

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

RAINBOW RIDER
LOWRY, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2010

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

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

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**RAINBOW RIDER
LOWRY, MINNESOTA**

For the Year Ended December 31, 2010



**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, 2010

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

<u>Name</u>	<u>Position</u>	<u>County</u>
Board		
Dan Olson	Vice Chair	Douglas
Norm Salto	Member	Douglas
Paul Gerde	Member	Pope
Randy Shaw	Member	Pope
Herb Kloos	Chair	Stevens
Larry Sayre	Member	Stevens
Gerald Kaus	Member	Traverse
Vacant	Member	Traverse
Harold Jennissen	Transit Director	

Note: David Naatz passed away near the end of 2010, and his spot remained vacant until January 2011.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Rainbow Rider Transit Board
Lowry, Minnesota

We have audited the accompanying basic financial statements of Rainbow Rider, as of and for the year ended December 31, 2010, as listed in the table of contents. These financial statements are the responsibility of Rainbow Rider's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rainbow Rider as of December 31, 2010, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, 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.

Our audit was conducted for the purpose of forming an opinion on Rainbow Rider's basic financial statements. The supplementary information, which is the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary 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. This 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 15, 2011, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 15, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**RAINBOW RIDER
LOWRY, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010
(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, 2010. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with Rainbow Rider's financial statements.

Rainbow Rider is a joint powers enterprise operation among Douglas, Pope, Stevens, and Traverse Counties created to provide a coordinated service delivery and funding source for public transportation for the mutual benefit of each of the joint participants. Grant County joined Rainbow Rider effective January 1, 2011.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The financial statements consist of the following:

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

FINANCIAL ANALYSIS

	Net Assets			Percentage Change (%)
	2010	2009	Increase (Decrease)	
Assets				
Current and other assets	\$ 759,820	\$ 787,563	\$ (27,743)	(4)
Capital assets, net	<u>2,609,215</u>	<u>1,769,510</u>	<u>839,705</u>	47
Total Assets	<u>\$ 3,369,035</u>	<u>\$ 2,557,073</u>	<u>\$ 811,962</u>	32
Liabilities				
Current liabilities	\$ 662,302	\$ 149,465	\$ 512,837	343
Noncurrent liabilities	<u>41,935</u>	<u>510,799</u>	<u>(468,864)</u>	(92)
Total Liabilities	<u>\$ 704,237</u>	<u>\$ 660,264</u>	<u>\$ 43,973</u>	7
Net Assets				
Invested in capital assets, net of related debt	\$ 2,109,215	\$ 1,269,510	\$ 839,705	66
Unrestricted	<u>555,583</u>	<u>627,299</u>	<u>(71,716)</u>	(11)
Total Net Assets	<u>\$ 2,664,798</u>	<u>\$ 1,896,809</u>	<u>\$ 767,989</u>	40

The increase in capital assets is from the addition of eight hybrid buses purchased from a Federal TIGGER grant. The increase in current liabilities and decrease in noncurrent liabilities is due to the scheduled payment of a capital lease in the amount of \$500,000 due in 2011.

	Changes in Net Assets			Percentage Change (%)
	2010	2009	Increase (Decrease)	
Operating revenues				
Charges for services	\$ 573,876	\$ 577,194	\$ (3,318)	(1)
Miscellaneous	105,477	59,238	46,239	78
Nonoperating revenues				
Operating grants	1,020,000	979,200	40,800	4
Interest earnings	10,155	8,021	2,134	27
Gain on disposal of assets	<u>4,800</u>	<u>4,000</u>	<u>800</u>	20
Total Revenues	<u>\$ 1,714,308</u>	<u>\$ 1,627,653</u>	<u>\$ 86,655</u>	5

	2010	2009	Increase (Decrease)	Percentage Change (%)
Operating expenses				
Personal services	\$ 1,118,796	\$ 1,029,872	\$ 88,924	9
Administrative charges	119,968	127,227	(7,259)	(6)
Operating charges	402,372	341,762	60,610	18
Insurance	30,715	28,777	1,938	7
Depreciation	477,398	303,276	174,122	57
Nonoperating expense				
Interest expense	17,750	17,750	-	-
Total Expenses	<u>\$ 2,166,999</u>	<u>\$ 1,848,664</u>	<u>\$ 318,335</u>	17
Income (loss) before contributions	\$ (452,691)	\$ (221,011)	\$ (231,680)	105
Capital contributions	<u>1,220,680</u>	<u>518,959</u>	<u>701,721</u>	135
Change in Net Assets	\$ 767,989	\$ 297,948	\$ 470,041	158
Net Assets - January 1	<u>1,896,809</u>	<u>1,598,861</u>	<u>297,948</u>	19
Net Assets - December 31	<u><u>\$ 2,664,798</u></u>	<u><u>\$ 1,896,809</u></u>	<u><u>\$ 767,989</u></u>	40

Net assets increased from 2009 to 2010 due mainly to the addition of the eight hybrid buses.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets (Net of Depreciation)

	2010	2009	Increase (Decrease)	Percentage Change (%)
Land	\$ 137,548	\$ 32,227	\$ 105,321	327
Land improvements	6,172	7,005	(833)	(12)
Buildings and structures	1,279,944	1,023,887	256,057	25
Revenue vehicles and equipment	1,185,148	705,167	479,981	68
Office furniture and equipment	403	1,224	(821)	(67)
Total Capital Assets	<u><u>\$ 2,609,215</u></u>	<u><u>\$ 1,769,510</u></u>	<u><u>\$ 839,705</u></u>	47

The major additions this year included eight hybrid buses and the Alexandria and Long Prairie garage buildings. Additional information on capital assets can be found in Note 2.D. to the financial statements.

CONTACTING RAINBOW RIDER'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

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**RAINBOW RIDER
LOWRY, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2010**

Assets

Current assets

Cash and investments	\$ 642,990
Petty cash	12
Accounts receivable	46,898
Due from other governments	65,249
Inventories	4,671

Total current assets **\$ 759,820**

Capital assets

Nondepreciable	\$ 137,548
Depreciable - net	2,471,667

Total capital assets **\$ 2,609,215**

Total Assets **\$ 3,369,035**

Liabilities

Current liabilities

Accounts payable	\$ 56,344
Salaries payable	17,363
Due to other governments	15,517
Accrued interest payable	1,479
Unearned revenue	67,731
Compensated absences payable	3,868
Capital lease payable - current	500,000

Total current liabilities **\$ 662,302**

Noncurrent liabilities

Compensated absences payable	41,935
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Total Liabilities **\$ 704,237**

Net Assets

Invested in capital assets - net of related debt	\$ 2,109,215
Unrestricted	555,583

Total Net Assets **\$ 2,664,798**

**RAINBOW RIDER
LOWRY, MINNESOTA**

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Operating Revenues	
Charges for services	\$ 573,876
Miscellaneous	105,477
	<hr/>
Total Operating Revenues	\$ 679,353
Operating Expenses	
Personal services	\$ 1,118,796
Administration charges	119,968
Operating charges	402,372
Insurance	30,715
Depreciation	477,398
	<hr/>
Total Operating Expenses	\$ 2,149,249
Operating Income (Loss)	\$ (1,469,896)
Nonoperating Revenues (Expenses)	
Operating grants	
State	
Greater Minnesota Transit Fund	\$ 370,000
Public transit participation program	434,364
Federal	
Public transit for nonurbanized areas	215,636
Investment earnings	10,155
Interest expense	(17,750)
Gain (loss) on disposal of capital assets	4,800
	<hr/>
Total Nonoperating Revenues (Expenses)	\$ 1,017,205
Income (loss) before contributions	\$ (452,691)
Capital contributions	1,220,680
	<hr/>
Change in Net Assets	\$ 767,989
Net Assets - January 1	1,896,809
	<hr/>
Net Assets - December 31	\$ 2,664,798
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**RAINBOW RIDER
LOWRY, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Receipts from customers	\$ 681,499
Payments to suppliers	(522,684)
Payments to employees	<u>(1,109,804)</u>
Net cash provided by (used in) operating activities	<u>\$ (950,989)</u>
Cash Flows from Noncapital Financing Activities	
Operating grants	<u>\$ 1,015,657</u>
Cash Flows from Capital and Related Financing Activities	
Capital contributions	\$ 1,607,316
Interest paid on lease payable	(17,750)
Proceeds from the sale of capital assets	4,800
Purchases of capital assets	<u>(1,317,103)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ 277,263</u>
Cash Flows from Investing Activities	
Interest received	<u>\$ 10,155</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 352,086
Cash and Cash Equivalents at January 1	<u>290,916</u>
Cash and Cash Equivalents at December 31	<u><u>\$ 643,002</u></u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets	
Cash and Cash Equivalents	
Cash and pooled investments	\$ 642,990
Petty cash	<u>12</u>
Total Cash and Cash Equivalents	<u><u>\$ 643,002</u></u>

**RAINBOW RIDER
LOWRY, MINNESOTA**

**EXHIBIT 3
(Continued)**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010
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>\$ (1,469,896)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 477,398
(Increase) decrease in accounts receivable	(15,729)
(Increase) decrease in due from other governments	13,822
(Increase) decrease in inventories	(557)
Increase (decrease) in accounts payable	15,831
Increase (decrease) in salaries payable	5,124
Increase (decrease) in compensated absences payable	3,868
Increase (decrease) in due to other governments	15,097
Increase (decrease) in unearned revenue	<u>4,053</u>
Total adjustments	<u>\$ 518,907</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ (950,989)</u>

**RAINBOW RIDER
LOWRY, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2010

1. Summary of Significant Accounting Policies

The financial reporting policies of Rainbow Rider conform to generally accepted accounting principles.

A. Financial Reporting Entity

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

B. Basic Financial Statements

The accounts of Rainbow Rider are organized as an enterprise fund. Operating revenues result from exchange transactions associated with its principal activity. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as intergovernmental revenue, result from nonexchange transactions or incidental activities. Rainbow Rider's net assets are reported in two parts: (1) invested in capital assets and (2) unrestricted net assets.

**RAINBOW RIDER
LOWRY, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

Rainbow Rider's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Pursuant to Governmental Accounting Standards Board (GASB) Statement 20, Rainbow Rider has elected to not apply accounting standards issued by the Financial Accounting Standards Board after November 30, 1989.

D. Assets, Liabilities, and Net Assets

1. Assets

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash, 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.

Capital Assets and Depreciation

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

**RAINBOW RIDER
LOWRY, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets

1. Assets

Capital Assets and Depreciation (Continued)

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

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

2. Liabilities

Unearned Revenue

Unredeemed bus fare tickets are reported as unearned revenue until they are redeemed.

Compensated Absences

The accompanying financial statements include a liability for unused vacation that has vested. Rainbow Rider's personnel policy provides that employees earn vacation leave dependent upon their years of service. Vacation leave may be accumulated to a maximum of 21 days. Sick leave is accumulated at one day per month for full-time employees. Part-time employees earn vacation and sick leave on a prorated basis.

Unvested sick leave, approximately \$64,515 at December 31, 2010, is available to employees in the event of illness-related absences and is not paid to them at termination.

**RAINBOW RIDER
LOWRY, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities and Net Assets (Continued)

3. Net Assets

The portion of net assets invested in capital assets, net of related debt, represents the capital assets of Rainbow Rider, net of accumulated depreciation and reduced by the outstanding balance of borrowing (net of unspent related loan proceeds) attributable to the construction of those assets. The remaining net assets are reported as unrestricted net assets.

E. Revenues and Expenses

1. Revenues

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, revenues for nonexchange transactions are recognized based on the principal characteristics of the revenue. Exchange transactions are recognized as revenue when the exchange occurs.

Nonexchange Transactions

Government-mandated nonexchange transactions occur when a government at one level provides resources to a government at another level and requires that government to use them for a specific purpose. The provider government establishes purpose restrictions and also may establish time requirements. Federal and state grants mandating Rainbow Rider perform particular programs are government-mandated nonexchange transactions. Revenues are recognized when eligibility and time requirements are met, usually when the corresponding expense is incurred. Capital contributions received are reported as a separate item and an increase in the net assets on the statement of revenues, expenses, and changes in net assets.

Voluntary nonexchange transactions result from legislative or contractual agreements, such as grants, entitlements, appropriations, and donations. The provider may establish purpose restrictions or eligibility requirements. Revenues are recognized in the year to which they apply according to the statute or contract. Gifts and contributions from individuals are also considered voluntary nonexchange transactions and are generally recognized when received.

**RAINBOW RIDER
LOWRY, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Revenues and Expenses

1. Revenues (Continued)

Exchange Transactions

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

2. Expenses

Rainbow Rider recognizes expenses, including compensated absences, when incurred.

F. Use of Estimates

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

2. Detailed Notes

A. Budget to Actual

Following is a summary statement of budgeted and actual revenues and expenses for the year ended December 31, 2010.

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Operating Revenues			
Charges for services	\$ 610,378	\$ 573,876	\$ (36,502)
Miscellaneous	-	105,477	105,477
Total Operating Revenues	<u>\$ 610,378</u>	<u>\$ 679,353</u>	<u>\$ 68,975</u>

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes

A. Budget to Actual (Continued)

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Operating Expenses			
Personal services	\$ 1,183,273	\$ 1,118,796	\$ (64,477)
Administrative charges	150,321	119,968	(30,353)
Operating charges	395,909	402,372	6,463
Insurance	29,528	30,715	1,187
Depreciation	-	477,398	477,398
	<u>\$ 1,759,031</u>	<u>\$ 2,149,249</u>	<u>\$ 390,218</u>
Total Operating Expenses			
Operating Income (Loss)	<u>\$ (1,148,653)</u>	<u>\$ (1,469,896)</u>	<u>\$ (321,243)</u>
Nonoperating Revenues (Expenses)			
Operating grants			
State	\$ 804,364	\$ 804,364	\$ -
Federal	215,636	215,636	-
Investment earnings	6,800	10,155	3,355
Interest expense	-	(17,750)	(17,750)
Gain (loss) on disposal of capital assets	-	4,800	4,800
	<u>\$ 1,026,800</u>	<u>\$ 1,017,205</u>	<u>\$ (9,595)</u>
Total Nonoperating Revenues (Expenses)			
Income (loss) before contributions	\$ (121,853)	\$ (452,691)	\$ (330,838)
Capital contributions	-	1,220,680	1,220,680
Change in Net Assets	\$ (121,853)	\$ 767,989	\$ 889,842
Net Assets - January 1	<u>1,896,809</u>	<u>1,896,809</u>	<u>-</u>
Net Assets - December 31	<u>\$ 1,774,956</u>	<u>\$ 2,664,798</u>	<u>\$ 889,842</u>

B. Deposits and Investments

Rainbow Rider's total deposits and investments follow:

Cash and investments	\$ 642,990
Petty cash	<u>12</u>
Total Deposits and Investments	<u>\$ 643,002</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, 2010, \$7,426 of Rainbow Rider's deposits were 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, 2010, Rainbow Rider had no investments.

C. Receivables

Receivables as of December 31, 2010, are as follows:

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Accounts receivable	\$ 46,898	\$ -
Due from other governments	65,249	-
Total	<u>\$ 112,147</u>	<u>\$ -</u>

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes (Continued)

D. Capital Assets

Capital asset activity for the year ended December 31, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	\$ 32,227	\$ 105,321	\$ -	\$ 137,548
Capital assets, depreciated				
Land improvements	\$ 12,483	\$ -	\$ -	\$ 12,483
Buildings and structures	1,150,148	304,685	-	1,454,833
Revenue vehicles and equipment	1,944,070	907,097	(253,674)	2,597,493
Office furniture and equipment	22,788	-	-	22,788
Total capital assets depreciated	\$ 3,129,489	\$ 1,211,782	\$ (253,674)	\$ 4,087,597
Less: accumulated depreciation for				
Land improvements	\$ 5,478	\$ 833	\$ -	\$ 6,311
Buildings and structures	126,261	48,628	-	174,889
Revenue vehicles and equipment	1,238,903	427,116	(253,674)	1,412,345
Office furniture and equipment	21,564	821	-	22,385
Total accumulated depreciation	\$ 1,392,206	\$ 477,398	\$ (253,674)	\$ 1,615,930
Total capital assets depreciated, net	\$ 1,737,283	\$ 734,384	\$ -	\$ 2,471,667
Capital Assets, Net	\$ 1,769,510	\$ 839,705	\$ -	\$ 2,609,215

E. Liabilities

1. Payables

Payables as of December 31, 2010, are as follows:

Accounts payable	\$ 56,344
Salaries payable	17,363
Due to other governments	15,517
Total	<u>\$ 89,224</u>

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes

E. Liabilities (Continued)

2. Long-Term Debt

<u>Type of Indebtedness</u>	<u>Maturity</u>	<u>Amount Due</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2010</u>
Lease payable	June 1, 2011	\$500,000	3.55	<u>\$ 500,000</u>	<u>\$ 500,000</u>

3. Debt Service Requirements

Debt service requirements at December 31, 2010, were as follows:

<u>Year Ending December 31</u>	<u>Loans Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2011	<u>\$ 500,000</u>	<u>\$ 8,875</u>

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

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Lease payable	\$ 500,000	\$ -	\$ -	\$ 500,000	\$ 500,000
Compensated absences	41,935	38,174	(34,306)	45,803	3,868
Long-Term Liabilities	<u>\$ 541,935</u>	<u>\$ 38,174</u>	<u>\$ (34,306)</u>	<u>\$ 545,803</u>	<u>\$ 503,868</u>

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes (Continued)

F. Unearned Revenue

Unearned revenue consists of \$67,731 of unredeemed sold tickets.

G. Risk Management

Rainbow Rider is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health coverage; and natural disasters. Rainbow Rider is a member of the Minnesota Counties Intergovernmental Trust (MCIT). For items not covered by MCIT, Rainbow Rider carries commercial insurance. Rainbow Rider retains risk for the deductible portions of the insurance policies. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past two fiscal years.

Risk of loss associated with injuries to employees is covered by membership in the MCIT Workers' Compensation Division. The risk associated with Rainbow Rider operations has not been separately identified.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$450,000 per claim in 2010 and in 2011. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess Rainbow Rider in a method and amount to be determined by MCIT.

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

**RAINBOW RIDER
LOWRY, MINNESOTA**

3. Pension Plans

A. Plan Description

All full-time and certain part-time employees of Rainbow Rider are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service (five years for those first eligible for membership after June 30, 2010). Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

For General Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for members hired prior to July 1, 1989, and is the age for unreduced social security benefits capped at age 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

**RAINBOW RIDER
LOWRY, MINNESOTA**

3. Pension Plans

A. Plan Description (Continued)

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees Retirement Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. Rainbow Rider makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary.

Rainbow Rider is required to contribute the following percentages of annual covered payroll in 2010:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.00

Rainbow Rider's contributions for the years ending December 31, 2010, 2009, and 2008, for the General Employees Retirement Fund were:

<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 53,821	\$ 50,057	\$ 41,332

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

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SUPPLEMENTARY INFORMATION

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**RAINBOW RIDER
LOWRY, MINNESOTA**

EXHIBIT A-1

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Formula Grants for Other Than Urbanized Areas	20.509	\$ 215,636
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	48,719
Capital Assistance Program for Reducing Energy Consumption and Greenhouse Gas Emissions - ARRA	20.523	<u>845,000</u>
Total Federal Awards		<u>\$ 1,109,355</u>

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**RAINBOW RIDER
LOWRY, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010

1. 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.

2. 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, 2010. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 assets, or cash flows of Rainbow Rider.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Reconciliation to Comparative Statement of Revenues, Expenses, and Changes in Net Assets

Nonoperating Revenues: Operating Grants - Federal	\$ 215,636
Capital Contributions - Federal	<u>893,719</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 1,109,355</u>

5. Subrecipients

Of the expenditures presented in the schedule, Rainbow Rider did not pass any federal awards to subrecipients.

**RAINBOW RIDER
LOWRY, MINNESOTA**

6. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.

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**RAINBOW RIDER
LOWRY, MINNESOTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of Rainbow Rider.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Rainbow Rider and are reported in the "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*." One of the significant deficiencies is a material weakness.
- C. No instances of noncompliance material to the financial statements of Rainbow Rider were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program were reported in the "Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award program for Rainbow Rider expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major program is:
 - Capital Assistance Program for Reducing Energy
Consumption and Greenhouse Gas Emissions - ARRA
 - CFDA #20.523
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Rainbow Rider was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

06-1 Internal Control/Segregation of Duties

Management is responsible for establishing and maintaining effective internal control. This responsibility includes monitoring ongoing activities, selecting and applying appropriate accounting principles, ensuring fair presentation of the financial statements and related notes, and designing and implementing programs and controls to prevent and detect fraud. Adequate segregation of duties is a key internal control in an organization's accounting system. The size of Rainbow Rider and its staffing limits the internal control that management can design and implement in the organization.

Management should be aware that segregation of duties is not adequate from an internal control point of view. To a large extent, staff has the ability to access assets and process and record both receipt and disbursement transactions. Ideally, one person should not have both access to assets and responsibility for maintaining the accountability of those assets. In addition, the work of one individual should be either independent of, or serve to check on, the work of another. Such arrangements reduce the risk of undetected errors and limit opportunities to misappropriate assets or conceal intentional misstatement.

Management is also responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements. Management has requested that the Office of the State Auditor prepare the annual financial statements and related notes. This arrangement is not unusual for an organization the size of Rainbow Rider. This decision was based on the availability of Rainbow Rider's staff and the cost benefit of using our expertise.

We recommend the Transit Board be mindful that limited staffing and segregation of duties causes inherent risks in safeguarding Rainbow Rider's assets and the proper reporting of its financial activity. Incompatible receipt and disbursement functions should be redistributed. We recommend the Transit Board continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Client's Response:

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

08-1 Accounting Policies and Procedures Manual

Rainbow Rider does not have a current and comprehensive accounting policies and procedures manual. Written accounting policies and procedures should exist to document significant internal controls in the accounting system; be a source for guidance when staffing changes occur; and support management's risk identification, evaluation, and mitigation.

Rainbow Rider has made progress by adopting several new policy and procedure documents. However, there is no formal documentation identifying management's risk assessment process, how the policies and procedures address risks, and how management monitors the controls established to ensure they are working as planned.

We recommend a written accounting policies and procedures manual be prepared and approved by the Transit Board to emphasize its importance and authority. The documentation should describe procedures as they are intended to be performed, indicate which employees are to perform which procedures, and explain the design and purpose of control-related procedures. The Board should periodically monitor procedures to reassess risk and determine whether the established internal controls are still effective or if changes are needed. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services provided. The monitoring activity should be documented to show the results of the review, any changes required, and who performed the work.

Client's Response:

Rainbow Rider management has prepared an Accounting Policies and Procedures manual. It is our understanding that this manual is more of a guide in regards to how Rainbow Rider's accounting functions are administered. Rainbow Rider will now focus on documenting a risk assessment process with the help of Rainbow Rider management and Board members. Rainbow Rider will also look to Douglas, Grant, Pope, Stevens, and Traverse Counties for assistance.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

10-1 Contract Compliance

On June 10, 2010, the Rainbow Rider Transit Board approved a contract with Miller Brothers Construction for the construction of the Long Prairie garage in the amount of \$168,100. The Transit Director contacted several local contractors from a list provided by the City of Long Prairie, asking them to bid on the project. Of the three bids received, Miller Brothers was the lowest. No performance and payment bond, or documentation of contractor or subcontractor withholdings in accordance with Minn. Stat. § 290.92, were obtained for this contract.

As provided by Minn. Stat. § 471.345, when a contract is expected to exceed \$100,000, the contract needs to be let on sealed bids. As a joint powers of the member counties, Rainbow Rider must follow Minn. Stat. § 375.21, which provides that a contract should be made only after advertising for bids or proposals in a qualified legal newspaper, and the notice should state the time and place of awarding the contract. Minn. Stat. § 574.26 requires a performance and payment bond for the contract to be valid if the amount exceeds \$75,000. Finally, Minn. Stat. § 270C.66 provides Rainbow Rider should not make final payment to a contractor under a contract requiring wages until the contractor provides documentation that the contractor and any subcontractors have complied with the provisions of Minn. Stat. § 290.92.

We recommend the Rainbow Rider officials involved in the contracting process be informed of the statutory requirements to ensure compliance with applicable statutes for all future contracts.

Client's Response:

Rainbow Rider management was not aware of Minn. Stat. § 375.21, Minn. Stat. § 574.26, and Minn. Stat. § 270C.66. Now that management is aware of these statutes, Rainbow Rider will follow the statutory requirements to ensure compliance on all future contracts.



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*

Rainbow Rider Transit Board
Lowry, Minnesota

We have audited the basic financial statements of Rainbow Rider as of and for the year ended December 31, 2010, and have issued our report thereon dated December 15, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Rainbow Rider's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rainbow Rider's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Rainbow Rider's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency 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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 06-1 to be a material weakness.

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 attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 08-1 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rainbow Rider's financial statements are free of 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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, Rainbow Rider complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 10-1.

Rainbow Rider's written responses to the internal control and legal compliance findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit Rainbow Rider's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Transit Board, management, others within Rainbow Rider, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

December 15, 2011

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Rainbow Rider Transit Board
Lowry, Minnesota

Compliance

We have audited Rainbow Rider's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2010. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Rainbow Rider's management. Our responsibility is to express an opinion on Rainbow Rider's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination of Rainbow Rider's compliance with those requirements.

In our opinion, Rainbow Rider complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2010.

Internal Control Over Compliance

Management of Rainbow Rider is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Rainbow Rider's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

Our consideration of the 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Transit Board, management and others within Rainbow Rider, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

December 15, 2011

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR