



**NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT**

Basic Financial Statements

September 30, 2013

(With Independent Auditors' Report Thereon)

# NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

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## INDEPENDENT AUDITORS' REPORT

Board of Supervisors  
North Sumter County 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 County Utility Dependent District (the District) as of and for the year ended September 30, 2013, 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinions**

In our opinion, 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

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

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

**INDEPENDENT AUDITORS' REPORT**  
*(Concluded)*

**Opinions (Concluded)**

September 30, 2013, 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.

**Adoption of New Accounting Standards**

As discussed in Note 1 to the financial statements, for the year ending September 30, 2013, the District adopted new accounting guidance as follows:

- Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements.*
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*
- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.*

Our opinion is not modified with respect to this matter.

**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 GASB, 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 February 7, 2014, 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.

*Purvis, Gray and Company, LLP*

February 7, 2014  
Ocala, Florida

## NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2013

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

- On December 27, 2012, the North Sumter County Utility Dependent District closed on a bond issue comprised of \$50,605,000 in Solid Waste Revenue Bonds, Series 2012 and \$4,000,000 in Subordinate Solid Waste Revenue Bonds, Series 2012. The proceeds of both bonds were used to purchase the solid waste residential and commercial collection rights in the Sumter County and Marion County portions of The Villages from The Villages of Lake Sumter, Inc. The acquisition price was \$52,811,972. In addition a new enterprise fund entitled the Sumter Sanitation Fund was established in the books of the District. A total of \$507,566 was placed into a cash account for working capital purposes, \$3,660,500 was placed in a Debt Service Reserve Fund Account, and \$749,199 was used for cost of issuance and underwriter's discount. This resulted in a Due to Developer amount being established in the fund, initially for \$2,289,029. Residual Cost of Issuance proceeds of \$12,816 were used to reduce the Due to Developer amount to \$2,276,213 on September 30, 2013.
- The District assumed four contracts related to the operation of the Sumter Sanitation Fund effective December 27, 2012 and began the delivery of solid waste collection for all residents and businesses of The Villages except for those in Lake County. CH2M Hill, Inc. provides the collection vehicles and staff for the operation of the collection services. Waste Management, Inc. operates the transfer stations for trash and for yard waste disposal with separate per ton tipping fees paid for each category of waste. The fourth contract, also with Waste Management, Inc. provides for the payment to the District for the value of recyclable materials. The revenue generated by sales of surplus materials in the Sumter Sanitation Fund was \$115,563 in this nine month partial year of operations.
- In its first nine month partial year of operations, the Sumter Sanitation Fund recorded a \$1,295,333 reduction in its net position. \$736,419 of this amount was as a result of the expensing of the costs of bond issuance during the year, a non-recurring expense. Amortization expenses for the intangible asset were \$1,313,282 during the year. The amortization expense reflects the expensing over the life of the bonds of the intangible asset recorded to reflect the difference between the market value and the cost to construct those assets purchased.
- The beginning Net Position of the North Sumter Utility Fund that provides water, sewer and irrigation water services in that Sumter County portion of The Villages south of County Route 466 and north of County Route 466A was adjusted from (\$33,659) to (\$2,022,428), a decrease of \$1,988,769 due to the implementation of GASB 65 during Fiscal Year 2012-2013. This restatement of beginning net position resulted from an accounting change that requires the expensing of bond issuance costs in the year of issuance, rather the previous practice of capitalizing these expenses and amortizing them over the life of the bonds.
- In Fiscal Year 2012-2013, North Sumter Utility Fund showed a reduction in Net Position of \$1,392,410. While operating at a very positive cash position, the fund experienced significant non-cash expenses of \$4,842,483 for depreciation and \$1,187,430 for amortization. The depreciation expense shows the using up of the capital assets over time that must be replaced or renovated in future years.

**NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT**  
Management's Discussion and Analysis  
(UNAUDITED)  
September 30, 2013

- Cash and cash equivalents on hand at the end of the year totaled \$30,005,160, with net cash provided by the operating activities of \$21,026,462 during the Fiscal Year. In addition, the District has \$5,346,195 in liquid, short-term investments. This provides \$ 35,351,355 in readily available deposit and investment accounts a growth of \$10,969,536 from the \$24,381,819 balance last year.

**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 9. 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*. The District is implementing Governmental Accounting Standards Statements Nos. 63 and 65 this Fiscal Year which introduces the term *net position* in place of *net assets*. A further discussion of the standards changes promulgated by the Governmental Accounting Standards Board (GASB) is contained in footnote 1. 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 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 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 Marion and Sumter County portions of The Villages to provide trash, yard waste and recycling

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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 9-11 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 12 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 \$4,710,171 as of September 30, 2013, representing a decrease of \$2,687,743 from the restated net position of (\$2,022,428) as of September 30, 2012. The early implementation of GASB 65 during Fiscal Year 2012-2013 resulted in the beginning net position being restated by (\$1,988,769). The decrease in net position for September 30, 2013 is due to the cost of issuance being expensed for the Solid Waste Revenue Bonds, Series 2012 and depreciation and amortization costs.

The District's net position is categorized as follows, as of September 30, 2012:

***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.

***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 improvements 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.

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Management's Discussion and Analysis  
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Table 1, below, reflects the summary statement of net position for the current and prior years.

**Table 1**

	<b>Business-type Activities</b>	
	<b>September 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Assets:</b>		
Current assets	\$ 19,657,125	14,554,432
Restricted assets	21,145,901	14,517,509
Bond issuance costs (net of accumulated amortization)	-	3,210,132
Capital assets, (net of accumulated depreciation)	110,132,220	114,854,195
Bond insurance costs (net of accumulated amortization)	1,182,175	-
Intangible assets, (net of accumulated amortization)	85,418,822	35,786,948
Total Assets	<u>237,536,243</u>	<u>182,923,216</u>
<b>Liabilities:</b>		
Current liabilities	9,388,902	10,929,804
Long term debt:		
Due in one year	6,052,739	1,305,000
Due in more than one year	226,804,773	170,722,070
Total Liabilities	<u>242,246,414</u>	<u>182,956,874</u>
<b>Net position:</b>		
Net investment in capital assets	(18,032,927)	(10,793,253)
Restricted for debt service	1,715,055	1,111,853
Restricted for renewal and replacement	416,010	318,078
Unrestricted	11,191,691	9,329,663
Total net position	<u>\$ (4,710,171)</u>	<u>(33,659)</u>

***Business-type Activities***

Business-type activities decreased the District's net position by \$2,687,743 during the year ended September 30, 2013. In addition, the beginning net position was decreased by \$1,988,769 as a result of early implementation of GASB 65 in Fiscal Year 2012-2013.

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Management's Discussion and Analysis  
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September 30, 2013

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

**Table 2**

	<b>Business-type Activities</b>	
	<b>September 30,</b>	
	<b>2013</b>	<b>2012</b>
Business activity revenues		
Charges for physical environment services	27,195,656	20,010,257
Investment income	31,099	71,775
Contributions - private sources & donations	-	594,115
Rents and royalties	146,987	-
Sale of surplus materials and scrap	141,787	-
Total revenues	27,515,529	20,676,147
Business activity expenses		
Physical environment	10,487,694	5,496,867
Interest on long-term debt	11,635,964	9,540,294
Bond issuance costs	736,419	-
Depreciation (unallocated)	4,842,483	4,562,576
Amortization expense	2,500,712	1,343,581
Total expenses	30,203,272	20,943,318
Changes in net position	(2,687,743)	(267,171)

**Capital Assets**

The District's capital assets as of September 30, 2013 and 2012 amounted to \$110,132,220 and \$114,854,195, 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, 2013 and 2012, the District had long-term debt outstanding of \$228,205,000 and \$172,027,070, respectively. Additional information regarding the District's long-term debt can be found in Note 5 to the Notes to the Basic Financial Statements. The increase resulted from the issuance of the District's Solid Waste Revenue Bonds (senior and subordinate) in the amount of \$54,605,000 on December 27, 2012, offset by debt service principal payments on the debt during the year.

## **NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT**

Management's Discussion and Analysis

(UNAUDITED)

September 30, 2013

### **Economic Factors and Next Year's Budgets and Rates**

- The unemployment rate in Sumter County where the District is located was 5.7 percent in September 2013 which is a decrease from a rate of 6.9 percent a year ago. This compares favorably with the State's average unemployment rate of 6.9 percent and is below the national average rate of 7.0 percent.
- Inflationary trends in the area are comparable to national indices. The national Consumer Price Index (CPI) annual increase for all urban consumers decreased significantly from 1.99 percent in September 2012 to 0.92 percent in September 2013.

These factors were considered in preparing the District's budget for the 2013-2014 Fiscal Year. Total annual projected revenues for all funds increased to \$31.219 million from \$28.153 million in the Fiscal Year 2012-2013 final amended budget. The increase of \$3.066 million was primarily due to the annualization of the Sumter Sanitation Fund budget for its first full year of operations in Fiscal Year 2013-2014. The expenditure budget also increased from \$24.427 million to \$27.074 million, an increase of \$2.647 million. The fiscal year 2013-2014 expenditure budget includes a transfer to Renewal and Replacement (R&R) Reserve of \$1.8 million; whereas the prior year budget transfers to the R&R Reserve was \$1.0 million. The increase was in the Sumter Sanitation Fund, newly established in Fiscal Year 2012-2013.

### **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 Position

### Proprietary Funds

September 30, 2013

Assets	<u>North Sumter Utility</u>	<u>Sumter Sanitation</u>	<u>NSCUDD Total</u>
<b>Current assets:</b>			
Cash and cash equivalents	\$ 7,262,992	1,596,267	8,859,259
Restricted cash and cash equivalents	6,373,230	1,450,280	7,823,510
Investments	5,145,645	200,550	5,346,195
Accounts receivable, net	4,460,476	887,540	5,348,016
Accrued interest receivable and prepaids	583	124	707
Inventory	-	102,948	102,948
Total current assets	<u>23,242,926</u>	<u>4,237,709</u>	<u>27,480,635</u>
<b>Non-current assets:</b>			
Restricted cash and cash equivalents	7,805,252	5,517,139	13,322,391
<b>Capital assets:</b>			
Non depreciable assets	288,338	-	288,338
Depreciable assets (net of accumulated depreciation)	109,843,882	-	109,843,882
Bond insurance costs (net of accumulated amortization)	1,182,175	-	1,182,175
Intangible assets (net of accumulated amortization)	<u>34,638,631</u>	<u>50,780,191</u>	<u>85,418,822</u>
Total non-current assets	<u>153,758,278</u>	<u>56,297,330</u>	<u>210,055,608</u>
Total assets	<u>177,001,204</u>	<u>60,535,039</u>	<u>237,536,243</u>
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Accounts payable	150,448	516,020	666,468
Accrued expenses and other current liabilities	8,460	-	8,460
Accrued interest payable	4,743,329	1,365,126	6,108,455
Due to other governments	351,656	-	351,656
Utility guarantee deposit	-	1,854,975	1,854,975
Unearned revenue	-	398,888	398,888
Due to developer (amenity futures)	4,347,739	-	4,347,739
Current installments of revenue bonds payable	<u>1,620,000</u>	<u>85,000</u>	<u>1,705,000</u>
Total current liabilities	<u>11,221,632</u>	<u>4,220,009</u>	<u>15,441,641</u>
<b>Non-current liabilities:</b>			
Due to developer	-	2,276,213	2,276,213
Revenue bonds payable	<u>169,194,410</u>	<u>55,334,150</u>	<u>224,528,560</u>
Total non-current liabilities	<u>169,194,410</u>	<u>57,610,363</u>	<u>226,804,773</u>
Total liabilities	<u>180,416,042</u>	<u>61,830,372</u>	<u>242,246,414</u>
<b>Net position</b>			
Net investment in capital assets	(17,056,132)	(976,795)	(18,032,927)
<b>Restricted for:</b>			
Debt service	1,629,901	85,154	1,715,055
Renewal and replacement	416,010	-	416,010
Unrestricted	<u>11,595,383</u>	<u>(403,692)</u>	<u>11,191,691</u>
Total net position	<u>\$ (3,414,838)</u>	<u>(1,295,333)</u>	<u>(4,710,171)</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, 2013

	North Sumter Utility	Sumter Sanitation	NSCUDD Total
Operating revenues:			
Charges for services:			
Water revenue	\$ 3,876,174	-	3,876,174
Sewer revenue	6,639,230	-	6,639,230
Irrigation revenue	9,114,841	-	9,114,841
Solid waste revenue	-	7,255,578	7,255,578
Miscellaneous revenue	135,879	34,835	170,714
Other Fees	139,119	-	139,119
Total operating revenues	19,905,243	7,290,413	27,195,656
Operating expenses:			
Contractual operation and maintenance services	3,051,941	3,784,408	6,836,349
General and administrative services	344,507	731,890	1,076,397
Engineering services	257,464	-	257,464
Utility services	1,126,932	-	1,126,932
Repair and maintenance services	836,639	1,975	838,614
Insurance, casualty and liability	201,019	-	201,019
Meter and operating supplies	63,356	-	63,356
Depreciation expense	4,842,483	-	4,842,483
Amortization expense	1,187,430	1,313,282	2,500,712
Bad debt expense	7,477	80,086	87,563
Total operating expenses	11,919,248	5,911,641	17,830,889
Operating income	7,985,995	1,378,772	9,364,767
Non-operating revenue (expenses):			
Investment income	27,381	3,718	31,099
Rents and royalties	146,987	-	146,987
Bond issuance costs	-	(736,419)	(736,419)
Interest expense	(9,578,997)	(2,056,967)	(11,635,964)
Sale of surplus materials and scrap	26,224	115,563	141,787
Total non-operating revenue (expenses)	(9,378,405)	(2,674,105)	(12,052,510)
Change in net position	(1,392,410)	(1,295,333)	(2,687,743)
Total net position, beginning (as restated)	(2,022,428)	-	(2,022,428)
Total net position, ending	\$ (3,414,838)	(1,295,333)	(4,710,171)

See accompanying notes to basic financial statements.

#### Restatement of Net Position - North Sumter Utility

Beginning Net Position	(33,659)
Less Cost of Issuance	(1,988,769)
Net Position - Beginning (as restated)	(2,022,428)

**North Sumter County Utility Dependent District**  
Statement of Cash Flows  
Proprietary Funds  
Year Ended September 30, 2013

	<b>North Sumter Utility</b>	<b>Sumter Sanitation</b>	<b>NSCUDD Total</b>
Cash flows from operating activities:			
Receipts from customers	\$ 20,131,319	6,801,637	26,932,956
Payments to suppliers	(7,217,521)	1,311,027	(5,906,494)
Net cash provided (used) by operating activities	12,913,798	8,112,664	21,026,462
Cash flows from capital and related financing activities:			
Debt proceeds after premium/discount	-	55,419,150	55,419,150
Principal paid on debt	(1,212,660)	-	(1,212,660)
Acquisition of intangible assets	-	(52,093,473)	(52,093,473)
Acquisition of capital assets	(120,433)	-	(120,433)
Interest paid on debt	(9,578,997)	(2,056,967)	(11,635,964)
Bond issue costs paid	-	(736,419)	(736,419)
Net cash (used in) provided by capital and related financing activities	(10,912,090)	532,291	(10,379,799)
Cash flows from investing activities:			
Proceeds from sale of surplus material	26,224	115,563	141,787
Lease revenue	146,987	-	146,987
Purchase of investments	(1,506,603)	(200,550)	(1,707,153)
Interest on investments	27,381	3,718	31,099
Net cash provided (used) by investing activities	(1,306,011)	(81,269)	(1,387,280)
Net increase (decrease) in cash and cash equivalents	695,697	8,563,686	9,259,383
Cash and cash equivalents, beginning of year	20,745,777	-	20,745,777
Cash and cash equivalents, end of year	21,441,474	8,563,686	30,005,160
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	7,262,992	1,596,267	8,859,259
Restricted cash and cash equivalents - current	6,373,230	1,450,280	7,823,510
Restricted cash and cash equivalents - non-current	7,805,252	5,517,139	13,322,391
Cash and cash equivalents	21,441,474	8,563,686	30,005,160
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	7,985,995	1,378,772	9,364,767
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	4,842,483	-	4,842,483
Amortization	1,187,430	1,313,282	2,500,712
Changes in assets and liabilities:			
(Increase) Decrease in:			
Accounts receivable	226,076	(887,664)	(661,588)
Prepaid expenses	(13)	-	(13)
Inventory	-	(102,948)	(102,948)
Increase (Decrease) in:			
Accounts payable and accrued liabilities	(861,240)	1,881,146	1,019,906
Due to other governments	58,651	-	58,651
Due to developer	202,430	2,276,213	2,478,643
Unearned revenue	-	398,888	398,888
Other current liabilities	5,892	-	5,892
Utility Guarantee Deposit	(733,906)	1,854,975	1,121,069
Net cash provided by operating activities	\$ 12,913,798	8,112,664	21,026,462

## NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2013

### (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. 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, 2013, two seats (numbers 1 and 2) have been elected by qualified electors. Seats 3 through 6 will be elected by qualified electors in November 2014 and seat 7 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.

As of September 30, 2013, one of the members of the Board is an employee of or affiliated with the Developer. Five of the Board members reside in the Districts they represent. There are no component units that are legally separate from the District.

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 22,590 acres spanning the borders of Lake, Sumter and Marion Counties, City of Wildwood, City of Fruitland Park and the Town of Lady Lake, Florida, and when fully developed is expected to include approximately 58,775 residences and 111,672 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, 2013

### (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 thirteen 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 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 and Developer contributions 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.
- 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.

## NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2013

### (1) Summary of Significant Accounting Policies (continued)

#### (a) Reporting Entity (continued)

- 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 included construction of 6,697 residential units of which 9 remain unsold as of September 30, 2013.
- 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. Construction is now complete with 127 unsold and being used as lifestyle preview homes by the Developer.
- 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.
- Village CDD No. 10 (Sumter County) – This CDD’s boundary consists of approximately 1,588.8 acres in the northeast corner of the county. Planned development includes construction of 6,639 residential units. The first Phase I Infrastructure Assessment Bonds were issued December 18, 2012, and active development began in fiscal year 2012-2013 with 462 homes sold by September 30, 2013.

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.

#### (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 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

## NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2013

### (1) Summary of Significant Accounting Policies (continued)

#### (b) *Basic Financial Statements (continued)*

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 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. As a result of the early implementation of GASB 65 in this report, all new issuance costs will be expensed in the current year and will no longer be amortized over the life of the 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 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.

#### **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 of the solid waste collection and disposal services to residential customers located in Village Community Development District Nos. 1-10 and Sumter Landing and Brownwood Community Development Districts commercial customers

**NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT**

Notes to Basic Financial Statements

September 30, 2013

**(1) Summary of Significant Accounting Policies (continued)**

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

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) 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
- 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.

In December 2011, the District transferred amounts into the Florida Municipal Investment Trust (FMIVT) operated by the Florida League of Cities. The investment was placed in the FMIVT's 1-3 Year High Quality Bond Fund. Also in December 2011, the District transferred amounts to the Florida Local Government Investment Trust (FLGIT) operated by the Florida Association of Counties and the Florida Association of County Clerks. The investment in both pools is evidenced by shares which are marked to market monthly.

**NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT**

Notes to Basic Financial Statements

September 30, 2013

**(1) Summary of Significant Accounting Policies (continued)**

**(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 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.

**(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, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts 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. As a result of the early implementation of GASB 65, bond issuance costs are no longer treated as deferred charges. This change resulted in the restatement of the beginning net position of the District resulting in a reduction of \$1,988,769 in beginning net position from (\$33,659) to (\$2,022,428). All new issuance costs of \$736,419 for the Solid Waste Revenue Bonds, Series 2012 were expensed in the year of issuance, fiscal year 2012-2013.

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

**NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT**  
Notes to Basic Financial Statements  
September 30, 2013

**(1) Summary of Significant Accounting Policies (continued)**

**(k) *Restricted Assets – Proprietary Funds (continued)***

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.

**(l) *Accounts Receivable***

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

**(m) *Other Pay and Employee Benefits (OPEB)***

In fiscal year 2012-2013, the North Sumter County Utility Dependent District (NSCUDD) has no paid employees or payroll.

**(n) *Implementation of Governmental Accounting Standards Statements***

The District is implementing the following GASB Statements during the year that ended September 30, 2013. Statement No. 65 is being early implemented so as to implement it at the same time as the implementation of Statement No. 63.

1. Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.” This Statement improves financial reporting by codifying all sources of generally accepted accounting principles for state and local governments so that they derive from a single source.

2. Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.” This Statement provides guidance for certain items formally classified as assets and liabilities. The Statement redefines these as “deferred outflows of resources” (formally assets) and “deferred inflows of resources” (formally liabilities). Each new category must have its own Statement of Net Position section. GASB 63

**NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT**

Notes to Basic Financial Statements

September 30, 2013

**(1) Summary of Significant Accounting Policies (continued)**

**(n) Implementation of Governmental Accounting Standards Statements (continued)**

also requires that the last line of the statements formally called “Net assets” now be titled “Net position” to reflect the new classifications. In addition, “Capital assets, net of debt” will now be titled “Net investment in capital assets” in order properly present the total of the items.

3. Statement No. 65, “Items Previously Reported as Assets and Liabilities.” This statement provides more guidance for the items listed in GASB 63, and adds additional changes. It requires that statements avoid the use of the word “deferred” except as it relates to items that are deferred outflows or are deferred inflows. It addresses the calculation of a deferred outflow or inflow for the refunding of debt. For non-exchange transactions like grants, amounts received before the time period of eligibility are treated as deferred inflows. This Statement also addresses taxes received prior to the period to which they relate. GASB 65 also requires debt issuance costs to be expensed in the period that the debt was issued. In the past, subsequent to the implementation of GASB 34, these costs were amortized over the life of the issue. The effects of this change are required to be disclosed on the statements in the period it is implemented. Losses on debt refundings are not expenses, but rather, treated as deferred outflows. For operating leases, any initial direct costs are recognized in the period incurred, instead of being amortized over the life of the lease. When an asset is recorded in governmental fund statements, but the revenue is not available until a future period, a deferred inflow is reported until the revenue becomes available.

**(2) Deposits and Investments**

As of September 30, 2013, the District had the following deposits and investments:

<u>Deposits and Investment Types</u>	<u>Fair Value at September 30, 2013</u>	<u>Weighted Average Maturity (Days)</u>	<u>Credit Rating</u>
Demand Deposits, CFB	1,473,017	1.0	n/a
Local Government Investment Pool, SBA	7,386,242	44.0	AAAm
U.S. Bank Money Market Mutual Funds, Federated	21,145,901	44.0	AAAm
Bond Fund, FLGIT	2,843,948	741.0	AAAf/S1
1-3 Year High Quality Bond Fund, FMIvT	2,502,247	554.8	AAA/v2
Basic Financial Statement Balances	\$ <u>35,351,355</u>		
Portfolio Weighted Average Maturity (WAM)		134.4	

**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, 2013 was 134.4 days.

## NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2013

### (2) Deposits and Investments (continued)

**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 four 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.
- 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 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, 2013, the FMIVT had incurred unrealized losses of \$12,261 and realized gains of \$10,293, for a net loss of \$1,968. The unrealized losses will not be recognized 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 Association of County Clerks. The pool is an authorized investment consistent with Section 218.415(16)(a), Florida Statutes and the District's investment policy. GASB 31 requires all governments to mark to market the unrealized gains and losses incurred in its investments. As of September 30, 2013, the FLGIT account had incurred unrealized losses of \$8,730 and realized gains of \$17,851 for a net gain of \$9,121. The unrealized losses will not be recognized until the sale of underlying shares in the FLGIT pool.
- In total, the District recognized investment income of \$31,099 during the fiscal year.

## NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2013

### (2) Deposits and Investments (continued)

**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.

**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 depositories, 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, 2013

**(3) Capital Assets**

Capital asset activity for the year ended September 30, 2013 was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
North Sumter Utility Fund				
Assets not being depreciated:				
Land	\$ 288,263	75	-	288,338
Total assets not being depreciated	<u>288,263</u>	<u>75</u>	<u>-</u>	<u>288,338</u>
Assets being depreciated:				
Buildings and structures	14,676,268	-	-	14,676,268
Infrastructure	90,316,031	120,433	-	90,436,464
Furniture & fixtures	17,573,012	-	-	17,573,012
Total assets being depreciated	<u>122,565,311</u>	<u>120,433</u>	<u>-</u>	<u>122,685,744</u>
Total assets	<u>122,853,574</u>	<u>120,508</u>	<u>-</u>	<u>122,974,082</u>
Less accumulated depreciation for:				
Buildings and structures	(971,894)	(530,124)	-	(1,502,018)
Infrastructure	(4,667,241)	(3,024,954)	-	(7,692,195)
Furniture & fixtures	(2,360,244)	(1,287,405)	-	(3,647,649)
Total accumulated depreciation	<u>(7,999,379)</u>	<u>(4,842,483)</u>	<u>-</u>	<u>(12,841,862)</u>
Total North Sumter Utility Fund, net	<u>\$ 114,854,195</u>	<u>(4,721,975)</u>	<u>-</u>	<u>110,132,220</u>

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

**(4) Intangible Assets**

Intangible asset activity for the year ended September 30, 2013 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	52,093,474	(76)	89,985,461
Less accumulated amortization	<u>(2,105,115)</u>	<u>(2,461,524)</u>	<u>-</u>	<u>(4,566,639)</u>
Intangible assets, net	<u>\$ 35,786,948</u>	<u>49,631,949</u>	<u>(76)</u>	<u>85,418,822</u>

The large increase in the intangible assets in fiscal year 2012-2013 represents the purchase of the residential and commercial solid waste collection and disposal rights for the Sumter and Marion County portions of The Villages. These rights were recorded at a purchase price of \$52,093,474. The difference between this amount and the total acquisition price of \$52,811,972 represented the value of accounts receivables and inventories of commercial collection dumpsters also acquired. A partial year amortization for nine months was recorded in this first fiscal year of the Sumter Sanitation Fund.

**NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT**  
Notes to Basic Financial Statements  
September 30, 2013

**(5) Long-term Debt**

***Revenue Bonds Payable***

Revenue bonds payable consisted of the following:

**North Sumter County Utility Dependent District**

<p>\$19,030,000 Subordinate Utility Revenue Bonds, Series 2010 due in annual principal installments ranging from \$115,000 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%.</p>	\$ 18,820,000
<p>\$156,985,000 Senior Utility Revenue Bonds, Series 2010 due in annual principal installments ranging from \$1,190,000 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 3.000% to 5.750%.</p>	154,780,000
<p>\$4,000,000 Subordinate Utility Revenue Bonds, Series 2012 due in annual principal installments ranging from \$5,000 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 rates range from 4.40% to 5.15%</p>	4,000,000
<p>\$50,605,000 Senior Utility Revenue Bonds, Series 2012 due in annual principal installments ranging from \$80,000 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 rates range from 4.25% to 5.00%</p>	<u>50,605,000</u>
<p style="padding-left: 20px;">Total revenue bonds payable</p>	228,205,000
<p style="padding-left: 20px;">Plus unamortized bond premium</p>	820,278
<p style="padding-left: 20px;">Less unamortized bond discount</p>	(2,791,718)
<p style="padding-left: 20px;">Less current installment of revenue bonds payable</p>	<u>(1,705,000)</u>
<p style="padding-left: 40px;">Revenue bonds payable less current installments</p>	\$ <u><u>224,528,560</u></u>

The annual requirements to amortize the principal and interest of all revenue bonds payable as of September 30, 2013 are as follows:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Fiscal year ending September 30:			
2014	1,705,000	11,531,373	13,236,373
2015	2,405,000	12,098,700	14,503,700
2016	2,860,000	11,972,232	14,832,232
2017	3,255,000	11,820,057	15,075,057
2018	3,800,000	11,647,400	15,447,400
2019-2023	22,630,000	55,032,284	77,662,284
2024-2028	29,250,000	48,270,967	77,520,967
2029-2033	37,920,000	39,422,003	77,342,003
2034-2038	49,190,000	27,908,009	77,098,009
2039-2043	63,880,000	12,874,421	76,754,421
2044	11,310,000	328,458	11,638,458
Total	\$ 228,205,000	242,905,906	471,110,906

**NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT**

Notes to Basic Financial Statements

September 30, 2013

**(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 - including unamortized premium and discount:					
Senior bonds	\$ 153,092,070	51,446,493	1,118,875	203,419,688	1,555,000
Subordinator bonds	18,935,000	3,993,714	114,842	22,813,872	150,000
Total bonds payable	<u>172,027,070</u>	<u>55,440,207</u>	<u>1,233,717</u>	<u>226,233,560</u>	<u>1,705,000</u>
Due to developer	-	2,289,029	12,816	2,276,213	-
Total business-type activities long- term liabilities	<u>172,027,070</u>	<u>55,440,207</u>	<u>1,233,717</u>	<u>228,509,773</u>	<u>1,705,000</u>
Total debt	\$ <u>172,027,070</u>	<u>55,440,207</u>	<u>1,233,717</u>	<u>228,509,773</u>	<u>1,705,000</u>

The principal change in the amount of long term debt resulted from the issuance of \$54,605,000 in Senior and Subordinate Solid Waste Revenue Bonds, Series 2012 to provide the proceeds to purchase the solid waste collection and disposal rights in the Sumter and Marion County portion of The Villages. The due to the developer of \$2,276,213 in the Sumter Sanitation Fund resulted from the December 27, 2012 bond issue not generating enough proceeds to cover the full agreed upon purchase price. This shortfall of proceeds resulted from a slight increase in the interest rates at the time of the bond closing. The indenture of trust provided for this event by pledging residual cost of issuance amounts and the debt service reserve fund to secure the shortfall. The residual cost of issuance amount of \$12,816 has already been applied to the original amount of \$2,289,029.

***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. 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, 2013 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, 2013.

<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	19,817,944	9,609,152	48.49%	321,545,694	2043
Utility Revenue Bonds, Subordinate	Water, Sewer, & Irrigation revenue	19,817,944	1,274,845	6.43%	42,323,939	2043
Sanitation Revenue Bonds, Senior	Sanitation revenue	7,290,414	1,904,586	26.12%	99,384,551	2043
Sanitation Revenue Bonds, Subordinate	Sanitation revenue	7,290,414	152,381	2.09%	7,856,722	2043

## NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2013

### (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 \$527,696.

The District has purchased from the Developer meter installation services for \$59,981. The Developer reimbursed \$63,980 to the District for meter set fees during the year based on the District's tariff. The District also sold \$19,170 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.

The Developer provided to the Village Center District at no cost information system support, including software, hardware, computer programming and internal mailroom operations. The Center District then passed on this benefit to NSCUDD. In March 2012, a new company was formed, Villages Technology Services Group, to assume the information system support previously provided by the Developer. In fiscal year 2012-2013, the Center District began paying for information system support, with these expenses then passed on in a prorated basis to NSCUDD. These costs for the year ended September 30, 2013 were \$123,838.

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 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.

The District is governed by a seven-member Board. As of September 30, 2013, one Board Member is an employee of 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.

## **NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT**

Notes to Basic Financial Statements

September 30, 2013

### **(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 2012-2013 with interest earnings, the amount on deposit in this fund was \$1,854,975. No draw on the fund was required by the District during fiscal year 2012-2013. 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.

A similar Utility Revenue Guarantee Fund was established in 2010 for the completion of connections of utility services after the water and sewer system was purchased. This fund was closed out in November 2012 with no draws having been made on it by the District. All these funds had been returned to the guarantor.

**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 County 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 County Utility Dependent District (the District) as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 7, 2014.

**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 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. 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 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 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**

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

Board of Supervisors  
North Sumter County 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.

*Purvis, Gray and Company, LLP*

February 7, 2014  
Ocala, Florida

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**MANAGEMENT LETTER**

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

We have audited the accompanying financial statements of the business-type activities and each major fund of North Sumter County Utility Dependent District (the District) as of and for the fiscal year ended September 30, 2013, and have issued our report thereon dated February 7, 2014.

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 Florida Auditor General*. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*, and Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports which are dated February 7, 2014, 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 findings and recommendations made in the preceding annual financial audit report. There were no findings or recommendations made in the preceding 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.
- Section 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 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.

**Certified Public Accountants**

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

**MANAGEMENT LETTER**  
*(Concluded)*

- Section 10.554(1)(i)5., *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 the September 30, 2013, the District's basic financial statements for this information).
- Section 10.554(1)(i)6.(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)6.(b)., *Rules of the Auditor General*, requires that we determine whether the annual financial report for the District for the fiscal year ended September 30, 2013, 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, 2013. In connection with our audit, we determined that these two reports agree.
- Pursuant to Sections 10.554(1)(i)6.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.

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, 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.

*Purvis, Gray and Company, LLP*

February 7, 2014  
Ocala, Florida



**North Sumter County  
UTILITY  
Dependent District**

February 10, 2014

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 2012-2013 for North Sumter County Utility Development 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. 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