

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

RAINBOW RIDER
LOWRY, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2007

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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**RAINBOW RIDER
LOWRY, MINNESOTA**

For the Year Ended December 31, 2007



**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, 2007

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 |
| Norm Salto | Member | Douglas |
| Dean Paulson | Member | Pope |
| Randy Shaw | Member | Pope |
| Herb Kloos | Chair | Stevens |
| Larry Sayre | Member | Stevens |
| William Gibson | Member | Traverse |
| David Naatz | 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, 2007, 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, 2007, 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

May 29, 2009

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**RAINBOW RIDER
LOWRY, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007
(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, 2007. 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, 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 (%) |
|----------------------------|--------------|--------------|------------------------|-----------------------------|
| | 2007 | 2006 | Increase (Decrease) | |
| Assets | | | | |
| Current and other assets | \$ 422,704 | \$ 347,230 | \$ 75,474 | 21.74 |
| Capital assets, net | 989,018 | 924,268 | 64,750 | 7.01 |
| Total Assets | \$ 1,411,722 | \$ 1,271,498 | \$ 140,224 | 11.03 |
| Liabilities | | | | |
| Current liabilities | \$ 98,587 | \$ 97,187 | \$ 1,400 | 1.44 |
| Noncurrent liabilities | 27,342 | 25,722 | 1,620 | 6.30 |
| Total Liabilities | \$ 125,929 | \$ 122,909 | \$ 3,020 | 2.46 |
| Net Assets | | | | |
| Invested in capital assets | \$ 989,018 | \$ 924,268 | \$ 64,750 | 7.01 |
| Unrestricted | 296,775 | 224,321 | 72,454 | 32.30 |
| Total Net Assets | \$ 1,285,793 | \$ 1,148,589 | \$ 137,204 | 11.95 |

The increase to capital assets was due mainly to the addition of two buses more than were disposed of during the year.

| | Changes in Net Assets | | | Percentage Change (%) |
|------------------------------------|-----------------------|--------------|------------------------|-----------------------------|
| | 2007 | 2006 | Increase (Decrease) | |
| Operating revenues | | | | |
| Charges for services | \$ 470,241 | \$ 426,251 | \$ 43,990 | 10.32 |
| Miscellaneous | 60,761 | 67,469 | (6,708) | (9.94) |
| Nonoperating revenues | | | | |
| Interest earnings | 14,025 | 7,883 | 6,142 | 77.91 |
| Operating grants | 816,203 | 1,057,015 | (240,812) | (22.78) |
| Capital grants | 185,600 | - | 185,600 | 100.00 |
| Gain on disposal of capital assets | 9,432 | 16,980 | (7,548) | (44.45) |
| Total Revenues | \$ 1,556,262 | \$ 1,575,598 | \$ (19,336) | (1.23) |

| | 2007 | 2006 | Increase (Decrease) | Percentage Change (%) |
|--------------------------|------------------|------------------|------------------------|-----------------------------|
| Operating expenses | | | | |
| Personal services | \$ 779,468 | \$ 741,759 | \$ 37,709 | 5.08 |
| Administrative charges | 92,115 | 72,803 | 19,312 | 26.53 |
| Operating charges | 338,914 | 319,791 | 19,123 | 5.98 |
| Insurance | 17,448 | 17,677 | (229) | (1.30) |
| Depreciation | 191,113 | 169,858 | 21,255 | 12.51 |
| Nonoperating expense | | | | |
| Miscellaneous expense | - | 13,920 | (13,920) | (100.00) |
| Interest expense | - | 2,077 | (2,077) | (100.00) |
| Total Expenses | \$ 1,419,058 | \$ 1,337,885 | \$ 81,173 | 6.07 |
| Change in Net Assets | \$ 137,204 | \$ 237,713 | \$ (100,509) | (42.28) |

Changes in net assets decreased from 2006 to 2007 due mainly to increased costs of operation in 2007.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets (Net of Depreciation)

| | 2007 | 2006 | Increase (Decrease) | Percentage Change (%) |
|-------------------------------------|----------------|----------------|------------------------|-----------------------------|
| Land | \$ 32,227 | \$ 32,227 | - | - |
| Land improvements | 8,669 | 9,501 | (832) | (8.76) |
| Buildings and structures | 528,988 | 544,471 | (15,483) | (2.84) |
| Machinery, furniture, and equipment | 419,134 | 338,069 | 81,065 | 23.98 |
| Total Capital Assets | \$ 989,018 | \$ 924,268 | \$ 64,750 | 7.01 |

The major additions this year included two additional buses over those disposed. Additional information on capital assets can be found in Note 2.D. to the financial statements.

CONTACTING RAINBOW RIDER'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of Rainbow Rider's finances and to show the Board's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Transit Director, Harold Jennissen, 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, 2007**

Assets

Current assets

| | |
|----------------------------|------------|
| Cash and cash equivalents | \$ 317,404 |
| Petty cash | 25 |
| Accounts receivable | 22,219 |
| Due from other governments | 78,153 |
| Inventories | 4,903 |

Total current assets **\$ 422,704**

Capital assets

| | |
|-------------------|-----------|
| Nondepreciable | \$ 32,227 |
| Depreciable - net | 956,791 |

Total capital assets **\$ 989,018**

Total Assets **\$ 1,411,722**

Liabilities

Current liabilities

| | |
|--------------------------|-----------|
| Accounts payable | \$ 34,639 |
| Salaries payable | 19,395 |
| Due to other governments | 1,815 |
| Unearned revenue | 42,738 |

Total current liabilities **\$ 98,587**

Noncurrent liabilities

| | |
|--|-----------|
| Compensated absences - due within one year | \$ 24,061 |
| Compensated absences - due in more than one year | 3,281 |

Total noncurrent liabilities **\$ 27,342**

Total Liabilities **\$ 125,929**

Net Assets

| | |
|----------------------------|------------|
| Invested in capital assets | \$ 989,018 |
| Unrestricted | 296,775 |

Total Net Assets **\$ 1,285,793**

**RAINBOW RIDER
LOWRY, MINNESOTA**

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | |
|---|---------------------|
| Operating Revenues | |
| Charges for services | \$ 470,241 |
| Miscellaneous | 60,761 |
| | <hr/> |
| Total Operating Revenues | \$ 531,002 |
| Operating Expenses | |
| Personal services | \$ 779,468 |
| Administrative charges | 92,115 |
| Operating charges | 338,914 |
| Insurance | 17,448 |
| Depreciation | 191,113 |
| | <hr/> |
| Total Operating Expenses | \$ 1,419,058 |
| Operating Income (Loss) | \$ (888,056) |
| Nonoperating Revenues (Expenses) | |
| Interest earnings | \$ 14,025 |
| Operating grants | |
| State | |
| Greater Minnesota transit fund | 162,075 |
| Public transit participation program | 435,121 |
| Federal | |
| Public transportation for nonurbanized areas | 219,007 |
| Capital grants | |
| Federal | |
| Public transportation for nonurbanized areas | 185,600 |
| Gain (loss) on disposal of capital assets | 9,432 |
| | <hr/> |
| Total Nonoperating Revenues (Expenses) | \$ 1,025,260 |
| Change in Net Assets | \$ 137,204 |
| Net Assets - January 1 | 1,148,589 |
| | <hr/> |
| Net Assets - December 31 | \$ 1,285,793 |

**RAINBOW RIDER
LOWRY, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | |
|--|---------------------|
| Cash Flows from Operating Activities | |
| Receipts from customers | \$ 567,175 |
| Payments to suppliers | (441,661) |
| Payments to employees | (784,272) |
| | <hr/> |
| Net Cash Provided by (Used in) Operating Activities | \$ (658,758) |
| Cash Flows from Noncapital Financing Activities | |
| Operating grants | \$ 823,777 |
| | <hr/> |
| Cash Flows from Capital and Related Financing Activities | |
| Grants restricted for capital purchases | \$ 182,529 |
| Acquisition of capital assets | (250,585) |
| Proceeds from sales of capital assets | 4,154 |
| | <hr/> |
| Net Cash Provided by (Used in) Capital and Related Financing Activities | \$ (63,902) |
| Cash Flows from Investing Activities | |
| Interest received | \$ 14,025 |
| | <hr/> |
| Net Increase (Decrease) in Cash and Cash Equivalents | \$ 115,142 |
| Cash and Cash Equivalents - Beginning of Year | 202,262 |
| | <hr/> |
| Cash and Cash Equivalents - End of Year | \$ 317,404 |
| | <hr/> <hr/> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities | |
| Operating income (loss) | \$ (888,056) |
| | <hr/> |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities | |
| Depreciation | \$ 191,113 |
| Changes in assets and liabilities | |
| (Increase) decrease in assets | |
| Petty cash | 28 |
| Accounts receivable | (8,404) |
| Due from other governments | 42,943 |
| Inventory | 598 |
| Increase (decrease) in liabilities | |
| Accounts payable | 4,491 |
| Salaries payable | (6,424) |
| Due to other governments | 1,699 |
| Unearned revenue | 1,634 |
| Compensated absences | 1,620 |
| | <hr/> |
| Total adjustments | \$ 229,298 |
| | <hr/> |
| Net Cash Provided by (Used in) Operating Activities | \$ (658,758) |
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**RAINBOW RIDER
LOWRY, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2007

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**

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</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.

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 \$22,650 at December 31, 2007, 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. 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**

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, 2007.

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|--------------------------|-------------------|-------------------|---|
| Operating Revenues | | | |
| Charges for services | \$ 444,857 | \$ 470,241 | \$ 25,384 |
| Miscellaneous | - | 60,761 | 60,761 |
| Total Operating Revenues | <u>\$ 444,857</u> | <u>\$ 531,002</u> | <u>\$ 86,145</u> |

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes

A. Budget to Actual (Continued)

| | Budget | Actual | Variance Favorable (Unfavorable) |
|---|--------------|--------------|--|
| Operating Expenses | | | |
| Personal services | \$ 796,149 | \$ 779,468 | \$ 16,681 |
| Administrative charges | 65,040 | 92,115 | (27,075) |
| Operating charges | 519,685 | 338,914 | 180,771 |
| Insurance | 18,013 | 17,448 | 565 |
| Depreciation | - | 191,113 | (191,113) |
| | \$ 1,398,887 | \$ 1,419,058 | \$ (20,171) |
| Total Operating Expenses | | | |
| Operating Income (Loss) | \$ (954,030) | \$ (888,056) | \$ 65,974 |
| Nonoperating Revenues (Expenses) | | | |
| Interest earnings | \$ - | \$ 14,025 | \$ 14,025 |
| Operating grants | | | |
| State | 550,847 | 597,196 | 46,349 |
| Federal | 273,653 | 219,007 | (54,646) |
| Capital grants | | | |
| State | 185,600 | 185,600 | - |
| Gain on disposal of fixed assets | - | 9,432 | 9,432 |
| | \$ 1,010,100 | \$ 1,025,260 | \$ 15,160 |
| Total Nonoperating Revenues (Expenses) | | | |
| Change in Net Assets | \$ 56,070 | \$ 137,204 | \$ 81,134 |
| Net Assets - January 1 | 1,148,589 | 1,148,589 | - |
| Net Assets - December 31 | \$ 1,204,659 | \$ 1,285,793 | \$ 81,134 |

B. Deposits and Investments

Rainbow Rider's total cash and investments follows:

| | |
|--------------------------------|------------|
| Cash and cash equivalents | \$ 317,404 |
| Petty cash | 25 |
| Total Deposits and Investments | \$ 317,429 |

**RAINBOW RIDER
LOWRY, MINNESOTA**

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, 2007, 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, 2007, Rainbow Rider had no investments.

C. Receivables

Receivables as of December 31, 2007, are as follows:

| | Total Receivables | Amounts Not Scheduled for Collection During the Subsequent Year |
|----------------------------|----------------------|--|
| Accounts receivable | \$ 22,219 | \$ - |
| Due from other governments | 78,153 | - |
| Total | <u>\$ 100,372</u> | <u>\$ -</u> |

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes (Continued)

D. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

| | Beginning Balance | Increase | Decrease | Ending Balance |
|--|----------------------|------------|------------|-------------------|
| Capital assets not depreciated | | | | |
| Land | \$ 32,227 | \$ - | \$ - | \$ 32,227 |
| Capital assets depreciated | | | | |
| Land improvements | \$ 12,483 | \$ - | \$ - | \$ 12,483 |
| Buildings and structures | 592,266 | 9,362 | 4,699 | 596,929 |
| Revenue vehicles and equipment | 1,167,639 | 232,821 | 85,225 | 1,315,235 |
| Office furniture and equipment | 39,348 | 8,402 | 24,962 | 22,788 |
| Total capital assets depreciated | \$ 1,811,736 | \$ 250,585 | \$ 114,886 | \$ 1,947,435 |
| Less: accumulated depreciation for | | | | |
| Land improvements | \$ 2,982 | \$ 832 | \$ - | \$ 3,814 |
| Buildings and structures | 47,795 | 19,898 | (248) | 67,941 |
| Revenue vehicles and equipment | 834,625 | 165,570 | 95,108 | 905,087 |
| Office furniture and equipment | 34,293 | 4,813 | 25,304 | 13,802 |
| Total accumulated depreciation | \$ 919,695 | \$ 191,113 | \$ 120,164 | \$ 990,644 |
| Total capital assets depreciated, net | \$ 892,041 | \$ 59,472 | \$ (5,278) | \$ 956,791 |
| Capital Assets, Net | \$ 924,268 | \$ 59,472 | \$ (5,278) | \$ 989,018 |

E. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|----------------------|----------------------|-----------|------------|-------------------|------------------------|
| Compensated absences | \$ 25,722 | \$ 24,196 | \$ 22,576 | \$ 27,342 | \$ 24,061 |

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes (Continued)

F. Unearned Revenue

Unearned revenue consists of \$42,738 of unredeemed sold tickets.

G. Risk Management

Rainbow Rider is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health coverage; and natural disasters. Rainbow Rider is a member of the Minnesota Counties 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 \$400,000 per claim in 2007 and 2008. 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 pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). 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.

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 defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

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

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. 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 5.75 percent, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan increased in 2008 to 6.00 percent.

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

| | 2007 | 2008 |
|----------------------------------|--------|--------|
| Public Employees Retirement Fund | | |
| Basic Plan members | 11.78% | 11.78% |
| Coordinated Plan members | 6.25 | 6.50 |

Rainbow Rider's contributions for the years ending December 31, 2007, 2006, and 2005, for the Public Employees Retirement Fund were:

| 2007 | 2006 | 2005 |
|-----------|-----------|-----------|
| \$ 33,504 | \$ 30,928 | \$ 25,371 |

These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

**RAINBOW RIDER
LOWRY, MINNESOTA**

4. Subsequent Event

On January 22, 2008, Rainbow Rider entered into a \$500,000 lease and purchase option agreement with Wells Fargo Brokerage Services, LLC, for the construction of a bus garage. Semi-annual interest payments are required, and a final lease principal and interest payment is due on June 1, 2011. At the end of the lease period, Rainbow Rider has the option to purchase the bus garage for \$1.

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**RAINBOW RIDER
LOWRY, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2007**

INTERNAL CONTROL OVER FINANCIAL REPORTING

PREVIOUSLY REPORTED ITEM NOT RESOLVED

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 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.

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.

PREVIOUSLY REPORTED ITEMS RESOLVED

Internal Control/Segregation of Duties (06-1)

During the prior year's audit, we had material adjustments to convert Rainbow Rider's financial records to the financial statements.

Resolution

We found no material adjustments to the financial statements for the year ended December 31, 2007.

Capital Asset Records (06-2)

Controls over capital assets were not adequate to properly account for all additions, disposals, and depreciation.

Resolution

Rainbow Rider properly accounted for capital asset additions, disposals, and depreciation for the year ended December 31, 2007.



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

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements of Rainbow Rider as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, 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 a deficiency in internal control over financial reporting that we consider to be a material weakness.

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 consider the deficiency listed in the Schedule of Findings and Recommendations as item 06-1 to be a significant deficiency 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 over financial reporting. We believe that the deficiency identified as item 06-1 in the Schedule of Findings and Recommendations constitutes a material weakness.

Minnesota Legal Compliance

We have audited the basic financial statements of Rainbow Rider as of and for the year ended December 31, 2007. 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 six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except that we did not test for compliance in contracting and bidding because Rainbow Rider did not enter into any contracts during 2007, and public indebtedness because Rainbow Rider did not have debt.

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 response to the material weakness identified in our audit has been included in the Schedule of Findings and Recommendations. We did not audit Rainbow Rider's response and, accordingly, we express no opinion on it.

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

May 29, 2009

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR