



NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Basic Financial Statements

September 30, 2017

(With Independent Auditors' Report Thereon)

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

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ON THE COVER

The cover photograph was submitted by
Jennifer Newton, Staff Accountant, Accounting Division
in the District Finance Department.

INDEPENDENT AUDITORS' REPORT

Board of Supervisors
North Sumter Utility Dependent District
The Villages, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of North Sumter Utility Dependent District (the District) as of and for the year ended September 30, 2017, 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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 basic financial statements are free from material misstatement.

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.

Certified Public Accountants

P.O. Box 141270 • 222 N.E. 1st Street • Gainesville, Florida 32614-1270 • (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

5001 Lakewood Ranch Blvd. N., Suite 101 • Sarasota, Florida 34240 • (941) 907-0350 • FAX (941) 907-0309

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Board of Supervisors
North Sumter Utility Dependent District
The Villages, Florida

INDEPENDENT AUDITORS' REPORT
(Concluded)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the District, as of September 30, 2017, and the respective changes in financial position, and where applicable, cash flows thereof, for the 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 the management's discussion and analysis, as listed in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* we have also issued our report dated January 31, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



January 31, 2018
Ocala, Florida

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT
Management's Discussion and Analysis
September 30, 2017

The North Sumter County Utility Dependent District (the District) management's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the District's financial activities and (c) identify changes in the District's financial position and its ability to address the next and subsequent year challenges.

Financial Highlights

- In Fiscal Year 2016-2017, North Sumter County Utility Dependent District showed an increase in net position of \$2,753,624. While operating at a positive cash position, the District experienced significant non-cash expenses of \$4,893,909 for depreciation and \$2,938,471 for amortization. The depreciation expense shows the using up of the capital assets over time that must be replaced or renovated in future years.
- The total net position as of September 30, 2017, is (\$703,327). The negative total net position is due to the net investment in capital assets of (\$31,279,876), which will become a positive amount over time with the continued payment of the related debt. Of the total net position, \$26,217,436 of unrestricted net position exists that can be used at the discretion of the Board of Supervisors.
- Cash and cash equivalents on hand at the end of the year totaled \$36,703,550, with net cash provided by the operating activities of \$18,616,952 during the Fiscal Year. In addition, the District has \$11,242,368 in liquid, short-term investments. This provides \$47,945,918 in readily available deposit and investment accounts, a growth of \$459,706 from the \$47,486,212 balance last year. Cash on hand of \$2,000,000 was utilized during the year to complete the purchase the Fruitland Park Sanitation agreement.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of two components: fund financial statements and notes to basic financial statements.

The Fund Financial Statements, which report by individual fund, begin on page 8. The **Statement of Net Position, Proprietary Funds** presents information on all of the District's assets and deferred outflows compared to liabilities and deferred inflows, with the difference between the two reported as *net position*. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the North Sumter County Utility Dependent District is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Fund Net Position, Proprietary Funds presents information showing how the government's net position changed during the most recent Fiscal Year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Statement of Cash Flows presents the impact on the District of the cash flows from operations, capital and financing activities and investing activities.

Government-wide financial statements are not required of the District since it is a special purpose government with two proprietary funds. The District has no governmental activities. The business-type activities of the District include water and sewer and reclaimed water utilities and trash collection services

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT
Management's Discussion and Analysis
September 30, 2017

servicing a portion of The Villages. The District has no component units, as all functions are performed by the primary government.

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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District established the Utility Enterprise Fund in 2010, prior to the utilities purchase and the Sumter Sanitation Fund in 2012, prior to purchasing the trash collection rights. The two enterprise funds are the two operating proprietary funds for the District. Governmental Accounting Standards Board (GASB) Statement No. 34 provides the authoritative guidance on the governmental financial reporting model.

Proprietary funds. The District maintains two proprietary funds. The District operates the Utility Enterprise Fund to provide water, wastewater and reclaimed water services to customers in a geographical area bounded by County Road 466 on the north, County Road 466A on the south, the Lake/Sumter County line on the east and the western boundary of The Villages. The District Operates the Sumter Sanitation Fund in the Marion and Sumter County and the City of Fruitland Park portions of The Villages to provide trash, yard waste and recycling collection services to residents and businesses. The preceding funds meet the GASB 34 criteria to be considered major funds. The basic proprietary fund financial statements can be found on pages 8-10 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found beginning on page 11 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities exceeded assets by \$703,327 as of September 30, 2017, representing an increase of \$2,753,624 from the net position of (\$3,456,951) as of September 30, 2016. The increase in net position for September 30, 2017, is due to an increase in charges for services of \$912,345 with only a modest increase of \$60,462 in expenses.

The District's net position is categorized as follows, as of September 30, 2017:

Net Investment in Capital Assets. This portion of the District's net position reflects its investment in capital assets (e.g., land, buildings, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its residents; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves will not be used to liquidate these liabilities.

Restricted for debt service. An additional portion of the District's net position represents resources that are subject to external restrictions on how they may be used. The District's restricted net position is for purposes of meeting its debt service obligations.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT
Management's Discussion and Analysis
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Restricted for renewal and replacement. As required in the Series 2010 Bond Indenture, a minimum of 2% of the prior year's revenue must be set aside in the Utility Enterprise Fund to ensure capital renewals and replacements are adequately funded.

Unrestricted net position. The remaining balance of the District's net position may be used to meet the District's ongoing obligations to residents and creditors.

Table 1, below, reflects the summary statement of net position for the current and prior years.

Table 1

	Business-type Activities	
	September 30,	
	2017	2016
Assets:		
Current assets	\$ 30,660,879	32,454,872
Restricted assets	21,423,315	20,802,476
Capital assets (net of accumulated depreciation)	96,517,605	99,666,693
Bond insurance costs (net of accumulated amortization)	1,025,422	1,064,610
Intangible assets (net of accumulated amortization)	75,821,690	76,720,973
Total Assets	<u>225,448,911</u>	<u>230,709,624</u>
Liabilities:		
Current liabilities	11,610,402	12,634,005
Long term debt:		
Due in one year	2,076,213	3,255,000
Due in more than one year	212,465,623	218,277,570
Total Liabilities	<u>226,152,238</u>	<u>234,166,575</u>
Net position:		
Net investment in capital assets	(31,279,876)	(30,493,914)
Restricted for debt service	3,942,779	3,282,036
Restricted for renewal and replacement	416,334	416,334
Unrestricted	26,217,436	23,338,593
Total net position	<u>\$ (703,327)</u>	<u>(3,456,951)</u>

Business-type Activities

Business-type activities increased the District's net position by \$2,753,624 during the year ended September 30, 2017.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT
Management's Discussion and Analysis
September 30, 2017

Table 2, below, reflects the summary statement of activities for the current and prior years.

Table 2

	Business-type Activities	
	September 30,	
	2017	2016
Business activity revenues		
Charges for physical environment services	\$ 34,447,590	33,845,711
Investment income	640,857	336,816
Rents and royalties	211,153	200,049
Sale of surplus materials and scrap	19,189	23,868
Total revenues	35,318,789	34,406,444
Business activity expenses		
Physical environment	12,950,012	12,812,064
Interest on long-term debt	11,782,773	11,946,123
Depreciation (unallocated)	4,893,909	4,808,045
Amortization expense	2,938,471	2,938,471
Total expenses	32,565,165	32,504,703
Changes in net position	\$ 2,753,624	1,901,741

Capital Assets

The District's capital assets as of September 30, 2017, and September 30, 2016, amounted to \$96,517,605 and \$99,666,693, respectively. This is net of accumulated depreciation and includes buildings and structures, improvements other than buildings, and machinery and equipment. Almost all of the capital assets represent the book value of the capital assets as recorded in the books of the two acquired utilities as of the date of acquisition and assets completed subsequent to the transfer and paid out of the bond construction fund.

Additional information regarding the District's capital assets can be found in Note 3 to the Notes to Basic Financial Statements.

Long-term Debt

As of September 30, 2017, and September 30, 2016, the District had long-term debt outstanding of \$214,541,836 and \$221,532,570, respectively.

Additional information regarding the District's long-term debt can be found in Note 5 to the Notes to Basic Financial Statements.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT
Management's Discussion and Analysis
September 30, 2017

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate in Sumter County where the District is located was 4.7 percent in September 2017 which is a decrease from a rate of 6.9 percent a year ago. The State's average unemployment rate is 3.7 percent and is below the national average rate of 4.2 percent.
- Inflationary trends in the area are comparable to national indices. The national Consumer Price Index (CPI) annual change for all urban consumers changed from 1.46 percent in September 2016 to 2.23 percent in September 2017.

These factors were considered in preparing the District's budget for the 2017-2018 Fiscal Year. The revenue budget for the North Sumter Utility Fund is projected to increase by \$1,918,447, primarily due to the annual rate increase, offset by other minor increases and decreases. The expenditure budget for the North Sumter Utility Fund is projected to increase by \$1,627,872, mainly due to a \$1,000,000 increase in the budgeted transfer to general renewal and replacement, offset by other minor increases and decreases.

The revenue budget for Sumter Sanitation Fund is projected to increase by \$456,316, primarily in the user fees. This is due to growth in the number of accounts serviced as The Villages continues construction and acquires the rights to serve houses in District No. 11, located in the city limits of Fruitland Park in Lake County. The expenditures are projected to increase by \$680,194 over the prior year final budget. This is primarily due to the increase in contractual services of \$442,662, offset by other minor increases and decreases.

Requests for Information

The District's financial statements are designed to present users (residents, taxpayers, customers, investors and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. If you have any questions about the report or need additional financial information, please contact the North Sumter County Utility Dependent District, Finance Department, at 984 Old Mill Run, The Villages, FL 32162; Telephone (352) 753-0421.

North Sumter County Utility Dependent District

Statement of Net Position

Proprietary Funds

September 30, 2017

Assets	<u>North Sumter Utility</u>	<u>Sumter Sanitation</u>	<u>NSCUDD Total</u>
Current assets:			
Cash and cash equivalents	\$ 12,940,291	2,339,944	15,280,235
Restricted cash and cash equivalents	7,435,706	2,366,579	9,802,285
Investments	10,418,532	823,836	11,242,368
Accounts receivable, net	2,557,191	950,066	3,507,257
Due from developer	-	500,242	500,242
Accrued interest receivable and prepaids	21,378	6,451	27,829
Inventory	-	102,948	102,948
Total current assets	<u>33,373,098</u>	<u>7,090,066</u>	<u>40,463,164</u>
Non-current assets:			
Restricted cash and cash equivalents	7,908,164	3,712,866	11,621,030
Capital assets:			
Non depreciable assets	559,954	-	559,954
Depreciable assets (net of accumulated depreciation)	95,957,651	-	95,957,651
Bond insurance costs (net of accumulated amortization)	1,025,422	-	1,025,422
Intangible assets (net of accumulated amortization)	<u>30,045,663</u>	<u>45,776,027</u>	<u>75,821,690</u>
Total non-current assets	<u>135,496,854</u>	<u>49,488,893</u>	<u>184,985,747</u>
Total assets	<u>168,869,952</u>	<u>56,578,959</u>	<u>225,448,911</u>
Liabilities			
Current liabilities:			
Accounts payable	287,764	94,195	381,959
Accrued expenses and other current liabilities	14,044	542,714	556,758
Accrued interest payable	4,547,756	1,311,501	5,859,257
Due to other governments	417,588	321	417,909
Utility guarantee deposit	-	70,040	70,040
Unearned revenue	-	524,479	524,479
Current installment - due to developer	-	600,000	600,000
Current installments of revenue bonds payable	<u>2,830,000</u>	<u>970,000</u>	<u>3,800,000</u>
Total current liabilities	<u>8,097,152</u>	<u>4,113,250</u>	<u>12,210,402</u>
Non-current liabilities:			
Due to developer	-	1,476,213	1,476,213
Revenue bonds payable	<u>160,273,770</u>	<u>52,191,853</u>	<u>212,465,623</u>
Total non-current liabilities	<u>160,273,770</u>	<u>53,668,066</u>	<u>213,941,836</u>
Total liabilities	<u>168,370,922</u>	<u>57,781,316</u>	<u>226,152,238</u>
Net position			
Net investment in capital assets	(27,606,916)	(3,672,960)	(31,279,876)
Restricted for:			
Debt service	2,957,741	985,038	3,942,779
Renewal and replacement	416,334	-	416,334
Unrestricted	<u>24,731,871</u>	<u>1,485,565</u>	<u>26,217,436</u>
Total net position	<u>\$ 499,030</u>	<u>(1,202,357)</u>	<u>(703,327)</u>

See accompanying notes to basic financial statements.

North Sumter County Utility Dependent District

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

Year Ended September 30, 2017

	North Sumter Utility	Sumter Sanitation	NSCUDD Total
Operating revenues:			
Charges for services:			
Water revenue	\$ 4,352,779	-	4,352,779
Sewer revenue	7,196,498	-	7,196,498
Irrigation revenue	10,457,007	-	10,457,007
Solid waste revenue	-	12,065,099	12,065,099
Miscellaneous revenue	116,608	176,546	293,154
Rents and royalties	211,153	-	211,153
Other Fees	68,452	14,601	83,053
Total operating revenues	22,402,497	12,256,246	34,658,743
Operating expenses:			
Contractual operation and maintenance services	3,218,247	6,348,524	9,566,771
General and administrative services	196,537	1,187,761	1,384,298
Engineering services	267,017	-	267,017
Utility services	1,128,449	-	1,128,449
Repair and maintenance services	228,990	13,077	242,067
Insurance, casualty and liability	209,156	-	209,156
Meter and operating supplies	151,394	860	152,254
Depreciation expense	4,893,909	-	4,893,909
Amortization expense	1,187,430	1,751,041	2,938,471
Total operating expenses	11,481,129	9,301,263	20,782,392
Operating income	10,921,368	2,954,983	13,876,351
Non-operating revenue (expenses):			
Investment income	544,079	96,778	640,857
Interest expense	(9,187,847)	(2,594,926)	(11,782,773)
Sale of surplus materials and scrap	18,795	394	19,189
Total non-operating revenue (expenses)	(8,624,973)	(2,497,754)	(11,122,727)
Change in net position	2,296,395	457,229	2,753,624
Total net position, beginning	(1,797,365)	(1,659,586)	(3,456,951)
Total net position, ending	\$ 499,030	(1,202,357)	(703,327)

See accompanying notes to basic financial statements.

North Sumter County Utility Dependent District
Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2017

	<u>North Sumter Utility</u>	<u>Sumter Sanitation</u>	<u>NSCUDD Total</u>
Cash flows from operating activities:			
Receipts from customers	\$ 24,422,853	11,913,038	36,335,891
Payments to suppliers	(9,514,963)	(8,203,976)	(17,718,939)
Net cash provided (used) by operating activities	<u>14,907,890</u>	<u>3,709,062</u>	<u>18,616,952</u>
Cash flows from capital and related financing activities:			
Principal paid on debt	(2,460,000)	(795,000)	(3,255,000)
Acquisition of intangible assets	-	(2,000,000)	(2,000,000)
Acquisition of capital assets	(1,753,183)	-	(1,753,183)
Interest paid on debt	(9,157,307)	(2,642,875)	(11,800,182)
Net cash (used in) provided by capital and related financing activities	<u>(13,370,490)</u>	<u>(5,437,875)</u>	<u>(18,808,365)</u>
Cash flows from investing activities:			
Proceeds from sale of surplus material and scrap	27,157	394	27,551
Purchase of investments	(1,234,438)	(5,576)	(1,240,014)
Interest on investments	531,723	91,845	623,568
Net cash provided (used) by investing activities	<u>(675,558)</u>	<u>86,663</u>	<u>(588,895)</u>
Net increase (decrease) in cash and cash equivalents	861,842	(1,642,150)	(780,308)
Cash and cash equivalents, beginning of year	<u>27,422,319</u>	<u>10,061,539</u>	<u>37,483,858</u>
Cash and cash equivalents, end of year	<u>28,284,161</u>	<u>8,419,389</u>	<u>36,703,550</u>
Reconciliation of cash and cash equivalents per Statement of cash flows to the statement of net assets:			
Cash per statement of net position:			
Unrestricted cash and cash equivalents	12,940,291	2,339,944	15,280,235
Restricted cash and cash equivalents - current	7,435,706	2,366,579	9,802,285
Restricted cash and cash equivalents - non-current	7,908,164	3,712,866	11,621,030
Cash and cash equivalents	<u>28,284,161</u>	<u>8,419,389</u>	<u>36,703,550</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	10,921,368	2,954,983	13,876,351
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	4,893,909	-	4,893,909
Amortization	1,187,430	1,751,041	2,938,471
Changes in assets and liabilities:			
(Increase) Decrease in:			
Accounts receivable	2,020,356	(370,207)	1,650,149
Increase (Decrease) in:			
Accounts payable	160,808	(1,190,792)	(1,029,984)
Due to other governments	91,370	(2,937)	88,433
Due to developer	(4,370,034)		(4,370,034)
Unearned revenue	-	26,999	26,999
Accrued expenses and other current liabilities	2,683	539,276	541,959
Utility Guarantee Deposit	-	699	699
Net cash provided by operating activities	<u>\$ 14,907,890</u>	<u>3,709,062</u>	<u>18,616,952</u>

See accompanying notes to basic financial statements.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2017

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The North Sumter County Utility Dependent District (the District) was established in July 2010 to manage and finance basic potable water, wastewater treatment and reclaimed water services for approximately 7,721 acres of land located in unincorporated Sumter County in The Villages, Florida. The District was created on July 13, 2010, by Sumter County, Florida, in Ordinance No. 2010-10, pursuant to the provisions of Chapter 189 of the *Florida Statutes*, and operates within the criteria established by Chapter 189. As a result of purchase of the rights to collect solid waste in the entire Sumter County portion of The Villages, the District's governing Board was increased from five members to seven members who were initially appointed by the Board of County Commissioners for terms from two to four years. This change was enacted in Ordinance No. 2012-17 on December 11, 2012. Following the expiration of the initial terms, all Board members will be elected by qualified electors (registered voters) as follows. Seat Number 1 must be a resident of Village Community Development District No. 5 and will be elected only by qualified electors of District No. 5. In the same manner, Seat Numbers 2, 3, 4, 5 and 6 must be a resident and elected by qualified electors in Village Community Development Districts 6, 7, 8, 9 and 10, respectively. Seat number 7 will be filled by an at-large election held in Districts 5, 6, 7, 8, 9 and 10 by a resident of any of the Districts 5, 6, 7, 8, 9 or 10. As of September 30, 2017, six seats (numbers 1 and 6) have been elected by qualified electors. Seat 7 was elected by qualified electors in November 2016.

The service area of the North Sumter County Utility Dependent District was expanded to include solid waste collection services for the entire Sumter County portion of The Villages. The City of Wildwood and Marion County entered into interlocal agreements with the District on November 20, 2012, authorizing the District to provide solid waste collection services in portions of their jurisdictions, including Brownwood District and District No. 4. The City of Fruitland Park entered into an interlocal agreement with the District on June 12, 2014, authorizing the District to provide solid waste collection services in the portion of their jurisdiction that lies within The Villages.

The District provides solid waste collection and disposal, water, wastewater and reclaimed water utility services to residents of a portion of the retirement community known as The Villages, located in The Villages, Florida. The Villages consists of approximately 23,686 acres spanning the borders of Lake, Sumter and Marion Counties, the City of Wildwood, the City of Fruitland Park and the Town of Lady Lake, Florida, and when fully developed is expected to include approximately 61,626 residences and 120,787 residents. The Villages of Lake-Sumter, Inc. was the developer and initial owner of the property within the District.

The North Sumter Utility Dependent District (NSCUDD) was formed by Sumter County as a special purpose government to acquire the privately owned North Sumter Utility Company, LLC and the Village Water Conservation Authority, LLC. These two companies operated the potable water and sewage systems and the non-potable irrigation system, respectively, for the portion of The Villages bounded by CR 466 on the north, CR 466A on the south, the Lake County line on the east and the boundary of The Villages on the west. On December 7, 2010, NSCUDD purchased the utilities previously owned by the two private companies. On December 27, 2012, the District's authority was expanded by the purchase of the solid waste

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2017

(1) Summary of Significant Accounting Policies (continued)

(a) Reporting Entity (continued)

collection and disposal rights from The Villages of Lake Sumter, Inc. for the Sumter and Marion County portions of The Villages.

The Sumter Landing Community Development District, through interlocal agreements with the Village Center Community Development District and NSCUDD provides certain administrative, accounting and financial management, operational and other support to NSCUDD. There are no component units that are legally separate from the District. In addition to NSCUDD, there are fifteen Community Development Districts (CDD's) in the total governmental structure of The Villages, each being a separate government entity, established pursuant to Chapter 190, Florida Statutes.

The following community development districts have been formed:

- Village Center CDD (Lake, Marion and Sumter Counties) – This CDD provides water and sewer utility services, recreation services, security services, fire protection, and paramedic services to the residents. The cost of operations is funded by amenity and utility fees that residents pay monthly. This CDD also provides for the maintenance of common areas and roadways for the commercial areas within the CDD boundaries. The cost of maintenance in the commercial areas is funded through commercial maintenance assessments.
- Sumter Landing CDD (Sumter County) – This CDD provides recreation and security services to the residents. The cost of operations is funded by amenity fees that residents pay monthly. This CDD also provides for the maintenance of common areas and roadways for the commercial areas within the CDD boundaries. The cost of maintenance in the commercial areas is funded through commercial maintenance assessments.
- Brownwood CDD (Sumter County) – Brownwood CDD (Sumter County) – This CDD was newly established in June 2012 by the City of Wildwood, Florida and is located at the southern end of The Villages. This CDD provides for the maintenance of common areas and roadways for the commercial areas within the CDD boundaries. The cost of maintenance in the commercial areas is funded through commercial maintenance assessments as the new downtown area builds out.
- Village CDD No. 1 (Sumter County) – This CDD's boundary consists of approximately 993 acres in the northeast corner of the county. The development included construction of 3,420 residential units.
- Village CDD No. 2 (Sumter County) – This CDD's boundary consists of approximately 990 acres in the northeast corner of the county. The development included construction of 3,668 residential units.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2017

(1) Summary of Significant Accounting Policies (continued)

(a) Reporting Entity (continued)

- Village CDD No. 3 (Sumter County) – This CDD’s boundary consists of approximately 894 acres in the northeast corner of the county. The development included construction of 3,762 residential units.
- Village CDD No. 4 (Marion County) – This CDD’s boundary consists of approximately 1,253 acres in the southern portion of the county. The development included construction of 5,432 residential units of which 184 remain unsold as of the end of the Fiscal Year.
- Village CDD No. 5 (Sumter County) – This CDD’s boundary consists of approximately 1,407 acres in the northeast corner of the county. The development included construction of 6,399 residential units.
- Village CDD No. 6 (Sumter County) – This CDD’s boundary consists of approximately 1,497 acres in the northeast corner of the county. Planned development included construction of 6,697 residential units of which 1 remains unsold as of the end of the Fiscal Year.
- Village CDD No. 7 (Sumter County) – This CDD’s boundary consists of approximately 976 acres in the northeast corner of the county. The development included construction of 4,765 residential units.
- Village CDD No. 8 (Sumter County) – This CDD’s boundary consists of approximately 1,098 acres in the northeast corner of the county. Planned development includes construction of 5,193 residential units of which 70 remain unsold and are being used as lifestyle preview homes by the Developer.
- Village CDD No. 9 (Sumter County) – This CDD’s boundary consists of approximately 1,286 acres in the northeast corner of the county. Planned development includes construction of 5,409 residential units of which 1 remains unsold as of as of the end of the Fiscal Year.
- Village CDD No. 10 (Sumter County) – This CDD’s boundary consists of approximately 1,589 acres in the northeast corner of the county. Planned development includes construction of 6,639 residential units of which 367 remain unsold as of the end of the Fiscal Year.
- Village CDD No. 11 (Lake County) – This CDD’s boundary consists of approximately 693 acres within the city limits of Fruitland Park in the western portion of Lake County. Planned development includes construction of 2,055 residential units of which 289 remain unsold as of the end of the Fiscal Year.
- Village CDD No. 12 (Sumter County) – This CDD’s boundary consists of approximately 699 acres within the city limits of the City of Wildwood in the in the northeast corner of the county. Planned development includes construction of 2,503 residential units of which 2,297 remain unsold as of the end of the Fiscal Year.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2017

(1) Summary of Significant Accounting Policies (continued)

(b) *Basic Financial Statements*

The financial statements of the District have been prepared in conformity with U.S. Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

Fund Financial Statements

The basic financial statements include fund financial statements. The financial reporting model focus is on the District as a whole, with only two proprietary funds. The statement of net position reports the proprietary activities of the District (a) on a government-wide basis and (b) on a full accrual basis, using the economic resources measurement focus, which incorporates long-term assets and receivables as well as long-term debt and obligations. The statement of revenues, expenses and changes in fund net position - proprietary funds, reflects the revenues and expenses of the District.

The District's major funds are presented in separate columns on the fund financial statements. The definition of a major fund is one that meets the criteria set forth in GASB Statement 34. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets is intended to reflect the portion of net position which is associated with capital assets net of accumulated depreciation less outstanding capital asset related debt.

Restricted net position is assets that have third party (statutory, bond covenant or granting agency) or enabling legislation limits on their use. The District would typically use restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use thereof to a future project or replacement equipment acquisition.

Unrestricted net position represents net position not included in *net investment in capital assets* or *restricted net position*.

(c) *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues, including utilities charges, are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The following are the District's two major enterprise funds, a category of proprietary funds:

North Sumter County Utility Dependent District Utility Enterprise Fund

The principal operating revenues of the District's North Sumter Utility fund are charges to customers for water, wastewater and non-potable irrigation water services. This fund is used to account for all costs of providing services on a continuing basis to customers located in the

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2017

(1) Summary of Significant Accounting Policies (continued)

(c) *Measurement Focus, Basis of Accounting, and Financial Statement Presentation (cont.)*

North Sumter County Utility Dependent District Utility Enterprise Fund (continued)

Village Community Development District Nos. 5, 6, 7, and 8 residential areas and the Sumter Landing Community Development District commercial areas in Sumter County.

Sumter Sanitation Fund

The principal operating revenues of the District's Sumter Sanitation Fund are the residential and commercial trash collection fees for solid waste collection services. The fund is used to account for all operating costs for providing the solid waste collection and disposal services to residential customers located in Village Community Development District Nos. 1-11 and the commercial customers of both Sumter Landing and Brownwood Community Development Districts.

There are no non-major funds within the District.

The District uses enterprise funds, a type of proprietary funds, to account for the operations and maintenance of the water, sewer and reclaimed water utility systems and solid waste collection and disposal services that are financed and operated in a manner similar to private business enterprises, where the costs of providing services on a continuing basis are financed through user charges.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the District enterprise funds are charges to customers for services. Operating expenses for enterprise funds include the cost of services, administrative expenses, depreciation of capital assets, and amortization of intangible assets. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

(d) *Budgetary Data*

Legal authority and control are established in accordance with Chapter 189 of Florida Statutes. Annual budgets are adopted and approved by the Board Members. Annual budgets are then approved by the Board of County Commissioners. Annual budgets, as well as subsequent amendments, are adopted for all funds on a basis consistent with GAAP. All budget amounts presented in the statements reflect the original budget and the amended budget if so amended.

(e) *Assets, Liabilities, and Net Position*

1. Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, cash with fiscal agent, and short-term investments with original maturities of three months or less from the date of acquisition. The District also holds assets that are defined as investments. The District's investments are recorded at fair value unless the investment qualifies as an

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2017

(1) Summary of Significant Accounting Policies (continued)

(e) Assets, Liabilities, and Net Position (continued)

1. Deposits and Investments (continued)

external investment pool and follows the guidance in GASB Statement No. 79, which allows the investment to be recorded at amortized cost.

2. Capital Assets

Capital assets are reported in the proprietary fund financial statements. As defined by the District, capital assets are assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Depreciation of capital assets is computed using the straight-line method. Estimated useful lives of the assets are as follows:

Buildings and structures	15-40 years
Improvements other than buildings	10-40 years
Machinery and equipment	5-10 years

3. Intangible Assets

Intangible assets represent the discounted value of future utilities service fees and sanitation collection fees to amortize the difference between the recorded value of the capital assets and the purchase price of the two utilities and sanitation system acquired, and are capitalized at cost at the date of acquisition. Intangible assets are amortized on a straight-line basis over an estimated useful life of 40 years for the utility intangible assets and 30 years for the solid waste collection rights intangible assets.

4. Compensated Absences

The District contracts out all services and at the current time has no paid employees or compensated absence balances.

(f) Bond Discounts, Bond Premiums and Issuance Costs

In the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts and insurance are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

(g) Use of Estimates

The preparation of financial statements requires management of the District to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2017

(1) Summary of Significant Accounting Policies (continued)

(g) Use of Estimates (continued)

reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

(h) Restricted Assets – Proprietary Funds

Certain proceeds of revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants. Restricted assets in the form of cash and cash equivalents that will be used to pay current liabilities are classified as current assets in the accompanying statement of net position.

The resolutions authorizing the utility revenue bonds require that the District establish sinking fund and reserve accounts in amounts that equal the Reserve Account Requirements, which are defined in the Bond Trust Indentures. In addition, the utility bond resolution requires that a renewal and replacement reserve be established. The renewal and replacement reserve deposits are maintained as restricted assets until such time as needed to fund those necessary water and sewer system renewals and replacements. The purchase and sale agreement provides that all utility system development charges remain the property of the seller. These funds are therefore collected directly by the seller.

(i) Accounts Receivable

Accounts receivable in the North Sumter Utility and Sumter Sanitation proprietary funds consist of amounts due for charges for water, sewer and non-potable irrigation water, and amounts owed by sanitation customers for services rendered. For uncollectible accounts receivable, the allowance method is used.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT
Notes to Basic Financial Statements
September 30, 2017

(2) Deposits and Investments

Short-term Portfolio

As of September 30, 2017, the District had the following deposits and investments:

<u>Deposits and Investment Types</u>	<u>Fair Value at September 30, 2017</u>	<u>Weighted Average Maturity (Days)</u>	<u>Credit Rating</u>
Demand Deposits, CFB	\$ 1,301,020	1.0	n/a
Florida Education Investment Trust Fund, FEITF	6,021,757	51.0	AAAm
State Board of Administration, Florida Prime™	8,766	51.9	AAAm
U.S. Bank - State Board of Administration, Florida Prime™	21,423,315	51.9	AAAm
Florida Cooperative Liquid Assets Securities System, FLCLASS	7,948,692	56.0	AAAm
Florida Local Government Investment Trust, FLGIT	4,693,650	671.6	AAAf/S1
1-3 Year High Quality Bond Fund, FMIvT	3,795,770	547.5	AAAf/S2
Total Fair Value	\$ 45,192,970		
Portfolio Weighted Average Maturity (WAM)		157.0	

Interest Rate Risk. Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. GASB 40 requires that interest rate risk be disclosed using one of the five approved methods. The five methods are: segmented time distribution, specific identification, Weighted Average Maturity (WAM), duration, and simulation model. The District has used the WAM method in the above chart. In accordance with the District's investment policy, the government manages its exposure to decline in fair values by limiting the WAM of its investment portfolio to less than three years. The WAM on September 30, 2017, was 157.0 days.

Credit Risk. GASB 40 requires disclosure of credit quality ratings for investments in debt securities as well as investments in external investment pools, money market funds, and other pooled investments of fixed income securities. Investments may be aggregated by ratings categories within the disclosure. Ratings are set by nationally recognized statistical rating organizations (Fitch, Moody's, and Standard and Poor's (S&P)). Fitch provides the ratings for Florida Municipal Investment Trust (FMIvT), while S&P provides the ratings for the Florida Education Investment Trust Fund (FEITF), Florida Local Government Investment Trust (FLGIT), Florida Cooperative Liquid Assets Securities System (FLCLASS), and the State Board of Administration, Florida Prime™.

Operating cash is maintained with Citizens First Bank (CFB), a Qualified Public Depository, pursuant to Chapter 280, Florida Statutes. Interest earned on the deposits totaled \$7,191 during the Fiscal Year.

The District's investments consist of funds placed with three entities:

- The State Board of Administration (SBA) for participation in the Local Government Investment Pool (Florida Prime™) created by Section 218.415, Florida Statutes. This investment pool operates under investment guidelines established by Section 215.47,

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2017

(2) Deposits and Investments (continued)

Short-term Portfolio (continued)

Credit Risk (continued)

Florida Statutes. The District's investments in Florida Prime™, an external investment pool, are reported at amortized cost. During September of 2016, the trust balances related to restricted debt service accounts, which are maintained with U.S. Bank, were transferred from Federated and Fidelity to the Local Government Investment Pool (Florida Prime™). Combined earnings during the year from Florida Prime™ were \$174,251.

- During September of 2016, the Board approved the transfer of funds from Florida Prime™ to Florida Cooperative Liquid Assets Securities System (FLCLASS). FLCLASS is an independent local government investment pool and is an authorized investment consistent with Section 218.415(16)(a), Florida Statutes, and the District's short-term investment policy. The District's investments in FLCLASS are reported at amortized cost. The District recognized \$84,211 in earnings from FLCLASS during the Fiscal Year 2016-2017.
- During September of 2016, the Board also approved the transfer of funds from Florida Prime™ to Florida Education Investment Trust Fund (FEITF). FEITF is a common law trust and is an authorized investment consistent with Section 218.415(16)(a), Florida Statutes, and the District's short-term investment policy. The District's investments in FEITF are reported at amortized cost. The District recognized \$69,170 in earnings from FEITF during the Fiscal Year 2016-2017.

The District's short-term investments consist of funds placed with the following entities:

- The District also has investments consisting of funds placed with the Florida League of Cities, Inc. for participation in the Florida Municipal Investment Trust (FMIVT) investment pool. The pool is an authorized investment consistent with Section 218.415(16)(a), Florida Statutes, and the District's short-term investment policy. The District owns shares in the 1-3 Year High Quality Bond Fund pool operated by the FMIVT. GASB 31 requires all governments to mark to market the unrealized gains and losses incurred in its investments. In the year ended September 30, 2017, the FMIVT had incurred unrealized gains of \$18,785. The unrealized gains will not be realized until the sale of underlying shares in the FMIVT pool.
- The District also initiated investments in the Florida Local Government Investment Trust (FLGIT), a pool sponsored by the Florida Association of Counties and the Florida Court Clerks and Comptrollers. The pool is an authorized investment consistent with Section 218.415(16)(a), Florida Statutes, and the District's short-term investment policy. GASB 31 requires all governments to mark to market the unrealized gains and losses incurred in its investments. As of September 30, 2017, the FLGIT account had incurred unrealized gains of \$36,854. The unrealized gains will not be realized until the sale of underlying shares in the FLGIT pool.
- In total, the District recognized investment income of \$390,462 for the short-term portfolio during the Fiscal Year.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2017

(2) Deposits and Investments (continued)

Short-term Portfolio (continued)

Concentration of Credit Risk. The District's short-term investment policy requires the diversification of its investment portfolio. Investments may be diversified by:

- Limiting investments to avoid over-concentration in securities from a specific issuer or business sector;
- Limiting investments in securities with higher credit risks;
- Investment in securities with varying maturities; and
- Continuously investing a portion of the portfolio in readily available funds, such as the Florida Prime™, money market funds, or overnight repurchase agreements to ensure the appropriate liquidity is maintained to meet ongoing obligations.

Custodial Credit Risk - Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District invests its operating cash solely in Qualified Public Depositories that meet the requirements of Chapter 280, Florida Statutes. In addition to protection of up to \$250,000 for its deposits with a single bank as provided by the Federal Deposit Insurance Corporation (FDIC), the District's deposits are provided the extra level of security afforded by using a public depository that meets the requirements of Chapter 280. This includes the provision by the public depository of collateral based on the amount of public deposits maintained at the institution and the ability of the State of Florida to levy other public depositories for shortages in collateral in the event of the failure of a public depository. The Citizens First Bank is a Qualified Public Depository.

Custodial Credit Risk - Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. All investments are held in the name of the District by a custodian or a trustee for the District.

Short-Term Investment Policy. The District is authorized to invest in those financial instruments as established by the short-term investment policy of the District. This policy allows investments authorized under Section 218.415, Florida Statutes, amended to include Repurchase Agreements and prohibiting derivative-type investments. The authorized investments consist of:

- The Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes.
- Securities and Exchange Commission registered money market mutual funds with the highest credit quality rating from a nationally-recognized rating agency.
- Interest-bearing time deposits or savings accounts in qualified public depositories as defined in Section 280.02, Florida Statutes.
- Direct obligations of the United States Treasury.
- Federal agencies and instrumentalities.
- Repurchase agreements with financial institutions approved as public depositories, provided that the underlying collateral consists of obligations of the United States Government, its

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2017

(2) Deposits and Investments (continued)

Short-term Portfolio (continued)

Short-Term Investment Policy (continued)

agencies and instrumentalities. The repurchase agreement shall be collateralized equal to at least 102 percent of the value of the District's investment.

Fair Value Measurement. The District holds assets that are defined as short-term investments. The District's investments are recorded at fair value unless the investment qualifies as an external investment pool under the guidance in GASB Statement No. 79.

The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels:

- Level 1 inputs-are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date
- Level 2 inputs-are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs-are unobservable inputs for an asset or liability. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs.

The following short-term investments are recorded at fair value:

- Florida Municipal Investment Trust (FMIvT)
- Florida Local Government Investment Trust (FLGIT)

Under the fair value hierarchy, all of these investments are considered to be Level 2.

The District's holds investments in qualified external investments pools that measure all of its investment at amortized cost for financial reporting purposes. These investments are recorded at amortized cost. The following investments are recorded at amortized costs and are not subject to the fair value hierarchy:

- Florida Local Government Investment Pool (Florida Prime™)
- Florida Cooperative Liquid Assets Securities System (FLCLASS)
- Florida Education Investment Trust Fund (FEITF)

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2017

(2) Deposits and Investments (continued)

Short-term Portfolio (continued)

Fair Value Measurement (continued)

None of the pools have limitations or restrictions on participant withdrawals including items such as redemption notices, maximum transaction amounts, and the pool's authority to impose liquidity fees or redemption gates.

Long-Term Portfolio

In August of 2014, the District adopted a Long-Term Investment Policy (LTIP). Implementation of the LTIP occurred in October of 2014. Investments in fixed income and equity mutual funds, and money market funds, as authorized in the LTIP, are reported at fair value as of September 30, 2017, as follows:

<u>Long Term Investment Portfolio</u>	<u>Fair Value at September 30, 2017</u>	<u>Average Maturity (years)</u>	<u>Credit Rating</u>
Domestic Equity			
Vanguard Total Stock Market Index	\$ 1,045,405	N/A	N/A
T. Rowe Price Dividend Growth	92,057	N/A	N/A
International Equity			
Vanguard Total International Stock Index	197,074	N/A	N/A
Vanguard International Value	155,666	N/A	N/A
J. O. Hambro International Select	180,720	N/A	N/A
Oppenheimer International Small-Mid Company	98,482	N/A	N/A
Fixed Income			
Baird Core Plus	322,895	7.59	A
DoubleLine Core Fixed Income I	145,303	6.60	A
Prudential Total Return	96,999	7.88	A
Vanguard Intermediate-Term Investment Grade	322,610	5.90	A
Vanguard High Yield Corporate	88,833	4.90	BB
Cash Equivalent			
First American Government Obligation	6,904	28 Days	AAAm
Total Fair Value	\$ 2,752,948		

The District's LTIP allocations seek to have up to 60% in equities with the remainder in fixed income and/or cash and cash equivalents. The District contracts with qualified investment managers to whom authority is delegated to invest and reinvest assets in accordance with the LTIP. The District's LTIP does not place specific limits on maturities. During the current Fiscal Year, the Long-Term Investment Portfolio had an unrealized gain of \$250,395. The realization of the gain will only occur from the future sale of underlying shares in the portfolio.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2017

(2) Deposits and Investments (continued)

Long-Term Portfolio (continued)

Interest Rate Risk. Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. The District's LTIP addresses managing its exposure for changes in interest rate through maintaining diversification of its investments to minimize the impact of downturns in the market.

Credit Risk. GASB 40 requires disclosure of credit quality ratings for investments in debt securities as well as investments in external investment pools, fixed income mutual funds, money market funds, and other pooled investments of fixed income securities. The District's LTIP stipulates that the average credit rating of the overall fixed income portfolio should be investment grade, based on the rating of one Nationally Recognized Statistical Rating Organization (NRSRO), such as Fitch, Moody's, Standard and Poor's (S&P), etc.

Concentration of Credit Risk. The District's LTIP requires the diversification of its portfolio. The LTIP contains an Asset Allocation Target with the objective of achieving an average total rate of return that is equal to or greater than the portfolio's target rate of return over the long-term. The Asset Allocation Targets are as follows:

<u>Asset Classes</u>	<u>Asset Weightings</u>	
	<u>Range</u>	<u>Target</u>
Growth Assets		
Domestic Equity	20% - 60%	40%
International Equity	0% - 40%	20%
Other	0% - 20%	0%
Income Assets		
Fixed Income	20% - 60%	40%
Other	0% - 20%	0%
Real Return Assets		
	0% - 20%	0%
Cash Equivalents		
	0% - 20%	0%

Custodial Credit Risk - Investments. For an investment this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. All investments are held in the name of the District by a custodian or a trustee for the District.

Long-Term Investment Policy. The District is authorized to invest in those financial instruments as established by the LTIP of the District. The LTIP was developed in accordance with Section 218.415, Florida Statutes, and prohibits direct investment in derivative-type investments. The authorized investments consist of:

- Domestic and International Equities

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2017

(2) Deposits and Investments (continued)

Long-Term Portfolio (continued)

Long-Term Investment Policy (continued)

- Fixed Income Securities
- Other Assets (Alternatives)
 - Real Estate Investment Trust (REIT)
 - Treasury Inflation Protected Securities (TIPS)
- Cash Equivalents

The objectives of the LTIP are to diversify investments in order to minimize the impact of large losses from individual investments; provide funding for anticipated withdrawals; enhance the value of the portfolio in real terms over the long-term through asset appreciation and income generation,

while maintaining a reasonable investment risk profile; minimize principal fluctuations over the time horizon (five years or longer); and achieve a long-term level of return commensurate with contemporary economic conditions and equal to or exceeding the performance expectation (an average total annual rate of return that is equal to or greater than the portfolio's hurdle rate of 5%).

The time horizon for the LTIP is five years or longer.

Foreign Currency Risk. The District's LTIP does not allow for direct investments in foreign currency.

Fair Value Measurement. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

In the long-term portfolio, all applicable investments are measured utilizing Level 2 inputs.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT
Notes to Basic Financial Statements
September 30, 2017

(3) Capital Assets

Capital asset activity for the year ended September 30, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Assets not being depreciated:				
Land	\$ 288,338	-	-	288,338
Construction in progress	30,178	244,438	(3,000)	271,616
Total assets not being depreciated	<u>318,516</u>	<u>244,438</u>	<u>(3,000)</u>	<u>559,954</u>
Assets being depreciated:				
Buildings and structures	14,870,732	-	-	14,870,732
Infrastructure	93,493,971	1,435,349	-	94,929,320
Furniture & fixtures	18,008,695	73,397	(19,497)	18,062,595
Total assets being depreciated	<u>126,373,398</u>	<u>1,508,746</u>	<u>(19,497)</u>	<u>127,862,647</u>
Total assets	<u>126,691,914</u>	<u>1,753,184</u>	<u>(22,497)</u>	<u>128,422,601</u>
Less accumulated depreciation for:				
Buildings and structures	(3,100,207)	(534,020)	-	(3,634,227)
Infrastructure	(16,385,017)	(3,110,176)	-	(19,495,193)
Furniture & fixtures	(7,539,997)	(1,249,713)	14,134	(8,775,576)
Total accumulated depreciation	<u>(27,025,221)</u>	<u>(4,893,909)</u>	<u>14,134</u>	<u>(31,904,996)</u>
Total business-type activities, net	<u>\$ 99,666,693</u>	<u>(3,140,725)</u>	<u>(8,363)</u>	<u>96,517,605</u>

As all service functions in the Sumter Sanitation Fund are contracted out, the fund currently possesses no capital assets.

(4) Intangible Assets

Intangible asset activity for the year ended September 30, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
NSCUDD				
Discounted value purchase	\$ 89,985,461	2,000,000	-	91,985,461
Less accumulated amortization	<u>(13,264,488)</u>	<u>(2,899,283)</u>	<u>-</u>	<u>(16,163,771)</u>
Intangible assets, net	<u>\$ 76,720,973</u>	<u>(899,283)</u>	<u>-</u>	<u>75,821,690</u>

During the Fiscal Year, Sumter Sanitation completed the purchase of the rights to sanitation service the areas of The Villages in the city of Fruitland Park. This purchase increased the intangible assets by \$2,000,000. In addition, there was a full year of amortization for the Sumter Sanitation Fund in addition to the Utility Fund.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT
Notes to Basic Financial Statements
September 30, 2017

(5) Long-term Debt

Revenue Bonds Payable

Revenue bonds payable consisted of the following:

North Sumter County Utility Dependent District

\$19,030,000 Subordinate Utility Revenue Bonds, Series 2010 due in annual principal installments ranging from \$285,000 to \$1,310,000 through October 2043 in accordance with the redemption schedule. Interest is due semi-annually on April 1 and October 1 of each year until redemption or maturity. Interest rates range from 5.250% to 6.250%.	\$ 18,060,000
\$156,985,000 Senior Utility Revenue Bonds, Series 2010 due in annual principal installments ranging from \$2,545,000 to \$10,000,000 through October 2043 in accordance with the redemption schedule. Interest is due semi-annually on March 1 and October 1 of each year until redemption or maturity. Interest rates range from 5.000% to 5.750%.	147,460,000
\$4,000,000 Subordinate Utility Revenue Bonds, Series 2012 due in annual principal installments ranging from \$75,000 to \$255,000 through October 2042 in accordance with the redemption schedule. Interest is due semi-annually on March 1 and October 1 of each year until redemption or maturity. Interest rate is 5%.	3,845,000
\$50,605,000 Senior Utility Revenue Bonds, Series 2012 due in annual principal installments ranging from \$895,000 to \$3,225,000 through October 2042 in accordance with the redemption schedule. Interest is due semi-annually on March 1 and October 1 of each year until redemption or maturity. Interest rate is 5.00%.	<u>48,615,000</u>
Total revenue bonds payable	217,980,000
Plus unamortized bond premium	707,136
Less unamortized bond discount	(2,421,513)
Less current installment of revenue bonds payable	<u>(3,800,000)</u>
Revenue bonds payable less current installments	<u>\$ 212,465,623</u>

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2017

(5) Long-term Debt (continued)

Revenue Bonds Payable (continued)

The annual requirements to amortize the principal and interest of all revenue bonds payable as of September 30, 2017, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending September 30:			
2018	3,800,000	11,647,400	15,447,400
2019	4,085,000	11,452,038	15,537,038
2020	4,300,000	11,243,256	15,543,256
2021	4,515,000	11,023,438	15,538,438
2022	4,740,000	10,785,506	15,525,506
2023-2027	27,765,000	49,779,892	77,544,892
2028-2032	36,005,000	41,382,306	77,387,306
2033-2037	46,690,000	30,459,025	77,149,025
2038-2042	60,600,000	16,240,904	76,840,904
2043-2044	25,480,000	1,469,779	26,949,779
Total	<u>\$ 217,980,000</u>	<u>195,483,544</u>	<u>413,463,544</u>

Changes in Long-term Debt:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Business-type activities:					
Bonds payable					
Senior bonds	\$ 199,035,000	-	2,960,000	196,075,000	3,440,000
Subordinate bonds	22,200,000	-	295,000	21,905,000	360,000
Plus unamortized bond premium	735,422	-	28,286	707,136	-
Less unamortized bond discount	(2,514,065)	-	(92,552)	(2,421,513)	-
Total bonds payable	<u>219,456,357</u>	<u>-</u>	<u>3,190,734</u>	<u>216,265,623</u>	<u>3,800,000</u>
Due to developer	<u>2,076,213</u>	<u>-</u>	<u>-</u>	<u>2,076,213</u>	<u>600,000</u>
Total business-type activities long-term liabilities	<u>221,532,570</u>	<u>-</u>	<u>3,190,734</u>	<u>218,341,836</u>	<u>4,400,000</u>
Total debt	<u>\$ 221,532,570</u>	<u>-</u>	<u>3,190,734</u>	<u>218,341,836</u>	<u>4,400,000</u>

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2017

(5) Long-term Debt (continued)

Pledged Revenues. The District has pledged certain water, sewer and non-potable irrigation water revenue to pay the principal and interest on Utility Revenue Bonds issued in Fiscal Year 2010-2011 to pay for the purchase of water, sewer and irrigation utility facilities. In addition, the District has pledged certain residential and commercial solid waste collection fee revenue to pay the principal and interest on the Solid Waste Revenue Bonds issued in Fiscal Year 2012-2013. These Utility and Solid Waste Revenue Bonds were outstanding on September 30, 2017, as shown below. The table reports the revenues pledged for each debt issue, the amounts of revenue received in the current year, the current year principal and interest paid on the debt, the approximate percentage of each revenue which is pledged to meet the debt obligation, the date through which the revenue is pledged under the debt agreement and the total pledged future revenues for each debt, which is the amount of the remaining principal and interest on the bonds as of September 30, 2017.

Description of Debt	Pledged Revenue	Revenue Received	Principal and Interest Paid	Estimated Percent Pledged	Outstanding Principal and Interest	Pledged Through
Utility Revenue Bonds, Senior	Water, Sewer, & Irrigation revenue	22,006,284	10,287,902	46.75%	281,476,593	2043
Utility Revenue Bonds, Subordinate	Water, Sewer, & Irrigation revenue	11,718,382	1,359,945	11.61%	37,057,451	2043
Sanitation Revenue Bonds, Senior	Sanitation revenue	12,065,099	3,142,465	26.05%	87,972,500	2043
Sanitation Revenue Bonds, Subordinate	Sanitation revenue	8,922,634	247,461	2.77%	6,957,000	2043

(6) Related Parties

The District entered into an interlocal agreement with Sumter Landing Community Development District (SLCDD) for management services. SLCDD, in turn, obtains its management services from Village Center Community Development District (VCCDD) through interlocal agreement. VCCDD therefore provides management services on behalf of NSCUDD. The District may request additional services as they deem necessary for the efficient and effective management of the district. Such additional services are billed to the district at the VCCDD's cost, and include items such as, reimbursement for payment of the investment advisor contract, and office equipment lease and copy costs. Total management fees reimbursed by the District to VCCDD and SLCDD during the year were \$849,165.

The District has purchased from the Developer meter installation services for \$1,140. The Developer reimbursed \$11,936 to the District for meter set fees during the year based on the District's tariff. The District also sold \$3,240 in construction water to the Developer in the normal course of business during the year.

The District has entered into an agreement with the privately held Central Sumter Utility Company, LLC (CSU) to provide interconnects for emergency backup water and wastewater supplies. Similar backup interconnects also exist between the District and the water and sewage utilities owned by the Village Center Community Development District.

(7) Risk Management

The District is exposed to various risk of loss related to torts, theft, damage and destruction of assets, errors and omissions, and natural disasters. The District generally carries insurance for these risks, however, the District retains risk for certain property coverage and for losses in excess of coverage limits. There have been no claims in excess of coverage limits for the past two years.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2017

(8) Utility Revenue Guarantee Fund Deposit

As part of the purchase and sale agreement when the Sumter Sanitation rights were purchased, the seller, The Villages of Lake Sumter, Inc., was required to fund a Revenue Guarantee Fund of \$1,854,132 to guarantee the completion of the 9,528 additional housing units to be constructed in the District service area by the Developer after the sale was closed. At the end of Fiscal Year 2016-2017, with interest earnings, the amount on deposit in this fund was \$70,040. No draw on the fund was required by the District during Fiscal Year 2016-2017. The agreement provides for an annual reconciliation of the amount of the Utility Revenue Guarantee Fund deposit based on actual new housing unit connections completed each Fiscal Year.

**INDEPENDENT AUDITORS' 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**

Board of Supervisors
North Sumter Utility Dependent District
The Villages, Florida

We have audited, in accordance with the 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 business-type activities and each major fund, of North Sumter Utility Dependent District (the District) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 31, 2018.

Internal Control over Financial Reporting

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

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

Certified Public Accountants

P.O. Box 141270 • 222 N.E. 1st Street • Gainesville, Florida 32614-1270 • (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
5001 Lakewood Ranch Blvd. N., Suite 101 • Sarasota, Florida 34240 • (941) 907-0350 • FAX (941) 907-0309
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Board of Supervisors
North Sumter Utility Dependent District
The Villages, Florida

**INDEPENDENT AUDITORS' 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
(Concluded)**

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, 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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report 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 communication is not suitable for any other purpose.

Durvis, Gray and Company, LLP

January 31, 2018
Ocala, Florida

MANAGEMENT LETTER

Board of Supervisors
North Sumter Utility Dependent District
The Villages, Florida

Report on the Financial Statements

We have audited the financial statements of North Sumter Utility Dependent District (the District) as of and for the fiscal year ended September 30, 2017, and have issued our report thereon dated January 31, 2018.

Auditors' Responsibility

We conducted our audit 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 Chapter 10.550, *Rules of the Auditor General*.

Other Reports

We have issued our Independent Auditors' 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* and Independent Accountants' Report on an examination conducted in accordance with AICPA *Professional Standards*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports, which are dated January 31, 2018, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., *Rules of the Auditor General*, requires that we determine whether or not corrective action has been taken to address findings and recommendations made in the preceding annual financial audit report. There were no findings or recommendations made in the preceding audit report.

Official Title and Legal Authority

Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government be disclosed in this management letter, unless disclosed in the notes to the financial statements (see Note 1 of District's the September 30, 2017 basic financial statements, for this information).

Financial Condition and Management

Sections 10.554(1)(i)5.a. and 10.556 (7), *Rules of the Auditor General*, require that we apply appropriate procedures and report the results of our determination as to whether or not the District has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific conditions(s) met. In connection with our audit, we determined that the District did not meet any conditions described in Section 218.503(1), Florida Statutes.

Certified Public Accountants

P.O. Box 141270 • 222 N.E. 1st Street • Gainesville, Florida 32614-1270 • (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

5001 Lakewood Ranch Blvd. N., Suite 101 • Sarasota, Florida 34240 • (941) 907-0350 • FAX (941) 907-0309

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Board of Supervisors
North Sumter Utility Dependent District
The Villages, Florida

MANAGEMENT LETTER
(Concluded)

Financial Condition and Management (Concluded)

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), *Rules of the Auditor General*, we applied financial condition assessment procedures for the District. It is management's responsibility to monitor the District's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Section 10.554(1)(i)2., *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 did not have any such recommendations.

Annual Financial Report

Sections 10.554(1)(i)5.b. and 10.556(7), *Rules of the Auditor General*, require that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for the District for the fiscal year ended September 30, 2017, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2017. In connection with our audit, we determined that these two reports agree.

Additional Matters

Section 10.554(1)(i)3., *Rules of the Auditor General*, requires us to communicate noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, the Board of Supervisors and applicable management, 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.



January 31, 2018
Ocala, Florida

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH
FLORIDA STATUTE SECTION 218.415-INVESTMENT OF PUBLIC FUNDS**

Board of Supervisors
North Sumter Utility Dependent District
The Villages, Florida

We have examined North Sumter Utility Dependent District (the District)'s compliance with Section 218.415, Florida Statutes, with regards to the District's investments during the fiscal year ended September 30, 2017. District management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the District complied, in all material respects, with the requirements referenced above. An examination involves performing procedures to obtain evidence about whether the District complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, the District complied, in all material respects, with the aforementioned requirements during the fiscal year ended September 30, 2017.

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

Purvis, Gray and Company, LLP

January 31, 2018
Ocala, Florida

Certified Public Accountants

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**North Sumter County
UTILITY
Dependent District**

January 31, 2018

Board of Supervisors
North Sumter County Utility Dependent District
The Villages, FL 32162

RE: Management Response Letter

Dear Supervisors:

Attached is the completed audit for Fiscal Year 2016 – 2017 for the North Sumter County Utility Dependent District. We are proud to report that this audit has an unmodified opinion.

There are no internal control deficiencies, material weaknesses, or compliance issues identified and reported. No prior year comments were identified, as all have been corrected in previous years, and no new comments have been identified in the current audit report.

Your District staff has worked hard to assure you, as supervisors, that the management of the District's funds is conducted professionally, consistent with generally accepted accounting principles, and governing Florida Statutes.

We believe that North Sumter County Utility Dependent District continues to set an example for the appropriate management of Dependent Districts as conceived in Chapter 189, Florida Statutes. We would particularly like to commend the staff of the Villages District Finance Department for their diligent efforts in recording and maintaining the financial records of the District.

We would be happy to entertain any questions members of the Board of Supervisors may have on the audit report or the management of District resources.

Sincerely,

Kenneth C. Blocker
Finance Director

Janet Y. Tutt
District Manager

North Sumter County Utility Dependent District
984 Old Mill Run, The Villages, Florida 32162
Business Telephone (352) 753-0421 Business Fax (352) 751-3901