

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**RAINBOW RIDER**  
**LOWRY, MINNESOTA**

FOR THE YEAR ENDED DECEMBER 31, 2006

## **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 160 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 730 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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This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: [www.auditor.state.mn.us](http://www.auditor.state.mn.us).

**RAINBOW RIDER  
LOWRY, MINNESOTA**

**For the Year Ended December 31, 2006**



**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, 2006

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	Vice Chair	Douglas
John Mingus	Member	Douglas
Robert McCrory	Member	Pope
Dean Paulson	Member	Pope
Herb Kloos	Chair	Stevens
Larry Sayre	Member	Stevens
David Naatz	Member	Traverse
William Gibson	Member	Traverse
Harold Jennissen	Transit Director	

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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## INDEPENDENT AUDITOR'S REPORT

Rainbow Rider Transit Board  
Lowry, Minnesota

We have audited the accompanying basic financial statements of Rainbow Rider as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of Rainbow Rider's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Rainbow Rider at December 31, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

April 30, 2008

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**RAINBOW RIDER  
LOWRY, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2006  
(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, 2006. 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, 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 assets 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 assets 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 Assets			Percentage Change (%)
	2006	2005	Increase (Decrease)	
<b>Assets</b>				
Current and other assets	\$ 347,230	\$ 278,380	\$ 68,850	24.73
Capital assets, net	924,268	950,326	(26,058)	(2.74)
<b>Total Assets</b>	<b>\$ 1,271,498</b>	<b>\$ 1,228,706</b>	<b>\$ 42,792</b>	<b>3.48</b>
<b>Liabilities</b>				
Current liabilities	\$ 97,187	\$ 298,921	\$ (201,734)	(67.49)
Noncurrent liabilities	25,722	18,909	6,813	36.03
<b>Total Liabilities</b>	<b>\$ 122,909</b>	<b>\$ 317,830</b>	<b>\$ (194,921)</b>	<b>(61.33)</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	\$ 924,268	\$ 750,326	\$ 173,942	23.18
Unrestricted	224,321	160,550	63,771	39.72
<b>Total Net Assets</b>	<b>\$ 1,148,589</b>	<b>\$ 910,876</b>	<b>\$ 237,713</b>	<b>26.10</b>

The decrease in total liabilities from 2005 to 2006 is due mainly to the paying off of a loan with Lowry State Bank used for the construction of the office/garage site at 249 Poplar Avenue, Lowry, Minnesota.

	Changes in Net Assets			Percentage Change (%)
	2006	2005	Increase (Decrease)	
<b>Operating revenues</b>				
Charges for services	\$ 426,251	\$ 386,121	\$ 40,130	10.39
Miscellaneous	67,469	35,831	31,638	88.30
<b>Nonoperating revenues</b>				
Interest earnings	7,883	8,373	(490)	(5.85)
Operating grants	1,057,015	854,985	202,030	23.63
Gain on disposal of capital assets	16,980	2,000	14,980	749.00
<b>Total Revenues</b>	<b>\$ 1,575,598</b>	<b>\$ 1,287,310</b>	<b>\$ 288,288</b>	<b>22.39</b>

	2006	2005	Increase (Decrease)	Percentage Change (%)
Operating expenses				
Personal services	\$ 741,759	\$ 650,200	\$ 91,559	14.08
Administrative charges	72,803	63,142	9,661	15.30
Operating charges	319,791	285,272	34,519	12.10
Insurance	17,677	17,382	295	1.70
Depreciation	169,858	182,557	(12,699)	(6.96)
Nonoperating expense				
Miscellaneous expense	13,920	-	13,920	N/A
Interest expense	2,077	9,583	(7,506)	(78.33)
<b>Total Expenses</b>	<b>\$ 1,337,885</b>	<b>\$ 1,208,136</b>	<b>\$ 129,749</b>	<b>10.74</b>
<b>Change in Net Assets</b>	<b>\$ 237,713</b>	<b>\$ 79,174</b>	<b>\$ 158,539</b>	<b>200.24</b>

Change in net assets increased from 2005 to 2006 due mainly to the loans repaid in 2006 and an increase in personal services in 2006.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets (Net of Depreciation)**

	2006	2005	Increase (Decrease)	Percentage Change (%)
Land	\$ 32,227	\$ 7,500	\$ 24,727	329.69
Land improvements	9,501	10,333	(832)	(8.05)
Buildings and structures	544,471	608,465	(63,994)	(10.52)
Machinery, furniture, and equipment	338,069	324,028	14,041	4.33
<b>Total Capital Assets</b>	<b>\$ 924,268</b>	<b>\$ 950,326</b>	<b>\$ (26,058)</b>	<b>(2.74)</b>

The major deletion this year was the sale of an office/garage building with an original cost of \$65,016. Additional information on capital assets can be found in Note 2.D. of 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, P. O. Box 136, Lowry, Minnesota 56349.

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## **BASIC FINANCIAL STATEMENTS**

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**RAINBOW RIDER  
LOWRY, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2006**

**Assets**

**Current assets**

Cash and cash equivalents	\$ 202,262
Petty cash	53
Accounts receivable	13,815
Due from other governments	125,599
Inventories	5,501

**Total current assets** **\$ 347,230**

**Capital assets**

Nondepreciable	\$ 32,227
Depreciable - net	892,041

**Total capital assets** **\$ 924,268**

**Total Assets** **\$ 1,271,498**

**Liabilities**

**Current liabilities**

Accounts payable	\$ 30,148
Salaries payable	25,819
Due to other governments	116
Unearned revenue	41,104

**Total current liabilities** **\$ 97,187**

**Noncurrent liabilities**

Compensated absences - due within one year	\$ 17,127
Compensated absences - due in more than one year	8,595

**Total noncurrent liabilities** **\$ 25,722**

**Total Liabilities** **\$ 122,909**

**Net Assets**

Invested in capital assets	\$ 924,268
Unrestricted	224,321

**Total Net Assets** **\$ 1,148,589**

**RAINBOW RIDER  
LOWRY, MINNESOTA**

**EXHIBIT 2**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

<b>Operating Revenues</b>	
Charges for services	\$ 426,251
Miscellaneous	67,469
	<hr/>
<b>Total Operating Revenues</b>	<b>\$ 493,720</b>
<b>Operating Expenses</b>	
Personal services	\$ 741,759
Administrative charges	72,803
Operating charges	319,791
Insurance	17,677
Depreciation	169,858
	<hr/>
<b>Total Operating Expenses</b>	<b>\$ 1,321,888</b>
<b>Operating Income (Loss)</b>	<b>\$ (828,168)</b>
<b>Nonoperating Revenues (Expenses)</b>	
Interest earnings	\$ 7,883
Operating grants	
State	
Greater Minnesota transit fund	179,478
Public transit participation program	649,289
Federal	
Public transportation for nonurbanized areas	228,248
Gain (loss) on disposal of capital assets	16,980
Miscellaneous revenue (expense)	(13,920)
Interest expense	(2,077)
	<hr/>
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ 1,065,881</b>
<b>Change in Net Assets</b>	<b>\$ 237,713</b>
<b>Net Assets - January 1</b>	<b>910,876</b>
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<b>Net Assets - December 31</b>	<b>\$ 1,148,589</b>
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**RAINBOW RIDER  
LOWRY, MINNESOTA**

**EXHIBIT 3**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

<b>Cash Flows from Operating Activities</b>	
Receipts from customers	\$ 528,587
Payments to suppliers	(463,216)
Payments to employees	(727,930)
	<u>(662,559)</u>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ (662,559)</b>
<b>Cash Flows from Noncapital Financing Activities</b>	
Operating grants	\$ 726,451
	<u>726,451</u>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Grants restricted for capital purchases	\$ 289,518
Acquisition of capital assets	(191,430)
Principal paid on capital loan	(200,000)
Interest paid on capital loan	(2,339)
Insurance proceeds	12,450
	<u>12,450</u>
<b>Net Cash Provided by (Used in) Capital and Related Financing Activities</b>	<b>\$ (91,801)</b>
<b>Cash Flows from Investing Activities</b>	
Interest received	\$ 7,883
	<u>7,883</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ (20,026)</b>
<b>Cash and Cash Equivalents - Beginning of Year</b>	<b>222,288</b>
	<u>222,288</u>
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$ 202,262</b>
	<u>202,262</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>	
<b>Operating income (loss)</b>	<b>\$ (828,168)</b>
	<u>(828,168)</u>
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</b>	
Depreciation	\$ 169,858
Changes in assets and liabilities	
(Increase) decrease in assets	
Accounts receivable	(413)
Due from other governments	(4,291)
Inventory	198
Increase (decrease) in liabilities	
Accounts payable	(3,973)
Salaries payable	6,993
Due to other governments	(5,755)
Unearned revenue	1,210
Compensated absences	1,782
	<u>1,782</u>
<b>Total adjustments</b>	<b>\$ 165,609</b>
	<u>165,609</u>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ (662,559)</b>
	<u>(662,559)</u>

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**RAINBOW RIDER  
LOWRY, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006

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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.

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 county 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.

B. Basic Financial Statements

The accounts of Rainbow Rider are organized as an enterprise fund. Operating revenues result from exchange transactions associated with its principal activity. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as intergovernmental revenue, result from nonexchange transactions or incidental activities. Rainbow Rider's net assets are reported in two parts: (1) invested in capital assets and (2) unrestricted net assets.

**RAINBOW RIDER  
LOWRY, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

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. Pursuant to Governmental Accounting Standards Board (GASB) Statement 20, Rainbow Rider has elected to not apply accounting standards issued by the Financial Accounting Standards Board after November 30, 1989.

D. Assets, Liabilities, and Net Assets

1. Assets

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand and all 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.

Capital Assets and Depreciation

Capital assets, which include property, 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 in excess of three years. 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.

**RAINBOW RIDER  
LOWRY, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets

1. Assets

Capital Assets and Depreciation (Continued)

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

<u>Classification Range</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

Unearned intergovernmental grants and unredeemed tickets are reported as unearned revenue until they are earned.

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 21 days. Sick leave is accumulated at one day per month for full-time employees. Part-time employees earn vacation and sick leave on a prorated basis.

Unvested sick leave, approximately \$17,943 at December 31, 2006, is available to employees in the event of illness-related absences and is not paid to them at termination.

**RAINBOW RIDER  
LOWRY, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities and Net Assets (Continued)

3. Net Assets

The portion of net assets invested in capital assets represents the capital assets of Rainbow Rider, net of accumulated depreciation. The remaining net assets are reported as unrestricted net assets.

E. Revenues and Expenses

1. Revenues

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, revenues for nonexchange transactions are recognized based on the principal characteristics of the revenue. Exchange transactions are recognized as revenue when the exchange occurs.

Nonexchange Transactions

Government-mandated nonexchange transactions occur when a government at one level provides resources to a government at another level and requires that government to use them for a specific purpose. The provider government establishes purpose restrictions and also may establish time requirements. Federal and state grants mandating Rainbow Rider perform particular programs are government-mandated nonexchange transactions. Revenues are recognized when eligibility and time requirements are met, usually when the corresponding expense is incurred.

Voluntary nonexchange transactions result from legislative or contractual agreements, such as grants, entitlements, appropriations, and donations. The provider may establish purpose restrictions or eligibility requirements. Revenues are recognized in the year to which they apply according to the statute or contract. Gifts and contributions from individuals are also considered voluntary nonexchange transactions and are generally recognized when received.

Exchange Transactions

Other revenues, such as charges for services and investment income, are recognized as revenue when earned.

**RAINBOW RIDER  
LOWRY, MINNESOTA**

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1. Summary of Significant Accounting Policies

E. Revenues and Expenses (Continued)

2. Expenses

Rainbow Rider recognizes expenses, including compensated absences, when incurred.

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.

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, 2006.

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Operating Revenues			
Charges for services	\$ 431,203	\$ 426,251	\$ (4,952)
Miscellaneous	<u>18,021</u>	<u>67,469</u>	<u>49,448</u>
Total Operating Revenues	<u>\$ 449,224</u>	<u>\$ 493,720</u>	<u>\$ 44,496</u>

**RAINBOW RIDER  
LOWRY, MINNESOTA**

2. Detailed Notes

A. Budget to Actual (Continued)

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Expenses			
Personal services	\$ 716,233	\$ 741,759	\$ (25,526)
Administrative charges	63,925	72,803	(8,878)
Operating charges	363,211	319,791	43,420
Insurance	16,932	17,677	(745)
Depreciation	-	169,858	(169,858)
	\$ 1,160,301	\$ 1,321,888	\$ (161,587)
Total Operating Expenses			
Operating Income (Loss)	\$ (711,077)	\$ (828,168)	\$ (117,091)
Nonoperating Revenues (Expenses)			
Interest earnings	\$ -	\$ 7,883	\$ 7,883
Operating grants			
State	769,080	828,767	59,687
Federal	-	228,248	228,248
Interest expense	-	(2,077)	(2,077)
Miscellaneous expense	-	(13,920)	(13,920)
Gain on disposal of fixed assets	-	16,980	16,980
	\$ 769,080	\$ 1,065,881	\$ 296,801
Total Nonoperating Revenues (Expenses)			
Change in Net Assets	\$ 58,003	\$ 237,713	\$ 179,710
Net Assets - January 1	910,876	910,876	-
Net Assets - December 31	\$ 968,879	\$ 1,148,589	\$ 179,710

B. Deposits and Investments

Rainbow Rider's total cash and investments follows:

Cash and cash equivalents	\$ 202,262
Petty cash	53
Total Deposits and Investments	\$ 202,315

**RAINBOW RIDER  
LOWRY, MINNESOTA**

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2. Detailed Notes

B. Deposits and Investments (Continued)

1. Deposits

Minn. Stat. §§ 118A.02 and 118A.04 authorize Rainbow Rider to designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires all Rainbow Rider deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest 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, 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, 2006, Rainbow Rider's deposits were not exposed to custodial credit risk.

2. Investments

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to Rainbow Rider:

- (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**

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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, 2006, Rainbow Rider had no investments.

C. Receivables

Receivables as of December 31, 2006, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Accounts	\$ 13,815	\$ -
Due from other governments	125,599	-
Total	<u>\$ 139,414</u>	<u>\$ -</u>

**RAINBOW RIDER  
LOWRY, MINNESOTA**

2. Detailed Notes (Continued)

D. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 7,500	\$ 24,727	\$ -	\$ 32,227
Capital assets depreciated				
Land improvements	\$ 12,483	\$ -	\$ -	\$ 12,483
Buildings and structures	652,583	4,699	65,016	592,266
Revenue vehicles and equipment	1,134,411	159,918	126,690	1,167,639
Office furniture and equipment	42,667	2,087	5,406	39,348
Total capital assets depreciated	\$ 1,842,144	\$ 166,704	\$ 197,112	\$ 1,811,736
Less: accumulated depreciation for				
Land improvements	\$ 2,150	\$ 832	\$ -	\$ 2,982
Buildings and structures	44,118	22,470	18,793	47,795
Revenue vehicles and equipment	819,248	142,066	126,689	834,625
Office furniture and equipment	33,802	4,490	3,999	34,293
Total accumulated depreciation	\$ 899,318	\$ 169,858	\$ 149,481	\$ 919,695
Total capital assets depreciated, net	\$ 942,826	\$ (3,154)	\$ 47,631	\$ 892,041
Capital Assets, Net	\$ 950,326	\$ 21,573	\$ 47,631	\$ 924,268

E. Loan Payable

Rainbow Rider received a bank loan for \$300,000 in 2005 to help pay for the construction of a new office/garage. Rainbow Rider paid off \$100,000 along with \$9,452 of interest in 2005. In 2006, Rainbow Rider paid off the loan with an additional \$200,000 in principal and \$2,339 of interest.

F. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 18,909	\$ 17,127	\$ 10,314	\$ 25,722	\$ 17,127

**RAINBOW RIDER  
LOWRY, MINNESOTA**

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2. Detailed Notes (Continued)

G. Unearned Revenue

Unearned revenue consists of \$41,104 of unredeemed sold tickets.

H. 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 Insurance 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 of 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 \$390,000 per claim in 2006 and \$400,000 per claim in 2007. 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.

**RAINBOW RIDER  
LOWRY, MINNESOTA**

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3. Pension Plans

A. Plan Description

All full-time and certain part-time employees of Rainbow Rider are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public 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.

Public 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.

The 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 and vest after three years of credited service. The 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 year thereafter. 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 successive 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 Public Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. 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.

**RAINBOW RIDER  
LOWRY, MINNESOTA**

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3. Pension Plans

A. Plan Description (Continued)

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund. That report may be obtained on the internet at [www.mnpera.org](http://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.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. 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. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.50 percent, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan increased in 2007 to 5.75 percent.

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

	<u>2006</u>	<u>2007</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.00	6.25

Rainbow Rider's contributions for the years ending December 31, 2006, 2005, and 2004, were \$30,928, \$25,371, and \$23,225, respectively, equal to the contractually required contributions for each year as set by state statute.



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**RAINBOW RIDER  
LOWRY, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

ITEMS ARISING THIS YEAR

06-1 Internal Control/Segregation of Duties

Management is responsible for establishing and maintaining internal control. This responsibility includes internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system. The size of Rainbow Rider and its staffing limits the internal control that management can design and implement in to the organization. Management should be aware that segregation of duties is not adequate from an internal control point of view.

Management is responsible for the accuracy and completeness of all financial records and related information. Also, management is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements.

Management has requested that we prepare the annual financial statements and related notes. This arrangement is not unusual for an organization the size of Rainbow Rider. This decision was based on the availability of Rainbow Rider's staff and the cost benefit of using our expertise.

During our audit, we proposed the following material adjustments to convert Rainbow Rider's financial records to the financial statements as reported:

- Depreciation expense of \$169,858 was recorded.
- Capital assets and accumulated depreciation were decreased by \$79,955 to reflect additional capital asset deletions. Capital assets were increased and expenses were decreased by \$6,785 to reflect additional capital asset additions.

- Miscellaneous revenue was decreased by \$64,610, and a gain of \$16,980 was recognized related to the sale of capital assets.

We recommend the Transit Board be mindful that limited staffing causes inherent risks in safeguarding Rainbow Rider's assets and the proper reporting of its financial activity. 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 by segregating duties with what staff is available.*

06-2 Capital Asset Records

Controls over capital assets are not adequate to properly account for all additions, disposals, and depreciation, resulting in the need for material audit adjustments.

In order to maintain complete and accurate capital asset records, we recommend Rainbow Rider:

- review expense accounts to determine whether all capital asset additions have been properly identified in accordance with the adopted capital assets policy;
- determine whether additional component items related to capital assets should be capitalized as part of a larger capital asset or expensed;
- ensure that all capital assets disposed of, sold, or obsolete and unused have been identified as deletions and that capital assets, accumulated depreciation, and any gains or losses be appropriately accounted for to reflect such;
- perform an annual physical count of capital assets--the annual physical count should be as close to year-end as possible, and discrepancies should be investigated and adjustments made on the capital asset records; and
- calculate depreciation expense.

Client's Response:

*Rainbow Rider management has been educated and will continue to be educated on how to handle their capital assets (whether taking an expense or depreciating). Rainbow Rider management will work to improve the record keeping of our capital assets in order to maintain complete and accurate capital assets records.*



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

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### **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE**

Rainbow Rider Transit Board  
Lowry, Minnesota

We have audited the basic financial statements of Rainbow Rider as of and for the year ended December 31, 2006, and have issued our report thereon dated April 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Rainbow Rider's internal control over financial reporting as a basis for designing our auditing procedures 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Rainbow Rider's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Rainbow Rider's financial statements that is more than inconsequential will not be prevented or

detected by Rainbow Rider's internal control over financial reporting. We considered the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 06-1 and 06-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Rainbow Rider's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, the significant deficiencies described above are considered to be material weaknesses.

### Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains five categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, Rainbow Rider complied with the material terms and conditions of applicable legal provisions.

Rainbow Rider's written responses to the material weaknesses identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Transit Board, management, and others within Rainbow Rider and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

April 30, 2008