

STATE OF MINNESOTA

Office of the State Auditor



**Rebecca Otto
State Auditor**

**RAINBOW RIDER
LOWRY, MINNESOTA**

YEAR ENDED DECEMBER 31, 2016

Description of the Office of the State Auditor

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

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

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

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 650 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.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@osa.state.mn.us
www.auditor.state.mn.us

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.

**RAINBOW RIDER
LOWRY, MINNESOTA**

Year Ended December 31, 2016



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

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**RAINBOW RIDER
LOWRY, MINNESOTA**

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Introductory Section

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**RAINBOW RIDER
LOWRY, MINNESOTA**

**ORGANIZATION
DECEMBER 31, 2016**

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

Name	Position	County
Board		
Paul Gerde	Chair	Pope
Ron Staples	Vice Chair	Stevens
Charlie Meyer	Member	Douglas
Jerry Johnson	Member	Douglas
Bill LaValley	Member	Grant
Vernell Wagner	Member	Grant
Cody Rogahn	Member	Pope
Donny Wohlers	Member	Stevens
Randy Neumann	Member	Todd
David Kircher	Member	Todd
Mark Gail	Member	Traverse
Todd Johnson	Member	Traverse
Keven Anderson	Transit Director	

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Financial Section

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Rainbow Rider Transit Board
Lowry, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Rainbow Rider as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Rainbow Rider's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Rainbow Rider's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Rainbow Rider's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rainbow Rider as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2017, on our consideration of Rainbow Rider's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rainbow Rider's internal control over financial reporting and compliance.

/s/*Rebecca Otto*

REBECCA OTTO
STATE AUDITOR

November 2, 2017

/s/*Greg Hierlinger*

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**RAINBOW RIDER
LOWRY, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016
(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, 2016. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with Rainbow Rider's financial statements.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The financial statements consist of the following:

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

FINANCIAL ANALYSIS

Net Position

	2016	2015	Increase (Decrease)	Percentage Change (%)
Assets				
Current and other assets	\$ 1,137,153	\$ 688,335	\$ 448,818	65.2
Capital assets, net	<u>1,513,222</u>	<u>1,639,730</u>	<u>(126,508)</u>	<u>(7.7)</u>
Total Assets	<u>\$ 2,650,375</u>	<u>\$ 2,328,065</u>	<u>\$ 322,310</u>	<u>13.8</u>
Deferred outflows of resources	<u>\$ 822,388</u>	<u>\$ 136,296</u>	<u>\$ 686,092</u>	<u>503.4</u>
Liabilities				
Current liabilities	\$ 231,781	\$ 162,741	\$ 69,040	42.4
Noncurrent liabilities	<u>1,789,460</u>	<u>1,017,536</u>	<u>771,924</u>	<u>75.9</u>
Total Liabilities	<u>\$ 2,021,241</u>	<u>\$ 1,180,277</u>	<u>\$ 840,964</u>	<u>71.3</u>
Deferred inflows of resources	<u>\$ 150,542</u>	<u>\$ 70,000</u>	<u>\$ 80,542</u>	<u>115.1</u>
Net Position				
Investment in capital assets	\$ 1,513,222	\$ 1,639,730	\$ (126,508)	(7.7)
Unrestricted	<u>(212,242)</u>	<u>(425,646)</u>	<u>213,404</u>	<u>50.1</u>
Total Net Position, as reported	<u>\$ 1,300,980</u>	<u>\$ 1,214,084</u>	<u>\$ 86,896</u>	<u>7.2</u>

Changes in Net Position

	2016	2015	Increase (Decrease)	Percentage Change (%)
Operating revenues				
Charges for services	\$ 539,154	\$ 558,565	\$ (19,411)	(3.5)
Intergovernmental	<u>2,373,168</u>	<u>2,184,677</u>	<u>188,491</u>	<u>8.6</u>
Miscellaneous	<u>77,836</u>	<u>117,132</u>	<u>(39,296)</u>	<u>(33.5)</u>
Nonoperating revenues				
Investment earnings	<u>4,513</u>	<u>1,317</u>	<u>3,196</u>	<u>242.7</u>
Gain on disposal of assets	<u>775</u>	<u>6,600</u>	<u>(5,825)</u>	<u>(88.3)</u>
Total Revenues	<u>\$ 2,995,446</u>	<u>\$ 2,868,291</u>	<u>\$ 127,155</u>	<u>4.4</u>

	2016	2015	Increase (Decrease)	Percentage Change (%)
Operating expenses				
Personal services	\$ 2,117,561	\$ 1,664,618	\$ 452,943	27.2
Administrative charges	177,052	154,212	22,840	14.8
Operating charges	360,158	394,718	(34,560)	(8.8)
Insurance	37,795	32,096	5,699	17.8
Depreciation	<u>393,584</u>	<u>362,758</u>	<u>30,826</u>	8.5
Total Expenses	<u>\$ 3,086,150</u>	<u>\$ 2,608,402</u>	<u>\$ 477,748</u>	18.3
Income (loss) before contributions	\$ (90,704)	\$ 259,889	\$ (350,593)	(134.9)
Capital contributions	<u>177,600</u>	<u>236,660</u>	<u>(59,060)</u>	(25.0)
Change in Net Position	\$ 86,896	\$ 496,549	\$ (409,653)	(82.5)
Net Position - January 1	<u>1,214,084</u>	<u>717,535</u>	<u>496,549</u>	69.2
Net Position - December 31	<u>\$ 1,300,980</u>	<u>\$ 1,214,084</u>	<u>\$ 86,896</u>	7.2

CAPITAL ASSETS

Capital Assets (Net of Depreciation)

	2016	2015	Increase (Decrease)	Percentage Change (%)
Land	\$ 137,548	\$ 137,548	\$ -	-
Land improvements	9,345	2,011	7,334	364.7
Buildings and structures	776,906	889,756	(112,850)	(12.7)
Revenue vehicles and equipment	567,823	578,406	(10,583)	(1.8)
Office furniture and equipment	<u>21,600</u>	<u>32,009</u>	<u>(10,409)</u>	(32.5)
Total Capital Assets	<u>\$ 1,513,222</u>	<u>\$ 1,639,730</u>	<u>\$ (126,508)</u>	(7.7)

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

CONTACTING RAINBOW RIDER'S FINANCIAL MANAGEMENT

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

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BASIC FINANCIAL STATEMENTS

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**RAINBOW RIDER
LOWRY, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2016**

Assets

Current assets

Cash and cash equivalents	\$ 1,081,591
Petty cash	50
Accounts receivable	18,091
Due from other governments	34,600
Inventories	2,821

Total current assets

\$ 1,137,153

Capital assets

Nondepreciable	\$ 137,548
Depreciable - net	1,375,674

Total capital assets

\$ 1,513,222

Total Assets

\$ 2,650,375

Deferred Outflows of Resources

Deferred pension outflows

\$ 822,388

Liabilities

Current liabilities

Accounts payable	\$ 59,778
Salaries payable	58,688
Due to other governments	8,765
Unearned revenue	70,216
Compensated absences payable	34,334

Total current liabilities

\$ 231,781

Noncurrent liabilities

Compensated absences payable	\$ 51,886
Net pension liability	1,737,574

Total noncurrent liabilities

\$ 1,789,460

Total Liabilities

\$ 2,021,241

Deferred Inflows of Resources

Deferred pension inflows

\$ 150,542

Net Position

Investment in capital assets	\$ 1,513,222
Unrestricted	(212,242)

Total Net Position

\$ 1,300,980

**RAINBOW RIDER
LOWRY, MINNESOTA**

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016**

Operating Revenues	
Charges for services	\$ <u>539,154</u>
Intergovernmental	
State	\$ 2,091,700
Local	278,714
Reimbursement for services	<u>2,754</u>
Total intergovernmental	<u>\$ 2,373,168</u>
Miscellaneous	<u>\$ 77,836</u>
Total Operating Revenues	<u>\$ 2,990,158</u>
Operating Expenses	
Personal services	\$ 2,117,561
Administrative charges	177,052
Operating charges	360,158
Insurance	37,795
Depreciation	<u>393,584</u>
Total Operating Expenses	<u>\$ 3,086,150</u>
Operating Income (Loss)	<u>\$ (95,992)</u>
Nonoperating Revenues (Expenses)	
Investment earnings	\$ 4,513
Gain (loss) on disposal of capital assets	<u>775</u>
Total Nonoperating Revenues (Expenses)	<u>\$ 5,288</u>
Income (loss) before contributions	<u>\$ (90,704)</u>
Capital contributions	<u>177,600</u>
Change in Net Position	<u>\$ 86,896</u>
Net Position - January 1	<u>1,214,084</u>
Net Position - December 31	<u><u>\$ 1,300,980</u></u>

RAINBOW RIDER
LOWRY, MINNESOTA

EXHIBIT 3

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Receipts from customers	\$ 602,740
Payments to suppliers	(553,167)
Payments to employees	<u>(1,899,390)</u>
Net cash provided by (used in) operating activities	\$ (1,849,817)

Cash Flows from Noncapital Financing Activities

Intergovernmental receipts	\$ 2,373,192
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Cash Flows from Capital and Related Financing Activities

Capital contributions	\$ 452,435
Proceeds from the sale of capital assets	775
Purchases of capital assets	<u>(251,431)</u>

Net cash provided by (used in) capital and related financing activities	\$ 201,779
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Cash Flows from Investing Activities

Interest received	\$ 4,513
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Net Increase (Decrease) in Cash and Cash Equivalents	\$ 729,667
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Cash and Cash Equivalents at January 1

	351,974
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Cash and Cash Equivalents at December 31

	\$ 1,081,641
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Reconciliation of Cash and Cash Equivalents to the Statement of Net Position

Cash and Cash Equivalents

Cash and cash equivalents	\$ 1,081,591
Petty cash	<u>50</u>

Total Cash and Cash Equivalents	\$ 1,081,641
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Noncash Investing, Capital, and Financing Activities

Capital assets purchased on account

Office furniture and equipment	\$ 15,645
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RAINBOW RIDER
LOWRY, MINNESOTA

EXHIBIT 3
(Continued)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
Increase (Decrease) in Cash and Cash Equivalents

Reconciliation of operating income (loss) to net cash provided by

(used in) operating activities

Operating income (loss)

\$ (95,992)

Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities

Depreciation expense	\$ 393,584
Intergovernmental revenue	(2,373,168)
(Increase) decrease in accounts receivable	6,595
(Increase) decrease in due from other governments	(1,694)
(Increase) decrease in inventories	1,089
Increase (decrease) in accounts payable	17,526
Increase (decrease) in salaries payable	20,924
Increase (decrease) in compensated absences payable	34,354
Increase (decrease) in due to other governments	3,223
Increase (decrease) in unearned revenue	(19,151)
(Increase) decrease in deferred pension outflows	(686,092)
Increase (decrease) in deferred pension inflows	80,542
Increase (decrease) in net pension liability	<u>768,443</u>
Total adjustments	\$ (1,753,825)
Net Cash Provided by (Used in) Operating Activities	<u>\$ (1,849,817)</u>

**RAINBOW RIDER
LOWRY, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016**

1. Summary of Significant Accounting Policies

Rainbow Rider's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2016. The Governmental Accounting Standard Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by Rainbow Rider are discussed below.

A. Financial Reporting Entity

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

Control is vested in the Rainbow Rider Transit Board (Board). The Board consists of two members from each county. The members of the Board are appointed by the County Commissioners of the counties they represent. Members of the Board serve an annual term and may be reappointed by their respective County Boards. Rainbow Rider is a joint venture, with no county having control over the Board. Each county has an ongoing responsibility to provide funding for the operating costs of the Board allocated in accordance with the actual expenses incurred by representatives of the respective counties on the Board.

**RAINBOW RIDER
LOWRY, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

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

C. Measurement Focus and Basis of Accounting

Rainbow Rider's financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

1. Assets

Cash and Cash Equivalents

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

Inventories

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

**RAINBOW RIDER
LOWRY, MINNESOTA**

1. Summary of Significant Accounting Policies

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

1. Assets (Continued)

Capital Assets and Depreciation

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

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

Classification	Range
Land improvements	15 years
Buildings	30 years
Furniture and equipment	3 to 10 years
Vehicles	5 years

2. Liabilities

Unearned Revenue

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

Compensated Absences

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

**RAINBOW RIDER
LOWRY, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. Liabilities

Compensated Absences (Continued)

Unvested sick leave, approximately \$36,956 at December 31, 2016, is available to employees in the event of illness-related absences and is not paid to them at termination.

3. Deferred Outflows/Inflows of Resources

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

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

**RAINBOW RIDER
LOWRY, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Defined Benefit Pension Plan

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

5. Net Position

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

E. Revenues, Expenses, and Capital Contributions

1. Operating and Nonoperating Revenues

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

2. Operating and Nonoperating Expenses

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

**RAINBOW RIDER
LOWRY, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Capital Contributions

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

F. Use of Estimates

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

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, 2016.

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating Revenues			
Charges for services	\$ 803,287	\$ 539,154	\$ (264,133)
Intergovernmental	2,059,550	2,373,168	313,618
Miscellaneous	<u>74,400</u>	<u>77,836</u>	<u>3,436</u>
Total Operating Revenues	<u>\$ 2,937,237</u>	<u>\$ 2,990,158</u>	<u>\$ 52,921</u>

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes

A. Budget to Actual (Continued)

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating Expenses			
Personal services	\$ 2,129,683	\$ 2,117,561	\$ 12,122
Administrative charges	184,243	177,052	7,191
Operating charges	610,366	360,158	250,208
Insurance	39,000	37,795	1,205
Depreciation	-	393,584	(393,584)
Total Operating Expenses	<u>\$ 2,963,292</u>	<u>\$ 3,086,150</u>	<u>\$ (122,858)</u>
Operating Income (Loss)	<u>\$ (26,055)</u>	<u>\$ (95,992)</u>	<u>\$ (69,937)</u>
Nonoperating Revenues (Expenses)			
Investment earnings	\$ -	\$ 4,513	\$ 4,513
Gain (loss) on disposal of capital assets	-	775	775
Total Nonoperating Revenues (Expenses)	\$ -	\$ 5,288	\$ 5,288
Income (loss) before contributions	\$ (26,055)	\$ (90,704)	\$ (64,649)
Capital contributions	-	177,600	177,600
Change in Net Position	\$ (26,055)	\$ 86,896	\$ 112,951
Net Position - January 1, as restated	<u>1,214,084</u>	<u>1,214,084</u>	<u>-</u>
Net Position - December 31	<u>\$ 1,188,029</u>	<u>\$ 1,300,980</u>	<u>\$ 112,951</u>

B. Deposits and Investments

Rainbow Rider's total deposits and investments follow:

Cash and cash equivalents	\$ 1,081,591
Petty cash	50
Total Deposits	<u>\$ 1,081,641</u>

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes

B. Deposits and Investments (Continued)

1. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, Rainbow Rider's deposits may not be returned to it. Rainbow Rider does not have a deposit policy for custodial credit risk. As of December 31, 2016, Rainbow Rider's deposits were not exposed to custodial credit risk.

2. Investments

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

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

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes

B. Deposits and Investments

2. Investments (Continued)

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

During the year ended December 31, 2016, Rainbow Rider had no investments.

C. Receivables

Receivables as of December 31, 2016, are as follows:

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Accounts receivable	\$ 18,091	\$ -
Due from other governments	<u>34,600</u>	<u>-</u>
Total	<u>\$ 52,691</u>	<u>\$ -</u>

No allowance for uncollectible receivables has been provided because such amounts are not expected to be material.

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes (Continued)

D. Capital Assets

Capital asset activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Increases	Decreases/ Adjustments	Ending Balance
Capital assets not depreciated				
Land	<u>\$ 137,548</u>	-	\$ -	<u>\$ 137,548</u>
Capital assets depreciated				
Land improvements	<u>\$ 12,483</u>	<u>\$ 8,750</u>	<u>\$ -</u>	<u>\$ 21,233</u>
Buildings and structures	<u>1,598,570</u>	<u>-</u>	<u>-</u>	<u>1,598,570</u>
Revenue vehicles and equipment	<u>2,843,149</u>	<u>242,680</u>	<u>(120,754)</u>	<u>2,965,075</u>
Office furniture and equipment	<u>137,639</u>	<u>15,646</u>	<u>-</u>	<u>153,285</u>
Total capital assets depreciated	<u>\$ 4,591,841</u>	<u>\$ 267,076</u>	<u>\$ (120,754)</u>	<u>\$ 4,738,163</u>
Less: accumulated depreciation for				
Land improvements	<u>\$ 10,472</u>	<u>\$ 1,416</u>	<u>\$ -</u>	<u>\$ 11,888</u>
Buildings and structures	<u>708,814</u>	<u>112,850</u>	<u>-</u>	<u>821,664</u>
Revenue vehicles and equipment	<u>2,264,743</u>	<u>253,263</u>	<u>(120,754)</u>	<u>2,397,252</u>
Office furniture and equipment	<u>105,630</u>	<u>26,055</u>	<u>-</u>	<u>131,685</u>
Total accumulated depreciation	<u>\$ 3,089,659</u>	<u>\$ 393,584</u>	<u>\$ (120,754)</u>	<u>\$ 3,362,489</u>
Total capital assets depreciated, net	<u>\$ 1,502,182</u>	<u>\$ (126,508)</u>	<u>\$ -</u>	<u>\$ 1,375,674</u>
Capital Assets, Net	<u><u>\$ 1,639,730</u></u>	<u><u>\$ (126,508)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,513,222</u></u>

E. Liabilities

1. Payables

Payables as of December 31, 2016, are as follows:

Accounts payable	\$ 59,778
Salaries payable	58,688
Due to other governments	<u>8,765</u>
Total	<u><u>\$ 127,231</u></u>

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes

E. Liabilities (Continued)

2. Operating Leases

In October 2014, Rainbow Rider entered into a 36-month operating lease for a bus garage. Minimum future rental payments are as follows:

Year	Payment Amount
2017	<u>\$ 2,250</u>

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 51,866	\$ 65,202	\$ (30,848)	\$ 86,220	\$ 34,334

F. Unearned Revenue

Unearned revenue consists of \$54,944 of unredeemed sold tickets and \$15,272 of prepaid tickets by member counties for veterans' accounts.

3. Defined Benefit Pension Plans

A. Plan Description

All full-time and certain part-time employees of Rainbow Rider are covered by a defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Plan, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

**RAINBOW RIDER
LOWRY, MINNESOTA**

3. Defined Benefit Pension Plans

A. Plan Description (Continued)

The General Employees Retirement Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Retirement Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

B. Benefits Provided

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

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

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Plan Coordinated and Basic Plan members. Members hired prior to July 1, 1989, receive 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

**RAINBOW RIDER
LOWRY, MINNESOTA**

3. Pension Plans

B. Benefits Provided (Continued)

salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989. Minneapolis Employees Retirement Fund members have an annuity accrual rate of 2.0 percent of average salary for each of the first ten years of service and 2.5 percent for each remaining year.

For General Employees Retirement Plan members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based on years of service and average high-five salary.

C. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Retirement Plan Basic members, Coordinated members, and Minneapolis Employees Retirement Fund members were required to contribute 9.10 percent, 6.50 percent, and 9.75 percent, respectively, of their annual covered salary in 2016.

In 2016, Rainbow Rider was required to contribute the following percentages of annual covered salary:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.50
Minneapolis Employees Retirement Fund members	9.75

The employee and employer contribution rates did not change from the previous year.

**RAINBOW RIDER
LOWRY, MINNESOTA**

3. Defined Benefit Pension Plans

C. Contributions (Continued)

Rainbow Rider's contribution for the General Employees Retirement Plan for the year ended December 31, 2016, were \$112,418. The contributions are equal to the contractually required contributions as set by state statute.

D. Pension Costs

At December 31, 2016, Rainbow Rider reported a liability of \$1,737,574 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Rainbow Rider's proportion of the net pension liability was based on Rainbow Rider's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, Rainbow Rider's proportion was 0.0214 percent. It was 0.0187 percent measured as of June 30, 2015. Rainbow Rider recognized pension expense of \$282,084 for its proportionate share of the General Employees Retirement Plan's pension expense.

Rainbow Rider also recognized \$6,773 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$6 million to the General Employees Retirement Plan each year, starting September 15, 2015, through September 15, 2031.

Rainbow Rider's proportionate share of the net pension liability	\$ 1,737,574
State of Minnesota's proportionate share of the net pension liability associated with Rainbow Rider	<u>22,715</u>
Total	<u><u>\$ 1,760,289</u></u>

RAINBOW RIDER
LOWRY, MINNESOTA

3. Defined Benefit Pension Plans

D. Pension Costs (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 136,450
Changes in actuarial assumptions	340,218	-
Difference between projected and actual investment earnings	319,864	-
Changes in proportion	104,946	14,092
Contributions paid to PERA subsequent to the measurement date	<u>57,360</u>	-
Total	<u>\$ 822,388</u>	<u>\$ 150,542</u>

The \$57,360 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2017	\$ 176,130
2018	176,130
2019	199,463
2020	62,763

**RAINBOW RIDER
LOWRY, MINNESOTA**

3. Defined Benefit Pension Plans (Continued)

E. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.50 percent per year
Active member payroll growth	3.25 percent per year
Investment rate of return	7.50 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disablements in the General Employees Retirement Plan were based on RP-2014 tables. The cost of living benefit increases for retirees is assumed to be 1.0 percent.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Plan was for the period 2008 through 2015.

The long-term expected rate of return on pension plan investments is 7.5 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50

**RAINBOW RIDER
LOWRY, MINNESOTA**

3. Defined Benefit Pension Plans (Continued)

F. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2016, a reduction of the 7.90 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Retirement Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2016:

General Employees Retirement Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

**RAINBOW RIDER
LOWRY, MINNESOTA**

3. Defined Benefit Pension Plans (Continued)

H. Pension Liability Sensitivity

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

		Proportionate Share of the General Employees Retirement Plan	
	Discount Rate	Net Pension Liability	
1% Decrease	6.50%	\$	2,467,870
Current	7.50		1,737,574
1% Increase	8.50		1,136,009

I. Pension Plan Fiduciary Net Position

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

4. Risk Management

Rainbow Rider is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. To manage these risks, Rainbow Rider has entered into a joint powers agreement with Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. Rainbow Rider is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. Risk of loss associated with injuries to employees is covered by its membership in the MCIT Workers' Compensation Division. The risk associated with Rainbow Rider operations has not been separately identified. For other risk, Rainbow Rider has commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

**RAINBOW RIDER
LOWRY, MINNESOTA**

4. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$500,000 per claim in 2016 and in 2017. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess Rainbow Rider in a method and amount to be determined by MCIT.

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

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REQUIRED SUPPLEMENTARY INFORMATION

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RAINBOW RIDER
LOWRY, MINNESOTA

EXHIBIT A-1

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2016

Measurement Date	Employer's Proportionate Share of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Rainbow Rider (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Liability (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of the Total Pension Liability
						Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	
2016	0.0214%	\$ 1,737,574	\$ 22,715	\$ 1,760,289	\$ 1,335,486	130.11%	68.91%
2015	0.0187	969,131	N/A	969,131	1,099,268	88.16	78.19

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

N/A - Not Applicable

**RAINBOW RIDER
LOWRY, MINNESOTA**

EXHIBIT A-2

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2016**

Year Ending	Actual Contributions in Relation to Statutorily Required Contributions					Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
	Statutorily Required Contributions (a)	Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)				
2016	\$ 112,418	\$ 112,418	\$ -			\$ 1,498,895	7.50%
2015	\$ 87,633	\$ 87,633	\$ -			\$ 1,168,434	7.50

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

**RAINBOW RIDER
LOWRY, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2016**

Defined Benefit Pension Plans - Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30, 2016:

General Employees Retirement Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

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**Management and
Compliance Section**

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Independent Auditor's Report

Rainbow Rider Transit Board
Lowry, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Rainbow Rider as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Rainbow Rider's basic financial statements, and have issued our report thereon dated November 2, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rainbow Rider's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of Rainbow Rider's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions of public indebtedness and tax increment financing because Rainbow Rider had no debt in 2016 and administers no tax increment financing districts.

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

Rainbow Rider's Response to Findings

Rainbow Rider's response to the internal control finding identified in our audit is described in the Corrective Action Plan. Rainbow Rider's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

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

/s/*Rebecca Otto*

REBECCA OTTO
STATE AUDITOR

/s/*Greg Hierlinger*

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 2, 2017

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**RAINBOW RIDER
LOWRY, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2008-001

Accounting Policies and Procedures Manual

Criteria: Rainbow Rider's management is responsible for developing and monitoring its internal controls. An essential element of monitoring controls includes documenting Rainbow Rider's accounting policies and procedures and performing a risk assessment of existing controls over significant functions of the accounting system used to produce financial information. The risk assessment is intended to determine if the internal controls established by management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided. Significant internal controls would cover areas such as: cash and investment activities; capital assets (capitalization process and related depreciation); major funding sources (taxes, intergovernmental revenues, charges for services, and miscellaneous items); expenditure/expense processing; and payroll.

Condition: Rainbow Rider has adopted several new policy and procedures documents, but other internal controls related to its accounting system have not been documented. Rainbow Rider lacks a written comprehensive accounting policies and procedures manual, including risk assessment and monitoring procedures.

Context: Without comprehensive policies and procedures, including risk assessment and monitoring procedures, Rainbow Rider increases its risk of fraud. Monitoring of internal controls is necessary to determine controls are in place and operating effectively.

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

Cause: Rainbow Rider began the process of developing formal accounting policies and procedures, including monitoring and risk assessment procedures. Due to limited time and resources, Rainbow Rider is still working to complete this project.

Recommendation: We recommend Rainbow Rider continue to develop a comprehensive accounting policies and procedures manual to be approved by the Transit Board to emphasize its importance and authority. The Transit Board should periodically monitor procedures to reassess risk and determine whether the established internal controls are still effective or if changes are needed. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services provided. The monitoring activity should be documented to show the results of the review, any changes required, and who performed the work.

View of Responsible Official: Concur

II. PREVIOUSLY REPORTED ITEMS RESOLVED

2006-001 Segregation of Duties
2015-001 Contract Compliance

**REPRESENTATION OF RAINBOW RIDER
LOWRY, MINNESOTA**

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2016**

Finding Number: 2008-001

Finding Title: Accounting Policies and Procedures Manual

Name of Contact Person Responsible for Corrective Action:

Brenda Brittin, Business Manager

Corrective Action Planned:

An assessment of financial internal controls, to be conducted quarterly, will be presented to the Rainbow Rider Transit Board for approval. Changes deemed necessary according to these assessments will be made as found necessary.

Anticipated Completion Date:

Rainbow Rider hopes to have Board approval and begin the assessment process during 2017.

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**REPRESENTATION OF RAINBOW RIDER
LOWRY, MINNESOTA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Finding Number: 2006-001

Finding Title: Segregation of Duties

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

Summary of Corrective Action Previously Reported: Rainbow Rider is aware of the lack of segregation which is due to minimal staff. Rainbow Rider management is continuously working at correcting this problem. An administrative assistant was added to Rainbow Rider's staff in November of 2015 to assist and segregate many of the financial responsibilities of Rainbow Rider.

Status: Fully Corrected. Administrative Assistant Kay Nelson was hired in November 2015. By involving a third person in the financial/accounting department, Rainbow Rider has been able to establish and maintain effective internal control by assigning different responsibilities and duties of each process to different staff. This level of segregation can be seen in Rainbow Rider's narratives and procedures.

Was corrective action taken significantly different than the action previously reported?

Yes _____ No X

Finding Number: 2008-001

Finding Title: Accounting Policies and Procedures Manual

Summary of Condition: Rainbow Rider does not have a current and comprehensive accounting policies and procedures manual, or risk assessment and monitoring procedures.

Summary of Corrective Action Previously Reported: Rainbow Rider has prepared an Accounting Policies and Procedures manual. It is Rainbow Rider's understanding that this manual is more of a guide in regards to how accounting functions are administered. Rainbow Rider will now focus on documenting a risk assessment process with the help of Rainbow Rider management and board members.

Status: Partially Corrected. Rainbow Rider has updated several accounting policies and procedures to include language that addresses missing documentation on risk assessment. These additions were procedures that Rainbow Rider staff was already following or has begun following.

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2015-001

Finding Title: Contract Compliance

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

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

Summary of Corrective Action Previously Reported: Due to the fact that Rainbow Rider management so infrequently has projects that require the state procurement statutes, these were overlooked. Typically, purchases are made through the State's cooperative purchasing ventures. Future ventures will follow state guidelines and staff will be educated accordingly.

Status: Fully Corrected. This finding applied to a one-time renovation. Any future renovations that take place will follow the requirements for the contracting process used by local governments.

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X