



**North Sumter County
UTILITY
Dependent District**



NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Basic Financial Statements

September 30, 2011

(With Independent Auditors' Report Thereon)

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

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INDEPENDENT AUDITORS' REPORT

District Board Members
North Sumter County Utility Dependent District
The Villages, Florida

We have audited the accompanying basic financial statements of the business-type activities of North Sumter County Utility Dependent District (the District), as of and for the year ended September 30, 2011, which collectively comprise the District's basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of September 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2012, 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* and should be read in conjunction with this report in considering the results of our audit.

Certified Public Accountants

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MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

District Board Members
North Sumter County Utility Dependent District
The Villages, Florida

INDEPENDENT AUDITORS' REPORT
(Concluded)

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 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'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.

Purvis, Gray and Company, LLP

February 16, 2012
Ocala, Florida

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2011

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

- Net assets increased over the previous year by \$230,495. All funds for this single purpose special district are accounted for in one fund entitled the North Sumter County Utility Dependent District (NSCUDD) Utility Enterprise Fund. The Utility Enterprise Fund began the fiscal year with a \$3,017 net asset balance and ended the year with positive net assets of \$233,512. The District began active utility operations on December 7, 2010 with the purchase of assets of the North Sumter Utility Company, LLC and the Village Water Conservation Authority.
- At the end of the fiscal year 2010-2011, the NSCUDD was delivering services to 22,099 water customers, 22,012 wastewater customers, and 22,235 non-potable irrigation water customers. To serve these customers, the NSCUDD issued the \$156,985,000 North Sumter County Utility Dependent District (Sumter County, Florida) Utility Revenue Bonds Series 2010 and the \$19,030,000 North Sumter County Utility Dependent District (Sumter County, Florida) Subordinate Utility Revenue Bonds, Series 2010. A portion of the Senior 2010 Bonds are insured by Assured Guaranty. The Bonds reach final maturity in 2043.
- The proceeds of the senior bonds totaled \$154,442,904.75 after the original issue discount was accounted for and was used as following:
 - Deposit to Construction Fund: \$145,267,599.87
 - Deposit to Reserve Account: \$5,964,294.34
 - Cost of issuance and underwriter's discount: \$3,211,010.54
- The proceeds of the subordinate bonds totaled \$18,524,875.10 after the original issue discount was accounted for and was used as following:
 - Deposit to Construction Fund: \$16,910,350.64
 - Deposit to Subordinate Reserve Account: \$1,397,075.00
 - Cost of issuance and underwriter's discount: \$217,449.76
- In its first year of active operations, the Utility Enterprise Fund realized a small increase in net assets of \$230,495 during the abbreviated ten month FY 2010-2011, after all operating and non-operating expenses were paid; including bond debt service interest expense of \$7,820,181, depreciation expenses of \$3,436,803 and amortization expenses of \$1,119,652.
- Cash and cash equivalents on hand at the end of the year totaled \$23,539,721, with net cash provided by the operating activities of \$12,847,776.

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.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2011

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

The Statement of Revenues, Expenses and Changes in Fund Net Assets, Proprietary Funds presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets 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 single purpose government with one proprietary fund. The District has no governmental activities. The business-type activities of the District include water and sewer and reclaimed water utilities serving 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 NSCUDD, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District established the NSCUDD Utility Enterprise Fund prior to the utilities purchase and this single enterprise fund remains as the sole operating proprietary fund 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 one proprietary fund. The District operates the NSCUDD 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 preceding fund meets the GASB 34 criteria to be considered a major fund. 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 government-wide and 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 assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$233,512 as of September 30, 2011, representing an increase of \$230,495 from the net assets of \$3,017 as of September 30, 2010. The increase in net assets for September 30, 2011 is due mainly to charges for services revenues for water, reclaimed water, and wastewater services subsequent to the acquisition of the previously privately owned utilities on December 7, 2010 exceeding operating and debt service expenses.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT
Management's Discussion and Analysis
(UNAUDITED)
September 30, 2011

The District's net assets are categorized as follows, as of September 30, 2011:

Invested in capital assets, net of related debt. This portion of the District's net assets reflects its investment in capital assets (e.g., land, buildings, machinery and equipment) less any related debt used to acquire those assets that are 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 assets represents resources that are subject to external restrictions on how they may be used. The District's restricted net assets are for purposes of meeting its debt service obligations.

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

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

Table 1

	Business-type Activities	
	September 30,	
	2011	2010
Assets:		
Current assets	\$ 10,677,524	3,017
Restricted assets	17,415,504	-
Bond issuance costs (net of accumulated amortization)	3,313,131	-
Capital assets, (net of accumulated depreciation)	117,586,111	-
Intangible assets, (net of accumulated amortization)	36,935,193	-
Total Assets	<u>185,927,463</u>	<u>3,017</u>
Liabilities:		
Current liabilities	12,649,221	-
Long term debt:		
Due in one year	1,110,000	-
Due in more than one year	174,905,000	-
Unamortized premium/discount	(2,970,270)	-
Total Liabilities	<u>185,693,951</u>	<u>-</u>
Net assets:		
Invested in capital assets, net of related debt	(6,709,543)	-
Restricted for debt service	1,111,853	-
Restricted for renewal and replacement	267,621	-
Unrestricted	5,563,581	3,017
Total net assets	<u>\$ 233,512</u>	<u>3,017</u>

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2011

Business-type Activities

Business-type activities increased the District's net assets by \$230,495 during the year ended September 30, 2011.

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

Table 2

	Business-type Activities	
	September 30,	
	2011	2010
Business activity revenues		
Charges for physical environment services	16,555,486	-
Investment earnings	19,913	-
Rents and royalties	136,371	-
Miscellaneous revenue	-	10,000
Total revenues	16,711,770	10,000
Business activity expenses		
General government services	-	6,983
Physical environment	4,104,639	-
Interest on long-term debt	7,820,181	-
Depreciation (unallocated)	3,436,803	-
Amortization expense	1,119,652	-
Total expenses	16,481,275	6,983
Changes in net assets	230,495	3,017
Total net assets, beginning	3,017	-
Total net assets, ending	\$ 233,512	3,017

Capital Assets

The District's capital assets as of September 30, 2011 and 2010 amounted to \$117,586,111 and zero, respectively. This is net of accumulated depreciation and includes buildings and structures, improvements other than buildings, and machinery and equipment. Almost all of the increase in capital assets represents 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.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2011

Long-term Debt

As of September 30, 2011 and 2010, the District had long-term debt outstanding of \$176,015,000 and zero, respectively. Additional information regarding the District's long-term debt can be found in Note 5 to the Notes to the Basic Financial Statements.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate in Sumter County where the District is located was 8.1 percent in September 2011 which is a decrease from an adjusted rate of 9.2 percent a year ago. This compares favorably with the State's average unemployment rate of 10.6 percent and is below the national average rate of 9.1 percent.
- Inflationary trends in the area are comparable to national indices. The national Consumer Price Index (CPI) annual increase for all urban consumers moved significantly higher from 1.14 percent in September 2010 to 3.87 percent in September 2011.

These factors were considered in preparing the District's budget for the 2012 fiscal year. Total annual projected revenues for all funds increased to \$21.121 million from \$16.855 million in the FY 2011 final amended budget. The expenditure budget also increased from \$12.718 million to \$21.121 million, an increase of \$8.403 million. The increase in revenues and expenditures results from the annualizing of the first full year's budget compared to the ten months budget in FY 2010-2011. It also includes a full year's worth of debt service expense, compared to the partial year in FY 2010-2011. The FY 2011-2012 expenditure budget includes a transfer to Renewal and Replacement (R&R) Reserve of \$200,794; whereas the prior year budgeted transfer to the R&R Reserve was \$321,064.

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 3201 Wedgewood Lane, The Villages, FL 32162; Telephone (352) 753-0421.

North Sumter County Utility Dependent District

Statement of Net Assets Proprietary Funds September 30, 2011

Assets	<u>NSCUDD</u>
Current assets:	
Cash and cash equivalents	\$ 6,124,217
Restricted cash and cash equivalents	10,046,216
Accounts receivable	4,449,834
Prepaid expenses	103,473
Total current assets	<u>20,723,740</u>
Non-current assets:	
Restricted cash and cash equivalents	7,369,288
Capital assets:	
Non depreciable assets	12,445,745
Depreciable assets (net of accumulated depreciation)	105,140,366
Bond issuance costs (net of accumulated amortization)	3,313,131
Intangible assets (net of accumulated amortization)	36,935,193
Total non-current assets	<u>165,203,723</u>
Total assets	<u>185,927,463</u>
Liabilities	
Current liabilities:	
Accounts payable	837,218
Accrued expenses	340,649
Accrued interest payable	4,787,866
Due to other governments	279,978
Utility guarantee deposit	2,750,054
Due to developer (amenity futures)	3,653,456
Current installments of revenue bonds payable	1,110,000
Total current liabilities	<u>13,759,221</u>
Non-current liabilities:	
Revenue bonds payable	174,905,000
Unamortized discounts	(2,970,270)
Total non-current liabilities	<u>171,934,730</u>
Total liabilities	<u>185,693,951</u>
Net assets	
Invested in capital assets, net of related debt	(6,709,543)
Restricted for:	
Debt service	1,111,853
Renewal and replacement	267,621
Unrestricted	5,563,581
Total net assets	<u>\$ 233,512</u>

See accompanying notes to basic financial statements.

North Sumter County Utility Dependent District

Statement of Revenues, Expenses and Changes in Fund Net Assets
 Proprietary Funds
 Year Ended September 30, 2011

	<u>NSCUDD</u>
Operating revenues:	
Charges for services:	
Water revenue	\$ 2,868,751
Sewer revenue	4,967,244
Irrigation revenue	8,427,055
Miscellaneous water and sewer revenue	276,024
Impact fees	16,412
Total operating revenues	<u>16,555,486</u>
Operating expenses:	
Contractual operation and maintenance services	1,674,898
General and administrative services	443,423
Engineering services	163,305
Utility services	896,429
Repair and maintenance services	213,896
Insurance, casualty and liability	101,128
Meters and operating supplies	597,128
Depreciation	3,436,803
Amortization	1,119,652
Bad debt expense	14,432
Total operating expenses	<u>8,661,094</u>
Operating income	<u>7,894,392</u>
Non-operating revenue (expenses):	
Investment earnings	19,913
Rents and royalties	136,371
Interest expense	(7,820,181)
Total non-operating revenue (expenses)	<u>(7,663,897)</u>
Change in net assets	230,495
Total net assets, beginning	<u>3,017</u>
Total net assets, ending	\$ <u><u>233,512</u></u>

See accompanying notes to basic financial statements.

North Sumter County Utility Dependent District

Statement of Cash Flows
Proprietary Funds
Year ended September 30, 2011

	<u>NSCUDD</u>
Cash flows from operating activities:	
Receipts from customers	\$ 16,040,803
Payments to suppliers	(3,193,027)
Net cash provided (used) by operating activities	<u>12,847,776</u>
Cash flows from capital and related financing activities:	
Bond proceeds (net)	175,794,784
Payment of bond issue costs	(3,313,131)
Interest paid	(3,032,315)
Net cash (used in) provided by capital and related financing activities	<u>169,449,338</u>
Cash flows from investing activities:	
Purchase of capital assets	(121,022,914)
Purchase of intangibles	(37,892,063)
Lease revenue	136,371
Investment earnings	18,196
Net cash provided (used) by investing activities	<u>(158,760,410)</u>
Net increase (decrease) in cash and cash equivalents	<u>23,536,704</u>
Cash and cash equivalents, beginning of year	<u>3,017</u>
Cash and cash equivalents, end of year	<u>23,539,721</u>
Reconciliation of cash and cash equivalents per	
Statement of cash flows to the statement of net assets:	
Cash per statement of net assets:	
Unrestricted cash and cash equivalents	6,124,217
Restricted cash and cash equivalents - current	10,046,216
Restricted cash and cash equivalents - non-current	7,369,288
Cash and cash equivalents	<u>23,539,721</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	7,894,392
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	3,436,803
Amortization	956,870
Cash provided by (used in) changes in:	
Accounts receivable	(4,448,117)
Due to other governments	279,978
Due to developer (amenity futures)	3,653,456
Prepaid expenses	(103,473)
Accounts payable and accrued liabilities	1,177,867
Net cash provided by operating activities	\$ <u>12,847,776</u>

See accompanying notes to basic financial statements.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2011

(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 the 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. The District is governed by a five-member Board who were initially appointed by the Board of County Commissioners for terms from two to four years. 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, and 4 must be a resident and elected by qualified electors in Village Community Development Districts 6, 7, and 8, respectively. Seat number 5 will be filled by an at-large election held in Districts 5, 6, 7, and 8 by a resident of any of the Districts 5, 6, 7 or 8. These four Community Development Districts comprise the service area of the North Sumter County Utility Dependent District.

The District provides 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 21,458 acres spanning the borders of Lake, Sumter and Marion Counties, the City of Wildwood and the Town of Lady Lake, Florida, and when fully developed, is expected to include 55,761 residences and approximately 106,000 residents. The Villages of Lake-Sumter, Inc. (Developer) developed The Villages. As of September 30, 2011, two of the members of the Board are employees of or affiliated with the Developer. Four of the Board members reside in the Districts they represent. There are no component units that are legally separate from the District.

The North Sumter Utility Dependent District (NSCUDD) was formed by Sumter County as a single 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. 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 twelve 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, security services, fire protection and paramedic services to the residents. The cost of operations is funded by amenity and utility fees

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2011

(1) Summary of Significant Accounting Policies (continued)

(a) Reporting Entity (continued)

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.
- 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.
- 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 1,186 acres in the southern portion of the county. The development included construction of 5,132 residential units.
- 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 includes construction of 6,697 residential units, of which 24 remain unsold.
- Village CDD No. 7 (Sumter County) – This CDD’s boundary consists of approximately 976 acres in the northeast corner of the county. Planned 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. Construction is now underway.
- Village CDD No. 9 (Sumter County) – This CDD’s boundary consists of approximately 1,280 acres in the northeast corner of the county. Planned development includes construction of 5,376 residential units. Construction is now underway.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2011

(1) Summary of Significant Accounting Policies (continued)

(a) Reporting Entity (continued)

- Village CDD No. 10 (Sumter County) – This CDD’s boundary consists of approximately 1,398 acres in the northeast corner of the county. This CDD has been formed, but is not yet being developed as of September 30, 2011.

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. Pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989 are not applied in the preparation of the financial statements of the proprietary funds in accordance with GASB Statement No. 20. The District’s more significant accounting policies are described below.

(b) Basic Financial Statements

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 one individual fund. Statement of net assets 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 assets- proprietary fund, reflects the revenues and expenses of the District.

The District’s major fund is presented in a single separate column on the fund financial statements. The definition of a major fund is one that meets criteria set forth in GASB Statement 34. Net assets are categorized as invested in capital assets, net of related debt; restricted; and unrestricted.

Invested in capital assets, net of related debt is intended to reflect the portion of net assets which are associated with capital assets net of accumulated depreciation less outstanding capital asset related debt. Related debt is the debt less any associated unamortized issuance costs.

Restricted net assets are 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 assets represent net assets not included in *Invested in capital assets, net of related debt* or *Restricted net assets*.

(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, as are the proprietary fund financial

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements
September 30, 2011

(1) Summary of Significant Accounting Policies (continued)

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

statements. 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 is the District's single major enterprise fund, a type of proprietary fund:

North Sumter County Utility Dependent District Utility Enterprise Fund

The principal operating revenues of the District's Utility fund are charges to customers for water, wastewater and non-potable irrigation water services. NSCUDD Utility's operating fund is used to account for all costs of providing services on a continuing basis to customers located in the Village Community Development District Nos. 5, 6, 7, and 8 residential areas and the Sumter Landing Community Development District commercial areas in Sumter County.

There are no non-major funds in within the District:

The District uses a single enterprise fund, a type of proprietary funds, to account for the operations and maintenance of the water, sewer and reclaimed water utility systems 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 fund are charges to customers for services. Operating expenses for enterprise funds include the cost of services, administrative expenses, depreciation on capital assets, and amortization of debt service issuance costs and 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) Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

- Money Market Mutual Funds

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT
Notes to Basic Financial Statements
September 30, 2011

(1) Summary of Significant Accounting Policies (continued)

(e) Deposits and Investments (continued)

- Demand Deposits
- Florida State Board of Administration's Local Government Investment Pool (SBA LGIP)

The money market mutual funds are stated at cost which approximates fair value.

(f) 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

(g) Intangible Assets

Intangible assets represent the discounted value of future utilities service fees to amortize the difference between the recorded value of the capital assets and the purchase price of the two utilities 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.

(h) Compensated Absences

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

(i) Bond Discounts, Bond Premiums and Issuance Costs

In the proprietary fund financial statements, bond discounts, bond premiums and issuance costs are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bond discounts and premiums are presented as a reduction and increase, respectively, of the face amount of the revenue bonds payable, whereas issuance costs are recorded as assets, and amortized over the life of the bond issue.

(j) 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, 2011

(1) Summary of Significant Accounting Policies (continued)

(j) Use of Estimates (continued)

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

(k) 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 assets 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 assets.

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 bond resolutions require 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 system development charges remain the property of the seller. These funds are therefore collected directly by the seller.

(l) Accounts Receivable

Accounts receivable in the proprietary fund consists of amounts due for charges for water and sewer and non-potable irrigation water, and amounts owed by others for services rendered. For uncollectible accounts receivable, the allowance method is used.

(m) Other Pay and Employee Benefits (OPEB)

In fiscal year 2011, the North Sumter County Utility Dependent District (NSCUDD) has no paid employees or payroll.

(2) Deposits

As of September 30, 2011, the District had the following cash and cash equivalent accounts:

<u>Cash and Cash Equivalents</u>	<u>Fair Value at September 30, 2011</u>	<u>Weighted Average Maturity (Days)</u>	<u>Credit Rating</u>
Demand Deposits, CFB	812,870	1.0	n/a
Local Government Investment Pool, SBA	5,311,347	38.3	AAAm
U.S. Bank Money Market Mutual Funds, Federated	17,415,504	33.0	AAAm
Basic Financial Statement Balances	\$ <u>23,539,721</u>		
Portfolio Weighted Average Maturity (WAM)		33.1	

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements
September 30, 2011

(2) Deposits (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. 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, 2011 was 33.1 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)). S&P provides the ratings for the U.S. Bank money market funds (Federated Prime) and the SBA investment pool.

Operating cash is maintained with Citizens First Bank (CFB), an authorized Public Depository, pursuant to Chapter 280, Florida Statutes.

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

- The State Board of Administration (SBA) for participation in the Local Government Surplus Funds Trust Fund investment pool created by Section 218.415, Florida Statutes. This investment pool operates under investment guidelines established by Section 215.47, Florida Statutes. The District's investments in the Local Government Surplus Funds Trust Fund, a Securities and Exchange Commission Rule 2a7-like external investment pool, are reported at fair value which is amortized cost.
- Trust balances related to restricted debt service accounts are maintained with U.S. Bank and are invested in Federated Prime Cash Obligations Fund since December 2010.
- In total, the District recognized interest income of \$19,913 during the fiscal year.

Concentration of Credit Risk. The District's 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 Local Government Investment Pool, money market funds, or overnight repurchase agreements to ensure the appropriate liquidity is maintained to meet ongoing obligations.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT
Notes to Basic Financial Statements
September 30, 2011

(2) Deposits (continued)

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 Guaranteed 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 being provided by the Federal Deposit Insurance Corporation (FDIC), the District's deposits are provided an 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 Guaranteed 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.

Investment Policy

The District is authorized to invest in those financial instruments as established by the Investment Policy of the District. This policy allows investments authorized under *Florida Statutes* 218.415 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 depositors, provided that the underlying collateral consist of obligations of the United States Government, its agencies and instrumentalities. The repurchase agreement shall be collateralized equal to at least 102 percent of the value of the District's investment.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT
Notes to Basic Financial Statements
September 30, 2011

(3) Capital Assets

Capital asset activity for the year ended September 30, 2011 was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business activities:				
Assets not being depreciated:				
Land	\$	288,262	-	288,262
Construction in progress		12,157,483	-	12,157,483
	-	<u>12,445,745</u>	-	<u>12,445,745</u>
Assets being depreciated:				
Buildings and structures		14,676,269	-	14,676,269
Infrastructure		76,327,889	-	76,327,889
Furniture & fixtures		17,573,012	-	17,573,012
Total assets being depreciated	-	<u>108,577,170</u>	-	<u>108,577,170</u>
Total assets	-	<u>121,022,915</u>	-	<u>121,022,915</u>
Less accumulated depreciation for:				
Buildings and structures	-	(441,772)	-	(441,772)
Infrastructure	-	(1,922,194)	-	(1,922,194)
Furniture & fixtures	-	(1,072,838)	-	(1,072,838)
Total accumulated depreciation	-	<u>(3,436,804)</u>	-	<u>(3,436,804)</u>
Business activities capital assets, net	-	<u>117,586,111</u>	-	<u>117,586,111</u>
Total capital assets governmental and business activities:	\$	<u>117,586,111</u>	-	<u>117,586,111</u>

(4) Intangible Assets

Intangible asset activity for the year ended September 30, 2011 was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activities:				
NSCUDD				
Discounted value purchase	\$	37,892,063	-	37,892,063
Less accumulated amortization		(956,870)	-	(956,870)
Intangible assets, net	\$	<u>36,935,193</u>	-	<u>36,935,193</u>

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2011

(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 \$95,000 to \$1,310,000 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 5.250% to 6.250%.	\$ 19,030,000
\$186,202,940 Senior Utility Revenue Bonds, Series 2010 due in annual principal installments ranging from \$1,015,000 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%.	156,985,000
Total revenue bonds payable	176,015,000
Less current installment of revenue bonds payable	<u>(1,110,000)</u>
Revenue bonds payable less current installments	<u>\$ 174,905,000</u>

The annual requirements to amortize the principal and interest of all revenue bonds payable as of September 30, 2011 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending September 30:			
2012	1,110,000	7,820,180	8,930,180
2013	1,305,000	9,540,294	10,845,294
2014	1,620,000	9,486,657	11,106,657
2015	1,885,000	9,420,044	11,305,044
2016	2,115,000	9,325,357	11,440,357
2017-2021	14,795,000	44,712,422	59,507,422
2022-2026	19,460,000	40,373,888	59,833,888
2027-2031	25,370,000	34,471,700	59,841,700
2032-2036	33,075,000	26,759,126	59,834,126
2037-2038	43,175,000	16,664,540	59,839,540
2039-2043	32,105,000	3,799,179	35,904,179
Total	<u>\$ 176,015,000</u>	<u>212,373,387</u>	<u>388,388,387</u>

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2011

(5) Long-term Debt (continued)

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 bond	\$ -	156,985,000	-	156,985,000	1,015,000
Junior bond	-	19,030,000	-	19,030,000	95,000
Less bond discount	-	(3,047,220)	76,950	(2,970,270)	-
Total bonds payable	<u>-</u>	<u>172,967,780</u>	<u>76,950</u>	<u>173,044,730</u>	<u>1,110,000</u>
Total business-type activities					
long-term liabilities	<u>-</u>	<u>172,967,780</u>	<u>76,950</u>	<u>173,044,730</u>	<u>1,110,000</u>
Total debt	\$ <u>-</u>	<u>172,967,780</u>	<u>76,950</u>	<u>173,044,730</u>	<u>1,110,000</u>

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 to pay for the purchase of water, sewer and irrigation utility facilities. These Utility Revenue Bonds were outstanding on September 30, 2011 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, and 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, 2011.

<u>Description of Debt</u>	<u>Pledged Revenue</u>	<u>Revenue Received</u>	<u>Principal and Interest Paid</u>	<u>Estimated Percent Pledged</u>	<u>Outstanding Principal and Interest</u>	<u>Pledged Through</u>
Utility Revenue Bonds, Senior	Water, Sewer, & Irrigation revenue	8,098,559	6,876,471	84.91%	343,187,940	2043
Utility Revenue Bonds, Junior	Water, Sewer, & Irrigation revenue	8,427,054	943,710	11.20%	45,200,447	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 \$267,215.

The District has purchased from the Developer meter installation services for \$536,400. The Developer reimbursed \$480,040 to the District for meter set fees during the year based on the District's tariff. The District also sold \$194,591 in construction water to the Developer in the normal course of business during the year. The District maintained demand deposit accounts based on a compensating balance agreement with the Citizens First Bank, which is affiliated with the Developer.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT
Notes to Basic Financial Statements
September 30, 2011

(6) Related Parties (continued)

The District paid \$57,075 for information system support from a company affiliated with the Developer, including software, hardware and computer programming and internal mail room operations related to the utility billing process.

The District purchased the North Sumter County Utility Dependent District assets from two companies affiliated with the Developer and per the terms of the sale, all Contributions In Aid of Construction (CIAC) receipts belong to the seller and are not received by the District. Substantially all capital costs for infrastructure were acquired from the sellers or paid on contracts that were assigned to the District by the sellers using bond proceeds in the current year.

The District has entered into an agreement with the privately held Central Sumter Utility Company, LLC (CSU) to provide water and sewer services to the CSU service area until the CSU can complete construction of its own water and sewage treatment plants during calendar year 2012. The CSU service area includes the Villages Community Development District Nos. 9 and 10 residential areas and the Brownwood commercial area. Once the CSU facilities are operational, the interconnects will remain in place to provide emergency backup supplies. Similar backup interconnects also exist between the District and the water and sewage utilities owned by the Village Center Community Development District.

The District is governed by a five-member Board. As of September 30, 2011, two Board Members are employees of or affiliated with the Developer.

(7) Risk Management

The District is exposed to various risks 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.

(8) Utility Revenue Guarantee Fund Deposit

As part of the purchase and sale agreement when the District utilities were purchased, the seller was required to fund a Utility Revenue Guarantee Fund of \$2,744,460 to guarantee the completion of the 3,135 additional housing units to be constructed in the District service area by the Developer after the sale was closed. At the end of FY 2010-2011 with interest earnings, the amount on deposit in this fund was \$2,747,412. No draw on the fund was required by the District during FY 2010-2011. 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. As a result of FY 2010-2011 operations, the Utility Revenue Guarantee Fund deposit was reduced to \$732,566 in November 2011.

**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**

District Board Members
North Sumter County Utility Dependent District
The Villages, Florida

We have audited the financial statements of the business-type activities of North Sumter County Utility Dependent District (the District), as of and for the year ended September 30, 2011, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 16, 2012. 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 District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic 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 instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards*.

Certified Public Accountants

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MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

District Board Members
North Sumter County Utility Dependent District
The Villages, Florida

**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)**

This report is intended solely for the information and use of management, the District Board Members, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Purvis, Gray and Company, LLP

February 16, 2012
Ocala, Florida

MANAGEMENT LETTER

District Board Members
North Sumter County Utility Dependent District
The Villages, Florida

We have audited the accompanying basic financial statements of the business-type activities of North Sumter County Utility Dependent District (the District), as of and for the fiscal year ended September 30, 2011, and have issued our report thereon dated February 16, 2012.

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. We have issued our report on internal control over financial reporting and compliance and other matters. Disclosures in those reports, which are dated February 16, 2012, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, *Rules of the Auditor General*, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditors' report:

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 significant findings and recommendations made in the preceding annual financial audit report. This is the first fiscal year the District has submitted a financial audit report.

Section 10.554(1)(i)2., *Rules of the Auditor General*, requires our audit to include a review of the provision of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit we determined that the District complied with Section 218.415, Florida Statutes.

Sections 10.554(1)(i)3., *Rules of the Auditor General*, requires that we address in the management letter any recommendations to improve the District's financial management. In connection with our audit, we did not have any such recommendations.

Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that we address violations of 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 more than inconsequential. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)5., *Rules of the Auditor General*, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse; and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.

Certified Public Accountants

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MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

District Board Members
North Sumter County Utility Dependent District
The Villages, Florida

MANAGEMENT LETTER
(Concluded)

Section 10.554(1)(i)6., *Rules of the Auditor General*, also requires that the name or official title and legal authority for the primary government be disclosed in the management letter, unless disclosed in the notes to the financial statements. See Note 1 of the September 30, 2011, North Sumter County Utility Dependent District's basic financial statements for this information.

Section 10.554(1)(i)7.(a)., *Rules of the Auditor General*, requires a statement be included as to whether or not the local government entity 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.

Section 10.554(1)(i)7.(b)., *Rules of the Auditor General*, requires that we determined whether the annual financial report for the District for the fiscal year ended September 30, 2011, filed with the 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, 2011. In connection with our audit, we determined that these two reports agree.

Pursuant to Sections 10.554(1)(i)7.(c) and 10.556(7)., *Rules of the Auditor General*, we applied financial condition assessment procedures. 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.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this 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.

Purvis, Gray and Company, LLP

February 16, 2012
Ocala, Florida



**North Sumter County
UTILITY
Dependent District**

February 20, 2012

Board Members
North Sumter County Utility Dependent District
The Villages, Florida 32162

RE: Management Response Letter

Dear Board Members:

Attached is the completed audit for fiscal year 2010-2011 for North Sumter County Utility Development District. We are proud to report that this audit has an unqualified opinion. There are no internal control deficiencies, material weaknesses, or compliance issues identified and reported. As this is the initial annual audit of the District, there are no prior auditor comments requiring correction, and no new comments identified.

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

We believe that the North Sumter County Utility Dependent District sets an example for the appropriate financial 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 may have on the audit report or the management of District resources.

Sincerely,

David R. Miles, CGFO
Finance Director

Janet Y. Tutt
District Manager

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT
3201 Wedgewood Lane, The Villages, FL 32162
Telephone: (352) 753-0421 Fax: (352) 751-3901