

State of Minnesota



Office of the State Auditor

Julie Blaha
State Auditor

Rainbow Rider Lowry, Minnesota

Year Ended December 31, 2020

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 100 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 Minnesota’s local 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, 2020



Office of the State Auditor

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

**RAINBOW RIDER
LOWRY, MINNESOTA**

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**RAINBOW RIDER
LOWRY, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2020

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
Dwight Walvatne	Member	Grant
Cody Rogahn	Member	Pope
Donny Wohlers	Member	Stevens
Randy Neumann	Member	Todd
Barb Becker	Member	Todd
Mark Gail	Member	Traverse
Todd Johnson	Member	Traverse
Brenda Brittin	Transit Director	



INDEPENDENT AUDITOR'S REPORT

Transit Board
Rainbow Rider
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, 2020, 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, 2020, and the changes in its financial position 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 Standard 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 September 21, 2021, 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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Rainbow Rider's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance),

and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

September 21, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

**RAINBOW RIDER
LOWRY, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020
(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, 2020. 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			Percentage Change (%)
	2020	2019	Increase (Decrease)	
Assets				
Current and other assets	\$ 3,064,542	\$ 1,882,147	\$ 1,182,395	62.8
Capital assets, net	<u>1,469,615</u>	<u>1,679,494</u>	<u>(209,879)</u>	(12.5)
Total Assets	<u>\$ 4,534,157</u>	<u>\$ 3,561,641</u>	<u>\$ 972,516</u>	27.3
Deferred outflows of resources	<u>\$ 183,445</u>	<u>\$ 152,424</u>	<u>\$ 31,021</u>	20.4
Liabilities				
Current liabilities	\$ 170,274	\$ 329,661	\$ (159,387)	(48.3)
Noncurrent liabilities	<u>1,558,839</u>	<u>1,340,618</u>	<u>218,221</u>	16.3
Total Liabilities	<u>\$ 1,729,113</u>	<u>\$ 1,670,279</u>	<u>\$ 58,834</u>	3.5
Deferred inflows of resources	<u>\$ 82,357</u>	<u>\$ 286,616</u>	<u>\$ (204,259)</u>	(71.3)
Net Position				
Investment in capital assets	\$ 1,469,615	\$ 1,679,494	\$ (209,879)	(12.5)
Unrestricted	<u>1,436,517</u>	<u>77,676</u>	<u>1,358,841</u>	1,749.4
Total Net Position	<u><u>\$ 2,906,132</u></u>	<u><u>\$ 1,757,170</u></u>	<u><u>\$ 1,148,962</u></u>	65.4

Changes in Net Position

	2020	2019	Increase (Decrease)	Percentage Change (%)
Operating revenues				
Charges for services	\$ 373,951	\$ 554,464	\$ (180,513)	(32.6)
Intergovernmental	3,955,866	2,765,422	1,190,444	43.0
Miscellaneous	50,038	47,574	2,464	5.2
Nonoperating revenues				
Investment earnings	10,657	16,588	(5,931)	(35.8)
Gain on sale of assets	10,341	10,063	278	2.8
Total Revenues	\$ 4,400,853	\$ 3,394,111	\$ 1,006,742	29.7
Operating expenses				
Personnel services	\$ 2,443,233	\$ 2,321,131	\$ 122,102	5.3
Administrative charges	205,163	225,235	(20,072)	(8.9)
Operating charges	364,478	544,115	(179,637)	(33.0)
Insurance	42,669	40,784	1,885	4.6
Depreciation	447,288	504,305	(57,017)	(11.3)
Total Expenses	\$ 3,502,831	\$ 3,635,570	\$ (132,739)	(3.7)
Income (loss) before contributions	\$ 898,022	\$ (241,459)	\$ 1,139,481	471.9
Capital contributions	250,940	635,816	(384,876)	(60.5)
Change in Net Position	\$ 1,148,962	\$ 394,357	\$ 754,605	191.4
Net Position – January 1	1,757,170	1,362,813	394,357	28.9
Net Position – December 31	\$ 2,906,132	\$ 1,757,170	\$ 1,148,962	65.4

CAPITAL ASSETS

Capital Assets (Net of Depreciation)

	2020	2019	Increase (Decrease)	Percentage Change (%)
Land	\$ 137,548	\$ 137,548	\$ -	-
Land improvements	131,576	6,417	125,159	1,950.4
Buildings and structures	416,695	436,829	(20,134)	(4.6)
Revenue vehicles and equipment	733,016	1,087,006	(353,990)	(32.6)
Office furniture and equipment	50,780	11,694	39,086	334.2
Total Capital Assets	\$ 1,469,615	\$ 1,679,494	\$ (209,879)	(12.5)

Additional information on capital assets can be found in Note 2.C 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.

BASIC FINANCIAL STATEMENTS

**RAINBOW RIDER
LOWRY, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2020**

Assets

Current assets

Cash and cash equivalents	\$ 2,176,405
Petty cash	50
Accounts receivable	7,626
Due from other governments	844,267
Inventories	36,194

Total current assets **\$ 3,064,542**

Capital assets

Nondepreciable	\$ 137,548
Depreciable – net	1,332,067

Total capital assets **\$ 1,469,615**

Total Assets **\$ 4,534,157**

Deferred Outflows of Resources

Deferred pension outflows \$ 183,445

Liabilities

Current liabilities

Accounts payable	\$ 21,154
Salaries payable	26,996
Due to other governments	11,233
Unearned revenue	73,602
Compensated absences payable	37,289

Total current liabilities **\$ 170,274**

Noncurrent liabilities

Compensated absences payable	\$ 89,952
Net pension liability	1,468,887

Total noncurrent liabilities **\$ 1,558,839**

Total Liabilities **\$ 1,729,113**

Deferred Inflows of Resources

Deferred pension inflows \$ 82,357

Net Position

Investment in capital assets	\$ 1,469,615
Unrestricted	1,436,517

Total Net Position **\$ 2,906,132**

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

**RAINBOW RIDER
LOWRY, MINNESOTA**

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2020**

Operating Revenues	
Charges for services	\$ <u>373,951</u>
Intergovernmental	
Federal	\$ 2,217,719
State	1,736,418
Reimbursement for services	<u>1,729</u>
Total intergovernmental	<u>\$ 3,955,866</u>
Miscellaneous	<u>\$ 50,038</u>
Total Operating Revenues	<u>\$ 4,379,855</u>
Operating Expenses	
Personnel services	\$ 2,443,233
Administrative charges	205,163
Operating charges	364,478
Insurance	42,669
Depreciation	<u>447,288</u>
Total Operating Expenses	<u>\$ 3,502,831</u>
Operating Income (Loss)	<u>\$ 877,024</u>
Nonoperating Revenues (Expenses)	
Investment earnings	\$ 10,657
Gain on sale of capital assets	<u>10,341</u>
Total Nonoperating Revenues (Expenses)	<u>\$ 20,998</u>
Income (loss) before contributions	<u>\$ 898,022</u>
Capital contributions	<u>250,940</u>
Change in Net Position	<u>\$ 1,148,962</u>
Net Position – January 1	<u>1,757,170</u>
Net Position – December 31	<u><u>\$ 2,906,132</u></u>

**RAINBOW RIDER
LOWRY, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Receipts from customers	\$ 351,697
Payments to suppliers	(652,663)
Payments to employees	<u>(2,495,000)</u>
Net cash provided by (used in) operating activities	<u>\$ (2,795,966)</u>
Cash Flows from Noncapital Financing Activities	
Intergovernmental receipts	<u>\$ 3,426,601</u>
Cash Flows from Capital and Related Financing Activities	
Capital contributions	\$ 826,339
Proceeds from the sale of capital assets	10,341
Purchases of capital assets	<u>(312,987)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ 523,693</u>
Cash Flows from Investing Activities	
Interest received	<u>\$ 10,657</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 1,164,985
Cash and Cash Equivalents at January 1	<u>1,011,470</u>
Cash and Cash Equivalents at December 31	<u><u>\$ 2,176,455</u></u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position	
Cash and cash equivalents	\$ 2,176,405
Petty cash	<u>50</u>
Total Cash and Cash Equivalents	<u><u>\$ 2,176,455</u></u>

**RAINBOW RIDER
LOWRY, MINNESOTA**

**EXHIBIT 3
(Continued)**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020
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>877,024</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 447,288
Intergovernmental revenue	(3,955,866)
(Increase) decrease in accounts receivable	24,216
(Increase) decrease in due from other governments	(83,457)
(Increase) decrease in inventories	(4,303)
Increase (decrease) in accounts payable	(32,912)
Increase (decrease) in salaries payable	(62,102)
Increase (decrease) in compensated absences payable	37,289
Increase (decrease) in due to other governments	(3,138)
Increase (decrease) in unearned revenue	(13,051)
(Increase) decrease in deferred pension outflows	(31,021)
Increase (decrease) in deferred pension inflows	(204,259)
Increase (decrease) in net pension liability	<u>208,326</u>
Total adjustments	\$ <u>(3,672,990)</u>
Net Cash Provided by (Used in) Operating Activities	\$ <u><u>(2,795,966)</u></u>

**RAINBOW RIDER
LOWRY, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2020

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, 2020. 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.

**RAINBOW RIDER
LOWRY, MINNESOTA**

1. Summary of Significant Accounting Policies

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

1. Assets (Continued)

Receivables

Accounts receivables and due from other governments represent amounts to be collected related to fares and grants for program administration. No allowance for uncollectible receivables has been provided because such amounts are not expected to be material.

Inventories

Inventories are valued at last invoice price, which is substantially the first-in, first-out method. Inventories in the fund are recorded as expenses when consumed.

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 \$5,000 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

**RAINBOW RIDER
LOWRY, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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 paid time off (PTO) that has vested. Rainbow Rider's personnel policy provides that employees earn PTO dependent upon their years of service. PTO may be accumulated to a maximum of 30 days. Part-time employees earn PTO on a prorated basis. Rainbow Rider determines the current portion, if any, based on historical use. The liability is accrued when incurred on the financial statements.

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, differences between projected and actual investment earnings, and also changes in proportionate share and, accordingly, are reported 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

3. Deferred Outflows/Inflows of Resources (Continued)

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 or reduction of expense) 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 economic experience, changes in actuarial assumptions, and also changes in proportionate share and, accordingly, are reported only in the statement of net position.

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.

**RAINBOW RIDER
LOWRY, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

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.

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.

**RAINBOW RIDER
LOWRY, MINNESOTA**

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, 2020.

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating Revenues			
Charges for services	\$ 558,267	\$ 373,951	\$ (184,316)
Intergovernmental	3,123,656	3,955,866	832,210
Miscellaneous	-	50,038	50,038
	<u> </u>	<u> </u>	<u> </u>
Total Operating Revenues	\$ 3,681,923	\$ 4,379,855	\$ 697,932
Operating Expenses			
Personnel services	\$ 2,936,497	\$ 2,443,233	\$ 493,264
Administrative charges	209,254	205,163	4,091
Operating charges	498,353	364,478	133,875
Insurance	38,000	42,669	(4,669)
Depreciation	-	447,288	(447,288)
	<u> </u>	<u> </u>	<u> </u>
Total Operating Expenses	\$ 3,682,104	\$ 3,502,831	\$ 179,273
Operating Income (Loss)	<u>\$ (181)</u>	<u>\$ 877,024</u>	<u>\$ 877,205</u>
Nonoperating Revenues (Expenses)			
Investment earnings	\$ -	\$ 10,657	\$ 10,657
Gain (loss) on disposal of capital assets	-	10,341	10,341
	<u> </u>	<u> </u>	<u> </u>
Total Nonoperating Revenues (Expenses)	\$ -	\$ 20,998	\$ 20,998
Income (loss) before contributions	\$ (181)	\$ 898,022	\$ 898,203
Capital contributions	<u>-</u>	<u>250,940</u>	<u>250,940</u>
Change in Net Position	\$ (181)	\$ 1,148,962	\$ 1,149,143
Net Position – January 1	<u>1,757,170</u>	<u>1,757,170</u>	<u>-</u>
Net Position – December 31	<u>\$ 1,756,989</u>	<u>\$ 2,906,132</u>	<u>\$ 1,149,143</u>

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes (Continued)

B. Deposits and Investments

Rainbow Rider's total deposits and investments follow:

Cash and cash equivalents	\$ 2,176,405
Petty cash	<u>50</u>
Total Deposits	<u>\$ 2,176,455</u>

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, 2020, Rainbow Rider's deposits were not exposed to custodial credit risk.

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes

B. Deposits and Investments (Continued)

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;
- (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, 2020, Rainbow Rider had no investments.

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes (Continued)

C. Capital Assets

Capital asset activity for the year ended December 31, 2020, 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	\$ 134,724	\$ -	\$ 155,957
Buildings and structures	1,596,027	47,204	-	1,643,231
Revenue vehicles and equipment	3,642,885	-	(381,991)	3,260,894
Office furniture and equipment	135,762	55,481	-	191,243
Total capital assets depreciated	\$ 5,395,907	\$ 237,409	\$ (381,991)	\$ 5,251,325
Less: accumulated depreciation for				
Land improvements	\$ 14,816	\$ 9,565	\$ -	\$ 24,381
Buildings and structures	1,159,198	67,338	-	1,226,536
Revenue vehicles and equipment	2,555,879	353,990	(381,991)	2,527,878
Office furniture and equipment	124,068	16,395	-	140,463
Total accumulated depreciation	\$ 3,853,961	\$ 447,288	\$ (381,991)	\$ 3,919,258
Total capital assets depreciated, net	\$ 1,541,946	\$ (209,879)	\$ -	\$ 1,332,067
Capital Assets, Net	\$ 1,679,494	\$ (209,879)	\$ -	\$ 1,469,615

Depreciation expense for the year ended December 31, 2020, was \$447,288.

D. Liabilities

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2020, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	\$ 89,952	\$ 107,980	\$ (70,691)	\$ 127,241	\$ 37,289

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes (Continued)

E. Unearned Revenue

Unearned revenue consists of \$65,818 of unredeemed sold tickets and \$7,784 of prepaid tickets by member counties for veterans' accounts.

F. Defined Benefit Pension Plan

1. Plan Description

All full-time and certain part-time employees of Rainbow Rider are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Plan (the General Employees 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 plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

The General Employees 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 Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service. No Rainbow Rider employees belong to either the Basic Plan or the Minneapolis Employees Retirement Fund.

2. 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.

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes

F. Defined Benefit Pension Plan

2. Benefits Provided (Continued)

General Employees Plan benefit recipients will receive a post-retirement increase equal to 50 percent of the cost of living adjustment announced by the Social Security Administration, with a minimum increase of at least 1.00 percent and maximum of 1.50 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under the Rule of 90 are exempt from the delay to normal retirement.

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 60 consecutive months of allowable service, age, and years of credit at termination of service. In the General Employees Plan, two methods are used to compute benefits for Coordinated 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 Coordinated Plan member is 1.20 percent of average salary for each of the first ten years of service and 1.70 percent of average salary for each remaining year. Under Method 2, the annuity accrual rate is 1.70 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989.

For General Employees 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**

2. Detailed Notes

F. Defined Benefit Pension Plan (Continued)

3. 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 Plan members were required to contribute 6.50 percent of their annual covered salary in 2020.

In 2020, Rainbow Rider was required to contribute 7.50 percent of annual covered salary. The employee and employer rates did not change from the previous year.

Rainbow Rider's contributions for the General Employees Plan for the year ended December 31 2020, were \$140,173. The contributions are equal to the statutorily required contributions as set by state statute.

4. Pension Costs

At December 31, 2020, Rainbow Rider reported a liability of \$1,468,887 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2020, 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, 2019, through June 30, 2020, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2020, Rainbow Rider's proportion was 0.0245 percent. It was 0.0228 percent measured as of June 30, 2019. Rainbow Rider recognized pension expense of \$117,152 for its proportionate share of the General Employees Plan's pension expense.

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes

F. Defined Benefit Pension Plan

4. Pension Costs (Continued)

Rainbow Rider also recognized \$3,933 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's expense related to its contribution to the General Employees Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$16 million to the General Employees Plan annually until September 15, 2031.

Rainbow Rider's proportionate share of the net pension liability	\$ 1,468,887
State of Minnesota's proportionate share of the net pension liability associated with Rainbow Rider	45,196
Total	\$ 1,514,083

Rainbow Rider reported its proportionate share of the General Employees 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	\$ 12,470	\$ 5,558
Changes in actuarial assumptions	-	52,518
Difference between projected and actual investment earnings	29,249	-
Changes in proportion	70,492	24,281
Contributions paid to PERA subsequent to the measurement date	71,234	-
Total	\$ 183,445	\$ 82,357

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes

F. Defined Benefit Pension Plan

4. Pension Costs (Continued)

The \$71,234 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, 2021. 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>
2021	\$ (76,406)
2022	19,497
2023	51,275
2024	35,488

5. Actuarial Assumptions

The total pension liability in the June 30, 2020, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.25 percent per year
Active member payroll growth	3.00 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 were based on Pub-2010 General Employee Mortality table, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1.25 percent.

Actuarial assumptions used in the June 30, 2020, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Plan was dated June 27, 2019. Inflation and investment assumptions for all plans were reviewed in the experience study report for the General Employees Plan.

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes

F. Defined Benefit Pension Plan

5. 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 geometric 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>
U.S. equities	35.50%	5.10%
Broad international stock pool	17.50	5.30
Bond pool	20.00	0.75
Alternatives	25.00	5.90
Cash equivalents	2.00	0.00

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2020, which remained consistent with 2019. 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 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**

2. Detailed Notes

F. Defined Benefit Pension Plan (Continued)

7. Changes in Actuarial Assumptions and Plan Provisions

The following changes in actuarial assumptions occurred in 2020:

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25 percent less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous rates for years two to five and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The changes result in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Employee Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 Disabled Annuitant Mortality table to the Pub-2010 General/Teacher Disabled Retiree Mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes

F. Defined Benefit Pension Plan

7. Changes in Actuarial Assumptions and Plan Provisions (Continued)

- The assumed number of married male new retirees electing the 100 percent Joint and Survivor option changed from 35 percent to 45 percent. The assumed number of married female new retirees electing the 100 percent Joint and Survivor option changed from 15 percent to 30 percent. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.
- Augmentation for current privatized members was reduced to 2.00 percent for the period July 1, 2020, through December 31, 2023, and 0.00 percent thereafter. Augmentation was eliminated for privatizations occurring after June 30, 2020.

8. 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 one percentage point lower or one percentage point higher than the current discount rate:

	Proportionate Share of the General Employees Plan	
	Discount Rate	Net Pension Liability
1% Decrease	6.50%	\$ 2,354,116
Current	7.50	1,468,887
1% Increase	8.50	738,644

9. 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.

**RAINBOW RIDER
LOWRY, MINNESOTA**

3. 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 2020 and in 2021. 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

**RAINBOW RIDER
LOWRY, MINNESOTA**

EXHIBIT A-1

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2020**

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
2020	0.0245 %	\$ 1,468,887	\$ 45,196	\$ 1,514,083	\$ 1,742,638	84.29 %	79.06 %
2019	0.0228	1,260,561	39,165	1,299,726	1,613,280	78.14	80.23
2018	0.0231	1,281,493	41,934	1,323,427	1,549,318	82.71	79.53
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, 2020**

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)
2020	\$ 140,173	\$ 140,173	\$ -	\$ 1,868,960	7.50 %
2019	122,101	122,101	-	1,628,001	7.50
2018	118,257	118,257	-	1,576,757	7.50
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, 2020

Defined Benefit Pension Plan – 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

2020

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25 percent less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous rates for years two to five and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The changes result in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Employee Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 Disabled Annuitant Mortality table to the Pub-2010 General/Teacher Disabled Retiree Mortality table, with adjustments.

**RAINBOW RIDER
LOWRY, MINNESOTA**

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

General Employees Retirement Plan

2020 (Continued)

- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100 percent Joint and Survivor option changed from 35 percent to 45 percent. The assumed number of married female new retirees electing the 100 percent Joint and Survivor option changed from 15 percent to 30 percent. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.
- Augmentation for current privatized members was reduced to 2.00 percent for the period July 1, 2020, through December 31, 2023, and 0.00 percent thereafter. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019

- The mortality projection scale was changed from MP-2017 to MP-2018.

2018

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase rate was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.
- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.

**RAINBOW RIDER
LOWRY, MINNESOTA**

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

General Employees Retirement Plan

2018 (Continued)

- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90 percent funding to 50 percent of the Social Security cost of living adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to the Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017

- The Combined Service Annuity (CSA) loads were changed from 0.80 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 0.00 percent for active member liability, 15 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.
- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to \$21 million in calendar years 2017 and 2018 and returns to \$31 million through calendar year 2031. The state's required contribution is \$16 million in PERA's fiscal years 2018 and 2019 and returns to \$6 million annually through calendar year 2031.

**RAINBOW RIDER
LOWRY, MINNESOTA**

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

General Employees Retirement Plan (Continued)

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.
- 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.

SUPPLEMENTARY INFORMATION

**RAINBOW RIDER
LOWRY, MINNESOTA**

EXHIBIT B-1

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Pass-Through Grant Number	Expenditures
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Formula Grants for Rural Areas and Tribal Transit Program	20.509	1035597	\$ 170,059
COVID-19 – Formula Grants for Rural Areas and Tribal Transit Program	20.509	1035597	2,047,547
(Total Formula Grants for Rural Areas and Tribal Transit Program 20.509 \$2,217,606)			<hr/>
Total U.S. Department of Transportation			\$ 2,217,606
U.S. Department of Education			
Passed Through Minnesota Department of Employment and Economic Development			
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	Not Provided	<hr/> 113
Total Federal Awards			\$ <u>2,217,719</u>

Rainbow Rider did not pass any federal awards through to subrecipients during the year ended December 31, 2020.

**RAINBOW RIDER
LOWRY, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Rainbow Rider. Rainbow Rider's reporting entity is defined in Note 1 to the financial statements.

B. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Rainbow Rider under programs of the federal government for the year ended December 31, 2020. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Rainbow Rider, it is not intended to and does not present the financial position, changes in net position, or cash flows of Rainbow Rider.

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

2. De Minimis Cost Rate

Rainbow Rider has elected to not use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.



**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

Transit Board
Rainbow Rider
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, 2020, and the related notes to the financial statements, which collectively comprise Rainbow Rider's basic financial statements, and have issued our report thereon dated September 21, 2021.

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 as a basis for designing 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. 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.

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 financial statements. 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

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 contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. 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, insofar as they relate to accounting matters.

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 Other Political Subdivisions* 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/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

September 21, 2021

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE**Independent Auditor's Report

Transit Board
Rainbow Rider
Lowry, Minnesota

Report on Compliance for the Major Federal Program

We have audited Rainbow Rider's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on Rainbow Rider's major federal program for the year ended December 31, 2020. Rainbow Rider's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Rainbow Rider's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Rainbow Rider's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Rainbow Rider's compliance.

Opinion on the Major Federal Program

In our opinion, Rainbow Rider complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2020.

Report on Internal Control Over Compliance

Management of Rainbow Rider is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Rainbow Rider’s internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Rainbow Rider’s internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

September 21, 2021

**RAINBOW RIDER
LOWRY, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **None reported**

Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **None reported**

Type of auditor's report issued on compliance for major federal programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **No**

The major federal program is:

Formula Grants for Rural Areas and Tribal Transit Program	CFDA No. 20.509
COVID-19 – Formula Grants for Rural Areas and Tribal Transit Program	CFDA No. 20.509

The threshold for distinguishing between Types A and B programs was \$750,000.

Rainbow Rider qualified as a low-risk auditee? **No**

**RAINBOW RIDER
LOWRY, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2020**

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

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. PREVIOUSLY REPORTED ITEM RESOLVED

2019-001 Insufficient Collateral



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**REPRESENTATION OF RAINBOW RIDER
LOWRY, MINNESOTA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2020**

Finding Number: 2019-001
Repeat Finding Since: 2019
Finding Title: Insufficient Collateral

Summary of Condition: At December 31, 2019, Rainbow Rider had deposits with Lowry State Bank that were not adequately covered by Federal Deposit Insurance Corporation (FDIC) or other collateral. Deposits were under-collateralized by \$502,782.

Summary of Corrective Action Previously Reported: Management of Rainbow Rider planned to have Lowry State Bank send a monthly pledge sheet in order to maintain proper collateral.

Status: Fully Corrected. Corrective action was taken.
Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2018-002
Repeat Finding Since: 2018
Finding Title: Procurement, Suspension, and Debarment
Program: Formula Grants for Rural Areas and Tribal Transit Program (CFDA #20.509)

Summary of Condition: Of the three small procurement transactions tested, one was a covered transaction that lacked documentation of the history of the procurement, full and open competition, and a cost or price analysis. Additionally, there was no documentation that verification procedures were performed to determine whether the vendor was debarred or suspended or whether other exclusions existed.

Summary of Corrective Action Previously Reported: Rainbow Rider will gather more information regarding the developmental stages to provide a complete documentation of procurement history including full and open competition and a cost or price analysis. Documentation will be recorded showing that a person/entity with whom Rainbow Rider intends to do business with is not excluded or disqualified from entering into a contract due to suspension or debarment, prior to entering into a contract.

Status: Fully Corrected. Corrective action was taken.

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

Yes _____ No X