

STATE OF MINNESOTA

Office of the State Auditor



**Rebecca Otto
State Auditor**

**RAINBOW RIDER
LOWRY, MINNESOTA**

FOR THE YEAR ENDED DECEMBER 31, 2005

Description of the Office of the State Auditor

The mission of the State Auditor's Office 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, Investment and Finance - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

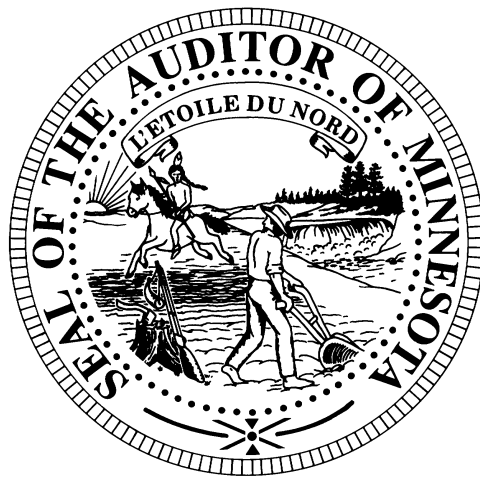
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**RAINBOW RIDER
LOWRY, MINNESOTA**

For the Year Ended December 31, 2005



**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, 2005

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 basic financial statements of Rainbow Rider as of and for the year ended December 31, 2005, 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 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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, 2005, 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

End of Fieldwork: November 8, 2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**RAINBOW RIDER
LOWRY, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

(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, 2005. 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 present different views of Rainbow Rider's financial activities and 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 (%)
	2005	2004	Increase (Decrease)	
Assets				
Current and other assets	\$ 278,380	\$ 356,529	\$ (78,149)	(21.92)
Capital assets, net	950,326	560,991	389,335	69.40
Total Assets	\$ 1,228,706	\$ 917,520	\$ 311,186	33.92
Liabilities				
Current liabilities	\$ 298,921	\$ 68,739	\$ 230,182	334.86
Noncurrent liabilities	18,909	17,079	1,830	10.71
Total Liabilities	\$ 317,830	\$ 85,818	\$ 232,012	270.35
Net Assets				
Invested in capital assets, net of related debt	\$ 750,326	\$ 560,991	\$ 189,335	33.75
Unrestricted	160,550	270,711	(110,161)	(40.69)
Total Net Assets	\$ 910,876	\$ 831,702	\$ 79,174	9.52

The increase in total liabilities from 2004 to 2005 is due mainly to 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 (%)
	2005	2004	Increase (Decrease)	
Operating revenues				
Charges for services	\$ 386,121	\$ 387,222	\$ (1,101)	(0.28)
Miscellaneous	35,831	33,641	2,190	6.51
Nonoperating revenues				
Interest earnings	8,373	5,990	2,383	39.78
Loans forgiven	-	102,103	(102,103)	(100.00)
Operating grants	854,985	838,389	16,596	1.98
Gain on disposal of capital assets	2,000	517	1,483	286.85
Total Revenues	\$ 1,287,310	\$ 1,367,862	\$ (80,552)	(5.89)

	2005	2004	Increase (Decrease)	Percentage Change (%)
Operating expenses				
Personal services	\$ 650,200	\$ 600,088	\$ 50,112	8.35
Administrative charges	63,142	63,967	(825)	(1.29)
Operating charges	285,272	258,731	26,541	10.26
Insurance	17,382	14,403	2,979	20.68
Depreciation	182,557	215,810	(33,253)	(15.41)
Nonoperating expense				
Interest expense	9,583	5,431	4,152	76.45
 Total Expenses	 \$ 1,208,136	 \$ 1,158,430	 \$ 49,706	 4.29
 Change in Net Assets	 \$ 79,174	 \$ 209,432	 \$ (130,258)	 62.20

Change in net assets decreased from 2004 to 2005 due mainly to the loans forgiven in 2004 and an increase in personal services in 2005.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets (Net of Depreciation)

	2005	2004	Increase (Decrease)	Percentage Change (%)
Land	\$ 7,500	\$ 7,500	\$ -	-
Land improvements	10,333	11,165	(832)	(7.45)
Buildings and structures	608,465	208,322	400,143	192.08
Machinery, furniture, and equipment	324,028	334,005	(9,977)	(2.99)
 Total Capital Assets	 \$ 950,326	 \$ 560,992	 \$ 389,334	 69.40

The major additions this year included the construction of an office/garage building in the amount of \$409,386. Additional information on capital assets can be found in Note 2.D. of the financial statements.

During 2005, Rainbow Rider had outstanding debt in the form of a bank loan. As of March 31, 2006, this debt has been extinguished.

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.

BASIC FINANCIAL STATEMENTS

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**RAINBOW RIDER
LOWRY, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2005**

Assets

Current assets

Cash and cash equivalents	\$ 222,288
Petty cash	50
Accounts receivable	13,402
Due from other governments	36,941
Inventories	5,699

Total current assets **\$ 278,380**

Capital assets

Nondepreciable	\$ 7,500
Depreciable - net	942,826

Total capital assets **\$ 950,326**

Total Assets **\$ 1,228,706**

Liabilities

Current liabilities

Accounts payable	\$ 34,121
Salaries payable	18,904
Due to other governments	5,871
Unearned revenue	39,894
Capital loans payable	200,000
Accrued interest payable	131

Total current liabilities **\$ 298,921**

Noncurrent liabilities

Compensated absences - due within one year	\$ 13,360
Compensated absences - due in more than one year	5,549

Total noncurrent liabilities **\$ 18,909**

Total Liabilities **\$ 317,830**

Net Assets

Invested in capital assets - net of related debt	\$ 750,326
Unrestricted	160,550

Total Net Assets **\$ 910,876**

**RAINBOW RIDER
LOWRY, MINNESOTA**

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Operating Revenues	
Charges for services	\$ 386,121
Miscellaneous	35,831
	<hr/>
Total Operating Revenues	\$ 421,952
Operating Expenses	
Personal services	\$ 650,200
Administrative charges	63,142
Operating charges	285,272
Insurance	17,382
Depreciation	182,557
	<hr/>
Total Operating Expenses	\$ 1,198,553
Operating Income (Loss)	\$ (776,601)
Nonoperating Revenues (Expenses)	
Interest earnings	\$ 8,373
Operating grants	
State	
Greater Minnesota transit fund	211,500
Public transit participation program	412,487
Federal	
Public transportation for nonurbanized areas	230,998
Interest expense	(9,583)
Gain (loss) on disposal of capital assets	2,000
	<hr/>
Total Nonoperating Revenues (Expenses)	\$ 855,775
Change in Net Assets	\$ 79,174
Net Assets - January 1	831,702
	<hr/>
Net Assets - December 31	\$ 910,876
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**RAINBOW RIDER
LOWRY, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Cash Flows from Operating Activities	
Receipts from customers	\$ 430,466
Payments to suppliers	(357,202)
Payments to employees	(648,563)
	(375,302)
Net Cash Provided by (Used in) Operating Activities	\$ (575,299)
Cash Flows from Noncapital Financing Activities	
Operating grants	\$ 761,136
Cash Flows from Capital and Related Financing Activities	
Grants restricted for capital purchases	\$ 127,200
Proceeds from capital loan	300,000
Acquisition of capital assets	(571,892)
Principal paid on capital loan	(100,000)
Interest paid on capital loan	(9,452)
Proceeds from sales of capital assets	2,000
	(352,144)
Net Cash Provided by (Used in) Capital and Related Financing Activities	\$ (252,144)
Cash Flows from Investing Activities	
Interest received	\$ 8,373
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (57,934)
Cash and Cash Equivalents - Beginning of Year	280,222
Cash and Cash Equivalents - End of Year	\$ 222,288
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating income (loss)	\$ (776,601)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation	\$ 182,557
Changes in assets and liabilities	
(Increase) decrease in assets	
Accounts receivable	(4,189)
Due from other governments	(9,444)
Inventory	497
Increase (decrease) in liabilities	
Accounts payable	9,113
Salaries payable	1,556
Due to other governments	(1,016)
Unearned revenue	22,147
Compensated absences	81
	201,302
Total adjustments	\$ 201,302
Net Cash Provided by (Used in) Operating Activities	\$ (575,299)

The notes to the financial statements are an integral part of this statement.

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**RAINBOW RIDER
LOWRY, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005

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 and loans forgiven, 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**

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**

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 \$15,737 at December 31, 2005, is available to employees in the event of illness-related absences and is not paid to them at termination.

**RAINBOW RIDER
LOWRY, MINNESOTA**

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 and outstanding debt used to acquire those assets. 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.

**RAINBOW RIDER
LOWRY, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Revenues and Expenses

1. Revenues (Continued)

Exchange Transactions

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

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, 2005.

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenues			
Charges for services	\$ 444,000	\$ 386,121	\$ (57,879)
Miscellaneous	-	35,831	35,831
Total Operating Revenues	<u>\$ 444,000</u>	<u>\$ 421,952</u>	<u>\$ (22,048)</u>

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes

A. Budget to Actual (Continued)

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Expenses			
Personal services	\$ 624,980	\$ 650,200	\$ (25,220)
Administrative charges	57,815	63,142	(5,327)
Operating charges	415,506	285,272	130,234
Insurance	22,000	17,382	4,618
Depreciation	-	182,557	(182,557)
	\$ 1,120,301	\$ 1,198,553	\$ (78,252)
Total Operating Expenses			
Operating Income (Loss)	\$ (676,301)	\$ (776,601)	\$ (100,300)
Nonoperating Revenues (Expenses)			
Interest earnings	\$ 5,000	\$ 8,373	\$ 3,373
Operating grants			
State	730,311	623,987	(106,324)
Federal	-	230,998	230,998
Interest expense	-	(9,583)	(9,583)
Gain on disposal of fixed assets	-	2,000	2,000
	\$ 735,311	\$ 855,775	\$ 120,464
Total Nonoperating Revenues (Expenses)			
Change in Net Assets	\$ 59,010	\$ 79,174	\$ 20,164
Net Assets - January 1	831,702	831,702	-
Net Assets - December 31	\$ 890,712	\$ 910,876	\$ 20,164

B. Deposits and Investments

Rainbow Rider's total cash and investments follows:

Cash and cash equivalents	\$ 222,288
Petty cash	50
Total Deposits and Investments	\$ 222,338

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes

B. Deposits and Investments (Continued)

1. Deposits

Minn. Stat. §§ 118A.02 and 118A.04 authorize Rainbow Rider 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 standard 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, 2005, 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**

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, 2005, Rainbow Rider had no investments.

C. Receivables

Receivables as of December 31, 2005, are as follows:

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Accounts	\$ 13,402	\$ -
Due from other governments	<u>36,941</u>	<u>-</u>
Total	<u>\$ 50,343</u>	<u>\$ -</u>

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes (Continued)

D. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 7,500	\$ -	\$ -	\$ 7,500
Capital assets depreciated				
Land improvements	\$ 12,483	\$ -	\$ -	\$ 12,483
Buildings and structures	243,197	409,386	-	652,583
Revenue vehicles and equipment	1,094,917	162,600	123,106	1,134,411
Office furniture and equipment	61,308	-	18,641	42,667
Total capital assets depreciated	\$ 1,411,905	\$ 571,986	\$ 141,747	\$ 1,842,144
Less: accumulated depreciation for				
Land improvements	\$ 1,318	\$ 832	\$ -	\$ 2,150
Buildings and structures	34,875	9,243	-	44,118
Revenue vehicles and equipment	776,402	165,952	123,106	819,248
Office furniture and equipment	45,818	6,625	18,641	33,802
Total accumulated depreciation	\$ 858,413	\$ 182,652	\$ 141,747	\$ 899,318
Total capital assets depreciated, net	\$ 553,492	\$ 389,334	\$ -	\$ 942,826
Capital Assets, Net	\$ 560,992	\$ 389,334	\$ -	\$ 950,326

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.

F. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 18,828	\$ 13,360	\$ 13,279	\$ 18,909	\$ 13,360

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes (Continued)

G. Unearned Revenue

Unearned revenue consists of \$39,894 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 \$760,000 per claim in 2005 and \$390,000 per claim in 2006. 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**

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**

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; 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 5.10 percent, respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan increased in 2006 to 5.50 percent.

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

	<u>2005</u>	<u>2006</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	5.53	6.00

Rainbow Rider's contributions for the years ending December 31, 2005, 2004, and 2003, were \$25,371, \$23,225, and \$21,321, 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, 2005**

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-1 Segregation of Duties

Due to the limited number of office personnel within Rainbow Rider, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Rainbow Rider; however, management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

We recommend that management be aware of the lack of segregation of duties within the accounting functions and implement oversight procedures to ensure that internal control policies and procedures are followed.

Client's Response:

Rainbow Rider management is aware of the lack of segregation of duties which is due to minimal staff. Rainbow Rider management is continuously working at correcting this problem by segregating duties with what staff is available.

PREVIOUSLY REPORTED ITEM RESOLVED

Capital Asset Records (04-1)

Our testing of the capital asset system disclosed that Rainbow Rider does not keep a complete and accurate listing of capital assets.

Resolution

For the 2005 audit, Rainbow Rider's Business Manager provided us with a complete and accurate listing of capital assets. On February 9, 2006, the Rainbow Rider Board adopted a new capital asset policy.

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REBECCA OTTO
STATE AUDITOR

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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, 2005, and have issued our report thereon dated November 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

The management of Rainbow Rider is responsible for establishing and maintaining internal control. In fulfilling this responsibility, management must make estimates and judgments to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition,
- transactions are executed in accordance with management's authorization, and
- transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in internal controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit, we considered Rainbow Rider's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial

reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Rainbow Rider's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Recommendations as item 96-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition indicated above is not a material weakness.

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.

This report is intended solely for the information and use of the Rainbow Rider Transit Board and management 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

End of Fieldwork: November 8, 2006