



NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Basic Financial Statements

September 30, 2019

(With Independent Auditors' Report Thereon)

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

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ON THE COVER

The cover photograph was submitted by
Kim Burnell, Accounting Technician, Accounts Payable Division
in the District Finance Department.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of North Sumter Utility Dependent District (the District) as of and for the year ended September 30, 2019, 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.

Auditor's 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Certified Public Accountants

P.O. Box 141270 • 222 N.E 1st Street • Gainesville, Florida 32614-1270 • (352) 378-2461
Laurel Ridge Professional Center • 2347 S.E. 17th Street • Ocala, Florida 34471 • (352) 732-3872
443 East College Avenue • Tallahassee, Florida 32301 • (850) 224-7144
5001 Lakewood Ranch Blvd., Suite 101 • Sarasota, Florida 34240 • (941) 907-0350
1560 N. Orange Ave., Suite #450 • Winter Park, Florida 32789
MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS
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Board of Supervisors
North Sumter Utility Dependent District
The Villages, Florida

INDEPENDENT AUDITOR'S REPORT

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, 2019, and the respective changes in financial position and cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2020, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



January 31, 2020
Ocala, Florida

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Management's Discussion and Analysis

September 30, 2019

This Management Discussion and Analysis report provides the reader with a narrative overview and analysis of the financial activities of the North Sumter County Utility Dependent District for the fiscal year ending September 30, 2019. This report is designed to (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the District's financial activities; (c) identify changes in the District's financial position and its ability to address the next and subsequent year challenges (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues and concerns. The information contained within this section should be considered in conjunction with the District's Financial Statements.

FINANCIAL HIGHLIGHTS

- Total assets of the District are \$220,650,000; and the deferred outflows of the resources of the District are \$0.
- Total liabilities of the District are \$217,376,000; and the deferred inflows of the resources of the District are \$0.
- The assets and deferred outflows of the District exceeded its liabilities and deferred inflows as of September 30, 2019, by \$3,274,000 (net position). Of this amount, \$33,877,000 is unrestricted and can be used at the discretion of the Board of Supervisors.
- The District's total revenues of \$36,604,000 exceeded the expenses of \$34,289,000, providing a \$2,315,000 increase in total net position.
- Depreciation expenses on existing capital assets for the current fiscal year amounted to \$5,175,000 to show the need for the gradual replacement of these assets over time. Amortization expense totaled \$3,032,000 for the current year.
- The District's total debt decreased by \$4,621,000 during the year ending September 30, 2019.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of two sections:

- Fund financial statements
- Notes to the financial statements.

This report also contains other supplemental information in addition to the basic financial statements themselves.

Fund Financial Statements

The fund financial statements provide detailed information about the District's major funds individually. 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 maintains two proprietary funds. There are no government or fiduciary funds maintained by the District. The fund financial statements present information in more detail than the government-wide financial statements.

Proprietary funds

Proprietary funds are used to report business-type activities. The District maintains two proprietary funds, the North Sumter Utility Enterprise Fund (NSU) Fund and the Sumter Sanitation Fund (SSF). Enterprise funds, a category of proprietary funds, are included as *business-type activities* in the government-wide financial statements. The proprietary fund financial statements provide separate information for NSU and SSF, both of which are considered to be major funds of the North Sumter County Utility Dependent District.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Management's Discussion and Analysis

September 30, 2019

The District maintains the following two proprietary funds:

- **North Sumter Utility Dependent District Utility Enterprise Fund (NSU):** The NSU Fund provides water, wastewater and reclaimed water services 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 (SSF):** The SSF Fund provides trash, yard waste and recycling collection services to residents located in Village Community Development District Nos. 1-11 and commercial businesses located in the Sumter Landing community Development District commercial areas in Sumter County.

The *Statement of Net Position* presents information on all of the District's assets (and deferred outflows) and liabilities (and deferred inflows), with the difference 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 District is improving or deteriorating.

The *Statement of Changes in Net Position*, also referred to as the *Statement of Activities* 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 (e.g., uncollected assessments).

The *Statement of Cash Flow* 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 to be reported because the District has no governmental activities. The District is a special purpose government with two proprietary funds. 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.

The proprietary fund financial statements are provided 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 are presented beginning on page 12.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT
Management's Discussion and Analysis
September 30, 2019

BUSINESS-TYPE ACTIVITIES FINANCIAL STATEMENTS AND ANALYSIS

Statement of Net Position

A comparison of the *Statement of Net Position* for the current year and prior year is presented below.

	Business-type Activities	
	September 30,	
	2019	2018
Assets:		
Current assets	\$ 37,425,170	34,292,405
Restricted assets	22,458,164	21,906,783
Capital assets (net of accumulated depreciation)	89,556,828	93,072,400
Bond insurance costs (net of accumulated amortization)	947,046	986,234
Intangible assets (net of accumulated amortization)	70,262,804	73,120,407
Total Assets	<u>220,650,012</u>	<u>223,378,229</u>
Liabilities:		
Current liabilities	7,990,617	8,413,613
Long term debt:		
Due in one year	4,900,000	4,685,000
Due in more than one year	204,485,368	209,321,102
Total Liabilities	<u>217,375,985</u>	<u>222,419,715</u>
Net position:		
Net investment in capital assets	(35,608,478)	(33,525,127)
Restricted for debt service	4,589,620	4,245,871
Restricted for renewal and replacement	416,334	416,334
Unrestricted	33,876,551	29,821,436
Total net position	<u>\$ 3,274,027</u>	<u>958,514</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The District's total assets (and deferred outflows) exceeded total liabilities (and deferred inflows) by \$3,274,000. The net position increased \$2,316,000 from a balance of \$958,000 as of September 30, 2018.

The District's net position is broken down into four categories:

- **Net investment in capital assets** reflects its investment in capital assets less any related outstanding debt to acquire those assets. The District uses these capital assets to provide services to its residents; therefore, 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.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Management's Discussion and Analysis

September 30, 2019

- **Restricted for debt service** An additional portion of the District's net position, \$4,590,000 represents resources that are subject to external restrictions on how they may be used. The District's restricted net position is restricted for the purpose of meeting its debt service obligations.
- **Restricted for renewal and replacement** A total \$416,000 of the District's net position is restricted by the bond indenture to ensure capital renewal and replacement is adequately funded, calculated as a minimum of 2% of the prior year's revenues.
- **Unrestricted net position** The remaining portion of \$33,877,000 is unrestricted and available to meet the future needs of the district as unrestricted net position.

Statement of Changes in Net Position

A comparison of the *Statement of Changes in Net Position* for the current year and prior year is presented below.

	September 30,	
	2019	2018
Business activity revenues		
Charges for physical environment services	\$ 34,937,001	33,546,262
Investment income	1,388,864	901,456
Contributions - private sources & donations	-	186,941
Rents and royalties	256,479	222,125
Sale of surplus materials and scrap	21,690	21,118
Total revenues	36,604,034	34,877,902
Business activity expenses		
Physical environment	14,695,121	13,655,063
Interest on long-term debt	11,387,048	11,592,060
Depreciation (unallocated)	5,174,561	5,030,467
Amortization expense	3,031,791	2,938,471
Total expenses	34,288,521	33,216,061
Changes in net position	\$ 2,315,513	1,661,841

As noted earlier, the Statement of Changes in Net Position presents information showing how the District's net position changed during the most recent fiscal year.

Revenues The District's revenues for the years ended September 30, 2019, and September 30, 2018 were approximately \$36,604,000 and \$34,878,000 respectively. Total revenues increased 5% year over year. The District's expenses for the years ended September 30, 2019, and September 30, 2018, were \$34,289,000 and \$33,216,000 respectively. The increase in expense was related primarily to an increase in Physical Environment expenses offset by a decrease in interest expense.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Management's Discussion and Analysis

September 30, 2019

Revenues include charges for physical environment services, investment income and other miscellaneous income. Charges for physical environment services have increased 4% over prior year while investment income grew \$487,000 or 54% over prior year due as the cash and cash equivalent deposits grew and the unrealized earnings continued to show favorable results in the Investment portfolios.

Expenses Total expenses increased by \$1,073,000 in fiscal year 2019 compared to fiscal year 2018. This increase was primarily due to costs associated with physical environment services. Included in physical environment services, contracted operational services, utility services and maintenance costs increased \$1,040,000 as compared to the prior fiscal year. Depreciation expense remained steady year over year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets as of September 30, 2019 amounts to \$89,557,000. This investment in capital assets includes land, buildings, infrastructure and furniture and fixtures. The District invested a net \$1,660,000 during the year. Depreciation expenses totaled \$5,175,000 resulting in an overall net decrease in capital assets of \$3,516,000.

Additional information regarding the District's capital assets can be found in Note 4 of the Notes to Basic Financial Statements.

Long-Term Debt

As of September 30, 2019, and September 30, 2018, the District had long-term debt outstanding of \$209,385,000 and \$214,006,000, respectively. The debt consists of various Revenue Bonds issued to purchase NSU and SSF. This debt is secured by a pledge of revenues under the indentures which are derived by the District from the users of the utility services.

Additional information regarding the District's long-term debt can be found in Note 6 of the Notes to Basic Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Local, state and national economic factors influence the District's budget in a variety of ways. These factors were considered in preparing the District's budget for the 2019 Fiscal Year.

- The unemployment rate in Sumter County where the District is located was 3.5% in September 2019, a decrease from 3.6% a year ago. The State's average unemployment rate is 3.2%, below the national average rate of 3.5%.
- Inflationary trends in the area are comparable to national indices. The national Consumer Price Index (CPI) annual change for all urban consumers increased from 2.28% in September 2018 to 1.71% in September 2019.

North Sumter Utility Fund: In Fiscal Year 2020, the total revenues are projected to increase by \$998,000 compared to the Fiscal Year 2019 final budget. Water and Sewer fees make up the majority of the revenue increase. The Fiscal Year 2020 expenditure budget projects a decrease of \$1,305,000, when compared to the Fiscal Year 2019 final budget. The decrease in expenditures results primarily from a decrease capital outlay and repairs and maintenance expenses.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Management's Discussion and Analysis

September 30, 2019

Sumter Sanitation Fund: In Fiscal Year 2020, the total revenues are projected to increase by \$1,123,000 compared to the Fiscal Year 2019 final budget. Solid Waste fees make up the majority of the revenue increase. The Fiscal Year 2020 expenditure budget projects an increase of \$2,564,000, when compared to the Fiscal Year 2019 final budget. The increase in expenditures results primarily from an increase in capital outlay and recycling services.

TO OBTAIN FURTHER INFORMATION

The District's financial statements are designed to provide a general overview of the District's finances and to demonstrate the District's accountability. If you have any questions about the report or would like additional financial information, contact the Village Community Development Districts, Finance Office at:

984 Old Mill Run
The Villages, FL 32162
Telephone (352) 753-0421

It is also suggested you visit our website at www.districtgov.org for general information and additional financial information about the District.

North Sumter County Utility Dependent District

Statement of Net Position

Proprietary Funds

September 30, 2019

Assets	North Sumter Utility	Sumter Sanitation	NSCUDD Total
Current assets:			
Cash and cash equivalents	\$ 19,198,284	1,992,205	21,190,489
Restricted cash and cash equivalents	7,788,537	2,535,628	10,324,165
Investments	11,227,144	1,034,121	12,261,265
Accounts receivable, net	2,668,708	952,348	3,621,056
Due from developer	-	261,990	261,990
Due from other governments	10,590	33,770	44,360
Due from other funds	-	40,576	40,576
Accrued interest receivable and prepaids	34,355	11,655	46,010
Total current assets	40,927,618	6,862,293	47,789,911
Non-current assets:			
Restricted cash and cash equivalents	8,258,928	3,875,071	12,133,999
Capital assets:			
Non depreciable assets	532,734	-	532,734
Depreciable assets (net of accumulated depreciation)	89,024,094	-	89,024,094
Bond insurance costs (net of accumulated amortization)	947,046	-	947,046
Intangible assets (net of accumulated amortization)	27,749,179	42,513,625	70,262,804
Total non-current assets	126,511,981	46,388,696	172,900,677
Total assets	167,439,599	53,250,989	220,690,588
Liabilities			
Current liabilities:			
Accounts payable	681,512	686,746	1,368,258
Accrued expenses and other current liabilities	34,425	19,034	53,459
Accrued interest payable	4,400,895	1,260,501	5,661,396
Due to other governments	298,120	1,261	299,381
Due to other funds	40,576	-	40,576
Utility guarantee deposit	-	73,147	73,147
Unearned revenue	-	534,976	534,976
Current installment - due to developer	-	600,000	600,000
Current installments of revenue bonds payable	3,165,000	1,135,000	4,300,000
Total current liabilities	8,620,528	4,310,665	12,931,193
Non-current liabilities:			
Due to developer	-	276,213	276,213
Revenue bonds payable	154,278,450	49,930,705	204,209,155
Total non-current liabilities	154,278,450	50,206,918	204,485,368
Total liabilities	162,898,978	54,517,583	217,416,561
Net position			
Net investment in capital assets	(30,931,469)	(4,677,009)	(35,608,478)
Restricted for:			
Debt service	3,387,641	1,201,979	4,589,620
Renewal and replacement	416,334	-	416,334
Unrestricted	31,668,115	2,208,436	33,876,551
Total net position	\$ 4,540,621	(1,266,594)	3,274,027

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, 2019

	<u>North Sumter Utility</u>	<u>Sumter Sanitation</u>	<u>NSCUDD Total</u>
Operating revenues:			
Charges for services:			
Water revenue	\$ 4,488,322	-	4,488,322
Sewer revenue	7,580,812	-	7,580,812
Irrigation revenue	10,136,260	-	10,136,260
Solid waste revenue	-	12,525,168	12,525,168
Rents and royalties	256,479	-	256,479
Miscellaneous revenue	187,666	18,773	206,439
Total operating revenues	<u>22,649,539</u>	<u>12,543,941</u>	<u>35,193,480</u>
Operating expenses:			
Contractual operation and maintenance services	3,126,859	8,240,765	11,367,624
General and administrative services	877,182	189,887	1,067,069
Utility services	1,073,382	-	1,073,382
Repair and maintenance services	717,242	131,375	848,617
Insurance, casualty and liability	201,030	-	201,030
Meter and operating supplies	137,399	-	137,399
Depreciation expense	5,174,561	-	5,174,561
Amortization expense	1,187,430	1,844,361	3,031,791
Total operating expenses	<u>12,495,085</u>	<u>10,406,388</u>	<u>22,901,473</u>
Operating income	<u>10,154,454</u>	<u>2,137,553</u>	<u>12,292,007</u>
Non-operating revenue (expenses):			
Investment income	1,173,634	215,230	1,388,864
Interest expense	(8,894,122)	(2,492,926)	(11,387,048)
Sale of surplus materials and scrap	21,690	-	21,690
Total non-operating revenue (expenses)	<u>(7,698,798)</u>	<u>(2,277,696)</u>	<u>(9,976,494)</u>
Change in net position	2,455,656	(140,143)	2,315,513
Total net position, beginning	<u>2,084,965</u>	<u>(1,126,451)</u>	<u>958,514</u>
Total net position, ending	<u>\$ 4,540,621</u>	<u>(1,266,594)</u>	<u>3,274,027</u>

See accompanying notes to basic financial statements.

North Sumter County Utility Dependent District
Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2019

	North Sumter Utility	Sumter Sanitation	NSCUDD Total
Cash flows from operating activities:			
Receipts from customers	\$ 22,845,625	12,594,229	35,439,854
Payments to suppliers	(6,441,287)	(9,133,748)	(15,575,035)
Net cash provided (used) by operating activities	16,404,338	3,460,481	19,864,819
Cash flows from capital and related financing activities:			
Principal paid on debt	(3,015,000)	(1,070,000)	(4,085,000)
Acquisition of intangible assets		(135,000)	(135,000)
Acquisition of capital assets	(1,658,989)	-	(1,658,989)
Interest paid on debt	(8,877,538)	(2,547,750)	(11,425,288)
Net cash (used in) provided by capital and related financing activities	(13,551,527)	(3,752,750)	(17,304,277)
Cash flows from investing activities:			
Proceeds from sale of surplus material and scrap	21,690	-	21,690
Purchase of investments	(551,342)	(205,868)	(757,210)
Interest on investments	1,181,021	218,146	1,399,167
Net cash provided (used) by investing activities	651,369	12,278	663,647
Net increase (decrease) in cash and cash equivalents	3,504,180	(279,991)	3,224,189
Cash and cash equivalents, beginning of year	31,741,569	8,682,895	40,424,464
Cash and cash equivalents, end of year	35,245,749	8,402,904	43,648,653
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	19,198,284	1,992,205	21,190,489
Restricted cash and cash equivalents - current	7,788,537	2,535,628	10,324,165
Restricted cash and cash equivalents - non-current	8,258,928	3,875,071	12,133,999
Cash and cash equivalents	35,245,749	8,402,904	43,648,653
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	10,154,454	2,137,553	12,292,007
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	5,174,561	-	5,174,561
Amortization	1,187,430	1,844,361	3,031,791
Changes in assets and liabilities:			
(Increase) Decrease in:			
Accounts receivable	199,289	18,770	218,059
Due from other governments	(10,590)	(74,346)	(84,936)
Prepaid expenses and Inventory	7,387	105,864	113,251
Increase (Decrease) in:			
Accounts payable	282,529	30,801	313,330
Due to other governments	(524,392)	717	(523,675)
Due to developer	-	(600,000)	(600,000)
Unearned revenue	(4,234)	1,805	(2,429)
Accrued expenses and other current liabilities	(62,096)	(6,903)	(68,999)
Utility Guarantee Deposit	-	1,859	1,859
Net cash provided by operating activities	\$ 16,404,338	3,460,481	19,864,819

See accompanying notes to basic financial statements.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Financial Statements

September 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The North Sumter County Utility Dependent District (the District) was established on July 13, 2010 to manage and finance solid waste collection and disposal, water, wastewater and reclaimed water utility services for approximately 8,000 acres of land located in unincorporated Sumter County in The Villages, Florida. The District was created 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. The District is governed by a seven-member Board of Supervisors. The Board is made up of one resident from each of Districts 5 through District 10, with an additional at-large member anywhere from within Districts 5 through 10. As of September 30, 2019, each member of the Board of Supervisors has been elected by qualified electors (registered voters).

The District provides water, wastewater and reclaimed water service to Village properties between C.R. 466 and C.R. 466A in Sumter County. The District also provides solid waste sanitation services for the Sumter County, Marion County, and portions of The Villages that are in the City of Fruitland Park and City of Wildwood

The Villages continues to be developed by the developer, a family-owned business established for the single purpose of developing The Villages. Today, The Villages spans approximately 50 square miles across the borders of Lake, Sumter and Marion Counties, the City of Wildwood, the City of Fruitland Park and the Town of Lady Lake, Florida, with a population of approximately 130,000. When fully developed The Villages is expected to span 86 square miles and include approximately 98,500 residences and a population of 190,000. Development is currently underway in the south end of The Villages in Districts 12 and 13.

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. As defined by GASB, the financial reporting entity is required to include the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Blended component units, on the other hand, are reported in a separate column in the statement of net position to emphasize they are legally separate from the government.

There are no component units that are legally separate from the District. There are sixteen Community Development Districts in the total structure of The Villages, each being a separate government entity established pursuant to Chapter 190, Florida Statutes.

The following is a listing of these Community Development Districts:

- Village Center Community Development District provides water and sewer utility services, recreation facilities and services, security, fire protection, emergency medical first response (non-

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Financial Statements

September 30, 2019

transport) and executive golf services to the residents. The cost of operations is funded by amenity and utility fees that residents pay monthly. This District also provides for the maintenance of common areas and roadways for the commercial areas within the District boundaries. The cost of maintenance in the commercial areas is funded through commercial maintenance assessments. Lastly, the District provides administrative services, including human resources, payroll, accounting, property management, recreation leadership and community standard services to the Community Development Districts.

- Sumter Landing Community Development District provides recreation facilities and services, security, fire protection, emergency medical first response (non-transport) and executive golf services to the residents. The cost of operations is funded by amenity fees that residents pay monthly. This District also provides for the maintenance of common areas and roadways for the commercial areas within the CDD boundaries in Sumter County. The cost of maintenance in the commercial areas is funded through commercial maintenance assessments
- Brownwood Community Development District provides the maintenance of common areas and roadways for the commercial areas within the District boundaries in Sumter County. The cost of maintenance in the commercial areas is funded through commercial maintenance assessments as the new downtown area builds out.
- The Village Community Development District No. 1 boundary consists of approximately 993 acres in Sumter County. The development included construction of 3,420 residential units.
- The Village Community Development District No. 2 boundary consists of approximately 990 acres in Sumter County. The development included construction of 3,668 residential units.
- The Village Community Development District No. 3 boundary consists of approximately 894 acres in Sumter County. The development included construction of 3,762 residential units.
- The Village Community Development District No. 4 boundary consists of approximately 1,253 acres in Marion County. The development included construction of 5,432 residential units.
- The Village Community Development District No. 5 boundary consists of approximately 1,407 acres in Sumter County. The development included construction of 6,399 residential units.
- The Village Community Development District No. 6 boundary consists of approximately 1,497 acres in Sumter County. The development included construction of 6,697 residential units.
- The Village Community Development District No. 7 boundary consists of approximately 976 acres in Sumter County. The development included construction of 4,765 residential units.
- The Village Community Development District No. 8 boundary consists of approximately 1,098 acres in Sumter County. The development included construction of 5,193 residential units of which 29 are being used as lifestyle preview homes by the Developer.

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- The Village Community Development District No. 9 boundary consists of approximately 1,299 acres in Sumter County. The development included construction of 5,409 residential.
- The Village Community Development District No. 10 boundary consists of approximately 1,489 acres in Sumter County. The development included construction of 6,639 residential units of which 116 are being used as lifestyle preview homes by the Developer.
- The Village Community Development District No. 11 boundary consists of approximately 693 acres within the city limits of Fruitland Park in Lake County. Planned development includes construction of 2,055 residential units of which 2 remain unsold as of the end of the fiscal year.
- The Village Community Development District No. 12 boundary consists of approximately 1,483 acres within the city limits of the City of Wildwood in Sumter County. Planned development includes construction of 6,202 residential units of which 2,653 remain unsold as of the end of the fiscal year.
- The Village Community Development District No. 13 boundary consists of approximately 2,290 acres within the city limits of the City of Wildwood in Sumter County. Planned development includes construction of 7,822 residential units and construction is currently underway.

In order to acquire land and fund the construction costs of the District's public infrastructure, the District issued Special Assessment Revenue Bonds. The proceeds of these bonds were used to construct improvements within the District which consists of roadway improvements, landscaping, open areas, streetlights, multi-modal paths, master drainage systems and a water and waste water distribution and collection service system. The bonds are supported by assessments that are levied upon the benefiting properties. In addition to the bond assessment for construction of the infrastructure, there is an annual maintenance assessment to provide for the services and ongoing maintenance and administration.

It is anticipated that additional infrastructure improvements within The Villages will be undertaken by existing community development districts and/or a community development district yet to be created in the future, for which special assessments may be imposed on residences in The Villages and lands owned by the Developer.

Basis of Presentation

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.

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.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

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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.

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 are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Assessments are recognized as revenues in the year in which the related debt is issued and the assessments established.

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

North Sumter Utility Dependent District Utility Enterprise Fund (NSU): The NSU Fund collects charges 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 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 (SSF): The SSF Fund collects the residential and commercial trash collection fees for solid waste collection services. This 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

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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.

Budgetary Information

The annual budget is formally adopted by the Board of Supervisors. Annual budgets are then approved by the Board of County Commissioners and serves as the legal authorization for expenditures. Legal authority and control are established in accordance with Chapter 189, Florida Statutes. The annual budget, as well as any subsequent amendment, is adopted and approved by the Board of Supervisors. Budgets are adopted on a basis consistent with GAAP. All budget amounts presented in the statements reflect the original budget and the amended final budget.

Assets, Liabilities and Net Position

Cash, Cash Equivalents and Investments The District's considers cash and cash equivalents 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's investments are recorded at fair value unless the investment qualifies as an external investment pool and follows the guidance in GASB, which allows the investment to be recorded at amortized cost under certain criteria. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The method of measuring the fair value of investments uses the fair value hierarchy as defined by GASB.

Receivables and Payables The accounts receivable of the District are recorded in the government-wide and fund financial statements. Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds".

Restricted Assets 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.

Deferred Outflows/Inflows of Resources In addition to assets, the statement of financial position may report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has no deferred outflows of resources.

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In addition to liabilities, the statement of financial position may report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The District has no deferred outflows of resources.

Capital Assets Capital assets, which may include property (land), buildings, infrastructure assets (roads, sidewalks, etc.), improvements, equipment, construction in progress and intangible assets, are reported in the government-wide financial statements.

The District has established the threshold for additions to capital assets as an asset with an acquisition cost of \$10,000 or more, and an estimated useful life in excess of one year. This threshold was increased effective October 1, 2018 from a previous threshold of \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The District values and records donated capital assets at the estimated fair value of the item at the date of its donation.

Routine maintenance and repairs to capital assets are not included in the reported value because they do not increase the capacity or extend the useful life of the capital asset.

Depreciation of capital assets is computed using the straight-line method and is recorded in general government expenses in the District's statement of activities. Estimated useful lives of the assets are as follows:

- Improvement other than building and structure 40 years
- Furniture and Equipment 5-10 years

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.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make various estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and the reported amounts of revenues and expenditures/expenses during the reporting period. Some of these estimates include assessing the collectability of the receivables, the useful lives of capital assets and the collectability of the liabilities. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they could ultimately differ from actual results.

Date of Management's Review

Subsequent events were evaluated by management through January 31, 2020, which is the date the financial statements were available to be issued.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Financial Statements

September 30, 2019

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS

The District maintains an approved Investment Policy and Long-Term Portfolio Investment Policy in compliance with guidelines established by Florida Statutes.

The primary objective of the District’s Investment policy is to assure safety and preservation of principal. The objective is to mitigate credit and interest rate risk, maintain the necessary liquidity to match expected liabilities and maximize yield.

The primary objective of the District’s Long-term Portfolio Investment policy is to achieve a long-term (five years or longer) level of return commensurate with the contemporary economic conditions and equal to or exceeding the then prevailing investment environment.

Cash and Cash Equivalents: 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 an original maturity of three months or less.

The District invests its operating cash solely in Qualified Public Depositories that meet the requirements of Chapter 280, Florida Statutes “Florida Security for Public Deposits Act”. 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. Citizens First Bank is a Qualified Public Depository.

As of September 30, 2019, the District’s Cash and Cash Equivalents consisted of:

Cash and Cash Equivalents	Fair Value	Weighted Ave Maturity (Days)	Credit Rating
Citizens First Bank demand deposits	1,782,178	1.0	n/a
Fl Cooperative Liquid Assets Securities System, FLCLASS	13,121,305	52.0	AAAm
Fl Public Assets for Liquidity Management (FL PALM)	6,287,006	39.0	AAAm
US Bank - State Board of Administration, Florida Prime TM	22,458,164	22.0	AAAm
Total Fair Value	\$ <u>43,648,653</u>		
Portfolio Weighted Average Maturity (WAM)		32.6	

The District invests excess funds pursuant to the guidelines established in Section 218.415, Florida Statutes. The authorized investments consist of:

- The Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Inter-local Cooperation Act as provided in Section 163.01, Florida Statutes.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

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- Securities and Exchange Commission registered money market mutual funds with the highest credit quality rating from a nationally recognized rating agency.
- Interest-bearing time deposits or savings accounts in qualified public depositories as defined in Section 280.02, Florida Statutes.
- Direct obligations of the United States Treasury.
- Federal agencies and instrumentalities.
- Repurchase agreements with financial institutions approved as public depositories, provided that the underlying collateral consists of obligations of the United States Government, its agencies and instrumentalities. The repurchase agreement shall be collateralized equal to at least 102 percent of the value of the District's investment.

The District has further segregated a portion of its investment into a long-term investment portfolio with further investment guidelines. The investment objectives are based on a long-term investment horizon of five years or longer. The District has developed a long-term investment horizon such that the risk and duration of investment losses are carefully weighed against the long-term potential for asset growth. A large portion of the assets will be invested in longer-term investments and will be diversified with the intent to minimize risk loss. In order to best balance risk and return for optimal diversification, the following asset allocation has been identified:

<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%

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

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As of September 30, 2019, the District’s Investments consisted of:

Investments	Fair Value	Weighted Ave Maturity (Years)	Credit Rating
Florida Fixed Income Trust, FLFIT	\$ 3,920,501	0.55	AAAf1/S1
Florida Local Government Investment Trust	4,913,965	2.06	AAAf/S1
PFM Multi-Manager Domestic Equity Fund	1,420,647	n/a	n/a
PFM Multi-Manager International Equity Fund	766,565	n/a	n/a
PFM Multi-Manager Fixed Income Fund	1,239,587	7.90	A
Total Investments	<u>\$ 12,261,265</u>		
Portfolio Weighted Average Maturity (WAM)		1.80	

The District participates in the following external investment pools:

- The State Board of Administration for participation in the Local Government Investment Pool (Florida PRIME™) created by Section 218.415, Florida Statutes is an investment pool that operates under investment guidelines established by Section 215.47, Florida Statutes. The District’s investments in Florida PRIME™, a qualified external investment pool, meet the requirements of GASB Statement No. 79 and are reported at amortized cost.
- Florida Public Assets for Liquidity Management (FL PALM) is a fund whose objectives are to provide participants with the highest possible investment yield while it maintains liquidity and preserves capital, and maintains a stable NAV. The fund meets the requirements of GASB Statement No. 79 and is reported at amortized cost.
- The Florida Local Government Investment Trust (the Trust) is administered by a Board of Trustees appointed by the Florida Association of Court Clerks and County Comptroller, and the Florida Association of Counties, Inc. The Trust was created to provide a means for public entities to pool surplus funds to maximize net earnings certificates of deposit. The District’s investment in the Trust Short-Term Bond Fund does not meet the requirements of GASB Statement No. 79 and is valued at variable Net Asset Value (NAV), which approximates fair value.
- The Florida Cooperative Liquid Assets Securities System (FLCLASS) is an independent local government investment pool designed to provide a safe and competitive investment alternative for Florida governmental entities. FLCLASS does not meet the requirements of GASB Statement No. 79 and is measured at variable NAV, which approximates fair value.
- Florida Fixed Income Trust Enhanced Cash Pool is a Series Trust designed to provide liquid solutions to local governments of Florida. The funds objective is to provide liquidity and preservation of capital while providing current income consistent with low volatility of net asset value. The fund does not meet the requirements of GASB Statement No. 79 and is measured at variable NAV, which approximates fair value.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

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Fair Value Hierarchy. GASB Statement No. 72, Fair Value Measurement and Application, sets forth the framework for measuring fair value. 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 valuation measurement levels are defined below:

- Level 1 inputs are unadjusted price quotations in active markets/exchanges for identical assets or liabilities that a government can access at the measurement date.
- Level 2 inputs are observable inputs including, but not limited to, quoted prices for similar assets or liabilities in active markets, quoted process for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, loss severities, credit risks and default rates) or other market-corroborated inputs
- Level 3 inputs are unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available.

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.

At September 30, 2019, the District’s investments carried the following Fair Value Hierarchy:

	Total	Level 1	Level 2	Level 3
Investment by fair value level:				
PFM Multi-Manager Domestic Equity Fund	\$ 1,420,647	\$ -	\$ 1,420,647	\$ -
PFM Multi-Manager International Equity Fund	766,565	-	766,565	-
PFM Multi-Manager Fixed Income Fund	<u>1,239,587</u>	<u>-</u>	<u>1,239,587</u>	<u>-</u>
Totals	<u><u>\$ 3,426,799</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,426,799</u></u>	<u><u>\$ -</u></u>

Management of the following investment risks are addressed below:

- Custodial credit risk is the risk that a government will not be able to recover deposits or the value of an investment that’s in the possession of a failed institution or counterparty.
 - The financial institution in which the District places its deposits is certified as a “qualified public depository” as required under the Florida Security for Public Deposits Act. Therefore, the deposits are entirely insured by Federal depository insurance and collateralized pursuant to Chapter 280, Florida Statutes.
 - At September 30, 2019, and consistent with the investment policy, the District’s investments are all registered in the name of the District by a custodian or a trustee for the District.
- Credit risk is the risk of loss from an issuer’s failure to repay principal and/or interest on a debt obligation. To manage this risk, the District’s investment policy identifies and limits investments to only top ratings issued by nationally recognized statistical rating organization.

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- Concentration of investment risk is the increasing probability of loss arising from heavily lopsided exposure to an asset class, issuer, structure or maturity. The District's investment policy stipulates guidelines for diversification of investments by limiting investments to avoid over-concentration in securities from a specific issuer or business sector; limiting investments in securities with higher credit risk; investments in securities with varying maturities; and continuously investing a portion of the portfolio in readily available funds to ensure that appropriate liquidity is maintained to meet ongoing obligations.
- Interest rate risk is the risk that a security's value will decrease with a rise in interest rates. To manage interest rate risk, the District maintains a formal investment policy that limits investment maturities not to exceed five (5) years. The District maintains and reports interest rate risk using the Weighted Average Maturity (WAM) method. A weighted average takes into account both the timing and the amounts of the maturities. The District manages its exposure to decline in fair values by limiting the WAM of its investment portfolio to less than three (3) years.
- Foreign currency risk is the risk of loss from a reduction in value affected by changes in the rate of exchange. The District's investment policies do not allow for direct investments in foreign currency.

NOTE 3 –RECEIVABLES AND PAYABLES

Receivables

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, net of an allowance for doubtful accounts. For uncollectible accounts receivable, the allowance method is used. Total Accounts Receivable, net of the allowance for doubtful accounts as of September 30, 2019 was \$3,621,000.

The allowance for doubtful accounts totals \$118,000 as of September 30, 2019.

Due from Other Funds The inter-fund balances result from the time lag between the dates that (1) inter-fund goods and services were provided or reimbursable expenditure occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made. The balance at September 30, 2019 is expected to be received shortly after year-end from available current assets and next year funding.

Due from other Governments The inter-government balances result from the time lag between the dates that (1) inter-government goods and services were provided or reimbursable expenditure occur, (2) transactions are recorded in the accounting system and (3) payments between governments are made. The balance at September 30, 2019 is expected to be received shortly after year-end.

Due from Developer As of September 30, 2019, a total \$303,000 is due from the Developer. This balance includes outstanding receipts for sanitation collection services and other miscellaneous billings. The balance at September 30, 2019 is expected to be received shortly after year-end.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

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Payables

Accounts Payable As of September 30, 2019, a total \$1,368,000 is due to trade vendors in the normal course of business. This balance is expected to be repaid shortly after year-end from available current assets and next year funding.

Due to Developer As of September 30, 2019, a total balance of \$876,000 remains Due to the Developer for the purchase of Sumter Sanitation in December 2012. This balance is being paid off in quarterly installments of \$150,000.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2019, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Assets not being depreciated:				
Land	\$ 288,338	-	-	288,338
Construction in progress	172,083	309,747	(237,435)	244,395
Total assets not being depreciated	<u>460,421</u>	<u>309,747</u>	<u>(237,435)</u>	<u>532,733</u>
Assets being depreciated:				
Buildings and structures	15,231,967	-	-	15,231,967
Infrastructure	96,252,880	1,586,677	-	97,839,557
Furniture & fixtures	17,939,799	-	-	17,939,799
Total assets being depreciated	<u>129,424,646</u>	<u>1,586,677</u>	<u>-</u>	<u>131,011,323</u>
Total assets	<u>129,885,067</u>	<u>1,896,424</u>	<u>(237,435)</u>	<u>131,544,056</u>
Less accumulated depreciation for:				
Buildings and structures	(4,176,697)	(546,061)	-	(4,722,758)
Infrastructure	(22,752,799)	(3,425,482)	-	(26,178,281)
Furniture & fixtures	(9,883,171)	(1,203,018)	-	(11,086,189)
Total accumulated depreciation	<u>(36,812,667)</u>	<u>(5,174,561)</u>	<u>-</u>	<u>(41,987,228)</u>
Total Capital Assets, net	\$ <u>93,072,400</u>	<u>(3,278,137)</u>	<u>(237,435)</u>	<u>89,556,828</u>

The District made additional capital improvements to infrastructure in the current fiscal year, net of disposals totaling \$1,660,000. Depreciation expense of \$5,175,000 was recognized during the year.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Financial Statements

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NOTE 5 – INTANGIBLE ASSETS

Intangible asset activity for the year ending September 30, 2019 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
NSCUDD				
Discounted value purchase	\$ 92,183,461	135,000	-	92,318,461
Less accumulated amortization	<u>(19,063,054)</u>	<u>-</u>	<u>(2,992,603)</u>	<u>(22,055,657)</u>
Intangible assets, net	\$ <u>73,120,407</u>	<u>135,000</u>	<u>(2,992,603)</u>	<u>70,262,804</u>

During fiscal year 2019, the District acquired the rights to provide solid waste collection and disposal services for an additional portion of District 4 for \$135,000. This will be amortized over 30 years.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT
Notes to Financial Statements
September 30, 2019

NOTE 6 – LONG-TERM DEBT

Long-term debt consists of the following Revenue bonds as of September 30, 2019:

North Sumter County Utility Dependent District

\$19,030,000 Subordinate Utility Revenue Bonds, Series 2010 due in annual principal installments ranging from \$320,000 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%. \$ 17,470,000

\$156,985,000 Senior Utility Revenue Bonds, Series 2010 due in annual principal installments ranging from \$2,845,000 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%. 142,205,000

\$4,000,000 Subordinate Utility Revenue Bonds, Series 2012 due in annual principal installments ranging from \$85,000 to \$255,000 through October 2042 in accordance with the redemption schedule. Interest is due semi-annually on March 1 and October 1 of each year until redemption or maturity. Interest rate is 5.000%. 3,695,000

\$50,605,000 Senior Utility Revenue Bonds, Series 2012 due in annual principal installments ranging from \$1,050,000 to \$3,225,000 through October 2042 in accordance with the redemption schedule. Interest is due semi-annually on March 1 and October 1 of each year until redemption or maturity. Interest rate is 5.000%. 46,725,000

Total revenue bonds payable	210,095,000
Plus unamortized bond premium	645,705
Less unamortized bond discount	(2,231,550)
Less current installment of revenue bonds payable	<u>(4,300,000)</u>
Revenue bonds payable less current installments	<u>\$ 204,209,155</u>

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Financial Statements

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The annual requirements to amortize the principal and interest of all revenue bonds payable as of September 30, 2019, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending September 30:			
2020	4,300,000	11,243,256	15,543,256
2021	4,515,000	11,023,438	15,538,438
2022	4,740,000	10,785,506	15,525,506
2023	4,990,000	10,528,047	15,518,047
2024	5,255,000	10,256,966	15,511,966
2025-2029	30,815,000	46,681,151	77,496,151
2030-2034	39,940,000	37,355,497	77,295,497
2035-2039	51,820,000	25,219,866	77,039,866
2040-2043	63,720,000	9,290,379	73,010,379
Total	\$ <u>210,095,000</u>	<u>172,384,106</u>	<u>382,479,106</u>

The following is a summary of 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>
Bonds payable					
Senior bonds	\$ 192,635,000	-	3,705,000	188,930,000	3,895,000
Subordinate bonds	21,545,000	-	380,000	21,165,000	405,000
Plus unamortized bond premium	678,851	-	28,285	650,566	-
Less unamortized bond discount	(2,328,962)	-	(92,551)	(2,236,411)	-
Total bonds payable	<u>212,529,889</u>	<u>-</u>	<u>4,020,734</u>	<u>208,509,155</u>	<u>4,300,000</u>
Due to developer	1,476,213	-	600,000	876,213	600,000
Total business-type activities long-term liabilities	<u>214,006,102</u>	<u>-</u>	<u>4,620,734</u>	<u>209,385,368</u>	<u>4,900,000</u>
Total debt	\$ <u>214,006,102</u>	<u>-</u>	<u>4,620,734</u>	<u>209,385,368</u>	<u>4,900,000</u>

Debt Covenants and Pledged Revenues

The Bond indentures contain significant limitations and restriction on the District regarding annual debt service requirements, the use of certain restricted accounts, minimum sinking fund balances and minimum revenue bond coverage.

Management believes that the District has complied with all material financial-related covenants for the NSU Senior and Subordinate bonds. Management believes that the District has complied with all material

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Financial Statements

September 30, 2019

financial-related covenants for the SSF Senior bond; however, the District has fallen short of complying with the financial-related covenants for the SSF Subordinate bonds. As required by the Bond Indentures, the District has proactively engaged the services of a consultant to review and make recommendations as to the methods by which the District may comply with the Rate Covenant. This review has been completed and a new rate structure was put into place effective October 1, 2019. Management believes that the District will comply with all material financial-related covenants for the SSF bonds in the future.

The District has pledged certain water, sewer and non-potable irrigation water revenue to pay the principal and interest on Utility Revenue Bonds Series 2010 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 Series 20102. These Utility and Solid Waste Revenue Bonds were outstanding on September 30, 2019, 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, 2019.

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	22,208,184	10,505,869	47.31%	260,498,480	2043
Utility Revenue Bonds, Subordinate	Water, Sewer, & Irrigation	11,702,315	1,386,669	11.85%	34,288,625	2043
Sanitation Rev Bonds, Senior	Sanitation	12,510,826	3,381,000	27.02%	81,265,750	2043
Sanitation Rev Bonds, Subordinate	Sanitation	9,129,826	263,500	2.89%	6,426,250	2043

NOTE 7 – 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 an interlocal agreement. Under the agreement, fees accrued to VCCDD by the District for such services totaled \$894,000 for the year ended September 30, 2019. The District has also contracted with VCCDD for technology services which for the year ended September 30, 2019, totaled \$73,000.

The District paid Villages Technology Solutions Group, a technology company owned by The Villages, a total \$4,000 for technology services in FY 2019. The District paid The Daily Sun, a newspaper owned by The Villages, a total \$1,000 for certain legal advertisements in FY 2019.

NOTE 8 – RISK MANAGEMENT

The District is exposed to various risks of loss related to general liability, crime, auto liability, employee practice liability, theft, damage and destruction of assets, errors and omissions and natural disasters. To manage much of this risk, the District carries insurance, however, the District retains risk for certain property coverage and for losses in excess of coverage limits. Any settled claims from these risks have not exceeded commercial insurance coverage in any of the past three years.

NORTH SUMTER COUNTY UTILITY DEPENDENT DISTRICT

Notes to Financial Statements

September 30, 2019

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Hurricane Irma

The District sustained damages related to Hurricane Irma in September 2017.

The Florida Emergency Management Agency (FEMA) is in varying stages of obligation to the District on eligible expenditures. As of September 30, 2019, the District has submitted all required documentation to support approximately \$3,000 of eligible expenditures sustained as a result of the damage. FEMA reimbursed 100% of these expenditures during fiscal year 2019.

NOTE 10 – SUBSEQUENT EVENTS

On October 17, 2019, the District entered into a Forward Delivery Bond Purchase Agreement with Morgan Stanley to issue \$123,410,000 aggregate principal amount of North Sumter County Utility Dependent District (NSU) Utility Refunding Revenue Bonds, Series 2020, proceeds of which will be used to refund NSU's outstanding Utility Revenue Bonds, Series 2010 and the outstanding Subordinate Utility Revenue Bonds, Series 2010. The issuance settlement date will be July 8, 2020 and will carry an interest rate of 5.00%, a net present value savings estimated to be \$43,515,000 over the life of the bonds.

On December 24, 2019, The District issued \$73,200,000 in Utility Revenue Bonds, Series 2019 and \$9,490,000 in Subordinate Utility Revenue Bonds, Series 2019, with a premium of \$18,145,000 for the purpose of closing on a transaction to purchase Central Sumter Utility potable water services for \$98,468,000. The District purchased the rights to provide potable water supply, treatment and distribution for a portion of The Villages located within the unincorporated region of Sumter County, the City of Wildwood and the City of Fruitland Park lying between CR 466A and SR 44. As part of the sales price, the District acquired certain real property totaling \$23,010,000.

The business currently consists of 13,859 residential dwelling units and will consist of approximately 399 general commercial connections at development build-out.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and each major fund of North Sumter Utility Dependent District (the District) as of and for the year ended September 30, 2019, 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, 2020.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected, and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Certified Public Accountants

P.O. Box 141270 • 222 N.E 1st Street • Gainesville, Florida 32614-1270 • (352) 378-2461
Laurel Ridge Professional Center • 2347 S.E. 17th Street • Ocala, Florida 34471 • (352) 732-3872
443 East College Avenue • Tallahassee, Florida 32301 • (850) 224-7144
5001 Lakewood Ranch Blvd., Suite 101 • Sarasota, Florida 34240 • (941) 907-0350
1560 N. Orange Ave., Suite #450 • Winter Park, Florida 32789
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Board of Supervisors
North Sumter Utility Dependent District
The Villages, Florida

**INDEPENDENT AUDITOR'S 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**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*, which are described below as item 2019-1:

■ **2019-1 Sumter Sanitation Bond Covenants**

The Bond Resolution associated with the issuance of the 2012 Senior and Subordinate Bonds requires the Sumter Sanitation Fund to meet certain minimum Debt Service Coverage (DSC) ratios to ensure that the net revenues of the fund are sufficient to make all required debt service payments and provide for reserves. For the year ended September 30, 2019, the Sumter Sanitation Fund did not meet the required minimum ratios, contrary to the Bond Resolution. To remedy this condition, management has reviewed the costs of the fund and engaged a consultant to perform a rate sufficiency study. The study recommended a rate increase that was put into effect as of October 1, 2019, and is believed will generate sufficient net revenues to meet the required DSC ratios of the Bond Resolution going forward.

Management has noted significant changes in the recycling industry since that study was performed, which have the potential to reduce pledged revenues and will be monitoring the effect of these changes throughout the upcoming year.

District's Response to Findings

The District's response to the findings identified in our audit is described in the attached Management Letter Response. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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, 2020
Ocala, Florida

MANAGEMENT LETTER

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

Report on the Financial Statements

We have audited the financial statements of North Sumter Utility Dependent District (the District) as of and for the fiscal year ended September 30, 2019, and have issued our report thereon dated January 31, 2020.

Auditor's 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 Reporting Requirements

We have issued our Independent Auditor's 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 Accountant's Report on an examination conducted in accordance with American Institute of Certified Public Accountants *Professional Standards*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports, which are dated January 31, 2020, 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 actions have been taken to address findings and recommendations made in the preceding financial audit report. There were no findings and recommendations made in the preceding financial audit report.

Official Title and Legal Authority

Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government be disclosed in this management letter, unless disclosed in the notes to the financial statements (see Note 1 of the District's September 30, 2019, basic financial statements for this information).

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443 East College Avenue • Tallahassee, Florida 32301 • (850) 224-7144
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Board of Supervisors
North Sumter Utility Dependent District
The Villages, Florida

MANAGEMENT LETTER

Financial Condition and Management

Sections 10.554(1)(i)5.a. and 10.556 (7), *Rules of the Auditor General*, require us to apply appropriate procedures and communicate 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 to identify the specific conditions(s) met. In connection with our audit, we determined that the District did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

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

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

Additional Matters

Section 10.554(1)(i)3., *Rules of the Auditor General*, requires us to communicate non-compliance 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 warrants the attention of those charged with governance. In connection with our audit, we did not note any such findings.

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, the Board of Supervisors and applicable management, and is not intended to be, and should not be, used by anyone other than these specified parties.

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



January 31, 2020
Ocala, Florida

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

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

We have examined North Sumter Utility Dependent District 's (the District)' compliance with Section 218.415, Florida Statutes, with regards to the District's investments during the fiscal year ended September 30, 2019. District management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

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

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

In our opinion, the District complied, in all material respects, with the aforementioned requirements during the fiscal year ended September 30, 2019.

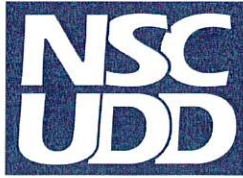
This report is intended solely for the information and use of the Florida Auditor General, the Board of Supervisors of the District and applicable management, and is not intended to be, and should not be, used by anyone other than these specified parties.



January 31, 2020
Ocala, Florida

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**North Sumter County
UTILITY
Dependent District**

January 31, 2020

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

RE: Management Response Letter

Dear Supervisors:

Attached is the completed audit for fiscal year 2019 for North Sumter Utility Dependent District. We are proud to report that this audit has an unmodified opinion and there are no material weaknesses identified and reported. The Independent Auditor's 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 outlined one compliance matter:

2019-1 Sumter Sanitation Bond Covenants

The Bond Resolution associated with the issuance of the 2012 Senior and Subordinate Bonds requires the Sumter Sanitation Fund to meet certain minimum Debt Service Coverage (DSC) ratios to ensure that the net revenues of the fund are sufficient to make all required debt service payments and provide for reserves. For the year ended September 30, 2019, the Sumter Sanitation Fund did not meet the required minimum ratios for subordinate debt coverage, contrary to the Bond Resolution.

District's Response to Findings

Management has reviewed the costs of the fund and engaged a consultant to perform a ten-year rate sufficiency study as required by the bond indenture. The study recommended a rate increase of 8.25% that was put into effect as of October 1, 2019, and is believed will generate sufficient net revenues to meet the required DSC ratios of the Bond Resolution going forward. Subsequent years the study recommended and the Board approved an increase of 2.5% annually. Management has noted significant changes in the recycling industry since that study was performed, which have the potential to reduce pledged revenues and will be monitoring the effect of these changes throughout the upcoming year. In addition, staff and the Board are preparing a Long Term Solid Waste Management Plan to review disposal options that will best meet the needs of the Board and the residents for the future. This plan will look at options along with sufficient rates to cover disposal options.

Sincerely,

Handwritten signature of Anne K Hochsprung in blue ink.

Anne K Hochsprung
Finance Director

Handwritten signature of Kenny Blocker in blue ink.

Kenny Blocker
Assistant District Manager