

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

RAINBOW RIDER
LOWRY, MINNESOTA

YEAR ENDED DECEMBER 31, 2017

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.

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**RAINBOW RIDER
LOWRY, MINNESOTA**

Year Ended December 31, 2017



**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, 2017

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

<u>Name</u>	<u>Position</u>	<u>County</u>
Board		
Paul Gerde	Chair	Pope
Ron Staples	Vice Chair	Stevens
Charlie Meyer	Member	Douglas
Keith Englund	Member	Douglas
Bill LaValley	Member	Grant
Troy Johnson	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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REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Rainbow Rider Transit Board
Lowry, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Rainbow Rider as of and for the year ended December 31, 2017, 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, 2017, 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 December 3, 2018, 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 solely 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 effectiveness of Rainbow Rider's 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

December 3, 2018

/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, 2017
(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, 2017. 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

	2017	2016	Increase (Decrease)	Percentage Change (%)
Assets				
Current and other assets	\$ 1,412,017	\$ 1,137,153	\$ 274,864	24.2
Capital assets, net	1,442,506	1,513,222	(70,716)	(4.7)
Total Assets	\$ 2,854,523	\$ 2,650,375	\$ 204,148	7.7
Deferred outflows of resources	\$ 570,498	\$ 822,388	\$ (251,890)	(30.6)
Liabilities				
Current liabilities	\$ 212,869	\$ 231,781	\$ (18,912)	(8.2)
Noncurrent liabilities	1,615,119	1,789,460	(174,341)	(9.7)
Total Liabilities	\$ 1,827,988	\$ 2,021,241	\$ (193,253)	(9.6)
Deferred inflows of resources	\$ 273,888	\$ 150,542	\$ 123,346	81.9
Net Position				
Investment in capital assets	\$ 1,442,506	\$ 1,513,222	\$ (70,716)	(4.7)
Unrestricted	(119,361)	(212,242)	92,881	43.8
Total Net Position, as reported	\$ 1,323,145	\$ 1,300,980	\$ 22,165	1.7

Changes in Net Position

	2017	2016	Increase (Decrease)	Percentage Change (%)
Operating revenues				
Charges for services	\$ 530,809	\$ 539,154	\$ (8,345)	(1.5)
Intergovernmental	2,368,490	2,373,168	(4,678)	(0.2)
Miscellaneous	88,468	77,836	10,632	13.7
Nonoperating revenues				
Investment earnings	5,654	4,513	1,141	25.3
Gain on disposal of assets	4,208	775	3,433	443.0
Total Revenues	\$ 2,997,629	\$ 2,995,446	\$ 2,183	0.1

	2017	2016	Increase (Decrease)	Percentage Change (%)
Operating expenses				
Personal services	\$ 2,216,019	\$ 2,117,561	\$ 98,458	4.6
Administrative charges	162,230	177,052	(14,822)	(8.4)
Operating charges	373,474	360,158	13,316	3.7
Insurance	33,722	37,795	(4,073)	(10.8)
Depreciation	442,214	393,584	48,630	12.4
Total Expenses	<u>\$ 3,227,659</u>	<u>\$ 3,086,150</u>	<u>\$ 141,509</u>	4.6
Income (loss) before contributions	\$ (230,030)	\$ (90,704)	\$ (139,326)	(153.6)
Capital contributions	<u>252,195</u>	<u>177,600</u>	<u>74,595</u>	42.0
Change in Net Position	\$ 22,165	\$ 86,896	\$ (64,731)	(74.5)
Net Position - January 1	<u>1,300,980</u>	<u>1,214,084</u>	<u>86,896</u>	7.2
Net Position - December 31	<u>\$ 1,323,145</u>	<u>\$ 1,300,980</u>	<u>\$ 22,165</u>	1.7

CAPITAL ASSETS

Capital Assets (Net of Depreciation)

	2017	2016	Increase (Decrease)	Percentage Change (%)
Land	\$ 137,548	\$ 137,548	\$ -	-
Land improvements	7,930	9,345	(1,415)	(15.1)
Buildings and structures	664,056	776,906	(112,850)	(14.5)
Revenue vehicles and equipment	615,245	567,823	47,422	8.4
Office furniture and equipment	<u>17,727</u>	<u>21,600</u>	<u>(3,873)</u>	(17.9)
Total Capital Assets	<u>\$ 1,442,506</u>	<u>\$ 1,513,222</u>	<u>\$ (70,716)</u>	(4.7)

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, Brenda Brittin, 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, 2017**

Assets

Current assets

Cash and cash equivalents	\$ 1,055,958
Petty cash	50
Accounts receivable	15,288
Due from other governments	323,013
Inventories	17,708

Total current assets **\$ 1,412,017**

Capital assets

Nondepreciable	\$ 137,548
Depreciable - net	1,304,958

Total capital assets **\$ 1,442,506**

Total Assets **\$ 2,854,523**

Deferred Outflows of Resources

Deferred pension outflows \$ 570,498

Liabilities

Current liabilities

Accounts payable	\$ 55,955
Salaries payable	60,550
Due to other governments	8,997
Unearned revenue	82,552
Compensated absences payable	4,815

Total current liabilities **\$ 212,869**

Noncurrent liabilities

Compensated absences payable	\$ 76,591
Net pension liability	1,538,528

Total noncurrent liabilities **\$ 1,615,119**

Total Liabilities **\$ 1,827,988**

Deferred Inflows of Resources

Deferred pension inflows \$ 273,888

Net Position

Investment in capital assets	\$ 1,442,506
Unrestricted	(119,361)

Total Net Position **\$ 1,323,145**

**RAINBOW RIDER
LOWRY, MINNESOTA**

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017**

Operating Revenues	
Charges for services	<u>\$ 530,809</u>
Intergovernmental	
Federal	\$ 688,800
State	1,467,429
Local	209,035
Reimbursement for services	<u>3,226</u>
Total intergovernmental	<u>\$ 2,368,490</u>
Miscellaneous	<u>\$ 88,468</u>
Total Operating Revenues	<u>\$ 2,987,767</u>
Operating Expenses	
Personal services	\$ 2,216,019
Administrative charges	162,230
Operating charges	373,474
Insurance	33,722
Depreciation	<u>442,214</u>
Total Operating Expenses	<u>\$ 3,227,659</u>
Operating Income (Loss)	<u>\$ (239,892)</u>
Nonoperating Revenues (Expenses)	
Investment earnings	\$ 5,654
Gain (loss) on disposal of capital assets	<u>4,208</u>
Total Nonoperating Revenues (Expenses)	<u>\$ 9,862</u>
Income (loss) before contributions	<u>\$ (230,030)</u>
Capital contributions	<u>252,195</u>
Change in Net Position	<u>\$ 22,165</u>
Net Position - January 1	<u>1,300,980</u>
Net Position - December 31	<u><u>\$ 1,323,145</u></u>

**RAINBOW RIDER
LOWRY, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Receipts from customers	\$ 639,890
Payments to suppliers	(574,367)
Payments to employees	<u>(2,042,781)</u>
Net cash provided by (used in) operating activities	<u>\$ (1,977,258)</u>
Cash Flows from Noncapital Financing Activities	
Intergovernmental receipts	<u>\$ 2,200,621</u>
Cash Flows from Capital and Related Financing Activities	
Capital contributions	\$ 126,177
Proceeds from the sale of capital assets	4,208
Purchases of capital assets	<u>(385,035)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (254,650)</u>
Cash Flows from Investing Activities	
Interest received	<u>\$ 5,654</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (25,633)
Cash and Cash Equivalents at January 1	<u>1,081,641</u>
Cash and Cash Equivalents at December 31	<u><u>\$ 1,056,008</u></u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position	
Cash and Cash Equivalents	
Cash and cash equivalents	\$ 1,055,958
Petty cash	<u>50</u>
Total Cash and Cash Equivalents	<u><u>\$ 1,056,008</u></u>

**RAINBOW RIDER
LOWRY, MINNESOTA**

**EXHIBIT 3
(Continued)**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
Increase (Decrease) in Cash and Cash Equivalents**

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	<u>\$ (239,892)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 442,214
Intergovernmental revenue	(2,368,490)
(Increase) decrease in accounts receivable	2,803
(Increase) decrease in due from other governments	5,474
(Increase) decrease in inventories	(14,887)
Increase (decrease) in accounts payable	9,714
Increase (decrease) in salaries payable	1,862
Increase (decrease) in compensated absences payable	(4,814)
Increase (decrease) in due to other governments	232
Increase (decrease) in unearned revenue	12,336
(Increase) decrease in deferred pension outflows	251,890
Increase (decrease) in deferred pension inflows	123,346
Increase (decrease) in net pension liability	<u>(199,046)</u>
Total adjustments	<u>\$ (1,737,366)</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ (1,977,258)</u></u>

**RAINBOW RIDER
LOWRY, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

1. Summary of Significant Accounting Policies

Rainbow Rider's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as of and for the year ended December 31, 2017. 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:

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

2. Liabilities

Unearned Revenue

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

Compensated Absences

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

**RAINBOW RIDER
LOWRY, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. Liabilities

Compensated Absences (Continued)

Unvested sick leave, approximately \$22,140 at December 31, 2017, is available to employees in the event of illness-related absences and is not paid to them at termination.

Rainbow Rider determines the current portion, if any, based on historical use.

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, differences between expected and actual economic experience, changes in actuarial assumptions, and also changes in proportionate share 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, changes in actuarial assumptions, differences between projected and actual investment earnings, and also 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, deferred outflows of resources, liabilities, and deferred inflows of resources; 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, 2017.

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating Revenues			
Charges for services	\$ 740,300	\$ 530,809	\$ (209,491)
Intergovernmental	2,125,000	2,368,490	243,490
Miscellaneous	30,951	88,468	57,517
	<u>2,896,251</u>	<u>2,987,767</u>	<u>91,516</u>
Total Operating Revenues	\$ 2,896,251	\$ 2,987,767	\$ 91,516

**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	\$ 2,057,930	\$ 2,216,019	\$ (158,089)
Administrative charges	207,600	162,230	45,370
Operating charges	407,713	373,474	34,239
Insurance	44,000	33,722	10,278
Depreciation	-	442,214	(442,214)
	<u>\$ 2,717,243</u>	<u>\$ 3,227,659</u>	<u>\$ (510,416)</u>
Total Operating Expenses			
Operating Income (Loss)	<u>\$ 179,008</u>	<u>\$ (239,892)</u>	<u>\$ (418,900)</u>
Nonoperating Revenues (Expenses)			
Investment earnings	\$ -	\$ 5,654	\$ 5,654
Gain (loss) on disposal of capital assets	-	4,208	4,208
	<u>\$ -</u>	<u>\$ 9,862</u>	<u>\$ 9,862</u>
Total Nonoperating Revenues (Expenses)			
Income (loss) before contributions	\$ 179,008	\$ (230,030)	\$ (409,038)
Capital contributions	-	252,195	252,195
	<u>\$ 179,008</u>	<u>\$ 22,165</u>	<u>\$ (156,843)</u>
Change in Net Position			
Net Position - January 1	<u>1,300,980</u>	<u>1,300,980</u>	<u>-</u>
Net Position - December 31	<u>\$ 1,479,988</u>	<u>\$ 1,323,145</u>	<u>\$ (156,843)</u>

B. Deposits and Investments

Rainbow Rider's total deposits and investments follow:

Cash and cash equivalents	\$ 1,055,958
Petty cash	<u>50</u>
Total Deposits	<u>\$ 1,056,008</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, 2017, 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, 2017, Rainbow Rider had no investments.

C. Receivables

Receivables as of December 31, 2017, are as follows and are expected to be collected in the subsequent year.

	<u>Total Receivables</u>
Accounts receivable	\$ 15,288
Due from other governments	<u>323,013</u>
Total	<u>\$ 338,301</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, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases/ Adjustments</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 137,548	-	-	\$ 137,548
Capital assets depreciated				
Land improvements	\$ 21,233	-	-	\$ 21,233
Buildings and structures	1,598,570	-	-	1,598,570
Revenue vehicles and equipment	2,965,075	371,498	(170,857)	3,165,716
Office furniture and equipment	153,285	-	-	153,285
Total capital assets depreciated	\$ 4,738,163	\$ 371,498	\$ (170,857)	\$ 4,938,804
Less: accumulated depreciation for				
Land improvements	\$ 11,888	\$ 1,415	-	\$ 13,303
Buildings and structures	821,664	112,850	-	934,514
Revenue vehicles and equipment	2,397,252	324,076	(170,857)	2,550,471
Office furniture and equipment	131,685	3,873	-	135,558
Total accumulated depreciation	\$ 3,362,489	\$ 442,214	\$ (170,857)	\$ 3,633,846
Total capital assets depreciated, net	\$ 1,375,674	\$ (70,716)	-	\$ 1,304,958
Capital Assets, Net	<u>\$ 1,513,222</u>	<u>\$ (70,716)</u>	<u>\$ -</u>	<u>\$ 1,442,506</u>

E. Liabilities

1. Payables

Payables as of December 31, 2017, are as follows:

Accounts payable	\$ 55,955
Salaries payable	60,550
Due to other governments	8,997
Total	<u>\$ 125,502</u>

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes

E. Liabilities (Continued)

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 86,220	\$ 69,448	\$ (74,262)	\$ 81,406	\$ 4,815

F. Unearned Revenue

Unearned revenue consists of \$68,613 of unredeemed sold tickets and \$13,939 of prepaid tickets by member counties for veterans' accounts.

3. Defined Benefit Pension Plan

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.

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.

**RAINBOW RIDER
LOWRY, MINNESOTA**

3. Defined Benefit Pension Plan (Continued)

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 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.

**RAINBOW RIDER
LOWRY, MINNESOTA**

3. Defined Benefit Pension Plan (Continued)

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 Plan members, Coordinated Plan 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 2017.

In 2017, 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's contributions for the General Employees Retirement Plan for the year ended December 31, 2017, were \$117,708. The contributions are equal to the contractually required contributions as set by state statute.

D. Pension Costs

At December 31, 2017, Rainbow Rider reported a liability of \$1,538,528 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, Rainbow Rider's proportion was 0.0241 percent. It was 0.0214 percent measured as of June 30, 2016. Rainbow Rider recognized pension expense of \$294,457 for its proportionate share of the General Employees Retirement Plan's pension expense.

**RAINBOW RIDER
LOWRY, MINNESOTA**

3. Defined Benefit Pension Plan

D. Pension Costs (Continued)

Rainbow Rider also recognized \$559 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 for the fiscal year ended June 30, 2017.

Rainbow Rider's proportionate share of the net pension liability	\$	1,538,528
State of Minnesota's proportionate share of the net pension liability associated with Rainbow Rider		19,350
Total	\$	1,557,878

Rainbow Rider reported its proportionate share of the General Employees Retirement Plan'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	\$ 50,705	\$ 85,538
Changes in actuarial assumptions	226,812	154,238
Difference between projected and actual investment earnings	-	27,066
Changes in proportion	234,384	7,046
Contributions paid to PERA subsequent to the measurement date	58,597	-
Total	\$ 570,498	\$ 273,888

**RAINBOW RIDER
LOWRY, MINNESOTA**

3. Defined Benefit Pension Plan

D. Pension Costs (Continued)

The \$58,597 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2018	\$ 131,118
2019	154,449
2020	17,752
2021	(65,306)

E. Actuarial Assumptions

The total pension liability in the June 30, 2017, 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 disabilitants for all plans were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. The cost of living benefit increases for retirees is assumed to be 1.0 percent through 2044, and 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Plan was dated June 30, 2015.

**RAINBOW RIDER
LOWRY, MINNESOTA**

3. Defined Benefit Pension Plan

E. Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments is 7.50 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	39%	5.10%
International stocks	19	5.30
Bonds	20	0.75
Alternative assets	20	5.90
Cash	2	0.00

F. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2017, which remained consistent with 2016. 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.

**RAINBOW RIDER
LOWRY, MINNESOTA**

3. Defined Benefit Pension Plan (Continued)

G. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2017:

General Employees Retirement Plan

- The Combined Service Authority (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members (30 percent for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.0 percent for active member liability, 15 percent for vested deferred member liability, and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.
- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to \$21,000,000 in calendar years 2017 and 2018 and returns to \$31,000,000 through calendar year 2031. The state's required contribution is \$16,000,000 in PERA's fiscal years 2018 and 2019 and returns to \$6,000,000 annually through calendar year 2031.

H. Pension Liability Sensitivity

The following presents Rainbow Rider's proportionate share of the net pension liability calculated using the discount rate previously disclosed, 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%	\$ 2,386,371
Current	7.50	1,538,528
1% Increase	8.50	844,414

**RAINBOW RIDER
LOWRY, MINNESOTA**

3. Defined Benefit Pension Plan (Continued)

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.

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 2017 and in 2018. 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.

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, 2017**

Measurement Date	Employer's Proportion 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 Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	0.0241%	\$ 1,538,528	\$ 19,350	\$ 1,557,878	\$ 1,551,941	99.14%	75.90%
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, 2017**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2017	\$ 117,633	\$ 117,708	\$ 75	\$ 1,568,437	7.50%
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, 2017

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 fiscal year June 30:

General Employees Retirement Plan

2017

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members (30 percent for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.0 percent for active member liability, 15 percent for vested deferred member liability, and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.
- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to \$21,000,000 in calendar years 2017 and 2018 and returns to \$31,000,000 through calendar year 2031. The state's required contribution is \$16,000,000 in PERA's fiscal years 2018 and 2019 and returns to \$6,000,000 annually through calendar year 2031.

2016

- 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.

**RAINBOW RIDER
LOWRY, MINNESOTA**

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

General Employees Retirement Plan

2016 (Continued)

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

Independent Auditor's Report

Rainbow Rider Transit Board
Lowry, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Rainbow Rider as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Rainbow Rider's basic financial statements, and have issued our report thereon dated December 3, 2018.

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.

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. However, as described in the accompanying Schedule of Findings and Recommendations, we identified a deficiency in internal control over financial reporting that we consider to be a material weaknesses and an item that we consider to be a significant deficiency.

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. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 2017-001 to be a material weakness and item 2008-001 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 for public indebtedness and tax increment financing because Rainbow Rider had no debt in 2017 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 responses to the internal control findings identified in our audit are described in the Corrective Action Plan. Rainbow Rider's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for 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

December 3, 2018

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**RAINBOW RIDER
LOWRY, MINNESOTA**

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2017

**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 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 written 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 but approved performing quarterly financial risk assessments beginning in 2018.

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 continue to 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

ITEM ARISING THIS YEAR

Finding Number 2017-001

Audit Adjustments

Criteria: 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 of the financial statements on a timely basis. Auditing standards define a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Condition: A material audit adjustment was identified that resulted in significant changes to Rainbow Rider's financial statements. In addition to the material item identified, an additional audit adjustment was made that resulted in changes to the financial statements. These adjustments were reviewed and approved by the appropriate Rainbow Rider staff and are properly reflected in the financial statements.

Context: The inability to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. The adjustments were found in the audit; however, independent external auditors cannot be considered part of Rainbow Rider's internal control.

Effect: The following audit adjustments needed to be recorded for December 31, 2017:

- Increased unearned revenue and decreased state intergovernmental revenue by \$239,367 to properly reflect the second quarter 2017 Minnesota Department of Transportation payment to fund Rainbow Rider's operations.
- Increased accounts receivable and capital contributions by \$63,009 to record 2017 financial assistance provided by the State of Minnesota to purchase vehicles and capital equipment.

Cause: This activity was overlooked or incorrectly recorded when financial statement information was prepared.

Recommendation: We recommend Rainbow Rider staff implement additional procedures over financial reporting that include a comprehensive review of balances, disclosures, and supporting documentation by a qualified individual to ensure the information is complete and accurate so Rainbow Rider's financial statements are fairly presented in accordance with generally accepted accounting principles.

View of Responsible Official: Concur

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REPRESENTATION OF RAINBOW RIDER LOWRY, MINNESOTA

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2017

Finding Number: 2008-001

Finding Title: Accounting Policies and Procedures Manual

Name of Contact Person Responsible for Corrective Action:

Brenda Brittin, Transit Director

Corrective Action Planned:

Rainbow Rider will continue to update and add to its Accounting Policies and Procedures to include internal controls related to accounting systems and further address risk assessment and monitoring procedures. A member of the Rainbow Rider Transit Board performs quarterly financial risk assessments.

Anticipated Completion Date:

December 31, 2018

Finding Number: 2017-001

Finding Title: Audit Adjustments

Name of Contact Person Responsible for Corrective Action:

Brenda Brittin, Transit Director

Corrective Action Planned:

Rainbow Rider is now sufficiently staffed and is again implementing additional procedures over financial reporting including comprehensive review of balances, disclosures and supporting documentation by the Director and Board Chair.

Anticipated Completion Date:

Immediately



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**REPRESENTATION OF RAINBOW RIDER
LOWRY, MINNESOTA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2017**

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

Status: Partially Corrected. A member of the Rainbow Rider Transit Board performs quarterly financial risk assessments.

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

Yes _____ No X