



NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Basic Financial Statements

September 30, 2016

(With Independent Auditors' Report Thereon)

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Table of Contents

	Page
Financial Section	
Independent Auditors' Report on the Financial Statements	1
Management's Discussion and Analysis (UNAUDITED)	3
Basic Financial Statements:	
Statement of Net Position – Proprietary Funds	8
Statement of Revenues, Expenditures and Changes in Fund Net Position – Proprietary Funds	9
Statement of Cash Flows – Proprietary Funds	10
Notes to Basic Financial Statements	11
Other Reports	
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 <i>Government Auditing Standards</i>	31
Management Letter	33
Independent Accountants' Report	35
Management Response Letter	36

ON THE COVER

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

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, 2016, 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.

Certified Public Accountants

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

INDEPENDENT AUDITORS' REPORT
(Concluded)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the District, as of September 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* we have also issued our report dated January 31, 2017, 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.

Durvis, Gray and Company, LLP

January 31, 2017
Ocala, Florida

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT
Management's Discussion and Analysis
(UNAUDITED)
September 30, 2016

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

Financial Highlights

- In Fiscal Year 2015-2016, North Sumter Utility Dependent District showed an increase in net position of \$1,901,741. While operating at a positive cash position, the fund experienced significant non-cash expenses of \$4,808,045 for depreciation and \$2,938,471 for amortization. The depreciation expense shows the using up of the capital assets over time that must be replaced or renovated in future years.
- The total net position as of September 30, 2016, is (\$3,456,951). The negative total net position is due to the net investment in capital assets of (\$30,493,914), which will become a positive amount over time with the continued payment of the related debt. Of the total net position, \$23,338,593 of unrestricted net position exists that can be used at the discretion of the Board of Supervisors.
- Cash and cash equivalents on hand at the end of the year totaled \$37,483,858, with net cash provided by the operating activities of \$21,063,833 during the Fiscal Year. In addition, the District has \$10,002,354 in liquid, short-term investments. This provides \$47,486,212 in readily available deposit and investment accounts, a growth of \$5,398,759 from the \$42,087,453 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 8. The **Statement of Net Position, Proprietary Funds** presents information on all of the District's assets and deferred outflows compared to liabilities and deferred inflows, with the difference between the two reported as *net position*. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the North Sumter County Utility Dependent District is improving or deteriorating.

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

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

Government-wide financial statements are not required of the District since it is a special purpose government with two proprietary funds. The District has no governmental activities. The business-type activities of the District include water and sewer and reclaimed water utilities and trash collection services serving a portion of The Villages. The District has no component units, as all functions are performed by the primary government.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT
Management's Discussion and Analysis
(UNAUDITED)
September 30, 2016

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District established the Utility Enterprise Fund in 2010, prior to the utilities purchase and the Sumter Sanitation Fund in 2012, prior to purchasing the trash collection rights. The two enterprise funds are the two operating proprietary funds for the District. Governmental Accounting Standards Board (GASB) Statement No. 34 provides the authoritative guidance on the governmental financial reporting model.

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

Notes to the Financial Statements

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities exceeded assets by \$3,456,951 as of September 30, 2016, representing an increase of \$1,901,741 from the net position of (\$5,358,692) as of September 30, 2015. The increase in net position for September 30, 2016, is due to an increase in charges for services of \$2,407,128 with only a modest increase of \$797,467 in expenses.

The District's net position is categorized as follows, as of September 30, 2016:

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 renewals and replacements are adequately funded.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT
Management's Discussion and Analysis
(UNAUDITED)
September 30, 2016

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

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

Table 1

	Business-type Activities	
	September 30,	
	2016	2015
Assets:		
Current assets	\$ 32,454,872	26,984,627
Restricted assets	20,802,476	20,677,115
Capital assets (net of accumulated depreciation)	99,666,693	103,190,836
Bond insurance costs (net of accumulated amortization)	1,064,610	1,103,799
Intangible assets (net of accumulated amortization)	76,720,973	79,620,256
Total Assets	<u>230,709,624</u>	<u>231,576,633</u>
Liabilities:		
Current liabilities	8,263,971	12,607,021
Long term debt:		
Due in one year	7,625,034	2,860,000
Due in more than one year	218,277,570	221,468,304
Total Liabilities	<u>234,166,575</u>	<u>236,935,325</u>
Net position:		
Net investment in capital assets	(30,493,914)	(26,860,855)
Restricted for debt service	3,282,036	2,873,374
Restricted for renewal and replacement	416,334	416,334
Unrestricted	23,338,593	18,212,455
Total net position	<u>\$ (3,456,951)</u>	<u>(5,358,692)</u>

Business-type Activities

Business-type activities increased the District's net position by \$1,901,741 during the year ended September 30, 2016.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT
Management's Discussion and Analysis
(UNAUDITED)
September 30, 2016

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

Table 2

	Business-type Activities	
	September 30,	
	2016	2015
Business activity revenues		
Charges for physical environment services	\$ 33,845,711	31,674,073
Investment income	336,816	103,230
Rents and royalties	200,049	195,235
Sale of surplus materials and scrap	23,868	26,778
Total revenues	34,406,444	31,999,316
Business activity expenses		
Physical environment	12,812,064	11,937,060
Interest on long-term debt	11,946,123	12,089,623
Depreciation (unallocated)	4,808,045	4,742,082
Amortization expense	2,938,471	2,938,471
Total expenses	32,504,703	31,707,236
Changes in net position	\$ 1,901,741	292,080

Capital Assets

The District's capital assets as of September 30, 2016, and September 30, 2015, amounted to \$99,666,693 and \$103,190,836, 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, 2016, and September 30, 2015, the District had long-term debt outstanding of \$225,902,604 and \$224,328,304, respectively.

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

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT
Management's Discussion and Analysis
(UNAUDITED)
September 30, 2016

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate in Sumter County where the District is located was 6.9 percent in September 2016 which is a slight increase from a rate of 6.8 percent a year ago. The State's average unemployment rate is 4.7 percent and is below the national average rate of 5.0 percent.
- Inflationary trends in the area are comparable to national indices. The national Consumer Price Index (CPI) annual change for all urban consumers changed from a negative (0.04) percent in September 2015 to 1.46 percent in September 2016.

These factors were considered in preparing the District's budget for the 2016-2017 Fiscal Year. The revenue budget for the North Sumter Utility Fund is projected to increase by \$1,838,062, primarily due to the annual rate increase, offset by other minor increases and decreases. The expenditure budget for the North Sumter Utility Fund is projected to increase by \$520,226, mainly in the professional services and repairs and maintenances areas, offset by other minor increases and decreases.

The revenue budget for Sumter Sanitation Fund is projected to increase by \$395,304, primarily in the user fees. This is due to growth in the number of accounts serviced as The Villages continues construction and acquires the rights to serve houses in District No. 11, located in the city limits of Fruitland Park in Lake County. The expenditures are projected to increase by \$443,034 over the prior year final budget. This is primarily due to the increase in contractual services of \$384,312, offset by other minor increases and decreases.

Requests for Information

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

North Sumter County Utility Dependent District

Statement of Net Position

Proprietary Funds

September 30, 2016

Assets	North Sumter Utility	Sumter Sanitation	NSCUDD Total
Current assets:			
Cash and cash equivalents	\$ 12,495,457	4,185,925	16,681,382
Restricted cash and cash equivalents	7,092,512	2,199,797	9,292,309
Investments	9,184,094	818,260	10,002,354
Accounts receivable, net	4,577,547	1,080,101	5,657,648
Accrued interest receivable and prepaids	9,022	1,518	10,540
Inventory	-	102,948	102,948
Total current assets	33,358,632	8,388,549	41,747,181
Non-current assets:			
Restricted cash and cash equivalents	7,834,350	3,675,817	11,510,167
Capital assets:			
Non depreciable assets	318,516	-	318,516
Depreciable assets (net of accumulated depreciation)	99,348,177	-	99,348,177
Bond insurance costs (net of accumulated amortization)	1,064,610	-	1,064,610
Intangible assets (net of accumulated amortization)	31,193,905	45,527,068	76,720,973
Total non-current assets	139,759,558	49,202,885	188,962,443
Total assets	173,118,190	57,591,434	230,709,624
Liabilities			
Current liabilities:			
Accounts payable	126,956	1,284,987	1,411,943
Accrued expenses and other current liabilities	11,361	3,438	14,799
Accrued interest payable	4,609,556	1,331,376	5,940,932
Due to other governments	326,218	3,258	329,476
Utility guarantee deposit	-	69,341	69,341
Unearned revenue	-	497,480	497,480
Due to developer (amenity futures)	4,370,034	-	4,370,034
Current installments of revenue bonds payable	2,460,000	795,000	3,255,000
Total current liabilities	11,904,125	3,984,880	15,889,005
Non-current liabilities:			
Due to developer	-	2,076,213	2,076,213
Revenue bonds payable	163,011,430	53,189,927	216,201,357
Total non-current liabilities	163,011,430	55,266,140	218,277,570
Total liabilities	174,915,555	59,251,020	234,166,575
Net position			
Net investment in capital assets	(25,711,872)	(4,782,042)	(30,493,914)
Restricted for:			
Debt service	2,482,956	799,080	3,282,036
Renewal and replacement	416,334	-	416,334
Unrestricted	21,015,217	2,323,376	23,338,593
Total net position	\$ (1,797,365)	(1,659,586)	(3,456,951)

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, 2016

	<u>North Sumter Utility</u>	<u>Sumter Sanitation</u>	<u>NSCUDD Total</u>
Operating revenues:			
Charges for services:			
Water revenue	\$ 4,113,623	-	4,113,623
Sewer revenue	7,021,873	-	7,021,873
Irrigation revenue	10,785,093	-	10,785,093
Solid waste revenue	-	11,598,199	11,598,199
Recycling revenue	-	-	-
Miscellaneous revenue	110,896	113,614	224,510
Rents and royalties	200,049	-	200,049
Other Fees	32,397	21,421	53,818
Total operating revenues	<u>22,263,931</u>	<u>11,733,234</u>	<u>33,997,165</u>
Operating expenses:			
Contractual operation and maintenance services	3,128,652	6,095,700	9,224,352
General and administrative services	194,810	1,414,383	1,609,193
Engineering services	194,822	-	194,822
Utility services	1,113,066	-	1,113,066
Repair and maintenance services	178,552	7,266	185,818
Insurance, casualty and liability	209,303	-	209,303
Meter and operating supplies	225,297	1,618	226,915
Depreciation expense	4,808,045	-	4,808,045
Amortization expense	1,187,430	1,751,041	2,938,471
Total operating expenses	<u>11,239,977</u>	<u>9,270,008</u>	<u>20,509,985</u>
Operating income	<u>11,023,954</u>	<u>2,463,226</u>	<u>13,487,180</u>
Non-operating revenue (expenses):			
Investment income	296,982	39,834	336,816
Interest expense	(9,311,447)	(2,634,676)	(11,946,123)
Sale of surplus materials and scrap	23,868	-	23,868
Total non-operating revenue (expenses)	<u>(8,990,597)</u>	<u>(2,594,842)</u>	<u>(11,585,439)</u>
Change in net position	2,033,357	(131,616)	1,901,741
Total net position, beginning	<u>(3,830,722)</u>	<u>(1,527,970)</u>	<u>(5,358,692)</u>
Total net position, ending	<u>\$ (1,797,365)</u>	<u>(1,659,586)</u>	<u>(3,456,951)</u>

See accompanying notes to basic financial statements.

North Sumter County Utility Dependent District
Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2016

	North Sumter Utility	Sumter Sanitation	NSCUDD Total
Cash flows from operating activities:			
Receipts from customers	\$ 22,054,756	11,773,332	33,828,088
Payments to suppliers	(5,704,595)	(7,059,660)	(12,764,255)
Net cash provided (used) by operating activities	16,350,161	4,713,672	21,063,833
Cash flows from capital and related financing activities:			
Principal paid on debt	(2,022,660)	(773,074)	(2,795,734)
Acquisition of capital assets	(1,283,901)	-	(1,283,901)
Interest paid on debt	(9,311,447)	(2,634,676)	(11,946,123)
Net cash (used in) provided by capital and related financing activities	(12,618,008)	(3,407,750)	(16,025,758)
Cash flows from investing activities:			
Proceeds from sale of surplus material and scrap	23,868	-	23,868
Purchase of investments	(207,509)	(7,555)	(215,064)
Interest on investments	296,982	39,834	336,816
Net cash provided (used) by investing activities	113,341	32,279	145,620
Net increase (decrease) in cash and cash equivalents	3,845,494	1,338,201	5,183,695
Cash and cash equivalents, beginning of year	23,576,825	8,723,338	32,300,163
Cash and cash equivalents, end of year	27,422,319	10,061,539	37,483,858
Reconciliation of cash and cash equivalents per			
Statement of cash flows to the statement of net assets:			
Cash per statement of net position:			
Unrestricted cash and cash equivalents	12,495,457	4,185,925	16,681,382
Restricted cash and cash equivalents - current	7,092,512	2,199,797	9,292,309
Restricted cash and cash equivalents - non-current	7,834,350	3,675,817	11,510,167
Cash and cash equivalents	27,422,319	10,061,539	37,483,858
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	11,023,954	2,463,226	13,487,180
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	4,808,045	-	4,808,045
Amortization	1,187,430	1,751,041	2,938,471
Changes in assets and liabilities:			
(Increase) Decrease in:			
Accounts receivable	(199,792)	6,748	(193,044)
Prepaid expenses	(2,753)	(1,050)	(3,803)
Increase (Decrease) in:			
Accounts payable	(61,987)	719,647	657,660
Due to other governments	(330,372)	1,637	(328,735)
Due to developer	(22,242)	-	(22,242)
Unearned revenue	(9,383)	33,350	23,967
Accrued expenses and other current liabilities	(42,739)	(15,553)	(58,292)
Utility Guarantee Deposit	-	(245,374)	(245,374)
Net cash provided by operating activities	\$ 16,350,161	4,713,672	21,063,833

See accompanying notes to basic financial statements.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2016

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

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

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

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

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

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2016

(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 fourteen Community Development Districts (CDD's) in the total governmental structure of The Villages, each being a separate government entity, established pursuant to Chapter 190, Florida Statutes.

The following community development districts have been formed:

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

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2016

(1) Summary of Significant Accounting Policies (continued)

(a) Reporting Entity (continued)

- Village CDD No. 3 (Sumter County) – This CDD’s boundary consists of approximately 894 acres in the northeast corner of the county. The development included construction of 3,762 residential units.
- Village CDD No. 4 (Marion County) – This CDD’s boundary consists of approximately 1,253 acres in the southern portion of the county. The development included construction of 5,432 residential units of which 300 remain unsold as of September 30, 2016.
- Village CDD No. 5 (Sumter County) – This CDD’s boundary consists of approximately 1,407 acres in the northeast corner of the county. The development included construction of 6,399 residential units.
- Village CDD No. 6 (Sumter County) – This CDD’s boundary consists of approximately 1,497 acres in the northeast corner of the county. Planned development included construction of 6,697 residential units of which 1 remains unsold as of September 30, 2015.
- 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 103 unsold and being used as lifestyle preview homes by the Developer.
- Village CDD No. 9 (Sumter County) – This CDD’s boundary consists of approximately 1,286 acres in the northeast corner of the county. Planned development includes construction of 5,409 residential units of which 33 remain unsold as of September 30, 2016.
- Village CDD No. 10 (Sumter County) – This CDD’s boundary consists of approximately 1,589 acres in the northeast corner of the county. Planned development includes construction of 6,639 residential units of which 843 remain unsold as of September 30, 2016.
- Village CDD No. 11 (Lake County) – This CDD’s boundary consists of approximately 693 acres within the city limits of Fruitland Park in the western portion of Lake County. Planned development includes construction of 2,055 residential units of which 1,380 remain unsold as of September 30, 2016.
- Village CDD No. 12 (Sumter County) – This CDD’s boundary consists of approximately 699 acres within the city limits of the City of Wildwood in the in the northeast corner of the county. Planned development includes construction of 2,503 residential units. The first residential units are expected to be closed early in calendar year 2017.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2016

(1) Summary of Significant Accounting Policies (continued)

(b) *Basic Financial Statements*

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

Fund Financial Statements

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

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

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

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

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

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

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

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

North Sumter County Utility Dependent District Utility Enterprise Fund

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

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2016

(1) Summary of Significant Accounting Policies (continued)

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

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

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

Sumter Sanitation Fund

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

There are no non-major funds within the District.

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

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

(d) *Budgetary Data*

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

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

1. Deposits and Investments

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

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2016

(1) Summary of Significant Accounting Policies (continued)

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

1. Deposits and Investments (continued)

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

2. Capital Assets

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

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

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

3. Intangible Assets

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

4. Compensated Absences

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

(f) Bond Discounts, Bond Premiums and Issuance Costs

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

(g) Use of Estimates

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

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2016

(1) Summary of Significant Accounting Policies (continued)

(g) Use of Estimates (continued)

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

(h) Restricted Assets – Proprietary Funds

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

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

(i) Accounts Receivable

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

(g) Implementation of Governmental Accounting Standards Statements

During the year ending September 30, 2016, The District implemented GASB Statement No. 72 *Fair Value Measurement and Application*. This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. This statement clarifies the definition of fair value as an exit price. This Statement also defines an investment as a security or other asset that (a) a government holds primarily to generate income or profit and (b) has a present service capacity based solely on that assets ability to generate cash or to generate cash when sold. Governmental entities are required to record investments at fair value unless an exception applies and disclose the fair value measurement and hierarchy.

During the year ending September 30, 2016, The District implemented GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. The Statement allows qualifying external investment pools to elect to measure all investments at amortized cost if the pool meets certain criteria and subsequently allows pool participants to record an investment in the pool at amortized cost.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2016

(2) Deposits and Investments

Short-term Portfolio

As of September 30, 2016, the District had the following deposits and investments:

<u>Deposits and Investment Types</u>	<u>Fair Value at September 30, 2016</u>	<u>Weighted Average Maturity (Days)</u>	<u>Credit Rating</u>
Demand Deposits, CFB	\$ 1,359,417	1.0	n/a
Florida Education Investment Trust Fund, FEITF	7,452,587	47.0	AAAm
State Board of Administration, Florida Prime™	8,671	50.0	AAAm
U.S. Bank - State Board of Administration, Florida Prime™	20,802,476	50.0	AAAm
Florida Cooperative Liquid Assets Securities System, FLCLASS	7,860,707	67.0	AAAm
Florida Local Government Investment Trust, FLGIT	4,656,796	587.7	AAAf/S1
1-3 Year High Quality Bond Fund, FMIvT	3,776,985	511.0	AAAf/S2
Total Fair Value	\$ 45,917,639		
Portfolio Weighted Average Maturity (WAM)		143.4	

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, 2016, was 143.4 days.

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

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

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

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

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2016

(2) Deposits and Investments (continued)

Short-term Portfolio (continued)

Credit Risk (continued)

Florida Statutes. The District's investments in Florida Prime™, an external investment pool, are reported at amortized cost. The District recognized \$69,290 in earnings from Florida Prime™ during the 2015-2016 Fiscal Year. During September of 2016, the trust balances related to restricted debt service accounts, which are maintained with U.S. Bank, were transferred from Federated and Fidelity to the Local Government Investment Pool (Florida Prime™). Earnings during the year for the trust balances were \$51,216.

- During September of 2016, the Board approved the transfer of funds from Florida Prime™ to Florida Cooperative Liquid Assets Securities System (FLCLASS). FLCLASS is an independent local government investment pool and is an authorized investment consistent with Section 218.415(16)(a), Florida Statutes, and the District's short-term investment policy. The District's investments in FLCLASS are reported at amortized cost. The District recognized \$669 in earnings from FLCLASS during the month of September 2016.
- During September of 2016, the Board also approved the transfer of funds from Florida Prime™ to Florida Education Investment Trust Fund (FEITF). FEITF is a common law trust and is an authorized investment consistent with Section 218.415(16)(a), Florida Statutes, and the District's short-term investment policy. The District's investments in FEITF are reported at amortized cost. The District recognized \$578 in earnings from FEITF during the month of September 2016.

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

- The District also has investments consisting of funds placed with the Florida League of Cities, Inc. for participation in the Florida Municipal Investment Trust (FMIVT) investment pool. The pool is an authorized investment consistent with Section 218.415(16)(a), Florida Statutes, and the District's short-term investment policy. The District owns shares in the 1-3 Year High Quality Bond Fund pool operated by the FMIVT. GASB 31 requires all governments to mark to market the unrealized gains and losses incurred in its investments. In the year ended September 30, 2016, the FMIVT had incurred unrealized gains of \$29,002. The unrealized gains will not be realized until the sale of underlying shares in the FMIVT pool.
- The District also initiated investments in the Florida Local Government Investment Trust (FLGIT), a pool sponsored by the Florida Association of Counties and the Florida Court Clerks and Comptrollers. The pool is an authorized investment consistent with Section 218.415(16)(a), Florida Statutes, and the District's short-term investment policy. GASB 31 requires all governments to mark to market the unrealized gains and losses incurred in its investments. As of September 30, 2016, the FLGIT account had incurred unrealized gains of \$47,324. The unrealized gains will not be realized until the sale of underlying shares in the FLGIT pool.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2016

(2) Deposits and Investments (continued)

Short-term Portfolio (continued)

Credit Risk (continued)

- In total, the District recognized investment income of \$198,079 for the short-term portfolio during the Fiscal Year.

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

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

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

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

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

- The Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes.
- Securities and Exchange Commission registered money market mutual funds with the highest credit quality rating from a nationally-recognized rating agency.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2016

(2) Deposits and Investments (continued)

Short-term Portfolio (continued)

Short-Term Investment Policy (continued)

- Interest-bearing time deposits or savings accounts in qualified public depositories as defined in Section 280.02, Florida Statutes.
- Direct obligations of the United States Treasury.
- Federal agencies and instrumentalities.
- Repurchase agreements with financial institutions approved as public depositories, provided that the underlying collateral consists of obligations of the United States Government, its agencies and instrumentalities. The repurchase agreement shall be collateralized equal to at least 102 percent of the value of the District's investment.

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

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

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

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

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

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

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

- Florida Local Government Investment Pool (Florida Prime™)

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2016

(2) Deposits and Investments (continued)

Short-term Portfolio (continued)

Fair Value Measurement (continued)

- Florida Cooperative Liquid Assets Securities System (FLCLASS)
- Florida Education Investment Trust Fund (FEITF)

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

Long-Term Portfolio

In August of 2014, the District adopted a Long-Term Investment Policy (LTIP). Implementation of the LTIP occurred in October of 2014. Investments in fixed income and equity mutual funds, and money market funds, as authorized in the LTIP, are reported at fair value as of September 30, 2016, as follows:

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2016

(2) **Deposits and Investments (continued)**

Long-Term Portfolio (continued)

<u>Long Term Investment Portfolio</u>	<u>Fair Value at September 30, 2016</u>	<u>Average Maturity (years)</u>	<u>Credit Rating</u>
Domestic Equity			
Vanguard Total Stock Market Index	\$ 497,107	N/A	N/A
Vanguard Dividend Growth	99,651	N/A	N/A
Vanguard Small Cap Index	66,455	N/A	N/A
International Equity			
Vanguard Total International Stock Index	69,848	N/A	N/A
Vanguard International Value	58,442	N/A	N/A
J. O. Hambro International Select	71,550	N/A	N/A
Oppenheimer International Small-Mid Company	35,297	N/A	N/A
Other Growth			
Vanguard REIT Index	63,294	N/A	N/A
Fixed Income			
Metropolitan West Total Return	150,628	6.37	AA
Baird Core Plus	198,868	7.18	A
Vanguard Intermediate-Term Investment Grade	198,896	6.40	A
Vanguard High Yield Corporate	54,448	5.80	BB
Cash Equivalent			
First American Government Obligation	4,089	25 Days	AAAm
Total Fair Value	<u>\$ 1,568,573</u>		

The District's LTIP allocations seek to have up to 60% in equities with the remainder in fixed income and/or cash and cash equivalents. The District contracts with qualified investment managers to whom authority is delegated to invest and reinvest assets in accordance with the LTIP. The District's LTIP does not place specific limits on maturities. During the current Fiscal Year, the Long-Term Investment Portfolio had an unrealized gain of \$138,737. The realization of the gain will only occur from the future sale of underlying shares in the portfolio.

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

Credit Risk. GASB 40 requires disclosure of credit quality ratings for investments in debt securities as well as investments in external investment pools, fixed income mutual funds, money market funds, and other pooled investments of fixed income securities. The District's LTIP stipulates that the average credit rating of the overall fixed income portfolio should be investment grade, based on

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2016

(2) Deposits and Investments (continued)

Long-Term Portfolio (continued)

Credit Risk (continued)

the rating of one Nationally Recognized Statistical Rating Organization (NRSRO), such as Fitch, Moody's, Standard and Poor's (S&P), etc.

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

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

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

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

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

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2016

(2) Deposits and Investments (continued)

Long-Term Portfolio (continued)

Long-Term Investment Policy (continued)

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

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

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

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

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

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

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT
Notes to Basic Financial Statements
September 30, 2016

(3) Capital Assets

Capital asset activity for the year ended September 30, 2016, was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activities:				
Assets not being depreciated:				
Land	\$ 288,338	-	-	288,338
Construction in progress	-	30,178	-	30,178
Total assets not being depreciated	<u>288,338</u>	<u>30,178</u>	<u>-</u>	<u>318,516</u>
Assets being depreciated:				
Buildings and structures	14,870,732	-	-	14,870,732
Infrastructure	92,240,248	1,253,723	-	93,493,971
Furniture & fixtures	18,008,695	-	-	18,008,695
Total assets being depreciated	<u>125,119,675</u>	<u>1,253,723</u>	<u>-</u>	<u>126,373,398</u>
Total assets	<u>125,408,013</u>	<u>1,283,901</u>	<u>-</u>	<u>126,691,914</u>
Less accumulated depreciation for:				
Buildings and structures	(2,566,188)	(534,019)	-	(3,100,207)
Infrastructure	(13,384,724)	(3,000,293)	-	(16,385,017)
Furniture & fixtures	(6,266,265)	(1,273,732)	-	(7,539,997)
Total accumulated depreciation	<u>(22,217,177)</u>	<u>(4,808,044)</u>	<u>-</u>	<u>(27,025,221)</u>
Total business-type activities, net	<u>\$ 103,190,836</u>	<u>(3,524,143)</u>	<u>-</u>	<u>99,666,693</u>

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

(4) Intangible Assets

Intangible asset activity for the year ended September 30, 2016, was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activities:				
NSCUDD				
Discounted value purchase	\$ 89,985,461	-	-	89,985,461
Less accumulated amortization	<u>(10,365,205)</u>	<u>(2,899,283)</u>	<u>-</u>	<u>(13,264,488)</u>
Intangible assets, net	<u>\$ 79,620,256</u>	<u>(2,899,283)</u>	<u>-</u>	<u>76,720,973</u>

The only activity in the intangible assets was a full year of amortization for the Sumter Sanitation Fund in addition to the Utility Fund.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT
Notes to Basic Financial Statements
September 30, 2016

(5) Long-term Debt

Revenue Bonds Payable

Revenue bonds payable consisted of the following:

<p>\$19,030,000 Subordinate Utility Revenue Bonds, Series 2010 due in annual principal installments ranging from \$200,000 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>	<p>\$ 18,300,000</p>
<p>\$156,985,000 Senior Utility Revenue Bonds, Series 2010 due in annual principal installments ranging from \$1,915,000 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%.</p>	<p>149,680,000</p>
<p>\$4,000,000 Subordinate Utility Revenue Bonds, Series 2012 due in annual principal installments ranging from \$55,000 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>	<p>3,900,000</p>
<p>\$50,605,000 Senior Utility Revenue Bonds, Series 2012 due in annual principal installments ranging from \$690,000 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>	<p><u>49,355,000</u></p>
<p style="padding-left: 40px;">Total revenue bonds payable</p>	<p>221,235,000</p>
<p>Plus unamortized bond premium</p>	<p>735,422</p>
<p>Less unamortized bond discount</p>	<p>(2,514,065)</p>
<p>Less current installment of revenue bonds payable</p>	<p><u>(3,255,000)</u></p>
<p style="padding-left: 40px;">Revenue bonds payable less current installments</p>	<p><u><u>\$ 216,201,357</u></u></p>

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2016

(5) Long-term Debt (continued)

Revenue Bonds Payable (continued)

The annual requirements to amortize the principal and interest of all revenue bonds payable as of September 30, 2016, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending September 30:			
2016	3,255,000	11,820,057	15,075,057
2017	3,800,000	11,647,400	15,447,400
2018	4,085,000	11,452,038	15,537,038
2019	4,300,000	11,243,256	15,543,256
2020	4,515,000	11,023,438	15,538,438
2021-2025	26,360,000	51,212,183	77,572,183
2026-2030	34,185,000	43,241,772	77,426,772
2031-2035	44,320,000	32,880,053	77,200,053
2036-2040	57,515,000	19,402,720	76,917,720
2041-2044	38,900,000	3,380,685	42,280,685
Total	<u>\$ 221,235,000</u>	<u>207,303,600</u>	<u>428,538,600</u>

Changes in Long-term Debt:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Business-type activities:					
Bonds payable					
Senior bonds	\$ 201,640,000	-	2,605,000	199,035,000	2,960,000
Subordinate bonds	22,455,000	-	255,000	22,200,000	295,000
Plus unamortized bond premium	763,707	-	28,285	735,422	-
Less unamortized bond discount	(2,606,616)	-	(92,551)	(2,514,065)	-
Total bonds payable	<u>222,252,091</u>	<u>-</u>	<u>2,795,734</u>	<u>219,456,357</u>	<u>3,255,000</u>
Due to developer	<u>2,076,213</u>	<u>-</u>	<u>-</u>	<u>2,076,213</u>	<u>-</u>
Total business-type activities long-term liabilities	<u>224,328,304</u>	<u>-</u>	<u>2,795,734</u>	<u>221,532,570</u>	<u>3,255,000</u>
Total debt	<u>\$ 224,328,304</u>	<u>-</u>	<u>2,795,734</u>	<u>221,532,570</u>	<u>3,255,000</u>

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2016

(5) Long-term Debt (continued)

Pledged Revenues. The District has pledged certain water, sewer and non-potable irrigation water revenue to pay the principal and interest on Utility Revenue Bonds issued in Fiscal Year 2010-2011 to pay for the purchase of water, sewer and irrigation utility facilities. In addition, the District has pledged certain residential and commercial solid waste collection fee revenue to pay the principal and interest on the Solid Waste Revenue Bonds issued in Fiscal Year 2012-2013. These Utility and Solid Waste Revenue Bonds were outstanding on September 30, 2016, as shown below. The table reports the revenues pledged for each debt issue, the amounts of revenue received in the current year, the current year principal and interest paid on the debt, the approximate percentage of each revenue which is pledged to meet the debt obligation, the date through which the revenue is pledged under the debt agreement and the total pledged future revenues for each debt, which is the amount of the remaining principal and interest on the bonds as of September 30, 2016.

Description of Debt	Pledged Revenue	Revenue Received	Principal and Interest Paid	Estimated Percent Pledged	Outstanding Principal and Interest	Pledged Through
Utility Revenue Bonds, Senior	Water, Sewer, & Irrigation revenue	21,920,589	10,093,902	46.05%	291,742,962	2043
Utility Revenue Bonds, Subordinate	Water, Sewer, & Irrigation revenue	21,920,589	1,332,545	6.08%	38,408,388	2043
Sanitation Revenue Bonds, Senior	Sanitation revenue	11,598,199	3,129,465	26.98%	91,180,250	2043
Sanitation Revenue Bonds, Subordinate	Sanitation revenue	11,598,199	250,211	2.16%	7,207,000	2043

(6) Related Parties

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

The District has purchased from the Developer meter installation services for \$63,310. The Developer reimbursed \$19,417 to the District for meter set fees during the year based on the District's tariff. The District also sold \$270 in construction water to the Developer in the normal course of business during the year.

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

(7) Risk Management

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

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Basic Financial Statements

September 30, 2016

(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 2015-2016, with interest earnings, the amount on deposit in this fund was \$69,341. No draw on the fund was required by the District during Fiscal Year 2015-2016. The agreement provides for an annual reconciliation of the amount of the Utility Revenue Guarantee Fund deposit based on actual new housing unit connections completed each Fiscal Year.

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

Board of Supervisors
North Sumter 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 governmental activities, 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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 31, 2017.

Internal Control over Financial Reporting

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

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

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

Certified Public Accountants

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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.



January 31, 2017
Ocala, Florida

MANAGEMENT LETTER

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 fiscal year ended September 30, 2016, and have issued our report thereon dated January 31, 2017.

Auditors' Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Chapter 10.550, *Rules of the Florida Auditor General*.

Other Reports

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*, and Independent Accountants' Report on an examination conducted in accordance with American Institute of Certified Public Accountants Professional Standards, Section 601, regarding compliance requirements in accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports which are dated January 31, 2017, should be considered in conjunction with this management letter.

Prior Audit Findings

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

Official Title and Legal Authority

Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government be disclosed in this management letter, unless disclosed in the notes to the financial statements (see Note 1 of the District's September 30, 2016 basic financial statements, for this information).

Certified Public Accountants

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

MANAGEMENT LETTER
(Concluded)

Financial Condition

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

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), *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.

Annual Financial Report

Section 10.554(1)(i)5.b., *Rules of the Auditor General*, requires that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for the District for the fiscal year ended September 30, 2016, 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, 2016. In connection with our audit, we determined that these two reports agree.

Other Matters

Section 10.554(1)(i)2., *Rules of the Auditor General*, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Section 10.554(1)(i)3., *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.

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, the Board of Supervisors and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

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



January 31, 2017
Ocala, Florida

INDEPENDENT ACCOUNTANTS' REPORT

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

We have examined the North Sumter County Utility Dependent District's (the District) compliance with the requirements of Section 218.415, Florida Statutes with regards to the District's investments during the year ended September 30, 2016. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, the District complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2016.

Purvis, Gray and Company, LLP

January 31, 2017
Ocala, Florida

Certified Public Accountants

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**North Sumter County
UTILITY
Dependent District**

January 31, 2017

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

RE: Management Response Letter

Dear Supervisors:

Attached is the completed audit for Fiscal Year 2015 – 2016 for the North Sumter Utility Dependent District. We are proud to report that this audit has an unmodified opinion.

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

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

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

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

Sincerely,

A handwritten signature in blue ink that reads 'Sarah C. Koser'.

Sarah C. Koser, CPA, CGFO, CPFO
Interim Finance Director

A handwritten signature in blue ink that reads 'Janet Y. Tutt'.

Janet Y. Tutt
District Manager