Governments, and Non-Profit Organizations*, and Chapter 10.550, *Rules of the Auditor General*. Those standards, Chapter 10.550, *Rules of the Auditor General* 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 state financial assistance project occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its state financial assistance projects for the year ended September 30, 2009.

Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state financial assistance projects. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major state financial assistance project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 County's internal control over compliance.

Certified Public Accountants

P.O. Box 23999 • 222 N.E. 1st Street • Gainesville, Florida 32602 • (352) 378-2461 • FAX (352) 378-2505
Laurel Ridge Professional Center • 2347 S.E. 17th Street • Ocala, Florida 34471 • (352) 732-3872 • FAX (352) 732-0542
443 East College Avenue • Tallahassee, Florida 32301 • (850) 224-7144 • FAX (850) 224-1762
2201 Cantu Court, Suite #100 • Sarasota, Florida 34232 • (941) 379-2800 • FAX (941) 379-2899

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The Honorable Board of County Commissioners
Nassau County, Florida

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR STATE FINANCIAL ASSISTANCE PROJECTS AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE FLORIDA DEPARTMENT OF FINANCIAL SERVICES,
STATE PROJECTS COMPLIANCE SUPPLEMENT
(Concluded)**

Internal Control Over Compliance (Concluded)

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a state project on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a state project such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a state project that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a state project will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Pursuant to Chapter 119, Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards accepted in the United States of America requires us to indicate that this report is intended solely for the information and use of the County's management, Board of County Commissioners, Constitutional Officers, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Purvis, Gray and Company, LLP

March 22, 2010
Gainesville, Florida

**NASSAU COUNTY, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
STATE FINANCIAL ASSISTANCE PROJECTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

Summary of Auditors' Results

1. The independent auditors' report expresses an unqualified opinion on the financial statements of Nassau County, Florida (the County).
2. *Significant deficiencies* identified during the audit of the financial statements are reported in the report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards* for the Nassau County Sheriff and the Property Appraiser, some of which are reported as material weaknesses.
3. Instances of noncompliance identified during the audit of the financial statements are reported in the report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards* for the Board of County Commissioners.
4. The audit disclosed no significant deficiencies and/or material weaknesses in internal control over major state financial assistance projects that are required to be reported in the schedule of findings and questioned costs.
5. The report on compliance for the major state financial assistance projects expresses an unqualified opinion.
6. The audit disclosed no findings that are required to be reported in accordance with Chapter 10.550, *Rules of the Auditor General*.
7. The programs tested as major federal awards programs and state financial assistance projects included:

State Projects	<u>CSFA No.</u>
Small County Courthouse Facilities	22.004
Local Emergency Management Mitigation Incentives	52.010
State Housing Initiatives Partnership Program (SHIP)	52.901
Small County Road Assistance Program	55.016
Wireless 911 Emergency Telephone System	72.001

8. The threshold for distinguishing Type A and B programs was \$300,000 for state projects.
9. Low-risk auditee as that term is defined in OMB Circular A-133 does not apply.

Financial Statement Findings

Financial statement findings are reported in the individual reports of the Board and the Constitutional Officers.

Findings and Questioned Costs for Major State Assistance Projects

The audit disclosed no findings for major state assistance projects to be reported under Chapter 10.550, *Rules of the Auditor General*.

Status of Prior Audit Findings

There were no prior year findings require to be reported in accordance with Chapter 10.550, *Rules of the Auditor General*.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF SPECIAL PURPOSE FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Honorable Board of County Commissioners
Nassau County, Florida

We have audited the special purpose financial statements of the Nassau County Board of County Commissioners, Nassau County, Florida (the Board), as of and for the year ended September 30, 2009, and have issued our report thereon dated March 22, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's special purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described below:

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P.O. Box 23999 • 222 N.E. 1st Street • Gainesville, Florida 32602 • (352) 378-2461 • FAX (352) 378-2505
Laurel Ridge Professional Center • 2347 S.E. 17th Street • Ocala, Florida 34471 • (352) 732-3872 • FAX (352) 732-0542
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The Honorable Board of County Commissioners
Nassau County, Florida

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF SPECIAL PURPOSE FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(Concluded)**

Compliance and Other Matters (Concluded)

■ **Bond Covenant Noncompliance**

Condition—The County's Water and Sewer System Revenue Bonds, Series 2003 include a covenant which requires the Board to establish and collect fees from users of the water and sewer system (the System) and impact fees sufficient to pay the costs of operation and maintenance of the System plus 125% of the bond service requirements for that year. Due in large part to a decline in impact fee revenues, the Board did not meet this requirement and, therefore, is not in compliance with the rate covenant at year-end.

Effect—The Board is required to establish sufficient System user rates and impact fees to meet the covenant. Further, noncompliance with the covenant may have an adverse affect on the County's bond ratings.

Recommendation—We recommend the Board consider increasing water and/or sewer user rates and/or reduce System operating costs sufficient to meet the covenant.

This report is intended solely for the information and use of the Board of County Commissioners, management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Purvis, Gray and Company, LLP

March 22, 2010
Gainesville, Florida

MANAGEMENT LETTER

The Honorable Board of County Commissioners
Nassau County, Florida

We have audited the special purpose financial statements of the Nassau County Board of County Commissioners, Nassau County, Florida (the Board), as of and for the fiscal year ended September 30, 2009, and have issued our report thereon dated March 22, 2010.

We conducted our audit in accordance with auditing standards generally accepted 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. We have issued our report on internal control over financial reporting and on compliance and other matters. Disclosures in that report, which is dated March 22, 2010, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, *Rules of the Auditor General*, which govern the conduct of local governmental entity audits performed in the State of Florida. This letter is required to include the following information, which is not included in the aforementioned auditors' reports or schedules:

- Section 10.554(1)(i)1., *Rules of the Auditor General*, requires that we determine whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report.
- Section 10.554(1)(i)2., *Rules of the Auditor General*, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the County complied with Section 218.415, Florida Statutes.
- Section 10.554(1)(i)3, *Rules of the Auditor General*, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we offer the following recommendations:

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MANAGEMENT LETTER
(Continued)

- **Interest Paid on Customer Deposits**

Condition—the County currently pays interest on customer deposits with Nassau Amelia Utilities in accordance with Ordinance 2003-45 which specifies that the rate of interest earned on these deposits is 6% per annum on residential deposits and 7% per annum on deposits of qualifying nonresidential customers when the NAU elects not to refund such a deposit after 23 months.

Effect—The County is currently paying interest on customer deposits which significantly exceeds market rates and, as a result, is incurring a loss.

Recommendation—We recommend the County consider amending the rate interest paid on customer deposits to a lower fixed rate or a variable market index rate.

- **Funding of Rate Stabilization Fund**

Condition—The County's Water and Sewer Utility Revenue Bonds, Series 2003 provide for the creation and optional funding of a rate stabilization fund which can be used, if funded in advance, to meet certain debt service coverage covenants applicable to the Bonds if operating results alone were insufficient to meet the covenants.

Effect—A funded rate stabilization fund can potentially avoid a bond covenant default if there is a sudden change in the water and sewer system revenues or costs. During fiscal year 2009 the County did not meet one of the debt service coverage covenants.

Recommendation—We recommend the County consider funding a rate stabilization fund to assist in bond covenant compliance.

- Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that we address violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the determination of financial statement amounts that is less than material but more than inconsequential. Our audit disclosed no matters required to be disclosed by Section 10.554(1)(i)4., *Rules of the Auditor General*, not already disclosed elsewhere.
- Section 10.554(1)(i)5., *Rules of the Auditor General* provides that the auditor may, based upon professional judgment, report the following matters that are inconsequential to the determination of financial statement amounts, considering both quantitative and qualitative factors: (1) violations of provisions of contraction or grant agreements, fraud, illegal acts, or abuse; and (2) control deficiencies that are not significant deficiencies. Our audit disclosed no matters required to be disclosed by the *Rules of the Auditor General* [Section 10.554(1)(i)5.] not already disclosed elsewhere.
- Section 10.554(1)(i)6., *Rules of the Auditor General* requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the special purpose financial statements. The Board was established by the Constitution of the State of Florida, Article VIII, Section 1(d). The Board includes the following component unit:
 - The Nassau County Housing Finance Authority, a dependant special district, was established pursuant to Part IV, Chapter 159, Florida Statutes, following the adoption of Ordinance 79-4 by the Board.

The Honorable Board of County Commissioners
Nassau County, Florida

MANAGEMENT LETTER
(Concluded)

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards accepted in the United States of America requires us to indicate that this letter is intended solely for the information and use of management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

We wish to take this opportunity to thank you and your staff for the cooperation and courtesies extended to us during the course of our audit. Please let us know if you have any questions or comments concerning this letter, our accompanying reports, or other matters.

Purvis, Gray and Company, LLP

March 22, 2010
Gainesville, Florida



NASSAU COUNTY
BOARD OF COUNTY COMMISSIONERS
96160 Nassau Place
Yulee, Florida 32097

Daniel B. Leeper
Michael H. Boyle
Stacy T. Johnson
Barry V. Holloway
Walter J. Boatright

Dist. No. 1 Fernandina Beach
Dist. No. 2 Amelia Island
Dist. No. 3 Yulee
Dist. No. 4 Hilliard/Bryceville
Dist. No. 5 Callahan

JOHN A. CRAWFORD
Ex-Officio Clerk

DAVID A. HALLMAN
County Attorney

EDWARD L. SEALOVER
County Coordinator

March 22, 2010

Nassau County Board of County Commissioners
96135 Nassau Place, Suite 1
Yulee, FL 32097

Dear Commissioners:

The audit report of the Nassau County Board of County Commissioners along with the Combined Financial Report for the year ended September 30, 2009, was conducted 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 audit report presents fairly, in all material respects, the financial position of each major fund and the aggregate remaining fund information of the Board of County Commissioners at September 30, 2009, and the respective changes in financial position, where appropriate, thereof and the respective budgetary comparison for each major fund for the year then ended in conformity with accounting principles generally accepted in the United States of America based on the Independent Auditors' Report.

The independent auditors identified two recommendations to improve financial management. The responses to the recommendations are provided below.

- 1.) Condition - Interest Paid on Customer Deposits – the County currently pays interest on customer deposits with Nassau Amelia Utilities in accordance with Ordinance 2003-45 which specifies that the rate of interest earned on these deposits is 6% per annum on residential deposits and 7% per annum on deposits of qualifying customers when the NAU elects not to refund such a deposit after 23 months.

Response – On March 8, 2010, the Board adopted Ordinance 2010-03 eliminating the payment of interest on deposits effective April 1, 2010.

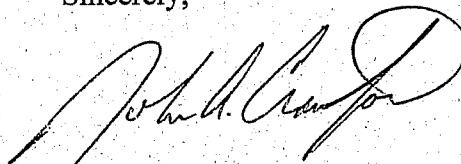
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- 2.) Condition – Funding of Rate Stabilization Fund – the County's Water and Sewer Utility Revenue Bonds, Series 2003 provide for the creation and optional funding of a rate stabilization fund which can be used, if funded in advance, to meet certain debt service coverage covenants applicable to the Bonds if operating results alone were insufficient to meet the covenants.

Response – On March 8, 2010, the Board adopted Ordinance 2010-03 adjusting water and sewer rates effective April 1, 2010. Based upon the forecast of net revenues utilizing the adjusted rates, both debt service coverage ratios are projected to exceed the required rates by greater than 10%. The County will continue to monitor the financial condition of Nassau Amelia Utilities making adjustments to operating processes and costs as needed to insure sustainability of the system and bond covenant compliance.

Sincerely,



John A. Crawford
Ex-Officio Clerk



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BOARD OF COUNTY COMMISSIONERS
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March 22, 2010

Nassau County Board of County Commissioners
96135 Nassau Place, Suite 1
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Dear Commissioners:

The audit report of the Nassau County Board of County Commissioners along with the Combined Financial Report for the year ended September 30, 2009, was conducted 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 audit report presents fairly, in all material respects, the financial position of each major fund and the aggregate remaining fund information of the Board of County Commissioners at September 30, 2009, and the respective changes in financial position, where appropriate, thereof and the respective budgetary comparison for each major fund for the year then ended in conformity with accounting principles generally accepted in the United States of America based on the Independent Auditors' Report.

The independent auditors disclosed no findings for the major federal awards programs or state financial assistance projects to be reported under OMB Circular A-133 and Chapter 10.550, *Rules of the Auditor General*.

The independent auditors identified one Non-Compliance issue related to a Bond Covenant. This noncompliance is required to be reported under the *Government Auditing Standards* which is described below:

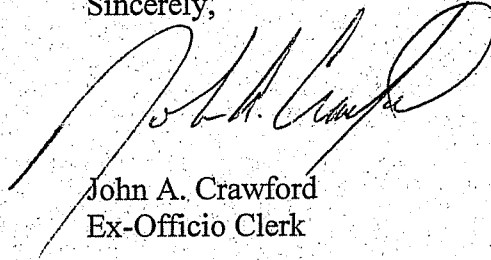
- 1) Condition – the County's Water and Sewer System Revenue Bonds, Series 2003 include a covenant which requires the Board to establish and collect fees from users of the water and sewer system (the System) and impact fees sufficient to pay the cost of operation and maintenance of the System plus 125% of the bond service requirements for the year. Due in large part to a decline in impact fee revenues, the Board did not meet this requirement and is therefore not in compliance with the rate covenant at year-end.

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Response – on March 8, 2010 the Board adopted Ordinance 2010-03 adjusting water and sewer user rates effective April 1, 2010. Based upon the forecast of net revenues utilizing the adjusted rates, both debt service coverage ratios are projected to be met. The County will continue to monitor the financial condition of Nassau Amelia Utilities making adjustments to operating processes and costs as needed to insure sustainability of the system and bond covenant compliance.

Sincerely,

A handwritten signature in black ink, appearing to read "John A. Crawford", is written over the typed name and title.

John A. Crawford
Ex-Officio Clerk