

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

RAINBOW RIDER
LOWRY, MINNESOTA

YEAR ENDED DECEMBER 31, 2015

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, 2015



**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, 2015

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		
Paul Gerde	Chair	Pope
Ron Staples	Vice Chair	Stevens
Charlie Meyer	Member	Douglas
Bill LaValley	Member	Grant
Vernell Wagner	Member	Grant
Cody Rogahn	Member	Pope
Donny Wohlers	Member	Stevens
Jerry Johnson	Member	Douglas
Randy Neumann	Member	Todd
David Kircher	Member	Todd
Mark Gail	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, 2015, 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 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 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, 2015, 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.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1.G. to the financial statements, in 2015 Rainbow Rider adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (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*, and GASB Statement No. 82, *Pension Issues*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2016, 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 the Uniform Guidance

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Rainbow Rider's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) listed as supplementary information in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA 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. Such 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 14, 2016

/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, 2015
(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, 2015. 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 (%)
	2015	2014	Increase (Decrease)	
Assets				
Current and other assets	\$ 688,335	\$ 442,194	\$ 246,141	55.7
Capital assets, net	1,639,730	1,528,949	110,781	7.2
Total Assets	\$ 2,328,065	\$ 1,971,143	\$ 356,922	18.1
Deferred outflows of resources	\$ 136,296	\$ -	\$ 136,296	100.0
Liabilities				
Current liabilities	\$ 162,741	\$ 338,957	\$ (176,216)	(52.0)
Noncurrent liabilities	1,017,536	46,087	971,449	2,107.9
Total Liabilities	\$ 1,180,277	\$ 385,044	\$ 795,233	206.5
Deferred inflows of resources	\$ 70,000	\$ -	\$ 70,000	100.0
Net Position				
Investment in capital assets	\$ 1,639,730	\$ 1,528,949	\$ 110,781	7.2
Unrestricted	(425,646)	57,150	(482,796)	(844.8)
Total Net Position, as reported	\$ 1,214,084	\$ 1,586,099	\$ (372,015)	(23.5)
Change in accounting principles*		(868,564)		
Total Net Position, as restated		\$ 717,535		

*This is the first year Rainbow Rider implemented the new pension accounting and financial reporting standards authorized by the Governmental Accounting Standards Board (GASB). Rainbow Rider had to make a prior year adjustment for a change in accounting principles to record Rainbow Rider's net pension liability and related deferred outflows of resources of \$868,564. See Note 1.G. on pages 17-18 and Note 3 on pages 24-30 of this report.

	Changes in Net Position			Percentage Change (%)
	2015	2014	Increase (Decrease)	
Operating revenues				
Charges for services	\$ 558,565	\$ 517,198	\$ 41,367	8.0
Intergovernmental	2,184,677	1,706,441	478,236	28.0
Miscellaneous	117,132	39,917	77,215	193.4
Nonoperating revenues				
Interest earnings	1,317	609	708	116.3
Gain on disposal of assets	6,600	6,500	100	1.5
Total Revenues	\$ 2,868,291	\$ 2,270,665	\$ 597,626	26.3

(Unaudited)

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	2015	2014	Increase (Decrease)	Percent Change (%)
Operating expenses				
Personal services	\$ 1,664,618	\$ 1,470,791	\$ 193,827	13.2
Administrative charges	154,212	133,212	21,000	15.8
Operating charges	394,718	473,462	(78,744)	(16.6)
Insurance	32,096	35,779	(3,683)	(10.3)
Depreciation	362,758	470,558	(107,800)	(22.9)
Total Expenses	<u>\$ 2,608,402</u>	<u>\$ 2,583,802</u>	<u>\$ 24,600</u>	1.0
Income (loss) before contributions	\$ 259,889	\$ (313,137)	\$ 573,026	183.0
Capital contributions	<u>236,660</u>	<u>194,259</u>	<u>42,401</u>	21.8
Change in Net Position	\$ 496,549	\$ (118,878)	\$ 615,427	517.7
Net Position - January 1, as restated	<u>717,535</u>	<u>* 1,704,977</u>	<u>(987,442)</u>	(57.9)
Net Position - December 31, as reported	<u>\$ 1,214,084</u>	<u>\$ 1,586,099</u>	<u>\$ (372,015)</u>	(23.5)

*Amount includes a change in accounting principles. See Note 1.G. on pages 17-18 and Note 3 on pages 24-30 of this report.

CAPITAL ASSETS

Capital Assets (Net of Depreciation)				
	2015	2014	Increase (Decrease)	Percentage Change (%)
Land	\$ 137,548	\$ 137,548	\$ -	-
Land improvements	2,011	2,844	(833)	(29.3)
Buildings and structures	889,756	861,769	27,987	3.2
Revenue vehicles and equipment	578,406	480,264	98,142	20.4
Office furniture and equipment	<u>32,009</u>	<u>46,524</u>	<u>(14,515)</u>	(31.2)
Total Capital Assets	<u>\$ 1,639,730</u>	<u>\$ 1,528,949</u>	<u>\$ 110,781</u>	7.2

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, Keven Anderson, 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, 2015**

Assets

Current assets

Cash and investments	\$ 351,924
Petty cash	50
Accounts receivable	24,686
Due from other governments	307,765
Inventories	3,910

Total current assets **\$ 688,335**

Capital assets

Nondepreciable	\$ 137,548
Depreciable - net	1,502,182

Total capital assets **\$ 1,639,730**

Total Assets **\$ 2,328,065**

Deferred Outflows of Resources

Deferred pension outflows \$ 136,296

Liabilities

Current liabilities

Accounts payable	\$ 26,607
Salaries payable	37,764
Due to other governments	5,542
Unearned revenue	89,367
Compensated absences payable	3,461

Total current liabilities **\$ 162,741**

Noncurrent liabilities

Compensated absences payable	\$ 48,405
Net pension liability	969,131

Total noncurrent liabilities **\$ 1,017,536**

Total Liabilities **\$ 1,180,277**

Deferred Inflows of Resources

Deferred pension inflows \$ 70,000

Net Position

Investment in capital assets	\$ 1,639,730
Unrestricted	(425,646)

Total Net Position **\$ 1,214,084**

**RAINBOW RIDER
LOWRY, MINNESOTA**

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2015**

Operating Revenues	
Charges for services	<u>\$ 558,565</u>
Intergovernmental	
Federal	\$ 862,996
State	1,042,399
Local	278,714
Reimbursement for services	<u>568</u>
Total intergovernmental	<u>\$ 2,184,677</u>
Miscellaneous	<u>\$ 117,132</u>
Total Operating Revenues	<u>\$ 2,860,374</u>
Operating Expenses	
Personal services	\$ 1,664,618
Administrative charges	154,212
Operating charges	394,718
Insurance	32,096
Depreciation	<u>362,758</u>
Total Operating Expenses	<u>\$ 2,608,402</u>
Operating Income (Loss)	<u>\$ 251,972</u>
Nonoperating Revenues (Expenses)	
Investment earnings	\$ 1,317
Gain (loss) on disposal of capital assets	<u>6,600</u>
Total Nonoperating Revenues (Expenses)	<u>\$ 7,917</u>
Income (loss) before contributions	<u>\$ 259,889</u>
Capital contributions	<u>236,660</u>
Change in Net Position	<u>\$ 496,549</u>
Net Position - January 1, as restated (Note 1.G.)	<u>717,535</u>
Net Position - December 31	<u><u>\$ 1,214,084</u></u>

**RAINBOW RIDER
LOWRY, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Receipts from customers	\$ 652,518
Payments to suppliers	(622,088)
Payments to employees	<u>(1,625,690)</u>
Net cash provided by (used in) operating activities	<u>\$ (1,595,260)</u>
Cash Flows from Noncapital Financing Activities	
Intergovernmental receipts	<u>\$ 2,229,951</u>
Cash Flows from Capital and Related Financing Activities	
Capital contributions	\$ 74,589
Proceeds from the sale of capital assets	6,600
Purchases of capital assets	<u>(609,543)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (528,354)</u>
Cash Flows from Investing Activities	
Interest received	<u>\$ 1,317</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 107,654
Cash and Cash Equivalents at January 1	<u>244,320</u>
Cash and Cash Equivalents at December 31	<u><u>\$ 351,974</u></u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position	
Cash and Cash Equivalents	
Cash and investments	\$ 351,924
Petty cash	<u>50</u>
Total Cash and Cash Equivalents	<u><u>\$ 351,974</u></u>

**RAINBOW RIDER
LOWRY, MINNESOTA**

**EXHIBIT 3
(Continued)**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015
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>\$ 251,972</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 362,758
Intergovernmental revenue	(2,184,677)
(Increase) decrease in accounts receivable	(12,633)
(Increase) decrease in due from other governments	(9,271)
(Increase) decrease in inventories	214
Increase (decrease) in accounts payable	(42,324)
Increase (decrease) in salaries payable	8,118
Increase (decrease) in compensated absences payable	(3,461)
Increase (decrease) in due to other governments	1,048
Increase (decrease) in unearned revenue	(1,275)
(Increase) decrease in net pension outflows	(98,243)
Increase (decrease) in net pension inflows	70,000
Increase (decrease) in net pension liability	<u>62,514</u>
Total adjustments	<u>\$ (1,847,232)</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ (1,595,260)</u></u>

**RAINBOW RIDER
LOWRY, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015

1. Summary of Significant Accounting Policies

Rainbow Rider's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2015. The Governmental Accounting Standard Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by Rainbow Rider are discussed below.

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, Deferred Outflows/Inflows of Resources, 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, Deferred Outflows/Inflows of Resources, 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, Deferred Outflows/Inflows of Resources, and Net Position

2. Liabilities

Compensated Absences (Continued)

Unvested sick leave, approximately \$35,340 at December 31, 2015, is available to employees in the event of illness-related absences and is not paid to them at termination.

3. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Currently, Rainbow Rider has one item, deferred pension outflows, that qualifies for reporting in this category. These outflows arise only under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date and also the differences between projected and actual pension plan investments and, accordingly, are reported in the statement of net position.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Currently, Rainbow Rider has one item, deferred pension inflows, that qualifies for reporting in this category. These inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience and also pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position.

**RAINBOW RIDER
LOWRY, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position
(Continued)

4. Defined Benefit Pension Plans

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

5. 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.

**RAINBOW RIDER
LOWRY, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Revenues, Expenses, and Capital Contributions (Continued)

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.

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. Change in Accounting Principles

During the year ended December 31, 2015, Rainbow Rider adopted new accounting guidance by implementing the provisions of GASB 68, 71, and 82. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, requires governments providing defined benefit pensions to employees through pension plans administered through trusts to record their proportionate share of the net pension obligation as a liability on their financial statements along with related deferred outflows of resources, deferred inflows of resources, and pension expense. This statement also requires additional note disclosure and schedules in the required supplementary information.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, addresses an issue regarding amounts associated with contributions made to a pension plan after the measurement date of the net pension liability.

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, modifies the measure of payroll presented in the required supplementary information schedules.

**RAINBOW RIDER
LOWRY, MINNESOTA**

1. Summary of Significant Accounting Policies

G. Change in Accounting Principles (Continued)

GASB Statements 68 and 71 require Rainbow Rider to report its proportionate share of the PERA total employers' unfunded pension liability. As a result, beginning net position has been restated to record Rainbow Rider's net pension liability and related deferred outflows of resources.

Net Position, January 1, 2015, as previously reported	\$	1,586,099
Change in accounting principles		(868,564)
Net Position, January 1, 2015, as restated	\$	717,535

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, 2015.

	Budget	Actual	Variance
Operating Revenues			
Charges for services	\$ 679,507	\$ 558,565	\$ (120,942)
Intergovernmental	1,960,950	2,184,677	223,727
Miscellaneous	-	117,132	117,132
	\$ 2,640,457	\$ 2,860,374	\$ 219,917

**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	\$ 1,786,206	\$ 1,664,618	\$ 121,588
Administrative charges	152,000	154,212	(2,212)
Operating charges	465,488	394,718	70,770
Insurance	40,000	32,096	7,904
Depreciation	-	362,758	(362,758)
	<u>\$ 2,443,694</u>	<u>\$ 2,608,402</u>	<u>\$ (164,708)</u>
 Total Operating Expenses			
Operating Income (Loss)	<u>\$ 196,763</u>	<u>\$ 251,972</u>	<u>\$ 55,209</u>
 Nonoperating Revenues (Expenses)			
Investment earnings	\$ -	\$ 1,317	\$ 1,317
Gain (loss) on disposal of capital assets	-	6,600	6,600
	<u>\$ -</u>	<u>\$ 7,917</u>	<u>\$ 7,917</u>
 Total Nonoperating Revenues (Expenses)			
Income (loss) before contributions	\$ 196,763	\$ 259,889	\$ 63,126
 Capital contributions	<u>-</u>	<u>236,660</u>	<u>236,660</u>
 Change in Net Position	\$ 196,763	\$ 496,549	\$ 299,786
 Net Position - January 1, as restated	<u>717,535</u>	<u>717,535</u>	<u>-</u>
 Net Position - December 31	<u>\$ 914,298</u>	<u>\$ 1,214,084</u>	<u>\$ 299,786</u>

B. Deposits and Investments

Rainbow Rider's total deposits and investments follow:

Cash and investments	\$ 351,924
Petty cash	<u>50</u>
 Total Deposits and Investments	<u><u>\$ 351,974</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, 2015, 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, 2015, Rainbow Rider had no investments.

C. Receivables

Receivables as of December 31, 2015, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Accounts receivable	\$ 24,686	\$ -
Due from other governments	307,765	-
Total	\$ 332,451	\$ -

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes (Continued)

D. Capital Assets

Capital asset activity for the year ended December 31, 2015, 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	140,837	-	1,598,570
Revenue vehicles and equipment	2,694,080	322,726	(173,657)	2,843,149
Office furniture and equipment	129,298	9,976	(1,635)	137,639
Total capital assets depreciated	<u>\$ 4,293,594</u>	<u>\$ 473,539</u>	<u>\$ (175,292)</u>	<u>\$ 4,591,841</u>
Less: accumulated depreciation for				
Land improvements	\$ 9,639	\$ 833	\$ -	\$ 10,472
Buildings and structures	595,964	112,850	-	708,814
Revenue vehicles and equipment	2,213,816	224,584	(173,657)	2,264,743
Office furniture and equipment	82,774	24,491	(1,635)	105,630
Total accumulated depreciation	<u>\$ 2,902,193</u>	<u>\$ 362,758</u>	<u>\$ (175,292)</u>	<u>\$ 3,089,659</u>
Total capital assets depreciated, net	<u>\$ 1,391,401</u>	<u>\$ 110,781</u>	<u>\$ -</u>	<u>\$ 1,502,182</u>
Capital Assets, Net	<u>\$ 1,528,949</u>	<u>\$ 110,781</u>	<u>\$ -</u>	<u>\$ 1,639,730</u>

E. Liabilities

1. Payables

Payables as of December 31, 2015, are as follows:

Accounts payable	\$ 26,607
Salaries payable	37,764
Due to other governments	<u>5,542</u>
Total	<u>\$ 69,913</u>

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes

E. Liabilities (Continued)

2. Operating Leases

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
2016	\$ 2,700
2017	2,250
Total	\$ 4,950

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 55,327	\$ 46,128	\$ (49,589)	\$ 51,866	\$ 3,461

F. Unearned Revenue

Unearned revenue consists of \$67,407 of unredeemed sold tickets and \$21,960 of prepaid tickets by member counties for veterans accounts.

**RAINBOW RIDER
LOWRY, MINNESOTA**

3. Defined Benefit 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. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

B. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

The benefit provisions stated in the following paragraph 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 their public service.

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 General Employees Retirement Fund 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

**RAINBOW RIDER
LOWRY, MINNESOTA**

3. Defined Benefit Pension Plans

B. Benefits Provided (Continued)

ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under 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, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based on years of service and average high-five salary.

C. Contributions

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. Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in 2015.

In 2015, Rainbow Rider was required to contribute the following percentages of annual covered salary:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.50

The Coordinated Plan member and employer contribution rates each reflect a 0.25 percent increase from 2014.

Rainbow Rider's contributions for the General Employees Retirement Fund for the year ended December 31, 2015, were \$87,633. The contributions are equal to the contractually required contributions as set by state statute.

**RAINBOW RIDER
LOWRY, MINNESOTA**

3. Defined Benefit Pension Plans (Continued)

D. Pension Costs

At December 31, 2015, Rainbow Rider reported a liability of \$969,131 for its proportionate share of the General Employees Retirement Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Rainbow Rider's proportion of the net pension liability was based on Rainbow Rider's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, Rainbow Rider's proportion was 0.0187 percent. It was 0.0193 percent measured as of June 30, 2014. Rainbow Rider recognized pension expense of \$115,637 for its proportionate share of the General Employees Retirement Fund's pension expense.

Rainbow Rider reported its proportionate share of the General Employees Retirement Fund's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 48,861
Difference between projected and actual investment earnings	91,743	-
Changes in proportion	-	21,139
Contributions paid to PERA subsequent to the measurement date	<u>44,553</u>	<u>-</u>
Total	<u>\$ 136,296</u>	<u>\$ 70,000</u>

**RAINBOW RIDER
LOWRY, MINNESOTA**

3. Defined Benefit Pension Plans

D. Pension Costs (Continued)

A total of \$44,553 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2016	\$ (398)
2017	(398)
2018	(398)
2019	22,937

E. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the individual entry age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.75 percent per year
Active member payroll growth	3.50 percent per year
Investment rate of return	7.90 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. The cost of living benefit increases for retirees was assumed to be 1.0 percent effective every January 1 through 2035, and 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Fund was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014.

**RAINBOW RIDER
LOWRY, MINNESOTA**

3. Defined Benefit Pension Plans

E. Actuarial Assumptions (Continued)

In 2015, an updated experience study was done for PERA's General Employees Retirement Fund for the six-year period ending June 30, 2014, which would result in a larger pension liability. However, PERA will not implement the changes in assumptions until its June 30, 2016, estimate of pension liability.

The long-term expected rate of return on pension plan investments is 7.9 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. 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>Long-Term Expected Real Rate of Return</u>
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50

F. Discount Rate

The discount rate used to measure the total pension liability was 7.9 percent. The discount rate did not change since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**RAINBOW RIDER
LOWRY, MINNESOTA**

3. Defined Benefit Pension Plans (Continued)

G. Pension Liability Sensitivity

The following presents Rainbow Rider’s proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what Rainbow Rider’s proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Proportionate share of the General Employees Retirement Fund net pension liability	\$ 1,523,818	\$ 969,131	\$ 511,044

H. Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

4. 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; or 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 three 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.

**RAINBOW RIDER
LOWRY, MINNESOTA**

4. Risk Management (Continued)

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 \$490,000 per claim in 2015 and \$500,000 per claim in 2016. 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.

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REQUIRED SUPPLEMENTARY INFORMATION

**RAINBOW RIDER
LOWRY, MINNESOTA**

EXHIBIT A-1

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015**

<u>Measurement Date</u>	<u>Employer's Proportion of the Net Pension Liability (Asset)</u>	<u>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</u>	<u>Covered Payroll (b)</u>	<u>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
2015	0.0187%	\$ 969,131	\$ 1,099,268	88.16%	78.19%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The measurement date for each year is June 30.

**RAINBOW RIDER
LOWRY, MINNESOTA**

EXHIBIT A-2

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015**

<u>Year Ending</u>	<u>Statutorily Required Contributions (a)</u>	<u>Actual Contributions in Relation to Statutorily Required Contributions (b)</u>	<u>Contribution (Deficiency) Excess (b-a)</u>	<u>Covered Payroll (c)</u>	<u>Actual Contributions as a Percentage of Covered Payroll (b/c)</u>
2015	\$ 87,633	\$ 87,633	\$ -	\$ 1,168,434	7.50%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. Rainbow Rider's year-end is December 31.

SUPPLEMENTARY INFORMATION

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**RAINBOW RIDER
LOWRY, MINNESOTA**

EXHIBIT B-1

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Pass-Through Grant Number	Expenditures
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Formula Grants for Rural Areas	20.509	07199	\$ 862,996
Formula Grants for Rural Areas	20.509	07293	<u>972</u>
Total Federal Awards			<u>\$ 863,968</u>

Rainbow Rider did not pass any federal awards through to subrecipients during the year ended December 31, 2015.

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**RAINBOW RIDER
LOWRY, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs 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 programs of the federal government for the year ended December 31, 2015. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Rainbow Rider has elected to not use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

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**RAINBOW RIDER
LOWRY, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles: **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? **None reported**

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **No**

The major federal program is:

Formula Grants for Rural Areas

CFDA No. 20.509

The threshold for distinguishing between Types A and B programs was \$750,000.

Rainbow Rider qualified as a low-risk auditee? **Yes**

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. An Administrative Assistant was added to Rainbow Rider's staff in November of 2015 to assist and segregate many of the financial responsibilities of Rainbow Rider.

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, or risk assessment and monitoring procedures.

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.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

Finding 2015-001

Contract Compliance

Criteria: Minnesota statutes contain requirements for the contracting processes used by local governments.

Condition: During our testing of compliance with the State of Minnesota contracting and bid laws, we noted noncompliance with the following requirements in relation to the training and board room renovation, with costs totaling approximately \$175,000:

- Sealed bids being solicited by public notice. Pursuant to Minn. Stat. § 471.345, subd. 3, contracts estimated to exceed \$100,000 must be made using sealed bids solicited by public notice by advertising for bids in a qualified legal newspaper or through the alternative dissemination of bids and requests as provided by Minn. Stat. § 331A.03. No evidence that Rainbow Rider advertised for bid could be obtained.
- Signed contract. All contracts should be executed in writing in accordance with Minn. Stat. § 375.21, subd. 1. Rainbow Rider was unable to locate a contract.
- Responsible bidder certification. Minn. Stat. § 16C.285 states that for each construction contract in excess of \$50,000, awarded pursuant to a lowest responsible bidder or best value process, the successful contractor must submit verification of compliance signed under oath by an owner or officer verifying compliance with the minimum criteria set forth in Minn. Stat. § 16C.285, subd. 3. Rainbow Rider was unable to provide the signed responsible bidder certification form.
- Contractor's Performance and Payment Bond. Minn. Stat. § 574.26 requires contractors doing public work to give both a performance bond and a payment bond in an amount not less than the contract price if the contract is more than \$100,000. Rainbow Rider did not receive a performance bond or a payment bond.
- Withholding Affidavit for Contractors (IC-134). Referring to the withholding of income taxes by the contractor or subcontractor, Minn. Stat. § 270C.66 states that, "[n]o . . . political or governmental subdivision of the state shall make final settlement with any contractor under a contract requiring the employment of employees for wages of said contractor and by subcontractors until satisfactory showing is made that said contractor or subcontractor has complied with the provisions of section 290.92." The training and board room renovation included the employment of individuals for wages by the contractor and the final payment was issued prior to receiving a Minnesota Department of Revenue approved Form IC-134, which requires the reporting of employee withholdings, from the contractor.

Context: Rainbow Rider infrequently has projects which require that they follow state statutes as noted above. Typically purchases are made through the State of Minnesota's cooperative purchasing venture, and thus the State ensures compliance with statute requirements. The withholding affidavit for contractors, sealed bids being solicited by public notice, signed contract, and performance and payment bonds are not new requirements; however, the responsible bidder certification statute is new for 2015.

Effect: Noncompliance with Minn. Stat. §§ 471.345, subd. 3; 375.21; 16C.285; 574.26; and 270C.66.

Cause: Staff from Rainbow Rider were not aware of all of the construction contract requirements.

Recommendation: We recommend Rainbow Rider staff involved in the contracting process be informed of the statutory requirements to ensure compliance with applicable statutes for all future contracts.

Client's Response:

Due to the fact that Rainbow Rider management so infrequently has projects that require the state procurement statutes, these were overlooked. Typically purchases are made through the States cooperative purchasing ventures. Future ventures will follow state guidelines and staff will be educated accordingly.



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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, 2015, 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 14, 2016.

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 Other 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, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because Rainbow Rider does not administer tax increment financing districts.

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 Other Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as item 2015-001. 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.

Rainbow Rider's Response to Findings

Rainbow Rider's responses to the internal control and legal compliance 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 Other 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 14, 2016

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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) *Compliance Supplement* that could have a direct and material effect on Rainbow Rider's major federal program for the year ended December 31, 2015. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2015.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 14, 2016