

**INDEPENDENT AUDITORS' REPORT  
AND  
FINANCIAL STATEMENTS**

**RAINBOW LAKES ESTATES  
MUNICIPAL SERVICE DISTRICT  
RAINBOW LAKES ESTATES, FLORIDA**

**SEPTEMBER 30, 2016**

**INDEPENDENT AUDITORS' REPORT  
AND  
FINANCIAL STATEMENTS**

**RAINBOW LAKES ESTATES  
MUNICIPAL SERVICE DISTRICT  
RAINBOW LAKES ESTATES, FLORIDA**

**SEPTEMBER 30, 2016**

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## INDEPENDENT AUDITORS' REPORT

The Honorable Board of County Commissioners  
Marion County, Florida

### Report on the Financial Statements

We have audited the accompanying financial statements of the Rainbow Lakes Estates Municipal Service District (the District) as of and for the year ended September 30, 2016, and the related notes to the 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of September 30, 2016, and its changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### Certified Public Accountants

P.O. Box 141270 • 222 N.E. 1st Street • Gainesville, Florida 32614-1270 • (352) 378-2461 • FAX (352) 378-2505  
Laurel Ridge Professional Center • 2347 S.E. 17th Street • Ocala, Florida 34471 • (352) 732-3872 • FAX (352) 732-0542  
443 East College Avenue • Tallahassee, Florida 32301 • (850) 224-7144 • FAX (850) 224-1762  
5001 Lakewood Ranch Blvd. N., Suite 101 • Sarasota, Florida 34240 • (941) 907-0350 • FAX (941) 907-0309  
MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS  
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

The Honorable Board of County Commissioners  
Marion County, Florida

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

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information and schedule of proportionate share of net pension liability and schedule of contributions 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 a report dated April 26, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Purvis, Gray and Company, LLP*

April 26, 2017  
Ocala, Florida

**RAINBOW LAKES ESTATES MUNICIPAL SERVICE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2016**

The Rainbow Lakes Estates Municipal Service District (the District) management discussion and analysis presents an overview of the District's financial activities for the fiscal year ended September 30, 2016. Please read it conjunction with the District's financial statements.

**Financial Highlights**

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of fiscal year 2016 by \$4,596,579 (net position), a decrease of \$192,089 for the year.
- During fiscal year 2016, the District's revenue increased by 3.4%, while expenditures decreased by 22.7% from the prior fiscal year.
- During fiscal year 2016 governmental funds expenditures exceeded governmental funds revenues by \$7,243.
- During fiscal year 2016, capital assets increased by \$23,163, for purchases of equipment, and decreased by \$202,215, for depreciation.
- During fiscal year 2016, the District's revenues exceeded budgeted amounts by \$2,808, and expenditures were less than budgeted amounts by \$927,184.

**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 consist of combined fund financial statements and government-wide statements and notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

The government-wide financial statements that consist of the following two statements are designed to provide readers with a broad overview of the District's finances.

The Statement of Net Position presents information on all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or 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 Activities presents information showing how the District's net position changed during fiscal year 2016. All changes in net position are reported as soon as the underlying event, giving rise to the change, occurs regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

**RAINBOW LAKES ESTATES MUNICIPAL SERVICE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2016  
(Continued)**

**Overview of the Financial Statements (Continued)**

**Condensed Financial Statements**

**Rainbow Lakes Estates Municipal Service District  
Net Position**

	<b>September 30, 2016</b>	<b>September 30, 2015</b>
Current and Other Assets	\$ 1,099,548	\$ 1,081,630
Capital Assets, Net	3,651,610	3,830,662
<b>Total Assets</b>	<u>4,751,158</u>	<u>4,912,292</u>
Deferred Outflows of Resources	47,537	21,617
<b>Total Deferred Outflows</b>	<u>47,537</u>	<u>21,617</u>
Current and Other Liabilities	30,924	5,763
Long-term Liabilities	146,987	114,541
<b>Total Liabilities</b>	<u>177,911</u>	<u>120,304</u>
Deferred Inflows of Resources	24,205	24,937
<b>Total Deferred Inflows</b>	<u>24,205</u>	<u>24,937</u>
Net Position:		
Net Investment in Capital Assets	3,651,610	3,830,662
Restricted	944,969	958,006
<b>Total Net Position</b>	<u>\$ 4,596,579</u>	<u>\$ 4,788,668</u>

**Rainbow Lakes Estates Municipal Service District  
Change in Net Position  
For the Year Ended September 30**

	<b>2016</b>	<b>2015</b>
Revenues	\$ 364,609	\$ 352,773
Expenditures	(556,698)	(513,576)
Changes in Net Position	(192,089)	(160,803)
<b>Net Position, Beginning of Year</b>	<u>4,788,668</u>	<u>4,949,471</u>
<b>Net Position, End of Year</b>	<u>\$ 4,596,579</u>	<u>\$ 4,788,668</u>

The combined fund financial statements and government-wide financial statements can be found on pages 6-7 of this report.

**RAINBOW LAKES ESTATES MUNICIPAL SERVICE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2016  
(Concluded)**

**Overview of the Financial Statements (Concluded)**

**Governmental Funds**

The general fund is the District's primary operating account. All revenues and expenditures are accounted for in the fund. The focus of the fund is to provide information on *near-term* inflows, outflows, and balances of spendable resources.

**Notes to the Financial Statements**

The notes to the financial statements are essential in understanding the data provided in the financial statements. The notes can be found on pages 8 through 21.

**Budgetary Comparison**

The District adopts an annual budget for its general fund. A budgetary comparison schedule has been provided to demonstrate budgetary compliance and can be found on page 22.

**Capital Assets and Debt Administration**

The District's investment in capital assets as of September 30, 2016, amounts to \$5,891,267. This investment consists of land, construction in progress, buildings, improvements, machinery and equipment, and infrastructure. Accumulated Depreciation totals \$2,239,657 (see Note 4 for further information). The District had no bonded debt outstanding at the close of the fiscal year.

**Request for Information**

This financial report is designed to provide a general overview of the finances for those with an interest in the District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District or to the Marion County Clerk of the Circuit Court and Comptroller, Finance Department, 110 NW First Avenue, Ocala, Florida, 34475.

## **FINANCIAL STATEMENTS**

**STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET**  
**SEPTEMBER 30, 2016**  
**RAINBOW LAKES ESTATES MUNICIPAL SERVICE DISTRICT**  
**RAINBOW LAKES ESTATES, FLORIDA**

	<u>General Fund</u>	<u>Adjustments (Note 2)</u>	<u>Total</u>
<b>Assets</b>			
Cash and Cash Equivalents	\$ 1,098,384	\$ 0	\$ 1,098,384
Due from Other Governmental Units	820	0	820
Prepaid Expenditures	344	0	344
Capital Assets:			
Capital Assets, Not Being Depreciated	0	188,367	188,367
Capital Assets, Being Depreciated, Amortized (Net)	0	3,463,243	3,463,243
<b>Total Assets</b>	<u>1,099,548</u>	<u>3,651,610</u>	<u>4,751,158</u>
<b>Deferred Outflows of Resources</b>			
Deferred Outflows on Pension Liabilities	0	47,537	47,537
<b>Total Deferred Outflows of Resources</b>	<u>0</u>	<u>47,537</u>	<u>47,537</u>
<b>Liabilities</b>			
Accounts Payable	25,230	0	25,230
Contracts Payable	5,694	0	5,694
Compensated Absences	0	12,727	12,727
Net Pension Liability	0	134,260	134,260
<b>Total Liabilities</b>	<u>30,924</u>	<u>146,987</u>	<u>177,911</u>
<b>Deferred Inflows of Resources</b>			
Deferred Inflows on Pension Liabilities		24,205	24,205
<b>Total Deferred Inflows of Resources</b>		<u>24,205</u>	<u>24,205</u>
<b>Fund Balance</b>			
Nonspendable - Prepays	344	(344)	0
Restricted for:			
Transportation Maintenance	1,068,280	(1,068,280)	0
<b>Total Fund Balance</b>	<u>1,068,624</u>	<u>(1,068,624)</u>	<u>0</u>
<b>Total Liabilities and Fund Balance</b>	<u>\$ 1,099,548</u>		
<b>Net Position</b>			
Investment in Capital Assets		3,651,610	3,651,610
Restricted for:			
Transportation		944,969	944,969
<b>Total Net Position</b>		<u>\$ 4,596,579</u>	<u>\$ 4,596,579</u>

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND  
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016  
RAINBOW LAKES ESTATES, FLORIDA**

	<u>General Fund</u>	<u>Adjustments (Note 2)</u>	<u>Total</u>
<b>Revenues</b>			
Taxes	\$ 208,093	\$ 0	\$ 208,093
Permits and Fees	144,862	0	144,862
Charges for Services	36	0	36
Investment Income	5,710	0	5,710
Miscellaneous Revenues	5,908	0	5,908
<b>Total Revenues</b>	<u>364,609</u>	<u>0</u>	<u>364,609</u>
<b>Expenditures</b>			
Current:			
General Government	181,988	834	182,822
Transportation	166,701	4,960	171,661
Depreciation	0	202,215	202,215
Capital Outlay	23,163	(23,163)	0
<b>(Total Expenditures)</b>	<u>(371,852)</u>	<u>(184,846)</u>	<u>(556,698)</u>
<b>Net Change in Fund Balance</b>	(7,243)	(184,846)	(192,089)
<b>Fund Balance/Net Position, Beginning of Year</b>	<u>1,075,867</u>	<u>3,830,621</u>	<u>4,788,668</u>
<b>Fund Balance/Net Position, End of Year</b>	<u>\$ 1,068,624</u>	<u>\$ 3,645,775</u>	<u>\$ 4,596,579</u>

**NOTES TO FINANCIAL STATEMENTS  
RAINBOW LAKES ESTATES MUNICIPAL SERVICE DISTRICT  
RAINBOW LAKES ESTATES, FLORIDA**

**Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the Marion County Florida Board of County Commissioners (the Board) conform to generally accepted accounting principles, as applicable to governments. The following is a summary of the more significant policies:

**Reporting Entity**

The Rainbow Lakes Estates Municipal Service District (the District) was created under the Laws of Florida, Chapter 69-1298, and Marion County Code Sections A5-1 through A5-7. The Board acts as the governing authority of the District, thus having significant influence over its operations and fiscal management. The District is reported as a special revenue fund within Marion County Florida's (the County) overall basic financial statements.

**Financial Statements**

These financial statements are presented for the purpose of complying with state law, which requires separate financial reporting for Special Districts overlapping two or more counties and, accordingly, does not present entity-wide financial statements in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34. All other relevant aspects of GASB Statement No. 34 have been incorporated into this report.

**Basis of Presentation**

The financial transactions of the District are recorded in an individual special revenue fund.

■ **Description of Funds and Account Groups**

- **Governmental Fund Type**—Governmental funds are those through which most governmental functions are financed. The acquisition, use, and balances of the District's expendable financial resources and the related liabilities are accounted for through a special revenue fund. The measurement focus is upon determination of changes in financial position rather than upon net income determination.
- **Special Revenue Funds**—Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than the debt service or capital projects.
- **Restricted Fund Balance**—Fund Balance should be reported as restricted when constraints placed on the use of resources such as enabling legislation, which authorizes the government to assess, levy, charge, or otherwise mandate payment of resources.
- **Assigned Fund Balance**—Fund Balance should be reported as assigned when funds are constrained by the government's intent to be used for specific purposes.

**Measurement Focus**

Governmental fund types are accounted for on a "spending" or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on the balance sheet. Reported fund balance (net current assets) is considered a measure of "available, spendable, or appropriable resources." Governmental fund type operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

**NOTES TO FINANCIAL STATEMENTS**  
**RAINBOW LAKES ESTATES MUNICIPAL SERVICE DISTRICT**  
**RAINBOW LAKES ESTATES, FLORIDA**  
*(Continued)*

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Basis of Accounting**

Governmental fund type revenues and expenditures are recognized on the modified accrual basis. This method recognizes revenues in the accounting period in which they become available and measurable. Expenditures are recognized in the period in which the fund liability is incurred (except unmatured interest on general long-term debt, which is recognized when due). Property taxes levied for the 2015 calendar year are not considered available at September 30, 2016, since a legally enforceable claim did not exist as of that date, and those revenues are not collected in sufficient time thereafter to be used for fiscal 2016 expenditures.

**Budgetary Requirements**

The following procedures are utilized by the County in establishing and/or amending the budgetary information contained in the financial statements (the District's budget is included in the County's budget):

- On or before June 1 of each year, the Clerk of the Circuit Court, Sheriff, Supervisor of Elections, and Tax Collector each submit a proposed operating budget for the ensuing fiscal year to the Board.
- The proposed operating budget of the Property Appraiser must be presented to the Board on or before June 1 of each year and is simultaneously submitted by the Property Appraiser to the State of Florida, Department of Revenue, from which the final approval of the budget of the Property Appraiser must emanate.

On or before July 15 of each year, or within 15 days after the receipt of the certified taxable property values from the Property Appraiser, whichever occurs last, the Clerk of the Circuit Court, as Clerk to the Board (and budget officer), presents to the Board a proposed budget for the fiscal year commencing the following October 1. Pursuant to the provisions of Section 129.01, Florida Statutes, the proposed budgets as submitted contain balanced statements of estimated revenues (including unexpended fund balances to be carried forward) and proposed appropriations for each fund required to be presented by laws or by sound financial practices, including the general, special revenue, debt service, and capital projects funds.

- Following is a preliminary review of the proposed budgets by the Board, whose members make such changes as are deemed necessary (provided that the proposed budget for each fund remains balanced), the Board causes a notice of proposed property taxes to be mailed to each County property taxpayer. Included in the notice is a statement of the Board's intent to hold a public hearing to consider adoption of the tentative millage rates and budgets, as well as a comparison of the taxpayer's proposed property tax bill with the actual tax bill of the preceding year.
- Following successful completion of the above-referenced public hearings, the Board advertises and subsequently conducts a second public hearing to finally adopt a millage rate and budget for each of the taxing entities under their jurisdiction. These public hearings are ordinarily held prior to October 1 of each year. If, however, for some reason the Board is unable to finally adopt a budget prior to October 1, state law permits the re-adoption by resolution of the budget of the preceding year as an interim measure.

**NOTES TO FINANCIAL STATEMENTS**  
**RAINBOW LAKES ESTATES MUNICIPAL SERVICE DISTRICT**  
**RAINBOW LAKES ESTATES, FLORIDA**  
*(Continued)*

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Budgetary Requirements (Concluded)**

- Pursuant to the provisions of Section 129.07, Florida Statutes, the Board is prohibited from expending or contracting for the expenditure of any amount in excess of the total amount budgeted in any fund. It is, however, legally permissible at the present time for the budgets of individual departments included within a particular fund to be over expended in total without requiring mandatory action by either the Board, the Clerk of the Circuit Court, as Clerk to the Board (the budget officer), or the County Administrator. Transfers of appropriate amounts between funds require approval of the Board.
- Subsequent to final adoption of the budget by the Board, changes to the budget, as enacted, are only required (by either statutory law or current management practices) when revenues not anticipated in the original budget document are received which management wishes to have appropriated during the current year, resulting in an increase to the total appropriations of a fund. Such increases can only be incorporated into the budget document following approval by the Board at a duly advertised public hearing held to consider the adoption of the supplemental budgets.
- Adoption and execution of the budgets are governed in accordance with applicable provisions of the Florida Statutes.
- Formal budgetary integration at the object level is used as a management control device for all governmental funds of the Board for which annual budgets are adopted, including the general, special revenue, debt service, and capital projects funds. The level at which expenditures may not legally exceed appropriations is the fund level.
- Budgets for the general fund, special revenue, debt service, and capital projects funds are adopted on a basis consistent with generally accepted accounting principles.
- All appropriations lapse at the end of each fiscal year, although the Board expects to honor purchase orders and contracts in process, subject to authority provided in the subsequent year's budgets.

**Property Taxes**

Under Florida law, the assessment of all properties and the collection of all county, municipal, and school board property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector. The laws of the State of Florida regulating tax assessment are also designed to assure a consistent property valuation method state-wide. Florida Statutes permit counties to levy property taxes at a rate of up to 10 mills.

The tax levy of the County is established by the Board prior to October 1 of each year and the Tax Collector incorporates the mileages into the total tax levy, which includes the municipalities, independent districts, and the County School Board tax requirements and produces the tax bill.

All property is reassessed according to its fair market value on January 1 of each year. Each assessment roll is submitted to the Executive Director of the State of Florida, Department of Revenue for review to determine if the rolls meet all of the appropriate requirements of Florida Statutes.

**NOTES TO FINANCIAL STATEMENTS**  
**RAINBOW LAKES ESTATES MUNICIPAL SERVICE DISTRICT**  
**RAINBOW LAKES ESTATES, FLORIDA**  
*(Continued)*

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Property Taxes (Concluded)**

All taxes are due and payable on November 1 of each year or as soon thereafter as the assessment roll is certified and delivered to the Tax Collector. All unpaid taxes become delinquent on April 1 following the year in which they are assessed. Discounts are allowed for early payment at the rate of 4% in the month of November, 3% in the month of December, 2% in the month of January, and 1% in the month of February. Taxes paid in March are without discount.

On or prior to June 1 following the tax year, certificates are sold for all delinquent taxes on real property. Delinquent taxes on real property bear interest at 18% per year or as bid in a public sale of tax certificates. Application for a tax deed on any unredeemed tax certificates may be made by the certificate holder after a period of two years. Unsold certificates are held by the County.

Delinquent taxes on personal property bear interest at 18% per year until the tax is satisfied either by seizure and sale of the property or by the seven-year statute of limitations.

The Board does not accrue its portion of the County-held tax sale certificates or personal property tax warrants because such amounts are not measurable and available as of the balance sheet date.

Key dates in the property tax cycle for the fiscal year ended September 30, 2016, were as follows:

Assessment Roll Certified	June 2015
Beginning of Fiscal Year for Which Taxes Have Been Levied	October 2015
Property Taxes Levied	October 2015
Tax Bills Issued	November 1, 2015
Property Taxes Due by:	
For Maximum Discount	November 30, 2015
Delinquent after	March 31, 2016
Tax Certificates (Liens) Sold on Unpaid Property Taxes	No later than June 1, 2016

**Equity in Pooled Cash and Investments**

The Board maintains a pooled cash fund, which allows the various funds of the Board to pool monies for investment purposes. The Board maintains records to identify the equity of each fund investing in the pool as well as amounts borrowed from the pool. Investment earnings of the pool are recorded as earned and are allocated to the participating funds based on the respective funds average daily balance. The equity in pooled cash consists of cash, U.S. Treasuries, federal instrumentalities, commercial paper, and money market funds.

**Capital Assets**

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the statement of net position of the County. Property and equipment with initial individual costs that equal or exceed \$1,000 and estimated useful lives of over one year are recorded as capital assets. Buildings and improvements with initial individual cost that equal or exceed \$25,000 are recorded as capital assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

**NOTES TO FINANCIAL STATEMENTS**  
**RAINBOW LAKES ESTATES MUNICIPAL SERVICE DISTRICT**  
**RAINBOW LAKES ESTATES, FLORIDA**  
*(Continued)*

**Note 1 - Summary of Significant Accounting Policies (Concluded)**

**Capital Assets (Concluded)**

The District capitalizes major expenditures for additions and improvements. Expenditures for maintenance and repairs are charged to operating expenses.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and Improvements	10-30
Machinery, Equipment, and Vehicles	5
Infrastructure	15-50

**Compensated Absences**

The District's reporting of accumulated unused compensated absences has been recorded in accordance with GASB Statement No.16. A liability is accrued for an employee's rights to receive compensation for future absences when certain conditions are met. In general, it is the County's policy to grant all permanent full-time and part-time employees leave based upon the number of years of employment. Employees are encouraged to use their annual leave in the year that it is earned. All vacation pay is accrued and incurred in the government-wide statement.

**Note 2 - Explanation of Differences Between the Government-wide Financial Statements and the Governmental Fund Financial Statements**

When capital assets that are to be used in governmental activities are purchased, the cost of those assets are reported as expenditures in governmental funds. However, the Statement of Net Position includes those capital assets among the assets of the District as a whole.

Cost of Capital Assets	\$5,891,267
Accumulated Depreciation	<u>(2,239,657)</u>
<b>Difference</b>	<u><u>\$3,651,610</u></u>

In the Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net position decrease by the amount of depreciation expense charged for the year.

Capital Outlay	\$ 23,163
Depreciation Expense	<u>(202,215)</u>
<b>Difference</b>	<u><u>\$ (179,052)</u></u>

Long-term Liabilities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities are reported on the Statement of Net Position. Long-term Liabilities at the end of the year consist of:

Compensated Absences	\$ 12,727
Net Pension Liabilities	<u>134,260</u>
<b>Difference</b>	<u><u>\$ 146,987</u></u>

**NOTES TO FINANCIAL STATEMENTS**  
**RAINBOW LAKES ESTATES MUNICIPAL SERVICE DISTRICT**  
**RAINBOW LAKES ESTATES, FLORIDA**  
*(Continued)*

**Note 2 - Explanation of Differences Between the Government-wide Financial Statements and the Governmental Fund Financial Statements (Concluded)**

Deferred outflows and inflows of resources related to pensions are applicable for future periods and are not reported in governmental funds.

Deferred Outflows of Resources for Pensions	\$ 47,537
Deferred Inflows of Resources for Pensions	(24,205)
<b>Difference</b>	<u>\$ 23,332</u>

Using the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of the financial resources available. These adjustments include:

Changes in Compensated Absences	<u>\$ 2,628</u>
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Governmental funds report District pension contributions as expenditures. In the Statement of Activities, the cost of pension benefits earned net of contributions is reported as pension expense.

Difference of Pension of Contributions and Net Pension Expense	<u>\$ 3,166</u>
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**Note 3 - Cash and Equity in Pooled Cash and Investments**

**Cash and Investments**

At September 30, 2016, the District's carrying amount of cash deposits accounts was \$1,098,384. These funds are pooled as part of the County pooled cash funds. The pooled cash and investments of the County consist of cash, U.S. treasuries, federal instrumentalities, commercial paper, and money market funds. The County's cash deposits are held by a bank that qualifies as a public depository under the *Florida Security for Public Deposits Act*, as required by Chapter 280, Florida Statutes. The County maintains an investment policy managing pooled cash and investments. Further information on the County's pooled cash and investments can be found in the notes to the annual financial statements of the County.

**Note 4 - Capital Assets**

Land, buildings and improvements, and tangible personal property of the District are reported as capital assets in the statement of net position.

**NOTES TO FINANCIAL STATEMENTS**  
**RAINBOW LAKES ESTATES MUNICIPAL SERVICE DISTRICT**  
**RAINBOW LAKES ESTATES, FLORIDA**  
*(Continued)*

**Note 4 - Capital Assets (Concluded)**

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

	<b>Beginning Balance</b>	<b>Increases</b>	<b>(Decreases)</b>	<b>Ending Balance</b>
<b>Capital Assets, Not Being Depreciated</b>				
Land	\$ 188,367	\$ 0	\$ 0	\$ 188,367
Construction in Progress	170,475	0	(170,475)	0
<b>Total Capital Assets, Not Being Depreciated</b>	<u>358,842</u>	<u>0</u>	<u>(170,475)</u>	<u>188,367</u>
<b>Capital Assets, Being Depreciated</b>				
Buildings	974,053	0	0	974,053
Improvements	1,065,290	170,475	0	1,235,765
Machinery, Equipment, and Vehicles	642,124	23,163		665,287
Infrastructure	2,827,795	0	0	2,827,795
<b>Total Capital Assets, Being Depreciated</b>	<u>5,509,262</u>	<u>193,638</u>	<u>0</u>	<u>5,702,900</u>
<b>Less Accumulated Depreciation</b>				
Buildings	(604,116)	(28,813)	0	(632,929)
Improvements	(506,839)	(87,068)	0	(593,907)
Machinery, Equipment, and Vehicles	(593,599)	(26,448)		(620,047)
Infrastructure	(332,888)	(59,886)	0	(392,774)
<b>Total Accumulated Depreciation</b>	<u>(2,037,442)</u>	<u>(202,215)</u>	<u>0</u>	<u>(2,239,657)</u>
<b>Total Capital Assets Being Depreciated, Net</b>	<u>3,471,820</u>	<u>(8,577)</u>	<u>0</u>	<u>3,463,243</u>
<b>Total Capital Assets, Net</b>	<u>\$ 3,830,662</u>	<u>\$ (8,577)</u>	<u>\$ (170,475)</u>	<u>\$ 3,651,610</u>

**Note 5 - Changes in Compensated Absences**

The amount of vested accumulated compensated absences payable based upon the County's annual leave and sick leave policy is reported as a liability in the statement of net position for the District. The change in accumulated compensated absences during the year is as follows:

<b>Balance October 1, 2015</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance September 30, 2016</b>
\$ 10,099	\$ 11,022	\$ 8,394	\$ 12,727

**NOTES TO FINANCIAL STATEMENTS**  
**RAINBOW LAKES ESTATES MUNICIPAL SERVICE DISTRICT**  
**RAINBOW LAKES ESTATES, FLORIDA**  
*(Continued)*

**Note 6 - Retirement System**

**The Florida Retirement System**

1. Plan Description, Membership and Plan Benefits, and Contribution Requirements

*Plan Description*

The Florida Retirement System (FRS) is a cost-sharing, multiple-employer, contributory retirement system, administered by the State of Florida (State). The FRS was created by Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program (DROP) under the defined benefit plan, and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution plan is the FRS Investment Plan (INV). Chapter 112, Florida Statutes, established the Retiree Health Insurance Subsidy (HIS) Program, a cost-sharing multiple-employer defined benefit pension plan to assist retired members of any state-administered retirement system in paying the costs of health insurance.

The FRS and HIS are administered by the Florida Department of Management Services, Division of Retirement. Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code. The Florida Legislature has the authority to establish and amend retirement legislation and related bills of significance to members of the FRS and HIS plans (including benefit terms and contribution rates). Passed bills are presented to the Governor of Florida and approved before they may be enacted into law.

The FRS and HIS financial information is included in the Florida Retirement System (System) Pension Plan and Other State-Administered Systems' Comprehensive Annual Financial Report (CAFR). The System CAFR, including audited financial information to support the Schedules of Employer Allocations and Schedules of Pension Amounts by Employer, are available online at: [http://www.dms.myflorida.com/workforce\\_operations/retirement/publications](http://www.dms.myflorida.com/workforce_operations/retirement/publications).

The System CAFR and actuarial reports may also be obtained by contacting the Division of Retirement by mail or phone at:

Department of Management Services  
Division of Retirement  
Bureau of Research and Member Contributions  
P.O. Box 9000  
Tallahassee, Florida 32315-9000  
850-907-6500 or toll free 844-377-1888

**NOTES TO FINANCIAL STATEMENTS**  
**RAINBOW LAKES ESTATES MUNICIPAL SERVICE DISTRICT**  
**RAINBOW LAKES ESTATES, FLORIDA**  
*(Continued)*

**Note 6 - Retirement System (Continued)**

**The Florida Retirement System (Continued)**

1. Plan Description, Membership and Plan Benefits, and Contribution Requirements *(Continued)*

Membership and Plan Benefits - FRS

The FRS one class of membership applicable to the District, regular class. The FRS Pension Plan provides for the vesting of benefits after six years of creditable service or after eight years of credible service for members first enrolled after July 1, 2011. Members are eligible for normal retirement when they have met the minimum requirements listed below. Early retirement may be taken any time after vesting; however, there is a 5% benefit reduction for each year prior to normal retirement age. Members are also eligible for regular disability benefits if permanently disabled and unable to work. Benefits are computed on the basis of age, average final compensation, creditable years of service, and accrual value by membership class.

A DROP was established effective July 1, 1998, subject to provisions of Section 121.091, Florida Statutes. It permits employees eligible for normal retirement under the FRS to defer receipt of monthly benefit payment while continuing employment with a Florida Retirement System employer. An employee may participate in the DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the Florida Retirement System Trust Fund and accrue interest.

Regular Class: Six years of service and age 62, or the age after 62 the member becomes vested, or thirty years of service, regardless of age, whichever comes first.

Eight years of service for members first enrolled after July 1, 2011 and age 65 the member becomes vested, or the age after 65 the member becomes vested, or thirty three years of service regardless of the age before 65.

Membership and Plan Benefits - HIS

HIS membership is available to all members within the FRS and INV plans. The benefit is a monthly payment to assist retirees of the state-administered retirement systems in paying their health insurance costs. Eligible retirees and beneficiaries receive a monthly HIS payment equal to the number of years of service credited at retirement multiplied by \$5. The minimum payment is \$30 and the maximum payment is \$160 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS benefit, a retiree under one of the state-administered retirement systems must provide proof of eligible health insurance coverage, which can include Medicare.

Contribution Requirements

The contribution rates for FRS and HIS members are established, and may be amended, by the State of Florida. Employer contributions rates are actuarially recommended but set by the Legislature. These rates are a percentage of covered payroll. The FRS and HIS contribution rates were as follows:

Regular Class: Members not qualifying for other classes.

10/1/2015 - 06/30/2016

7.26%

7/1/2016 - 9/30/2016

7.52%

**NOTES TO FINANCIAL STATEMENTS**  
**RAINBOW LAKES ESTATES MUNICIPAL SERVICE DISTRICT**  
**RAINBOW LAKES ESTATES, FLORIDA**  
*(Continued)*

**Note 6 - Retirement System (Continued)**

**The Florida Retirement System (Continued)**

1. Plan Description, Membership and Plan Benefits, and Contribution Requirements *(Concluded)*

Contribution Requirements (Concluded)

Employer rates include 1.66% from 10/1/15-6/30/16 and 1.66% from 7/1/2016 - 9/30/2016 for the HIS program. In addition, other than for the DROP, rates include 0.04% from 10/15/2015 - 6/30/2016 and 0.06% from 7/1/2016 - 9/30/2016 for administrative costs.

The Districts' contributions recognized during the fiscal year ended September 30, 2016, by the FRS and HIS were \$7,749 and \$2,471, respectively.

As of July 1, 2011, members contribute 3% of their salary as retirement contributions. Members participating in DROP are not required to make 3% contributions.

2. FRS and HIS Rate of Return, Discount Rate Sensitivity, and Significant Actuarial Assumptions

Long-term Rate of Return

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in October 2016 the FRS Actuarial Assumption Conference reviewed assumptions by Milliman's Capital Markets Assumption team and Aon Hewitt Investment Consulting. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Annual Arithmetic Return</u>
Cash	1.00%	3.20%
Fixed Income	18.00%	4.70%
Global Equity	53.00%	8.10%
Real Estate (Property)	10.00%	6.40%
Private Equity	6.00%	11.50%
Strategic Investments	12.00%	6.10%

The HIS is essentially funded on a pay-as-you go basis. As such, there is no assumption for a long-term expected rate of return on a portfolio, no assumptions for cash flows into and out of the Plan, or assumed asset allocation.

Discount Rate Sensitivity Analysis

The following tables demonstrate the sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate. The sensitivity analysis shows the impact if the discount rate was 1.0% higher or 1.0% lower than the current discount rate at June 30, 2016.

**NOTES TO FINANCIAL STATEMENTS**  
**RAINBOW LAKES ESTATES MUNICIPAL SERVICE DISTRICT**  
**RAINBOW LAKES ESTATES, FLORIDA**  
*(Continued)*

**Note 6 - Retirement System (Continued)**

**The Florida Retirement System (Concluded)**

2. FRS and HIS Rate of Return, Discount Rate Sensitivity, and Significant Actuarial Assumptions *(Concluded)*

Long-term Rate of Return

<u>FRS Net Pension Liability (Asset)</u>			<u>HIS Net Pension Liability (Asset)</u>		
Current Discount			Current Discount		
1% Decrease	Rate	1% Increase	1% Decrease	Rate	1% Increase
6.60%	7.60%	8.60%	1.85%	2.85%	3.85%
\$145,782	\$79,183	\$23,749	\$63,185	\$55,077	\$48,347

Actuarial Methods and Assumptions

Actuarial assumptions for both the FRS and HIS are reviewed annually by the Florida Retirement System Actuarial Assumptions Conference. The FRS has a valuation performed annually and the HIS has a valuation performed biennially that is updated for GASB reporting in the year a valuation is not performed. The most recent experience study for the FRS was completed in 2014 for the period July 1, 2008 through June 30, 2013. Because the HIS is funded on a pay-as-you-go basis, no experience study has been completed.

The total pension liability for the FRS and HIS was determined by an actuarial valuation as of July 1, 2016, using the individual entry age normal actuarial cost method. Inflation increases for both plans is assumed at 2.60%. Payroll growth for both plans is assumed at 3.25%. Mortality assumptions for both plans were based on the Generational RP-2000 with Projection Scale BB tables. Both the discount rate and long-term expected rate of return used for FRS investments is 7.60%, a decrease from 7.65% in the prior year. The FRS fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return. Because the HIS uses pay-as-you-go funding structure, a municipal bond rate of 2.85% was used to determine its total pension liability. In October 2016, the Actuarial Assumptions Conference adopted the Bond Buyer General Obligation 20-Bond Municipal Bond Index as the applicable municipal bond index. As of June 30, 2016, the municipal rate used by HIS decreased from 3.80% to 2.65%.

The Florida Retirement System Actuarial Assumption Conference adopted the 7.6% investment return assumption, pursuant to Section 216.136(10), Florida Statutes, which is a *prescribed assumption* as defined by Actuarial Standard of Practice (ASOP) 27. The consulting actuary for FRS noted that the adopted return assumption conflicts with the actuary's judgement of a reasonable assumption as defined by Actuarial Standard of Practice No. 27. The opinion of the FRS System auditor was not modified with respect to his matter. Additional information can be obtained in CAFR and actuarial reports of the FRS System, as described on page 67.

**NOTES TO FINANCIAL STATEMENTS**  
**RAINBOW LAKES ESTATES MUNICIPAL SERVICE DISTRICT**  
**RAINBOW LAKES ESTATES, FLORIDA**  
*(Continued)*

**Note 6 - Retirement System (Continued)**

**Net Pension Liability, Deferred Outflows/Inflows of Resources, and Pension Expense for District Defined Benefit Pension Plans**

1. Proportionate Share of FRS and HIS Plans

Employers participating in the FRS and HIS were provided pension allocation schedules for use in recording their proportionate share of the FRS and HIS collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pensions expense at measurement date June 30, 2016, in accordance with GASB Statements No. 68, *Accounting and Financial Reporting for Pensions* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of Statement No. 68*. The underlying financial information used to prepare the pension allocation schedules was based on the same basis as mentioned previously and on the actuarial valuation as of July 1, 2016. The District's proportionate share was calculated using the retirement contributions for employees that were members of the FRS and HIS during the measurement year ended June 30, 2016. The aggregate employer contribution amounts in the pension allocation schedules agree to the total employer contribution amounts reported in the System CAFR.

At September 30, 2016, the District reported a net pension liability of \$134,260 for its proportionate share of the collective net pension liability of the FRS and HIS. The following table presents information on the District's proportionate share of the FRS and HIS:

	<u>FRS</u>	<u>HIS</u>	<u>District Total</u>
Proportionate Share of Net Pension Liability as of June 30, 2016	\$ 79,183	\$ 55,077	\$ 134,260
District's Proportion at June 30, 2016	0.000003135970	.00000472575	
District's Proportion at June 30, 2015	0.000003931480	.00000526168	
Change on Proportion During Current Year	0.00000795510	.00000053593	

2. Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended September 30, 2016, the District recognized a pension expense of \$12,074 related to FRS, and pension expense of \$4,576 related to the HIS. At September 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**NOTES TO FINANCIAL STATEMENTS**  
**RAINBOW LAKES ESTATES MUNICIPAL SERVICE DISTRICT**  
**RAINBOW LAKES ESTATES, FLORIDA**  
*(Continued)*

**Note 6 - Retirement System (Concluded)**

**Net Pension Liability, Deferred Outflows/Inflows of Resources, and Pension Expense for District Defined Benefit Pension Plans (Concluded)**

2. Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions  
*(Concluded)*

	FRS		HIS		District Total
	Deferred Outflow	Deferred Inflow	Deferred Outflow	Deferred Inflow	Deferred Outflow Deferred (Inflow)
Differences Between Expected and Actual Experience	\$ 6,063		\$ 0		\$ 6,063
		\$ (737)		\$ (125)	(862)
Changes of Assumptions	4,790		8,643		13,433
Net Difference Between Projected and Actual Investment Earnings	20,468	0	28	0	20,496
Changes in Proportion	1,865		2,831		4,696
		(14,780)		(8,563)	(23,343)
District Contributions Subsequent to the Measurement Date	2,174	0	675	0	2,849
<b>Total Deferred Outflows</b>	<u>\$ 35,360</u>		<u>\$ 12,177</u>		<u>\$ 47,537</u>
<b>Total Deferred (Inflows)</b>		<u>\$ (15,517)</u>		<u>\$ (8,688)</u>	<u>\$ (24,205)</u>

Deferred outflows of resources of \$2,849 are reported by the District for employer contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Reporting Year Ending June 30,	FRS	HIS	District Total Deferred Outflows/ Deferred (Inflows)
2017	\$ 1,789	\$ 692	\$ 2,481
2018	1,789	692	2,481
2019	9,770	687	10,457
2020	5,525	684	6,209
2021	(896)	(60)	(956)
Thereafter	(308)	119	(189)
<b>Total</b>	<u>\$ 17,667</u>	<u>\$ 2,814</u>	<u>\$ 20,483</u>

**NOTES TO FINANCIAL STATEMENTS**  
**RAINBOW LAKES ESTATES MUNICIPAL SERVICE DISTRICT**  
**RAINBOW LAKES ESTATES, FLORIDA**  
*(Concluded)*

**Note 7 - Risk Management**

The District participates in the Marion County risk management program. The Board of County Commissioners maintains an Insurance Risk Management Internal Service Fund for health and long term disability insurance, workers' compensation, general property and casualty and automobile claims. Payments to the Board for coverage are based on past experience of the amounts needed to pay current year claims. During the current year, the District remitted \$57,753 for insurance coverage. Information regarding the program's coverage, self-insurance reserves, and program administration can be found in the Marion County Comprehensive Annual Financial Report for the year ended September 30, 2016.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016  
RAINBOW LAKES ESTATES MUNICIPAL SERVICE DISTRICT  
RAINBOW LAKES ESTATES, FLORIDA**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 205,218	\$ 205,218	\$ 208,093	\$ 2,875
Permits and Fees	130,718	130,718	144,862	14,144
Charges for Services	85	85	36	(49)
Investment Income	2,185	2,185	5,710	3,525
Miscellaneous Revenues	5,438	5,438	5,908	470
<b>Total Revenues</b>	<u>343,644</u>	<u>343,644</u>	<u>364,609</u>	<u>20,965</u>
<b>Expenditures</b>				
Current:				
General Government	981,342	981,342	181,988	799,354
Transportation	294,531	294,531	166,701	127,830
Capital Outlay	23,163	23,163	23,163	0
<b>(Total Expenditures)</b>	<u>(1,299,036)</u>	<u>(1,299,036)</u>	<u>(371,852)</u>	<u>927,184</u>
<b>Net Change in Fund Balance</b>	(955,392)	(955,392)	(7,243)	948,149
<b>Fund Balance, Beginning of Year</b>	<u>955,392</u>	<u>955,392</u>	<u>1,075,867</u>	<u>120,475</u>
<b>Fund Balance, End of Year</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,068,624</u>	<u>\$ 1,068,624</u>

**RAINBOW LAKES ESTATES MUNICIPAL SERVICE DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
LAST 10 FISCAL YEARS**

<b>Florida Retirement System (FRS):</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
District's Proportion of the Net Pension Liability (Asset)	0.00031359700%	0.000393148000%	0.0004431600%
District's Proportionate Share of the Net Pension Liability (Asset)	\$ 79,183	\$ 50,780	\$ 27,039
District's Covered-employee Payroll	145,181	158,773	175,642
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-employee Payroll	54.54%	31.98%	15.39%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Note 2)	84.88%	92.00%	96.09%
<b>Health Insurance Subsidy (HIS):</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
District's Proportion of the Net Pension Liability (Asset)	0.00047257500%	0.000526168000%	0.000591143%
District's Proportionate Share of the Net Pension Liability (Asset)	\$ 55,077	\$ 53,661	\$ 55,273
District's Covered-employee Payroll	145,890	159,629	175,642
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-employee Payroll	37.75%	33.62%	31.47%
Plan Fiduciary Net Position as Percentage of the Total Pension Liability (Note 2)	0.97%	0.50%	0.99%

\* The amounts presented for each measurement year were determined as of 6/30.

Note 1: GASB Statement No. 68 requires information for 10 years. However, until a 10-year trend is compiled, the District is presenting information for only those years for which information is available.

Note 2: The Plan's fiduciary net position as a percentage of the total pension liability is published in Note 4 of the Plan's Comprehensive Annual Financial Report.

**RAINBOW LAKES ESTATES MUNICIPAL SERVICE DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CONTRIBUTIONS  
LAST 10 FISCAL YEARS**

<b>Florida Retirement System (FRS):</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Contractually Required Contribution	\$ 7,749	\$ 9,111	\$ 10,833
Contributions in Relation to the Contractually Required Contribution	(7,749)	(9,111)	(10,833)
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
District's Covered-employee Payroll	\$ 148,862	\$ 153,801	\$ 171,771
Contributions as a Percentage of Covered-employee Payroll	5.21%	5.92%	6.31%
<b>Health Insurance Subsidy (HIS):</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Contractually Required Contribution	\$ 2,471	\$ 2,108	\$ 2,116
Contributions in Relation to the Contractually Required Contribution	(2,471)	(2,108)	(2,116)
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
District's Covered-employee Payroll	\$ 148,862	\$ 155,367	\$ 171,771
Contributions as a Percentage of Covered-employee Payroll	1.66%	1.36%	1.23%

\*The amounts presented for each fiscal year-end were determined as of 9/30.

**Note 1:** GASB Statement 68 requires information for 10 years. However, until a full 10-year trend is compiled, the District is presenting information for only those years for which information is available.

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

The following changes in actuarial assumptions occurred in 2016:

**Note 1:** FRS: There were no significant changes in actuarial assumptions. The inflation rate assumption remained at 2.60%, the real payroll growth rate assumption remained at .65%, and the overall payroll growth rate assumption remained at 3.25%. The long-term expected rate of return decreased from 7.65% to 7.60%.

**Note 2:** HIS: The municipal rate used to determine total pension liability was decreased from 3.80% to 2.85%.

The following changes in actuarial assumptions occurred in 2015:

**Note 1:** HIS: The municipal rate used to determine total pension liability was decreased from 4.29% to 3.80%.

## **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 GOVERNMENT AUDITING STANDARDS**

The Honorable Board of County Commissioners  
Marion County, 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 Rainbow Lakes Estates Municipal Service District (the District), as of and for the year ended September 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated April 26, 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 of 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 on the District'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 deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Certified Public Accountants**

P.O. Box 141270 • 222 N.E. 1st Street • Gainesville, Florida 32614-1270 • (352) 378-2461 • FAX (352) 378-2505  
Laurel Ridge Professional Center • 2347 S.E. 17th Street • Ocala, Florida 34471 • (352) 732-3872 • FAX (352) 732-0542  
443 East College Avenue • Tallahassee, Florida 32301 • (850) 224-7144 • FAX (850) 224-1762  
5001 Lakewood Ranch Blvd. N., Suite 101 • Sarasota, Florida 34240 • (941) 907-0350 • FAX (941) 907-0309  
MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS  
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

The Honorable Board of County Commissioners  
Marion County, 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 instances of noncompliance 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 controls and compliance and the results of that testing, and is not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Durvis, Gray and Company, LLP*

April 26, 2017  
Ocala, Florida

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH  
SECTION 218.415, FLORIDA STATUTES**

The Honorable Board of County Commissioners  
Marion County, Florida

We have examined the Rainbow Lakes Estates Municipal Service District's (the District) compliance with the requirements of Section 218.415, Florida Statutes, as of and for the year ended September 30, 2016, as required by Section 10.556(10)(a), *Rules of the Auditor General*. 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.

The report 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 District, its management, and the Board of County Commissioners of Marion County, Florida, and is not intended to be, and should not be used by anyone other than these specified parties.

*Purvis, Gray and Company, LLP*

April 26, 2017  
Ocala, Florida

**Certified Public Accountants**

P.O. Box 141270 • 222 N.E. 1st Street • Gainesville, Florida 32614-1270 • (352) 378-2461 • FAX (352) 378-2505  
Laurel Ridge Professional Center • 2347 S.E. 17th Street • Ocala, Florida 34471 • (352) 732-3872 • FAX (352) 732-0542  
443 East College Avenue • Tallahassee, Florida 32301 • (850) 224-7144 • FAX (850) 224-1762  
5001 Lakewood Ranch Blvd. N., Suite 101 • Sarasota, Florida 34240 • (941) 907-0350 • FAX (941) 907-0309  
MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS  
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

## MANAGEMENT LETTER

The Honorable Board of County Commissioners  
Marion County, Florida

### Report on the Financial Statements

We have audited the financial statements of the Rainbow Lakes Estates Municipal Service District (the District), as of and for the fiscal year ended September 30, 2016, and have issued our report thereon dated April 26, 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 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 Compliance with Section 218.415, Florida Statutes. Disclosures in these reports, which are dated April 26, 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 actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no findings or recommendations in the preceding annual 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 of the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes of the financial statements (see Note 1 of the accompanying financial statements).

### Financial Condition

Section 10.554(1)(i)5a. and 10.556(7), *Rules of the Auditor General*, requires that we apply appropriate procedures and report the results of our determination as to whether or not the District has met one more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific conditions 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.

### Certified Public Accountants

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The Honorable Board of County Commissioners  
Marion County, Florida

**MANAGEMENT LETTER**  
*(Concluded)*

**Financial Condition (Concluded)**

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), *Rules of the Auditor General*, we applied financial condition assessment procedures. 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 the financial information provided by same.

**Annual Financial Report**

Sections 10.554(1)(i)5.b. and 10.556(7), *Rules of the Auditor General*, require that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for the District for the fiscal year ended September 30, 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 were in agreement.

**Special District Component Units**

Section 10.554(1)(i)5.d., *Rules of the Auditor General*, requires that we determine whether or not a special district is a component unit of a county, municipality, or special district, provided the financial information necessary for proper reporting of the component unit, within the audited financial statements of the county, municipality, or special district in accordance with Section 218.39(3)(b), Florida Statutes. In connection with our audit, we determined that all special district component units provided the necessary information for proper reporting in accordance with Section 218.39(3)(b), Florida Statutes.

**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 contract and grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit we did not have any such findings.

**Purpose of this Letter**

Our management letter is identified 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 Commissioners, and applicable management, and is not intended and should not be used by anyone other than those specified parties.



April 26, 2017  
Ocala, Florida