

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

RAINBOW RIDER
LOWRY, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2011

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, 2011



**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, 2011

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	Chair	Douglas
Larry Sayre	Vice Chair	Stevens
Norm Salto	Member	Douglas
Tom Amundson	Member	Grant
Todd Schneeberger	Member	Grant
Cody Rogahn	Member	Pope
Paul Gerde	Member	Pope
Ron Staples	Member	Stevens
Donny Appel	Member	Traverse
Todd Johnson	Member	Traverse
Harold Jennissen	Transit Director	

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REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

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, 2011, 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. 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 basic financial statements referred to above present fairly, in all material respects, the financial position of Rainbow Rider as of December 31, 2011, 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.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

January 11, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**RAINBOW RIDER
LOWRY, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011
(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, 2011. 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, 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. Todd County joined Rainbow Rider effective January 1, 2012.

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 (%)
	2011	2010	Increase (Decrease)	
Assets				
Current and other assets	\$ 279,347	\$ 759,820	\$ (480,473)	(63)
Capital assets, net	<u>2,197,090</u>	<u>2,609,215</u>	<u>(412,125)</u>	(16)
Total Assets	<u>\$ 2,476,437</u>	<u>\$ 3,369,035</u>	<u>\$ (892,598)</u>	(26)
Liabilities				
Current liabilities	\$ 151,484	\$ 662,302	\$ (510,818)	(77)
Noncurrent liabilities	<u>45,803</u>	<u>41,935</u>	<u>3,868</u>	9
Total Liabilities	<u>\$ 197,287</u>	<u>\$ 704,237</u>	<u>\$ (506,950)</u>	(72)
Net Assets				
Invested in capital assets, net of related debt	\$ 2,197,090	\$ 2,109,215	\$ 87,875	4
Unrestricted	<u>82,060</u>	<u>555,583</u>	<u>(473,523)</u>	(85)
Total Net Assets	<u>\$ 2,279,150</u>	<u>\$ 2,664,798</u>	<u>\$ (385,648)</u>	(14)

The apparent decrease in capital assets is because Rainbow Rider added eight hybrid buses in 2010, made no bus purchases in 2011, deleted several buses purchased in previous years, and incurred annual depreciation expense on the buses for 2011. The decrease in current liabilities is due to the scheduled payment of a capital lease in the amount of \$500,000 paid in 2011.

	Changes in Net Assets			Percentage Change (%)
	2011	2010	Increase (Decrease)	
Operating revenues				
Charges for services	\$ 575,802	\$ 573,876	\$ 1,926	-
Intergovernmental	1,185,350	1,020,000	165,350	16
Miscellaneous	153,112	105,477	47,635	45
Nonoperating revenues				
Interest earnings	3,669	10,155	(6,486)	(64)
Gain on disposal of assets	<u>7,850</u>	<u>4,800</u>	<u>3,050</u>	64
Total Revenues	<u>\$ 1,925,783</u>	<u>\$ 1,714,308</u>	<u>\$ 211,475</u>	12

	2011	2010	Increase (Decrease)	Percentage Change (%)
Operating expenses				
Personal services	\$ 1,210,236	\$ 1,118,796	\$ 91,440	8
Administrative charges	115,751	119,968	(4,217)	(4)
Operating charges	560,130	402,372	157,758	39
Insurance	35,084	30,715	4,369	14
Depreciation	503,286	477,398	25,888	5
Nonoperating expense				
Interest expense	7,271	17,750	(10,479)	(59)
Total Expenses	<u>\$ 2,431,758</u>	<u>\$ 2,166,999</u>	<u>\$ 264,759</u>	12
Income (loss) before contributions	\$ (505,975)	\$ (452,691)	\$ (53,284)	(12)
Capital contributions	<u>120,327</u>	<u>1,220,680</u>	<u>(1,100,353)</u>	(90)
Change in Net Assets	\$ (385,648)	\$ 767,989	\$ (1,153,637)	
Net Assets - January 1	<u>2,664,798</u>	<u>1,896,809</u>	<u>767,989</u>	
Net Assets - December 31	<u><u>\$ 2,279,150</u></u>	<u><u>\$ 2,664,798</u></u>	<u><u>\$ (385,648)</u></u>	

Net assets decreased in 2011 due mainly to less capital contributions, as there were no major capital purchases in 2011.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets (Net of Depreciation)

	2011	2010	Increase (Decrease)	Percentage Change (%)
Land	\$ 137,548	\$ 137,548	\$ -	-
Land improvements	5,340	6,172	(832)	(13)
Buildings and structures	1,167,325	1,279,944	(112,619)	(9)
Revenue vehicles and equipment	883,531	1,185,148	(301,617)	(25)
Office furniture and equipment	<u>3,346</u>	<u>403</u>	<u>2,943</u>	730
Total Capital Assets	<u><u>\$ 2,197,090</u></u>	<u><u>\$ 2,609,215</u></u>	<u><u>\$ (412,125)</u></u>	(16)

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, 2011**

Assets

Current assets

Cash and investments	\$ 206,766
Petty cash	16
Accounts receivable	25,489
Due from other governments	42,053
Inventories	5,023

Total current assets **\$ 279,347**

Capital assets

Nondepreciable	\$ 137,548
Depreciable - net	2,059,542

Total capital assets **\$ 2,197,090**

Total Assets **\$ 2,476,437**

Liabilities

Current liabilities

Accounts payable	\$ 44,148
Salaries payable	14,488
Due to other governments	14,063
Unearned revenue	68,217
Compensated absences payable	10,568

Total current liabilities **\$ 151,484**

Noncurrent liabilities

Compensated absences payable	45,803
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Total Liabilities **\$ 197,287**

Net Assets

Invested in capital assets	\$ 2,197,090
Unrestricted	82,060

Total Net Assets **\$ 2,279,150**

**RAINBOW RIDER
LOWRY, MINNESOTA**

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Operating Revenues	
Charges for services	<u>\$ 575,802</u>
Intergovernmental	
State	
Greater Minnesota Transit Fund	\$ 599,115
Public transit participation program	308,635
Federal	
Public transit for nonurbanized areas	257,600
Local	
Participating counties	<u>20,000</u>
Total intergovernmental	<u>\$ 1,185,350</u>
Miscellaneous	<u>\$ 153,112</u>
Total Operating Revenues	<u>\$ 1,914,264</u>
Operating Expenses	
Personal services	\$ 1,210,236
Administration charges	115,751
Operating charges	560,130
Insurance	35,084
Depreciation	<u>503,286</u>
Total Operating Expenses	<u>\$ 2,424,487</u>
Operating Income (Loss)	<u>\$ (510,223)</u>
Nonoperating Revenues (Expenses)	
Investment earnings	\$ 3,669
Interest expense	(7,271)
Gain (loss) on disposal of capital assets	<u>7,850</u>
Total Nonoperating Revenues (Expenses)	<u>\$ 4,248</u>
Income (loss) before contributions	<u>\$ (505,975)</u>
Capital contributions	<u>120,327</u>
Change in Net Assets	<u>\$ (385,648)</u>
Net Assets - January 1	<u>2,664,798</u>
Net Assets - December 31	<u><u>\$ 2,279,150</u></u>

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

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**RAINBOW RIDER
LOWRY, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Receipts from customers	\$ 758,592
Payments to suppliers	(724,967)
Payments to employees	<u>(1,202,543)</u>
Net cash provided by (used in) operating activities	<u>\$ (1,168,918)</u>
Cash Flows from Noncapital Financing Activities	
Intergovernmental receipts	<u>\$ 1,179,957</u>
Cash Flows from Capital and Related Financing Activities	
Capital contributions	\$ 51,133
Principal paid on lease payable	(500,000)
Interest paid on lease payable	(8,750)
Proceeds from the sale of capital assets	7,850
Purchases of capital assets	<u>(1,161)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (450,928)</u>
Cash Flows from Investing Activities	
Interest received	<u>\$ 3,669</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (436,220)
Cash and Cash Equivalents at January 1	<u>643,002</u>
Cash and Cash Equivalents at December 31	<u><u>\$ 206,782</u></u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets	
Cash and Cash Equivalents	
Cash and pooled investments	\$ 206,766
Petty cash	<u>16</u>
Total Cash and Cash Equivalents	<u><u>\$ 206,782</u></u>

**RAINBOW RIDER
LOWRY, MINNESOTA**

**EXHIBIT 3
(Continued)**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011
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>\$ (510,223)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 503,286
Intergovernmental revenue	(1,185,350)
(Increase) decrease in accounts receivable	21,409
(Increase) decrease in due from other governments	7,783
(Increase) decrease in inventories	(352)
Increase (decrease) in accounts payable	(12,196)
Increase (decrease) in salaries payable	(2,875)
Increase (decrease) in compensated absences payable	10,568
Increase (decrease) in due to other governments	(1,454)
Increase (decrease) in unearned revenue	<u>486</u>
Total adjustments	<u>\$ (658,695)</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ (1,168,918)</u></u>
Noncash Investing, Capital and Related Financing Activities	
Contribution of capital assets	
Revenue vehicles and equipment	\$ 90,000

**RAINBOW RIDER
LOWRY, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011

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. 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.

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, liabilities, net assets, 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

**RAINBOW RIDER
LOWRY, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

(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 assets are reported in two parts: (1) invested in capital assets and (2) unrestricted net assets.

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.

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, 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.

**RAINBOW RIDER
LOWRY, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets

1. Assets (Continued)

Capital Assets and Depreciation

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

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 30 days. Sick leave is accumulated at one-half day per month for full-time employees. Part-time employees earn vacation and sick leave on a prorated basis.

**RAINBOW RIDER
LOWRY, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities and Net Assets

2. Liabilities

Compensated Absences (Continued)

Unvested sick leave, approximately \$37,615 at December 31, 2011, is available to employees in the event of illness-related absences and is not paid to them at termination.

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, Expenses, and Capital Contributions

1. Operating and Nonoperating Revenues

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

2. Operating and Nonoperating Expenses

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

**RAINBOW RIDER
LOWRY, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Capital Contributions

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

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, 2011.

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenues			
Charges for services	\$ 635,162	\$ 575,802	\$ (59,360)
Intergovernmental	1,165,350	1,185,350	20,000
Miscellaneous	-	153,112	153,112
	<u>\$ 1,800,512</u>	<u>\$ 1,914,264</u>	<u>\$ 113,752</u>
Total Operating Revenues			
Operating Expenses			
Personal services	\$ 1,264,071	\$ 1,210,236	\$ 53,835
Administrative charges	153,500	115,751	37,749
Operating charges	308,276	560,130	(251,854)
Insurance	35,000	35,084	(84)
Depreciation	-	503,286	(503,286)
	<u>\$ 1,760,847</u>	<u>\$ 2,424,487</u>	<u>\$ (663,640)</u>
Total Operating Expenses			

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes

A. Budget to Actual (Continued)

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Income (Loss)	\$ 39,665	\$ (510,223)	\$ (549,888)
Nonoperating Revenues (Expenses)			
Investment earnings	\$ -	\$ 3,669	\$ 3,669
Interest expense	-	(7,271)	(7,271)
Gain (loss) on disposal of capital assets	-	7,850	7,850
Total Nonoperating Revenues (Expenses)	\$ -	\$ 4,248	\$ 4,248
Income (loss) before contributions	\$ 39,665	\$ (509,975)	\$ (545,640)
Capital contributions	-	120,327	120,327
Change in Net Assets	\$ 39,665	\$ (385,648)	\$ (425,313)
Net Assets - January 1	2,664,798	2,664,798	-
Net Assets - December 31	\$ 2,704,463	\$ 2,279,150	\$ (425,313)

B. Deposits and Investments

Rainbow Rider's total deposits and investments follow:

Cash and investments	\$ 206,766
Petty cash	16
Total Deposits and Investments	\$ 206,782

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.

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes

B. Deposits and Investments

1. Deposits (Continued)

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, 2011, Rainbow Rider’s deposits were not exposed to custodial credit risk.

2. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes

B. Deposits and Investments

2. Investments (Continued)

- (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, 2011, Rainbow Rider had no investments.

C. Receivables

Receivables as of December 31, 2011, are as follows:

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Accounts receivable	\$ 25,489	\$ -
Due from other governments	<u>42,053</u>	<u>-</u>
Total	<u>\$ 67,542</u>	<u>\$ -</u>

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes (Continued)

D. Capital Assets

Capital asset activity for the year ended December 31, 2011, 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	\$ 12,483	\$ -	\$ -	\$ 12,483
Buildings and structures	1,454,833	-	(7,890)	1,446,943
Revenue vehicles and equipment	2,597,493	94,031	(269,569)	2,421,955
Office furniture and equipment	<u>22,788</u>	<u>5,020</u>	<u>(9,319)</u>	<u>18,489</u>
Total capital assets depreciated	<u>\$ 4,087,597</u>	<u>\$ 99,051</u>	<u>\$ (286,778)</u>	<u>\$ 3,899,870</u>
Less: accumulated depreciation for				
Land improvements	\$ 6,311	\$ 832	\$ -	\$ 7,143
Buildings and structures	174,889	104,729	-	279,618
Revenue vehicles and equipment	1,412,345	395,648	(269,569)	1,538,424
Office furniture and equipment	<u>22,385</u>	<u>2,077</u>	<u>(9,319)</u>	<u>15,143</u>
Total accumulated depreciation	<u>\$ 1,615,930</u>	<u>\$ 503,286</u>	<u>\$ (278,888)</u>	<u>\$ 1,840,328</u>
Total capital assets depreciated, net	<u>\$ 2,471,667</u>	<u>\$ (404,235)</u>	<u>\$ (7,890)</u>	<u>\$ 2,059,542</u>
Capital Assets, Net	<u><u>\$ 2,609,215</u></u>	<u><u>\$ (404,235)</u></u>	<u><u>\$ (7,890)</u></u>	<u><u>\$ 2,197,090</u></u>

E. Liabilities

1. Payables

Payables as of December 31, 2011, are as follows:

Accounts payable	\$ 44,148
Salaries payable	14,488
Due to other governments	<u>14,063</u>
Total	<u><u>\$ 72,699</u></u>

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes

E. Liabilities (Continued)

2. Operating Leases

In February 2011, Rainbow Rider entered into a 48-month operating lease for a copier with Viking Office Supply. Minimum future rental payments are as follows:

Year	Payment Amount
2012	\$ 3,001
2013	3,001
2014	3,001
2015	500
Total	\$ 9,503

3. Long-Term Debt

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

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 were required, with the final interest payment, along with a single principal payment, due on June 1, 2011. This payment was made, and Rainbow Rider exercised the option to purchase the bus garage for \$1.

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes

E. Liabilities (Continued)

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Lease payable	\$ 500,000	\$ -	\$ (500,000)	\$ -	\$ -
Compensated absences	45,803	53,354	(42,786)	56,371	10,568
Long-Term Liabilities	<u>\$ 545,803</u>	<u>\$ 53,354</u>	<u>\$ (542,786)</u>	<u>\$ 56,371</u>	<u>\$ 10,568</u>

F. Unearned Revenue

Unearned revenue consists of \$68,217 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 2011 and \$460,00 per claim in 2012. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess Rainbow Rider in a method and amount to be determined by MCIT.

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes

G. Risk Management (Continued)

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.

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.

**RAINBOW RIDER
LOWRY, MINNESOTA**

3. Pension Plans

A. Plan Description (Continued)

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 Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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 9.10 and 6.25 percent, respectively, of their annual covered salary.

Rainbow Rider is required to contribute the following percentages of annual covered payroll in 2011:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25

**RAINBOW RIDER
LOWRY, MINNESOTA**

3. Pension Plans

B. Funding Policy (Continued)

Rainbow Rider's contributions for the years ending December 31, 2011, 2010, and 2009, for the General Employees Retirement Fund were:

<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 61,221	\$ 53,821	\$ 50,057

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

4. Subsequent Events

Effective January 1, 2012, Todd County joined Rainbow Rider under the joint powers agreement. Consistent with other counties of the joint powers agreement, Todd County has appointed two members from its County Board to serve on the Rainbow Rider Transit Board.

On April 12, 2012, the Rainbow Rider Transit Board approved entering into an arrangement with the Lowry State Bank to receive a letter of credit for \$100,000. This arrangement required Rainbow Rider to pledge four busses as collateral. As of January 11, 2013, Rainbow Rider has not required any funds from the letter of credit to be disbursed by the Lowry State Bank.

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**RAINBOW RIDER
LOWRY, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2011**

I. INTERNAL CONTROL OVER FINANCIAL REPORTING

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

06-1 **Segregation of Duties**

Criteria: 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.

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

Context: The size of Rainbow Rider and its staffing limits the internal control that management can design and implement in the organization.

Effect: Inadequate segregation of duties could adversely affect Rainbow Rider's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Cause: This situation is not unusual in operations the size of Rainbow Rider. Generally, segregation of duties can be attained with the hiring of additional personnel; however, this becomes a significant cost consideration to entities such as Rainbow Rider.

Recommendation: We recommend the Transit Board and management 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 of duties 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

Criteria: Rainbow Rider's management is responsible for developing and monitoring its internal controls. An essential element of monitoring controls includes documenting Rainbow Rider's accounting policies and procedures. Significant internal controls to be documented would include areas such as receipts, disbursements, payroll, capital assets, journal entries, and credit cards. 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.

Condition: Rainbow Rider does not have a current and comprehensive accounting policies and procedures manual.

Context: Documentation and monitoring of internal controls is necessary to determine controls are in place and operating effectively. An accounting policies and procedures manual will enhance employees' understanding of their role and function in the internal control system, establish responsibilities, provide guidance for employees, improve efficiency and consistency of transaction processing, and improve compliance with established policies. It can also help to prevent deterioration of key elements in Rainbow Rider's internal control system and can help to avoid circumvention of policies.

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

Cause: Rainbow Rider 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.

Recommendation: We recommend a written accounting policies and procedures manual be prepared by Rainbow Rider 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 Transit Board

should periodically monitor procedures to reassess risk and determine whether the established internal controls are still effective or if changes are needed. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services provided. The monitoring activity should be documented to show the results of the review, any changes required, and who performed the work.

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.

ITEM ARISING THIS YEAR

11-1 Capital Assets Records

Criteria: Rainbow Rider is required by generally accepted accounting principles to account for and depreciate its capital assets over their estimated useful lives. The costs of capital assets are expensed annually as depreciation expense while the asset is in service. To ensure fair presentation of the financial statements and related notes, the capital assets records must be complete and accurately prepared.

Condition: Rainbow Rider maintains an electronic spreadsheet listing all assets that have met the capitalization threshold, as established in its capital assets policy; however, it was discovered by the auditors that this listing did not include all assets that should have been included as of December 31, 2011.

Context: Accurate recordkeeping is necessary to ensure fair presentation of the financial statements and related notes.

Effect: Based on our audit of Rainbow Rider's capital assets listing as of December 31, 2011, a significant adjustment to capital assets, related depreciation, and invested in capital assets - net of related debt on Rainbow Rider's financial statements and related notes was necessary.

Cause: As part of an agreement entered into with Grant County allowing the County to rejoin Rainbow Rider on January 1, 2011, the titles of three buses were required to be transferred from Grant County to Rainbow Rider. These buses, determined to have a fair market value of \$90,000, were not included on the capital assets listing as of December 31, 2011, provided to the auditors.

Recommendation: We recommend that Rainbow Rider improve its controls over the recordkeeping of its capital assets and related depreciation to ensure that its capital assets records are complete and accurately prepared.

Client's Response:

Additions to capital assets are typically recorded from purchase related paperwork such as invoices or a computer generated report showing any purchases over the set amount of \$1,000. Since the above mentioned busses were transferred and not purchased, they did not show up by either means of paperwork and therefore were erroneously left out of the capital asset listing for FY2011. Although this was a special situation that is not anticipated to happen again, Rainbow Rider will certainly strive to keep the capital asset records as complete and accurately prepared as possible.

II. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

11-2 Discretionary Line of Credit

Criteria: Rainbow Rider was established by a joint powers agreement among five counties. The Rainbow Rider Transit Board is authorized by Minn. Stat. § 471.59, subd. 11, to issue bonds or obligations under any law by which any of the governmental units establishing the joint board may independently issue bonds or obligations. The statute further states that the obligations or other forms of indebtedness must be issued in the same manner and subject to the same conditions and limitations that would apply if the obligations were issued or indebtedness incurred by one of the governmental units that established the joint board. Because Minn. Stat. ch. 475 does not provide counties with authority to acquire discretionary lines of credit, Rainbow Rider does not have specific authority either.

Condition: Rainbow Rider entered into an agreement on July 18, 2011, with the Lowry State Bank for a \$200,000 secured discretionary line of credit with an annual interest rate of five percent. Furthermore, on April 12, 2012, the Rainbow Rider Transit Board approved entering into an arrangement with the Lowry Sate Bank to receive a letter of credit for \$100,000, with Rainbow Rider pledging four busses as collateral.

Context: Control of Rainbow Rider is vested in the Rainbow Rider Transit Board. The Rainbow Rider Transit Board should not approve entering into agreements that it does not have specific statutory authority to enter into.

Effect: Rainbow Rider was not in compliance with Minn. Stat. ch. 475.

Cause: The Rainbow Rider Transit Board anticipated cash flow problems during the summer of 2011 due to the State of Minnesota government shutdown.

Recommendation: We recommend Rainbow Rider discontinue use of the discretionary line of credit with Lowry State Bank.

Client's Response:

Rainbow Rider is aware that they do not have statute authority to enter into a discretionary line of credit but also needs to maintain cash flow in order to continue operations.

PREVIOUSLY REPORTED ITEM RESOLVED

Contract Compliance (10-1)

A contract exceeding \$100,000 to construct the Long Prairie garage was not let on sealed bids. When a contract is expected to exceed \$100,000, the contract needs to be let on sealed bids as provided by Minn. Stat. § 471.345. In addition, no performance and payment bond or documentation of contractor or subcontractor withholdings were obtained in accordance with Minn. Stat. § 290.92 for this contract.

Resolution

We noted no construction contracts entered into during 2011.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Rainbow Rider Transit Board
Lowry, Minnesota

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements of Rainbow Rider as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered Rainbow Rider's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rainbow Rider's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Rainbow Rider's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and 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 discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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 listed in the Schedule of Findings and Recommendations 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 deficiencies in Rainbow Rider's internal control over financial reporting, identified as items 08-1 and 11-1 in the Schedule of Findings and Recommendations, to be significant deficiencies.

Minnesota Legal Compliance

We have audited the basic financial statements of Rainbow Rider as of and for the year ended December 31, 2011. 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 Recommendations as item 11-2.

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 Recommendations. 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, and others within Rainbow Rider and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

January 11, 2013