

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

RAINBOW RIDER
LOWRY, MINNESOTA

YEAR ENDED DECEMBER 31, 2014

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 150 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 700 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**RAINBOW RIDER
LOWRY, MINNESOTA**

Year Ended December 31, 2014



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**RAINBOW RIDER
LOWRY, MINNESOTA**

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**RAINBOW RIDER
LOWRY, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2014

The Rainbow Rider Transit Board consists of two members from each of the participating counties.

| <u>Name</u> | <u>Position</u> | <u>County</u> |
|-------------------|------------------|---------------|
| Board | | |
| Dan Olson | Chair | Douglas |
| Paul Gerde | Vice Chair | Pope |
| Charlie Meyer | Member | Douglas |
| Tom Amundson | Member | Grant |
| Todd Schneeberger | Member | Grant |
| Cody Rogahn | Member | Pope |
| Ron Staples | Member | Stevens |
| Donny Wohlers | Member | Stevens |
| Barb Becker | Member | Todd |
| David Kircher | Member | Todd |
| Donny Appel | Member | Traverse |
| Todd Johnson | Member | Traverse |
| Harold Jennissen | Transit Director | |

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REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Rainbow Rider Transit Board
Lowry, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Rainbow Rider as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise Rainbow Rider'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 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 of 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 Rainbow Rider'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 Rainbow Rider'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 financial position of Rainbow Rider as of December 31, 2014, and the results of its operations and its cash flows 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 be presented to supplement the basic financial statements. Such information, although not 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 September 25, 2015, on our consideration of Rainbow Rider's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rainbow Rider's internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA), listed as supplementary information in the table of contents, is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 25, 2015

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**RAINBOW RIDER
LOWRY, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014
(Unaudited)**

The Rainbow Rider Transit Board's (Board) Management's Discussion and Analysis (MD&A) provides an overview of Rainbow Rider's financial activities for the fiscal year ended December 31, 2014. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with Rainbow Rider's financial statements.

Rainbow Rider is a joint powers enterprise operation among Douglas, Grant, Pope, Stevens, Todd, and Traverse Counties created to provide a coordinated service delivery and funding source for public transportation for the mutual benefit of each of the joint participants.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. Rainbow Rider's basic financial statements consist of two parts: the financial statements and the notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and, therefore, is included as required supplementary information.

The financial statements consist of the following:

- The statement of net position compares the assets and liabilities to give an overall view of the financial health of Rainbow Rider.
- The statement of revenues, expenses, and changes in net position provides information on an aggregate view of Rainbow Rider's finances. All of the current year's revenues and expenses are taken into account, regardless of when the cash was received or paid.
- The statement of cash flows provides sources and uses of cash for Rainbow Rider.

FINANCIAL ANALYSIS

| | Net Position | | | Percentage Change (%) |
|------------------------------|---------------------|---------------------|------------------------|-----------------------------|
| | 2014 | 2013 | Increase (Decrease) | |
| Assets | | | | |
| Current and other assets | \$ 442,194 | \$ 213,039 | \$ 229,155 | 108 |
| Capital assets, net | <u>1,528,949</u> | <u>1,746,661</u> | <u>(217,712)</u> | (12) |
| Total Assets | <u>\$ 1,971,143</u> | <u>\$ 1,959,700</u> | <u>\$ 11,443</u> | 1 |
| Liabilities | | | | |
| Current liabilities | \$ 338,957 | \$ 205,083 | \$ 133,874 | 65 |
| Noncurrent liabilities | <u>46,087</u> | <u>49,640</u> | <u>(3,553)</u> | (7) |
| Total Liabilities | <u>\$ 385,044</u> | <u>\$ 254,723</u> | <u>\$ 130,321</u> | 51 |
| Net Position | | | | |
| Investment in capital assets | \$ 1,528,949 | \$ 1,746,661 | \$ (217,712) | (12) |
| Unrestricted | <u>57,150</u> | <u>(41,684)</u> | <u>98,834</u> | 237 |
| Total Net Position | <u>\$ 1,586,099</u> | <u>\$ 1,704,977</u> | <u>\$ (118,878)</u> | (7) |

| | Changes in Net Position | | | Percentage Change (%) |
|------------------------------|-------------------------|---------------------|------------------------|-----------------------------|
| | 2014 | 2013 | Increase (Decrease) | |
| Operating revenues | | | | |
| Charges for services | \$ 517,198 | \$ 411,506 | \$ 105,692 | 26 |
| Intergovernmental | 1,706,441 | 1,489,280 | 217,161 | 15 |
| Miscellaneous | 39,917 | 31,959 | 7,958 | 25 |
| Nonoperating revenues | | | | |
| Interest earnings | 609 | 977 | (368) | (38) |
| Gain on disposal of assets | <u>6,500</u> | <u>7,289</u> | <u>(789)</u> | (11) |
| Total Revenues | <u>\$ 2,270,665</u> | <u>\$ 1,941,011</u> | <u>\$ 329,654</u> | 17 |
| Operating expenses | | | | |
| Personal services | \$ 1,470,791 | \$ 1,437,384 | \$ 33,407 | 2 |
| Administrative charges | 133,212 | 138,422 | (5,210) | (4) |
| Operating charges | 473,462 | 324,265 | 149,197 | 46 |
| Insurance | 35,779 | 38,651 | (2,872) | (7) |
| Depreciation | <u>470,558</u> | <u>520,027</u> | <u>(49,469)</u> | (10) |
| Total Expenses | <u>\$ 2,583,802</u> | <u>\$ 2,458,749</u> | <u>\$ 125,053</u> | 5 |

(Unaudited)

Page 6

| | <u>2014</u> | <u>2013</u> | <u>Increase (Decrease)</u> | <u>Percentage Change (%)</u> |
|------------------------------------|---------------------|---------------------|--------------------------------|--------------------------------------|
| Income (loss) before contributions | \$ (313,137) | \$ (517,738) | \$ 204,601 | 40 |
| Capital contributions | <u>194,259</u> | <u>279,165</u> | <u>(84,906)</u> | (30) |
| Change in Net Position | \$ (118,878) | \$ (238,573) | \$ 119,695 | 50 |
| Net Position - January 1 | <u>1,704,977</u> | <u>1,943,550</u> | <u>(238,573)</u> | |
| Net Position - December 31 | <u>\$ 1,586,099</u> | <u>\$ 1,704,977</u> | <u>\$ (118,878)</u> | |

CAPITAL ASSETS

Capital Assets (Net of Depreciation)

| | <u>2014</u> | <u>2013</u> | <u>Increase (Decrease)</u> | <u>Percentage Change (%)</u> |
|--------------------------------|---------------------|---------------------|--------------------------------|--------------------------------------|
| Land | \$ 137,548 | \$ 137,548 | \$ - | - |
| Land improvements | 2,844 | 3,676 | (832) | (23) |
| Buildings and structures | 861,769 | 967,577 | (105,808) | (11) |
| Revenue vehicles and equipment | 480,264 | 567,092 | (86,828) | (15) |
| Office furniture and equipment | <u>46,524</u> | <u>70,768</u> | <u>(24,244)</u> | (34) |
| Total Capital Assets | <u>\$ 1,528,949</u> | <u>\$ 1,746,661</u> | <u>\$ (217,712)</u> | (12) |

Additional information on capital assets can be found in Note 2.D. to the financial statements.

CONTACTING RAINBOW RIDER'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of Rainbow Rider's finances and to show the Board's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Transit Director, Harold Jennissen, 249 Poplar Avenue, Lowry, Minnesota 56349.

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BASIC FINANCIAL STATEMENTS

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**RAINBOW RIDER
LOWRY, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2014**

Assets

Current assets

| | |
|----------------------------|------------|
| Cash and investments | \$ 244,270 |
| Petty cash | 50 |
| Accounts receivable | 12,053 |
| Due from other governments | 181,697 |
| Inventories | 4,124 |

Total current assets **\$ 442,194**

Capital assets

| | |
|-------------------|------------|
| Nondepreciable | \$ 137,548 |
| Depreciable - net | 1,391,401 |

Total capital assets **\$ 1,528,949**

Total Assets **\$ 1,971,143**

Liabilities

Current liabilities

| | |
|------------------------------|------------|
| Accounts payable | \$ 204,935 |
| Salaries payable | 29,646 |
| Due to other governments | 4,494 |
| Unearned revenue | 90,642 |
| Compensated absences payable | 9,240 |

Total current liabilities **\$ 338,957**

Noncurrent liabilities

| | |
|------------------------------|--------|
| Compensated absences payable | 46,087 |
|------------------------------|--------|

Total Liabilities **\$ 385,044**

Net Position

| | |
|------------------------------|--------------|
| Investment in capital assets | \$ 1,528,949 |
| Unrestricted | 57,150 |

Total Net Position **\$ 1,586,099**

**RAINBOW RIDER
LOWRY, MINNESOTA**

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2014**

| | |
|---|----------------------------|
| Operating Revenues | |
| Charges for services | <u>\$ 517,198</u> |
| Intergovernmental | |
| Federal | \$ 516,222 |
| State | 959,038 |
| Local | 230,788 |
| Reimbursement for services | <u>393</u> |
| Total intergovernmental | <u>\$ 1,706,441</u> |
| Miscellaneous | <u>\$ 39,917</u> |
| Total Operating Revenues | <u>\$ 2,263,556</u> |
| Operating Expenses | |
| Personal services | \$ 1,470,791 |
| Administrative charges | 133,212 |
| Operating charges | 473,462 |
| Insurance | 35,779 |
| Depreciation | <u>470,558</u> |
| Total Operating Expenses | <u>\$ 2,583,802</u> |
| Operating Income (Loss) | <u>\$ (320,246)</u> |
| Nonoperating Revenues (Expenses) | |
| Investment earnings | \$ 609 |
| Gain (loss) on disposal of capital assets | <u>6,500</u> |
| Total Nonoperating Revenues (Expenses) | <u>\$ 7,109</u> |
| Income (loss) before contributions | <u>\$ (313,137)</u> |
| Capital contributions | <u>194,259</u> |
| Change in Net Position | <u>\$ (118,878)</u> |
| Net Position - January 1 | <u>1,704,977</u> |
| Net Position - December 31 | <u><u>\$ 1,586,099</u></u> |

**RAINBOW RIDER
LOWRY, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014
Increase (Decrease) in Cash and Cash Equivalents**

| | |
|---|---------------------------------|
| Cash Flows from Operating Activities | |
| Receipts from customers | \$ 650,942 |
| Payments to suppliers | (622,521) |
| Payments to employees | <u>(1,473,358)</u> |
| Net cash provided by (used in) operating activities | <u>\$ (1,444,937)</u> |
| Cash Flows from Noncapital Financing Activities | |
| Intergovernmental receipts | <u>\$ 1,677,529</u> |
| Cash Flows from Capital and Related Financing Activities | |
| Capital contributions | \$ 102,727 |
| Proceeds from the sale of capital assets | 6,500 |
| Purchases of capital assets | <u>(134,021)</u> |
| Net cash provided by (used in) capital and related financing activities | <u>\$ (24,794)</u> |
| Cash Flows from Investing Activities | |
| Interest received | <u>\$ 609</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | \$ 208,407 |
| Cash and Cash Equivalents at January 1 | <u>35,913</u> |
| Cash and Cash Equivalents at December 31 | <u><u>\$ 244,320</u></u> |
| Reconciliation of Cash and Cash Equivalents to the Statement of Net Position | |
| Cash and Cash Equivalents | |
| Cash and pooled investments | \$ 244,270 |
| Petty cash | <u>50</u> |
| Total Cash and Cash Equivalents | <u><u>\$ 244,320</u></u> |

**RAINBOW RIDER
LOWRY, MINNESOTA**

**EXHIBIT 3
(Continued)**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014
Increase (Decrease) in Cash and Cash Equivalents**

| | |
|--|-------------------------------------|
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities | |
| Operating income (loss) | <u>\$ (320,246)</u> |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities | |
| Depreciation expense | \$ 470,558 |
| Intergovernmental revenue | (1,706,441) |
| (Increase) decrease in accounts receivable | 2,994 |
| (Increase) decrease in due from other governments | 95,979 |
| (Increase) decrease in inventories | 723 |
| Increase (decrease) in accounts payable | 25,916 |
| Increase (decrease) in salaries payable | 6,674 |
| Increase (decrease) in compensated absences payable | (9,241) |
| Increase (decrease) in due to other governments | (6,707) |
| Increase (decrease) in unearned revenue | <u>(5,146)</u> |
| Total adjustments | <u>\$ (1,124,691)</u> |
| Net Cash Provided by (Used in) Operating Activities | <u><u>\$ (1,444,937)</u></u> |

**RAINBOW RIDER
LOWRY, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014

1. Summary of Significant Accounting Policies

The financial reporting policies of Rainbow Rider conform to generally accepted accounting principles.

A. Financial Reporting Entity

Rainbow Rider was established December 1, 1994, by a joint powers agreement among Douglas, Grant, Pope, Stevens, and Traverse Counties. Operations did not begin until 1995. The agreement was established to provide a coordinated service delivery and funding source for public transportation for the mutual benefit of each of the joint participants. The joint powers agreement remains in force until any single county notifies the other parties of its intentions to withdraw, at least 90 days before the termination takes effect. The remaining counties may agree to continue the agreement with the remaining counties as members. Grant County terminated its membership in Rainbow Rider on May 31, 1999. On January 1, 2011, Grant County rejoined Rainbow Rider as a full voting member. On January 1, 2012, Todd County joined Rainbow Rider as a full voting member.

Control is vested in the Rainbow Rider Transit Board (Board). The Board consists of two members from each county. The members of the Board are appointed by the County Commissioners of the counties they represent. Members of the Board serve an annual term and may be reappointed by their respective county boards.

Rainbow Rider is a joint venture with no county having control over the Board. Each county has an ongoing responsibility to provide funding for the operating costs of the Board allocated in accordance with the actual expenses incurred by representatives of the respective counties on the Board.

**RAINBOW RIDER
LOWRY, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

Rainbow Rider's operations are accounted for as an enterprise fund, with a set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, and expenses. Enterprise funds are used to account for: (1) operations that provide a service to citizens financed primarily by charging users for that service; and (2) activities where the periodic measurement of net income is considered appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Rainbow Rider's net position is reported in two parts: (1) investment in capital assets and (2) unrestricted net position.

C. Measurement Focus and Basis of Accounting

Rainbow Rider's 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

When both restricted and unrestricted resources are available for use, it is Rainbow Rider's policy to use restricted resources first and then unrestricted resources as needed.

D. Assets, Liabilities, and Net Position

1. Assets

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash, petty cash, and investments with an original maturity of three months or less when purchased.

Inventories

Inventories are valued at last invoice price, which is substantially the first-in, first-out method.

**RAINBOW RIDER
LOWRY, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position

1. Assets (Continued)

Capital Assets and Depreciation

Capital assets, which include land and land improvements, buildings, furniture, equipment, and vehicles, are reported in the financial statements. Capital assets are defined by the Board as assets with an initial, individual cost of more than \$1,000 and an estimated useful life of three years or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

Depreciation is determined using the straight-line method for the estimated useful lives of the assets:

| <u>Classification</u> | <u>Range</u> |
|-------------------------|---------------|
| Land improvements | 15 years |
| Buildings | 30 years |
| Furniture and equipment | 3 to 10 years |
| Vehicles | 5 years |

2. Liabilities

Unearned Revenue

Unredeemed bus fare tickets are reported as unearned revenue until they are redeemed. Additionally, veterans accounts prepaid by member counties for veterans' trips are reported as unearned revenue.

Compensated Absences

The accompanying financial statements include a liability for unused vacation that has vested. Rainbow Rider's personnel policy provides that employees earn vacation leave dependent upon their years of service. Vacation leave may be accumulated to a maximum of 30 days. Sick leave is accumulated at one-half day per month for full-time employees. Part-time employees earn vacation and sick leave on a prorated basis.

**RAINBOW RIDER
LOWRY, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position

2. Liabilities

Compensated Absences (Continued)

Unvested sick leave, approximately \$43,627 at December 31, 2014, is available to employees in the event of illness-related absences and is not paid to them at termination.

3. Net Position

The portion of net position, investment in capital assets, represents the capital assets of Rainbow Rider, net of accumulated depreciation. The remaining net position is reported as unrestricted net position.

E. Revenues, Expenses, and Capital Contributions

1. Operating and Nonoperating Revenues

Rainbow Rider distinguishes operating revenues from nonoperating revenues. Operating revenues generally result from providing services in connection with an activity's principal ongoing operations. Operating revenues include charges for services and intergovernmental operating grants since they constitute Rainbow Rider's ongoing operations. All revenues not meeting this definition are reported as nonoperating revenues.

2. Operating and Nonoperating Expenses

Rainbow Rider recognizes expenses, including compensated absences, when incurred. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All expenses not meeting this definition are reported as nonoperating expenses.

3. Capital Contributions

Capital contributions received are reported as a separate item and an increase in net position on the statement of revenues, expenses, and changes in net position.

**RAINBOW RIDER
LOWRY, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make 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 statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

G. Future Change in Accounting Standards

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, replaces Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to employer governments that provide pensions through pension plans administered as trusts or similar arrangement that meet certain criteria. GASB Statement 68 requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement will be effective for Rainbow Rider's calendar year 2015. Rainbow Rider has not yet determined the financial impact of adopting the new standard.

2. Detailed Notes

A. Budget to Actual

Following is a summary statement of budgeted and actual revenues and expenses for the year ended December 31, 2014.

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|--------------------------|-----------------------------|-----------------------------|-----------------------------|
| Operating Revenues | | | |
| Charges for services | \$ 536,705 | \$ 517,198 | \$ (19,507) |
| Intergovernmental | 1,445,000 | 1,706,441 | 261,441 |
| Miscellaneous | 36,860 | 39,917 | 3,057 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total Operating Revenues | <u>\$ 2,018,565</u> | <u>\$ 2,263,556</u> | <u>\$ 244,991</u> |

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes

A. Budget to Actual (Continued)

| | <u>Budget</u> | <u>Actual</u> | <u>Variance)</u> |
|---|----------------------------|----------------------------|-------------------------|
| Operating Expenses | | | |
| Personal services | \$ 1,488,439 | \$ 1,470,791 | \$ 17,648 |
| Administrative charges | 122,050 | 133,212 | (11,162) |
| Operating charges | 518,085 | 473,462 | 44,623 |
| Insurance | 35,779 | 35,779 | - |
| Depreciation | <u>-</u> | <u>470,558</u> | <u>(470,558)</u> |
| Total Operating Expenses | <u>\$ 2,164,353</u> | <u>\$ 2,583,802</u> | <u>\$ (419,449)</u> |
| Operating Income (Loss) | <u>\$ (145,788)</u> | <u>\$ (320,246)</u> | <u>\$ (174,458)</u> |
| Nonoperating Revenues (Expenses) | | | |
| Investment earnings | \$ - | \$ 609 | \$ 609 |
| Gain (loss) on disposal of capital assets | <u>-</u> | <u>6,500</u> | <u>6,500</u> |
| Total Nonoperating Revenues (Expenses) | <u>\$ -</u> | <u>\$ 7,109</u> | <u>\$ 7,109</u> |
| Income (loss) before contributions | \$ (145,788) | \$ (313,137) | \$ (167,349) |
| Capital contributions | <u>-</u> | <u>194,259</u> | <u>194,259</u> |
| Change in Net Position | \$ (145,788) | \$ (118,878) | \$ 26,910 |
| Net Position - January 1 | <u>1,704,977</u> | <u>1,704,977</u> | <u>-</u> |
| Net Position - December 31 | <u><u>\$ 1,559,189</u></u> | <u><u>\$ 1,586,099</u></u> | <u><u>\$ 26,910</u></u> |

B. Deposits and Investments

Rainbow Rider's total deposits and investments follow:

| | |
|--------------------------------|--------------------------|
| Cash and investments | \$ 244,270 |
| Petty cash | <u>50</u> |
| Total Deposits and Investments | <u><u>\$ 244,320</u></u> |

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes

B. Deposits and Investments (Continued)

1. Deposits

Rainbow Rider is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. Rainbow Rider is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better and revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, Rainbow Rider's deposits may not be returned to it. Rainbow Rider does not have a deposit policy for custodial credit risk. As of December 31, 2014, Rainbow Rider's deposits were not exposed to custodial credit risk.

2. Investments

Rainbow Rider may invest in the following investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes

B. Deposits and Investments

2. Investments (Continued)

- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

During the year ended December 31, 2014, Rainbow Rider had no investments.

C. Receivables

Receivables as of December 31, 2014, are as follows:

| | Total Receivables | Amounts Not Scheduled for Collection During the Subsequent Year |
|----------------------------|----------------------|--|
| Accounts receivable | \$ 12,053 | \$ - |
| Due from other governments | 181,697 | - |
| Total | <u>\$ 193,750</u> | <u>\$ -</u> |

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes (Continued)

D. Capital Assets

Capital asset activity for the year ended December 31, 2014, was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases/ Adjustments</u> | <u>Ending Balance</u> |
|---------------------------------------|------------------------------|---------------------|-----------------------------------|---------------------------|
| Capital assets not depreciated | | | | |
| Land | \$ 137,548 | \$ - | \$ - | \$ 137,548 |
| Capital assets depreciated | | | | |
| Land improvements | \$ 12,483 | \$ - | \$ - | \$ 12,483 |
| Buildings and structures | 1,457,733 | - | - | 1,457,733 |
| Revenue vehicles and equipment | 2,561,426 | 252,846 | (120,192) | 2,694,080 |
| Office furniture and equipment | 131,099 | - | (1,801) | 129,298 |
| Total capital assets depreciated | <u>\$ 4,162,741</u> | <u>\$ 252,846</u> | <u>\$ (121,993)</u> | <u>\$ 4,293,594</u> |
| Less: accumulated depreciation for | | | | |
| Land improvements | \$ 8,807 | \$ 832 | \$ - | \$ 9,639 |
| Buildings and structures | 490,156 | 105,808 | - | 595,964 |
| Revenue vehicles and equipment | 1,994,334 | 339,674 | (120,192) | 2,213,816 |
| Office furniture and equipment | 60,331 | 24,244 | (1,801) | 82,774 |
| Total accumulated depreciation | <u>\$ 2,553,628</u> | <u>\$ 470,558</u> | <u>\$ (121,993)</u> | <u>\$ 2,902,193</u> |
| Total capital assets depreciated, net | <u>\$ 1,609,113</u> | <u>\$ (217,712)</u> | <u>\$ -</u> | <u>\$ 1,391,401</u> |
| Capital Assets, Net | <u>\$ 1,746,661</u> | <u>\$ (217,712)</u> | <u>\$ -</u> | <u>\$ 1,528,949</u> |

E. Liabilities

1. Payables

Payables as of December 31, 2014, are as follows:

| | |
|--------------------------|-------------------|
| Accounts payable | \$ 204,935 |
| Salaries payable | 29,646 |
| Due to other governments | 4,494 |
| | <u>4,494</u> |
| Total | <u>\$ 239,075</u> |

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes

E. Liabilities (Continued)

2. Operating Leases

In February 2011, Rainbow Rider entered into a 48-month operating lease for a copier with Viking Office Supply. In October 2014, Rainbow Rider entered into a 36-month operating lease for a bus garage. Minimum future rental payments are as follows:

| Year | Payment Amount |
|-------|----------------|
| 2015 | \$ 3,200 |
| 2016 | 2,700 |
| 2017 | 2,250 |
| Total | \$ 8,150 |

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2014, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|----------------------|----------------------|-----------|-------------|-------------------|------------------------|
| Compensated absences | \$ 64,568 | \$ 50,293 | \$ (59,534) | \$ 55,327 | \$ 9,240 |

F. Unearned Revenue

Unearned revenue consists of \$68,278 of unredeemed sold tickets and \$22,364 of prepaid tickets by member counties for veterans accounts.

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes (Continued)

G. Risk Management

Rainbow Rider is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health coverage; and natural disasters. Rainbow Rider is a member of the Minnesota Counties Intergovernmental Trust (MCIT). For items not covered by MCIT, Rainbow Rider carries commercial insurance. Rainbow Rider retains risk for the deductible portions of the insurance policies. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past two fiscal years.

Risk of loss associated with injuries to employees is covered by membership in the MCIT Workers' Compensation Division. The risk associated with Rainbow Rider operations has not been separately identified.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$480,000 per claim in 2014 and \$490,000 per claim in 2015. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess Rainbow Rider in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining, and Rainbow Rider pays an annual premium to cover current and future losses. MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess Rainbow Rider in a method and amount to be determined by MCIT.

3. Pension Plans

A. Plan Description

All full-time and certain part-time employees of Rainbow Rider are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

**RAINBOW RIDER
LOWRY, MINNESOTA**

3. Pension Plans

A. Plan Description (Continued)

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan and benefits vest after three years of credited service.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute. Defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

For General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is either 65 or 66 (depending on date hired) for General Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees Retirement Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

**RAINBOW RIDER
LOWRY, MINNESOTA**

3. Pension Plans (Continued)

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. Rainbow Rider makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary in 2014.

In 2014, Rainbow Rider is required to contribute the following percentages of annual covered payroll:

| | |
|-----------------------------------|--------|
| General Employees Retirement Fund | |
| Basic Plan members | 11.78% |
| Coordinated Plan members | 7.25 |

Rainbow Rider's contributions for the years ending December 31, 2014, 2013, and 2012, for the General Employees Retirement Fund were:

| <u>2014</u> | <u>2013</u> | <u>2012</u> |
|-------------|-------------|-------------|
| \$ 75,966 | \$ 70,135 | \$ 63,827 |

These contribution amounts are equal to the contractually required contributions for each year as set by state statute. Contribution rates increased on January 1, 2015, in the General Employees Retirement Fund Coordinated Plan (6.50 percent for members and 7.50 percent for employers).

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SUPPLEMENTARY INFORMATION

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**RAINBOW RIDER
LOWRY, MINNESOTA**

EXHIBIT A-1

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

| Federal Grantor Pass-Through Agency Grant Program Title | Federal CFDA Number | Expenditures |
|--|------------------------------------|---------------------|
| U.S. Department of Transportation | | |
| Passed Through Minnesota Department of Transportation | | |
| Formula Grants for Rural Areas | 20.509 | <u>\$ 516,222</u> |

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**RAINBOW RIDER
LOWRY, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of the federal award program expended by Rainbow Rider. Rainbow Rider's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Rainbow Rider under a program of the federal government for the year ended December 31, 2014. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Rainbow Rider, it is not intended to and does not present the financial position, changes in net position, or cash flows of Rainbow Rider.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Subrecipients

During 2014, Rainbow Rider did not pass any federal awards to subrecipients.

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**RAINBOW RIDER
LOWRY, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **No**

Type of auditor's report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **No**

The major program is:

Formula Grants for Rural Areas

CFDA #20.509

The threshold for distinguishing between Types A and B programs was \$300,000.

Rainbow Rider qualified as a low-risk auditee? **No**

II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 2006-001

Segregation of Duties

Criteria: Management is responsible for establishing and maintaining effective internal control. This responsibility includes monitoring ongoing activities, selecting and applying appropriate accounting principles, ensuring fair presentation of the financial statements and related notes, and designing and implementing programs and controls to prevent and detect fraud. Adequate segregation of duties is a key internal control in an organization's accounting system.

Condition: Staff has the ability to access assets and process and record both receipt and disbursement transactions.

Context: The size of Rainbow Rider and its staffing limits the internal control that management can design and implement in the organization.

Effect: Inadequate segregation of duties could adversely affect Rainbow Rider's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Cause: This situation is not unusual in operations the size of Rainbow Rider. Generally, segregation of duties can be attained with the hiring of additional personnel; however, this becomes a significant cost consideration to entities such as Rainbow Rider.

Recommendation: We recommend the Transit Board and management be mindful that limited staffing and segregation of duties causes inherent risks in safeguarding Rainbow Rider's assets and the proper reporting of its financial activity. Incompatible receipt and disbursement functions should be redistributed. We recommend the Transit Board continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Client's Response:

Rainbow Rider management is aware of the lack of segregation which is due to minimal staff. Rainbow Rider management is continuously working at correcting this problem. The Rainbow Rider Transit Board has approved the hiring of an Administrative Assistant in its 2016 budget.

Finding 2008-001

Accounting Policies and Procedures Manual

Criteria: Rainbow Rider's management is responsible for developing and monitoring its internal controls. An essential element of monitoring controls includes documenting Rainbow Rider's accounting policies and procedures. Significant internal controls to be documented would include areas such as receipts, disbursements, payroll, capital assets, journal entries, and credit cards. Written accounting policies and procedures should exist to document significant internal controls in the accounting system; be a source for guidance when staffing changes occur; and support management's risk identification, evaluation, and mitigation.

Condition: Rainbow Rider does not have a current and comprehensive accounting policies and procedures manual.

Context: Documentation and monitoring of internal controls is necessary to determine controls are in place and operating effectively. An accounting policies and procedures manual will enhance employees' understanding of their role and function in the internal control system, establish responsibilities, provide guidance for employees, improve efficiency and consistency of transaction processing, and improve compliance with established policies. It can also help to prevent deterioration of key elements in Rainbow Rider's internal control system and can help to avoid circumvention of policies.

Effect: As a result of this condition, Rainbow Rider's practices may not be followed as intended by management, and employees may not understand the purpose of internal controls. The lack of risk assessment and monitoring procedures increases the risk of fraud.

Cause: Rainbow Rider has made progress by adopting several new policy and procedure documents. However, there is no formal documentation identifying management's risk assessment process, how the policies and procedures address risks, and how management monitors the controls established to ensure they are working as planned.

Recommendation: We recommend a written accounting policies and procedures manual be prepared by Rainbow Rider and approved by the Transit Board to emphasize its importance and authority. The documentation should describe procedures as they are intended to be performed, indicate which employees are to perform which procedures, and explain the design and purpose of control-related procedures. The Transit Board should periodically monitor procedures to reassess risk and determine whether the established internal controls are still effective or if changes are needed. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services provided. The monitoring activity should be documented to show the results of the review, any changes required, and who performed the work.

Client's Response:

Rainbow Rider management has prepared an Accounting Policies and Procedures manual. It is our understanding that this manual is more of a guide in regards to how Rainbow Rider's accounting functions are administered. Rainbow Rider will now focus on documenting a risk assessment process with the help of Rainbow Rider management and Board members. Rainbow Rider has added an Assistant Director to its staff. The Assistant Director has been working on updating several Policies and Procedures manuals as well as creating those that do not yet exist, such as the Accounting Policies and Procedures.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Discretionary Line of Credit (2011-002)

Rainbow Rider had an agreement with Lowry State Bank for a secured discretionary line of credit. Rainbow Rider had no authority to establish a discretionary line of credit and, by doing so, was in noncompliance with Minn. Stat. chs. 471 and 475.

Resolution

Rainbow Rider dissolved the discretionary line of credit in April 2014.

B. OTHER ITEM FOR CONSIDERATION

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for Rainbow Rider's calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for governmental employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of Rainbow Rider's financial statements. Rainbow Rider's financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years—deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that will be reported in Rainbow Rider's financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point in time. That number will change from year to year and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by employers to report the net pension liability and deferred outflows/inflows of resources.

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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*

Independent Auditor's Report

Rainbow Rider Transit Board
Lowry, Minnesota

We have audited, 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, the financial statements of Rainbow Rider as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise Rainbow Rider's basic financial statements, and have issued our report thereon dated September 25, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 2006-001 and 2008-001, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rainbow Rider's financial statements are free from 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 or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested in connection with the audit of Rainbow Rider's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for public indebtedness because Rainbow Rider has no debt.

In connection with our audit, nothing came to our attention that caused us to believe that Rainbow Rider failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Rainbow Rider's noncompliance with the above referenced provisions.

Other Matters

Also included in the Schedule of Findings and Questioned Costs is an other item for consideration. We believe this information to be of benefit to Rainbow Rider, and it is reported for that purpose.

Rainbow Rider's Response to Findings

Rainbow Rider's responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. Rainbow Rider's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of Rainbow Rider's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rainbow Rider's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 25, 2015

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Rainbow Rider Transit Board
Lowry, Minnesota

Report on Compliance for the Major Federal Program

We have audited Rainbow Rider's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on Rainbow Rider's major federal program for the year ended December 31, 2014. Rainbow Rider's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Rainbow Rider's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Rainbow Rider's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Rainbow Rider's compliance with those requirements.

Opinion on the Major Federal Program

In our opinion, Rainbow Rider complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2014.

Report on Internal Control Over Compliance

Management of Rainbow Rider is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Rainbow Rider's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Rainbow Rider's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.

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

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 25, 2015

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR