

INDEPENDENT AUDITOR'S REPORT

**LINCOLN-PIPESTONE
RURAL WATER SYSTEM
LAKE BENTON, MINNESOTA 56149**

FOR THE YEAR ENDED DECEMBER 31, 2010

**Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
PO Box 707
Pipestone, Minnesota 56164**

CONTENTS OF REPORT

	<u>PAGE</u>
BOARD OF COMMISSIONERS AND ADMINISTRATIVE PERSONNEL	1
FINANCIAL SECTION	
INDEPENDENT AUDITOR'S REPORT	3 - 4
MANAGEMENT'S DISCUSSION AND ANALYSIS	5 - 8
BASIC FINANCIAL STATEMENTS:	
EXHIBIT A Statement of Net Assets	9
EXHIBIT B Statement of Activities	10
EXHIBIT C Statement of Revenues, Expenses and Changes in Fund Net Assets	11
EXHIBIT D Statement of Cash Flows - Proprietary Fund	12
NOTES TO THE FINANCIAL STATEMENTS	13 - 22
INDIVIDUAL FUND STATEMENTS AND SCHEDULES:	
Schedule 1 Balance Sheet	23 - 24
Schedule 2 Statement of Revenues, Expenses and Changes in Fund Equity	25
Schedule 3 Statement of Cash Flows	26
Schedule 4 Statement of Revenues, Expenses and Changes in Retained Earnings - Detailed	27 - 28
OTHER SCHEDULES:	
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	29 - 30
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	31 - 32
Schedule 5 Schedule of Expenditures of Federal Awards	33
Schedule 6 Schedule of Findings and Recommendations	34

Lincoln-Pipestone Rural Water System
Lake Benton, Minnesota

BOARD OF COMMISSIONERS

Joe Weber	Chairman
Rod Spronk	Vice-Chairman
Janice Moen	Secretary
Norris Peterson	Treasurer
Jerry Lonneman	Commissioner
Earl DeWilde	Commissioner
Mitch Kling	Commissioner
Frank Engels	Commissioner
Henry Van Dyke	Commissioner
Ken Buysse	Commissioner
Bill Ufkin	Commissioner

ADMINISTRATIVE PERSONNEL

Chief Executive Officer	Dennis Healy
-------------------------	--------------

THIS PAGE
LEFT BLANK
INTENTIONALLY

MEULEBROECK, TAUBERT & CO., PLLP
CERTIFIED PUBLIC ACCOUNTANTS

PO Box 685
109 S Freeman Avenue
Luverne, Minnesota 56156
507 283-4055 Fax 507 283-4076
contactl@mtcocpa.com

PO Box 707
216 East Main
Pipestone, Minnesota 56164
507 825-4288 Fax 507 825-4280
contactp@mtcocpa.com

Russell, Minnesota 56169
507 823-4391
Tyler, Minnesota 56178
507 247-3939
Lake Wilson, Minnesota 56151
507 879-3538

PARTNERS

David L. Meulebroeck, CPA
Matthew A. Taubert, CPA
David W. Friedrichsen, CPA
Daryl J. Kanthak, CPA

WITH THE FIRM

Amanda K. Baarson Sandy, CPA
Amy L. Mollberg, CPA
Marjorie R. Winter, CPA
Sally Helgeson, CPA
Michael K. Dubbelde, PA

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Lincoln-Pipestone Rural Water System
Lake Benton, Minnesota

We have audited the accompanying financial statements of the business-type activities of Lincoln-Pipestone Rural Water System as of December 31, 2010, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lincoln-Pipestone Rural Water System's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the System's financial statements for the year ended December 31, 2009, and in our report dated February 16, 2010, we expressed unqualified opinions on the respective financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the business-type activities of the Lincoln-Pipestone Rural Water System at December 31, 2010 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2011 on our consideration of Lincoln-Pipestone Rural Water System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis information on pages 5 through 8, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lincoln-Pipestone Rural Water System's basic financial statements. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Lincoln-Pipestone Rural Water System. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Meulebroeck, Taubert & Co., PLLP
Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants

February 16, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED DECEMBER 31, 2010

This section of the Lincoln-Pipestone Rural Water System's annual financial report presents management's discussion and analysis of the System's financial performance during the fiscal year ended December 31, 2010. Please read it in conjunction with the other components of the System's annual financial report.

The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 --*Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments*. Certain comparative information between the current year (2010) and the prior year (2009) is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for the 2010 fiscal year include the following:

- Proprietary Net assets increased by \$5,340,636 or 14.4% from December 31, 2009. The increase was due primarily to grant proceeds of \$4,200,000 received.
- Total operating expenses decreased by \$86,096 in comparison to fiscal year 2009, operating revenues increased by \$197,248 in comparison to 2009.

Overview of the Financial Statements

The financial section of the annual report consists of four parts -- Independent Auditor's Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplemental information. The basic financial statements include System-wide financial statements and the notes to the financial statements.

Government-Wide Statements

The Government-wide statements (statement of net assets and statement of activities) report information about the System as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the System's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Government-wide statements report the System's net assets and how they have changed. Net assets -- the difference between the System's assets and liabilities -- is one way to measure the System's financial health or position. Over time, increases or decreases in the System's net assets are one indicator of whether its financial health is improving or deteriorating. You also need to consider other nonfinancial factors, however, such as changes in the government support to assess the overall health of the System.

Fund Financial Statements

Because the System consists of only one fund--a proprietary fund--the fund financial statements are the same as the government-wide statements.

Proprietary Funds -- The operations of the Lincoln-Pipestone Rural Water System are accounted for within one proprietary fund. This enterprise fund includes the same functions presented as business-type activities in the government-wide financial statements. This fund is considered to be a major fund of the Lincoln-Pipestone Rural Water System.

Lincoln-Pipestone Rural Water System
Lake Benton, Minnesota

Financial Analysis of the System as a Whole/Financial Analysis of the System's Fund

As noted, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Lincoln-Pipestone Rural Water System, assets exceeded liabilities by \$42,424,191 at the close of the most recent fiscal year.

Table 1 is a summarized view of the Authority's Statement of Net Assets.

	Total Business-Type Activities	
	2010	2009
Assets		
Current and other assets	673,274	925,161
Restricted assets	17,821,703	25,317,186
Other Assets	602,050	633,650
Capital assets, net of depreciation	60,838,744	48,118,609
Total Assets	79,935,771	74,994,606
Liabilities		
Current liabilities	1,112,688	1,273,265
Long-term liabilities	36,398,892	36,637,786
Total Liabilities	37,511,580	37,911,051
Net Assets		
Invested in capital assets		
Net of related debt	23,474,943	10,545,511
Unrestricted	18,949,248	26,538,044
Net Assets	42,424,191	37,083,555
Total Liabilities and Net Assets	79,935,771	74,994,606

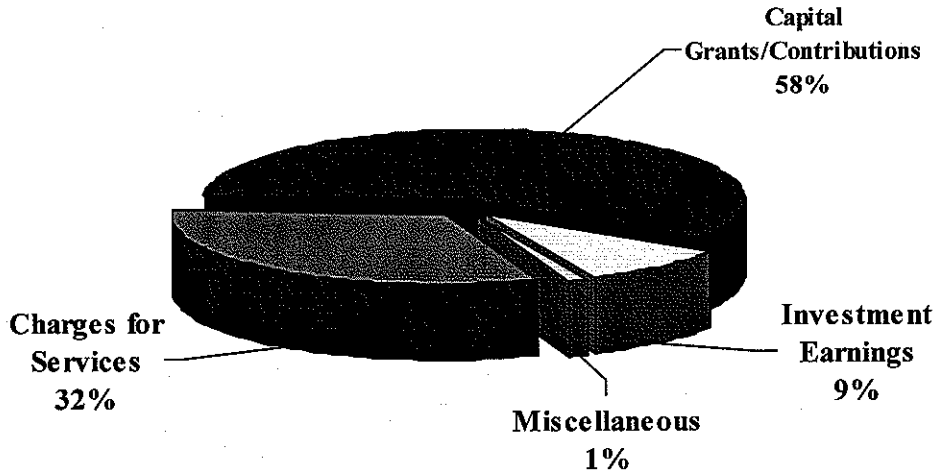
The System's financial position is the product of numerous factors. Therefore, it is important to view the net assets balance as a starting point to evaluate future years' results, rather than to just focus on the current balance.

Table 2 presents a condensed version of the change in net assets of the System.

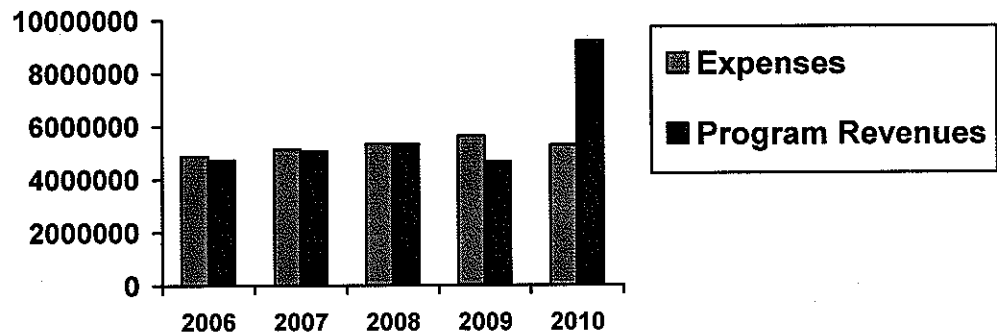
	Business-Type Activities	
	2010	2009
Revenues		
<u>Program Revenues</u>		
Charges for Services	3,496,544	3,299,296
Capital Grants and Contribution	6,120,545	281,438
<u>General Revenues</u>		
Investment Earnings	919,436	919,292
Miscellaneous	96,696	165,968
Total Revenues	10,633,221	4,665,994
Expenses		
<u>Business-Type</u>		
Water	5,292,585	5,642,963
Total Expenses	5,292,585	5,642,963
Change in Net Assets	5,340,636	(976,969)

Figure A and Figure B show further analysis of these revenue sources and expenditure functions for the System's Business-Type Activities.

**Figure A - Sources of Revenues for Fiscal Year 2010
Business-Type Activities**



**Figure B - Expenses and Program Revenues
Business-Type Activities**



Financial Analysis of the Government's Fund

Proprietary Fund

Total operating expenditures decreased by \$86,096 in comparison to 2009, total operating revenues increased by \$197,248 in comparison to 2009.

Lincoln Pipestone Rural Water System
Lake Benton, Minnesota

Capital Assets

Table 3 shows the System's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for the years ending December 31, 2010 and 2009. The System is undergoing a major expansion and will be expending in excess of \$20,000,000 during 2009, 2010, and possibly 2011. Currently these costs are reported in Construction in Process with a balance of \$26,839,507 as of December 31, 2010.

**Table 3
Capital Assets**

	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>
Land and Land Rights	1,154,399	1,154,399	
Distribution System	49,240,194	49,111,737	128,457
Buildings, Pumps, and Reservoirs	9,810,619	9,810,619	
Office Building	192,820	192,820	
Vehicles	420,042	425,724	(5,682)
Machinery and Equipment	1,018,796	1,008,429	10,367
Office Equipment	159,340	146,250	13,091
Less accumulated depreciation	<u>(27,996,974)</u>	<u>(26,150,462)</u>	<u>(1,846,512)</u>
Total	<u>33,999,237</u>	<u>35,699,516</u>	<u>(1,700,279)</u>
Depreciation Expense	<u>2,008,745</u>	<u>1,864,854</u>	<u>143,891</u>

Long-Term Debt

At the end of 2010, the Lincoln-Pipestone Rural Water System had total bonded debt outstanding of \$36,859,000. Of this amount, \$36,859,000 represents debt backed by the full faith and credit of the government. The System issued one new \$800,000 debt issue during 2010 in order to finance the construction project discussed in the Capital Assets above.

**Lincoln-Pipestone Rural Water System's Outstanding Debt
General Obligation Bonds**

	<u>Business Type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
General Obligation Bonds	36,859,000	36,989,000	36,859,000	36,989,000

Factors Bearing on the System's Future

The System is dependent on the United States Department of Agriculture for the vast majority of its funding. The continuation of this funding is dependent on the actions taken by the Minnesota and Federal legislature in the future.

Contacting the System's Management

This financial report is designed to provide a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Lincoln-Pipestone Rural Water System, East Highway 14, Box 188, Lake Benton, Minnesota 56149.

STATEMENT OF NET ASSETS
DECEMBER 31, 2010 AND 2009

<u>Assets</u>	<u>2010</u>	<u>2009</u>
Cash and Investments	350,300	598,596
Receivables:		
Interest Receivable	1,329	13,432
Accounts Receivable	6,291	5,955
Inventory	289,288	282,379
Prepaid Insurance	26,066	24,799
Restricted Assets:		
Cash and Investments	3,961,835	12,231,804
Notes Receivable	643,452	699,298
Special Assessments	13,216,416	12,386,084
Other Assets:		
Patronage Dividend Receivable	146,059	155,937
Bond Discount	455,991	477,713
Capital Assets:		
Land and Land Rights	1,154,399	1,154,399
Distribution System	49,240,194	49,111,737
Buildings, Pumps and Reservoirs	9,810,619	9,810,619
Office Building	192,820	192,820
Vehicles	420,042	425,724
Machinery and Equipment	1,018,796	1,008,429
Office Equipment	159,341	146,250
Construction in Process	26,839,507	12,419,093
Less: Accumulated Depreciation	(27,996,974)	(26,150,462)
Total Assets	<u>79,935,771</u>	<u>74,994,606</u>
 <u>Liabilities and Net Assets</u>		
<u>Liabilities</u>		
Accounts Payable	105,544	298,689
Accrued Vacation	42,235	38,476
Liabilities Payable From Restricted Assets		788
Noncurrent Liabilities:		
Due Within One Year	964,909	935,312
Due in More Than One Year	36,398,892	36,637,786
Total Liabilities	<u>37,511,580</u>	<u>37,911,051</u>
 <u>Net Assets</u>		
Invested in Capital Assets, Net of Related Debt	23,474,943	10,545,511
Unrestricted	18,949,248	26,538,044
Total Net Assets	<u>42,424,191</u>	<u>37,083,555</u>
Total Liabilities and Net Assets	<u>79,935,771</u>	<u>74,994,606</u>

See accompanying notes to the financial statements.

**STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2010**

Functions	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Business-Type Activities</u>	
					<u>2010</u>	<u>2009</u>
Business-Type Activities						
Water	<u>5,292,585</u>	<u>3,496,544</u>		<u>6,120,545</u>	<u>4,324,504</u>	<u>(2,062,229)</u>
Total	<u>5,292,585</u>	<u>3,496,544</u>	<u>-0-</u>	<u>6,120,545</u>	<u>4,324,504</u>	<u>(2,062,229)</u>
<u>General Revenues</u>						
					<u>919,436</u>	<u>919,292</u>
Earnings on Investments / Special Assessments / Cities					<u>96,696</u>	<u>165,968</u>
Miscellaneous					<u>1,016,132</u>	<u>1,085,260</u>
Total General Revenues					<u>5,340,636</u>	<u>(976,969)</u>
Change in Net Assets					<u>37,083,555</u>	<u>38,060,524</u>
Net Assets - Beginning					<u>42,424,191</u>	<u>37,083,555</u>
Net Assets - Ending						

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<u>Operating Revenues</u>		
Charges for Sales and Services	3,496,544	3,299,296
<u>Operating Expenses</u>		
Source of Supply/Pumping	1,035,129	1,143,198
SCADA	274,251	332,746
Distribution	831,703	695,098
General and Administrative	2,457,398	2,513,535
Total Operating Expenses	<u>4,598,481</u>	<u>4,684,577</u>
Operating Income (Loss)	(1,101,937)	(1,385,281)
<u>Non-Operating Revenues (Expenses)</u>		
Interest-Investments	136,734	87,910
Interest-Municipalities	39,533	41,809
Interest-Special Assessments	743,169	789,573
Farm Rental (Net)	39,486	39,321
Interest Expense-Other	(7,239)	(9,975)
Bond Premium	56,918	56,919
Bond Discount	(50,666)	(53,079)
Bond Issuance	(12,288)	(25,019)
Miscellaneous	292	69,528
Interest on Bonds	(623,911)	(870,313)
Sale of Assets		200
Total Non-Operating Revenues (Expenses)	<u>322,028</u>	<u>126,874</u>
Net Loss	(779,909)	(1,258,407)
Add: Depreciation on Assets Attributable to Contributed Capital	<u>1,737,507</u>	<u>1,730,073</u>
Increase to Equity	957,598	471,666
Total Net Assets-January 1	37,083,555	38,060,524
Deposits/Hookups/Local Contribution	6,120,545	281,438
Depreciation on Assets Attributable to Contributed Capital	<u>(1,737,507)</u>	<u>(1,730,073)</u>
Total Net Assets-December 31	<u><u>42,424,191</u></u>	<u><u>37,083,555</u></u>

See accompanying notes to the financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

<u>Cash Flows From Operating Activities</u>	<u>2010</u>	<u>2009</u>
Receipts from Customers and Users	3,496,208	3,306,784
Payments to Suppliers	(1,889,910)	(1,203,994)
Payments to Employees	(1,079,209)	(987,971)
Net Cash Provided By Operating Activities	<u>527,089</u>	<u>1,114,819</u>
<u>Cash Flows From Capital and Related Financing Activities</u>		
Interest-Municipalities	51,636	29,855
Interest-Special Assessments	743,169	789,573
Farm Rental (Net)	39,486	39,321
Interest Expense-Other	(7,239)	(9,975)
Bond Premium	56,918	56,919
Bond Discount	(28,944)	(73,470)
Interest on Bonds	(624,699)	(878,741)
Capital Lease Payments	(22,379)	(21,312)
Bond Proceeds	10,985,000	18,910,000
Bond Principal Paid	(11,115,000)	(1,344,000)
Increase (Decrease) in Special Assessments	(830,332)	359,917
Payments on Notes Receivable	55,846	26,721
Purchase of Property and Equipment	(14,594,099)	(10,116,620)
Deposits/Hookups/Local Contribution/Grants	6,120,545	281,438
Bond Issuance Costs	(12,288)	(25,019)
Miscellaneous	292	69,528
Sale of Assets		200
Total Cash Provided (Used) by Capital and Related Financing Activities	<u>(9,182,088)</u>	<u>8,094,335</u>
<u>Cash Flows From Investing Activities</u>		
Interest-Investments	136,734	87,910
Total Cash Provided (Used) by Investing Activities	<u>136,734</u>	<u>87,910</u>
Increase (Decrease) in Cash and Cash Equivalents	(8,518,265)	9,297,064
Cash and Cash Equivalents January 1	<u>12,830,400</u>	<u>3,533,336</u>
Cash and Cash Equivalents December 31	<u><u>4,312,135</u></u>	<u><u>12,830,400</u></u>
<u>Reconciliation of Operating Income to</u>		
<u>Net Cash Provided (Used) By Operating Activities</u>		
Operating Income (Loss)	(1,101,937)	(1,385,281)
Adjustments to Reconcile to Net Cash Provided By Operating Activities:		
Depreciation	1,873,964	1,864,854
(Increase) Decrease in Accounts Receivable	(336)	7,488
(Increase) Decrease in Inventory	(6,909)	(31,637)
(Increase) Decrease in Prepaid Insurance	(1,267)	559
(Increase) Decrease in Patronage Dividend Receivable	9,878	11,467
Increase (Decrease) in Accounts Payable	(193,145)	131,623
Increase (Decrease) in Accrued Vacation	3,759	3,479
Increase (Decrease) in Bond Premium Payable	(56,918)	512,267
Total Adjustments	<u>1,629,026</u>	<u>2,500,100</u>
Net Cash Provided by Operating Activities	<u><u>527,089</u></u>	<u><u>1,114,819</u></u>
Reconciliation of Cash and Cash Equivalents:		
Cash and Cash Investments	350,300	598,596
Cash and Investments-Restricted	3,961,835	12,231,804
Cash and Cash Equivalents	<u><u>4,312,135</u></u>	<u><u>12,830,400</u></u>
Supplemental Disclosure:		
Interest Paid	<u><u>624,699</u></u>	<u><u>878,471</u></u>

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

Note 1 **Summary of Significant Accounting Policies**

A. Basis of Presentation

The financial statements of the Lincoln-Pipestone Rural Water System have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Reporting Entity

The Lincoln-Pipestone Rural Water System was established pursuant to MN Statute 116A through a joint powers agreement pursuant to MN Statute 471.59 and under the jurisdiction of the Fifth Judicial District. The participating counties of Lincoln, Pipestone, Murray, Rock, Nobles, Lyon, Lac qui Parle, Redwood and Yellow Medicine have agreed to guarantee their share of the debt arising within each respective county. The Lincoln-Pipestone Rural Water system provides water for participating rural water users and cities within the water district.

The Lincoln-Pipestone Rural Water System is governed by an eleven member board appointed for terms of four years by the District Court. The Board of Commissioners has control over all activities related to Lincoln-Pipestone Rural Water System.

As required by generally accepted accounting principles, these financial statements present the Lincoln-Pipestone Rural Water System and its component units, entities for which the government is considered to be financially accountable.

Component units are legally separate entities for which the System (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit. Based on these criteria, there are no organizations considered to be component units of the System.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

Note 1 **Summary of Significant Accounting Policies - continued**

C. Basic Financial Statement Presentation

The System-wide financial statements (i.e. the Statement of Net Assets and the Statement of Activities) display information about the reporting government as a whole. These statements include all of the financial activities of the System.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The System applies restricted resources first when an expense is incurred for purpose for which both restricted and unrestricted net assets are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function.

Proprietary funds are used to report business-type activities carried on by the system. All of the activities of the System are accounted for within a single proprietary fund.

D. Basis of Accounting and Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. The System-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, the same as the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. None of the System's activities are reported in governmental funds.

Description of Fund

The existence of the System fund has been established by the State of Minnesota. This fund is accounted for as an independent entity. A description of the fund included in this report is as follows:

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

Note 1 Summary of Significant Accounting Policies - continued

D. Basis of Accounting and Measurement Focus - continued

Proprietary Fund

The Lincoln-Pipestone Rural Water System is presented as an Enterprise Fund. This Enterprise Fund accounts for all of the activities of the System. Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

E. Budgetary Data

The Lincoln-Pipestone Rural Water System adopts each year, for control purposes, a budget of estimated revenues and expenditures.

F. Cash and Cash Equivalents

Cash and investments with a maturity date within three months of year end are considered cash and cash equivalent.

G. Accounts Receivable

All trade receivables are included in accounts receivable. All items are anticipated to be collectible. Therefore, no allowance for doubtful accounts is provided.

H. Inventory

Inventory consists of materials and parts which are used for the repair and maintenance of the water system. The inventory is valued at the lower of cost ("First in -- first out") or market.

I. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. Prepaid items are reported using the consumption method and recorded as expenditure at the time of consumption.

J. Restricted Assets

Cash and Investments

The restricted cash and investments are restricted for payment of bonded debt.

Notes Receivable

Notes receivable consist of amounts due from municipalities. Amounts received relating to these notes receivable are restricted for payment of bonded debt.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

Note 1 **Summary of Significant Accounting Policies - continued**

J. Restricted Assets - continued

Special Assessments Receivable

Special assessments receivable consist of the current principal amount due from participating water users payable in 2010 and the principal amount of deferred assessments to be placed on the County tax rolls in future years, and unpaid delinquent assessments. No provision has been made for estimated uncollectible accounts. The special assessments receivable are restricted for payment of bonded debt.

K. Property, Plant and Equipment

Major additions and improvements are recorded as additions to fixed assets. Maintenance and repairs which do not improve the value or extend the life of the fixed assets are expensed. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets and is recorded as an expense in the financial statements. Useful lives range from 3 to 35 years.

L. Contributed Capital

Contributed capital consists of federal grants and contributions from users used to finance the constructions from users used to finance the construction of the water system. The contributed capital is reduced annually by the amount of the depreciation expense attributable to fixed assets from these resources.

M. Net Assets

Net assets represent the difference between assets and liabilities in the government-wide financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net assets are reported as restricted in the government-wide financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

N. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of management's estimates. Actual results may differ from those estimates.

O. Subsequent Events

Subsequent events have been evaluated through February 16, 2011, which is the date the financial statements were available to be issued.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

Note 2 **Cash and Investments**

The following is a summary of the cash and investments at December 31, 2010:

	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Petty Cash		253	253
Checking Account		193,535	193,535
Savings and Certificates of Deposit	<u>3,961,835</u>	<u>156,512</u>	<u>4,118,347</u>
Totals	<u>3,961,835</u>	<u>350,300</u>	<u>4,312,135</u>

Minnesota Stat. 118A.02 and 118A.04 authorize the Organization to designate a depository for public funds and to invest in certificates of deposit. Minnesota Stat. 118A.03 requires that all Organization deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institutions banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rates "A" or better; revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposits. 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 that is 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, the Organization's deposits may not be returned to it. As of December 31, 2010, none of the Organization's cash balance of \$4,312,135 was exposed to custodial credit risk.

Investments

Minnesota Stat. 118A.04 and 118A.05 generally authorize the following types of investments as available to the Organization.

- 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 Minnesota Stat. 118A.04, subd. 6;
- 2) 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;

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

Note 2 **Cash and Investments – continued**

Investments – continued

- 4) banker's 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.

Note 3 **Restricted Assets**

Restricted assets are cash and investments, special assessments, and notes receivable which are restricted for the payment of long-term debt obligations. A separate restriction has been placed on \$167,893 which was placed in a separate account specifically for the 1999 G.O. Water Systems Bonds.

Note 4 **Notes Receivable**

Municipalities which are benefited by the Rural Water System have contracted to pay their share of the cost of the construction. The contract for a period of 27 years is in the form of a direct reduction loan at 5% interest. The balance of the loans outstanding at December 31, 2010, are as follows:

Reading	45,434
Ihlen	24,156
Hardwick	74,729
Green Valley	46,874
Minnesota	357,455
Ghent	<u>94,804</u>
Total	<u>643,452</u>

Note 5 **Fixed Assets: Property, Plant and Equipment**

A summary of the Rural Water System's property, plant and equipment as of December 31, 2010 is as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Undepreciated Cost</u>
Land and Land Rights	1,154,399		1,154,399
Distribution System	49,240,194	21,662,640	27,577,554
Buildings, Pumps, & Reservoirs	9,810,619	4,782,892	5,027,727
Office Building	192,820	110,161	82,659
Vehicles	420,042	339,505	80,537
Machinery and Equipment	1,018,796	963,219	55,577
Office Equipment	<u>159,341</u>	<u>138,557</u>	<u>20,784</u>
Total	<u>61,996,211</u>	<u>27,996,974</u>	<u>33,999,237</u>

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

Note 6 Long Term Debt

A. The long-term debt of the System as of December 31, 2010 consists of the following:

General Obligation Water System Refunding Bonds, Series 2003A.

Original bond of \$1,890,000 dated July 1, 2003, interest of 2.5% to 4.0% over the life of the bonds; annual payments including interest and principal on January 1 until fully paid on January 1, 2020. 1,215,000

2008-10 Temp Bond, \$10,410,000 Series 2009 C

Dated August 1, 2009, interest only payments due August 1, 2010 and semi-annually for 3 years computed at 2.15% interest. 10,410,000

When construction project is completed in the next 3 years, these bonds will be paid off and new long-term bonds will be issued.

General Obligation Water System Refunding Bonds, Series 2003.

Original bond of \$2,625,000 dated July 15, 2003, interest of 2.5% to 4.20% over the life of the bonds; annual payment including interest and principal on January 1 until fully paid January 1, 2020. 1,800,000

\$5,845,000 General Obligation Water Revenue Bond of 2008

Original bond of \$5,845,000 dated March 13 2008, interest rate of 3.25% to 4.35% over the life of the bonds; annual payments of principal and interest on January 1, until fully paid January 1, 2034. 5,380,000

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

Note 6 Long Term Debt-continued

\$4,565,000 General Obligation Water System Refunding Bonds, Series 2007A

Original bond of \$4,565,000 dated January 1, 2007,
interest rate of 3.5% to 4.3% over the life of the bonds;
annual payments of principal and interest on January 1,
and interest only on July 1 until fully paid January 1, 2023.
See Note 6B.

3,850,000

\$8,500,000 General Obligation Water Revenue Bond.

Original bond of \$8,500,000 dated December 20, 2010
interest rate of 3.75% over the life of the bonds;
annual payments of principal and interest on
January 1, until fully paid January 1, 2050.

8,500,000

\$1,685,000 General Obligation Bonds Series 2010A

Original bond of \$1,685,000 dated March 29, 2010
interest rate of 2.00% to 4.1% over the life of the
bonds, annual payments of principal and interest on
January 1, and interest only on July 1 until fully
paid January 1, 2028.

1,590,000

Jackson-Nobles General Obligation Water Bonds

Original bond of \$800,000 dated September 22, 2010,
interest rate of 3.25% over the life of the bond, annual
payments of principal and interest of \$36,479 on
January 1, until fully paid January 1, 2049.

800,000

\$3,580,000 General Obligation Water Revenue Note of 2007

Original bond of \$3,580,000 dated December 31, 2007,
interest rate of 4.05% to 4.3375% over the life of the bonds;
annual payments of principal and interest on December 30,
until paid December 30, 2032.

3,314,000

36,859,000

Total

49,452

Capital Lease Obligation

964,909

Less: Current Portion of Long-Term Debt

Total Long-Term Debt

35,943,543

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

Note 6 Long Term Debt-continued

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year Ended</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2011	941,479	1,253,025
2012	11,380,820	1,221,712
2013	1,012,172	951,544
2014	1,034,535	915,090
2015	1,105,910	877,635
2016-2020	6,106,612	3,730,793
2021-2025	4,826,989	2,545,998
2026-2030	3,718,340	1,722,217
2031-2035	2,707,007	994,106
2036-2040	1,344,388	646,838
2041-2045	1,440,959	390,417
2046-2050	<u>1,239,789</u>	<u>115,061</u>
Totals	<u>36,859,000</u>	<u>15,364,436</u>

Note 7 Capital Lease Obligations

On August 27, 2002, Lincoln-Pipestone Rural Water System entered into a lease obligation with Wells Fargo Brokerage Services, LLC for the lease purchase of equipment and installation of standby electric facilities at the Burr and Verdi pumping stations. The lease calls for semi-annual payments of \$12,799 starting April 1, 2003 to October 1, 2012 and carries an interest rate of 4.95%.

Capital Lease
 Minimum Future Lease Payment and Present Value of Net Minimum Lease Payments

<u>Year Ended</u> <u>December 31</u>	
2011	25,598
2012	<u>27,146</u>
Total Minimum Payments	52,744
Less: Imputed Interest	<u>3,292</u>
Present Value of Net Minimum Lease Payments	<u>49,452</u>

There is no sublease income in relation to the capital lease for the year ended December 31, 2010.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

Note 8 **Contributed Capital/Retained Earnings:**

The following is a summary of the changes in the contributed capital retained earnings.

	<u>Balance</u> <u>1/1/2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/10</u>
Grants	19,151,482	4,200,000		23,351,482
Deposits/Hookups/ Contributions to Construction	<u>8,737,583</u>	<u>1,920,545</u>	<u>1,737,507</u>	<u>8,920,621</u>
Total Contributed Capital	27,889,065	6,120,545	1,737,507	32,272,103
Retained Earnings	<u>9,194,490</u>	<u>957,598</u>		<u>10,152,088</u>
Total Equity	<u>37,083,555</u>	<u>7,078,143</u>	<u>1,737,507</u>	<u>42,424,191</u>

Note 9 **Retirement Plan**

The Lincoln-Pipestone Rural Water System has adopted a SAR/SEP retirement plan effective January 1, 1986. The plan allows employees to make contributions immediately upon becoming employed, provided they are at least 21 years old. The System may make employer contributions up to 15% of a eligible employees compensation. The total company contributions for 2010 and 2009 were \$41,172 and \$37,760, respectively and the total employee contributions paid were \$56,197 and \$45,060, respectively.

Note 10 **Concentration**

The Lincoln-Pipestone Rural Water System provides only water as its main source of revenue. If these water sales or any of the major customers of water were to experience any substantial changes it may have an adverse affect on the revenues of the system.

Note 11 **Risk Management**

The System is exposed to various risk of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and dental; and natural disasters. Risks of loss associated with workers' compensation claims are insured through a worker's comp policy. All other risks of loss are insured by the purchase of commercial insurance. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance for any of the past 3 years.

BALANCE SHEET
DECEMBER 31, 2010 AND 2009

<u>Assets</u>	<u>2010</u>	<u>2009</u>
<u>Current Assets</u>		
Petty Cash	253	276
Cash and Investments	350,047	598,320
Accounts Receivable	6,291	5,955
Inventory	289,288	282,379
Interest Receivable	1,329	13,432
Prepaid Insurance	26,066	24,799
Total Current Assets	<u>673,274</u>	<u>925,161</u>
<u>Restricted Assets</u>		
Cash and Investments	3,961,835	12,231,804
Notes Receivable	643,452	699,298
Special Assessments	13,216,416	12,386,084
Total Restricted Assets	<u>17,821,703</u>	<u>25,317,186</u>
<u>Other Assts</u>		
Patronage Dividend Receivable	146,059	155,937
Bond Discount	455,991	477,713
Total Other Assets	<u>602,050</u>	<u>633,650</u>
<u>Property and Equipment</u>		
Land and Land Rights	1,154,399	1,154,399
Distribution System	49,240,194	49,111,737
Buildings, Pumps and Reservoirs	9,810,619	9,810,619
Office Building	192,820	192,820
Vehicles	420,042	425,724
Machinery and Equipment	1,018,796	1,008,429
Office Equipment	159,341	146,250
Total Property and Equipment	<u>61,996,211</u>	<u>61,849,978</u>
Less: Accumulated Depreciation	<u>27,996,974</u>	<u>26,150,462</u>
Net Property and Equipment	<u>33,999,237</u>	<u>35,699,516</u>
Construction in Process	<u>26,839,507</u>	<u>12,419,093</u>
Total Property and Equipment	<u>60,838,744</u>	<u>48,118,609</u>
Total Assets	<u><u>79,935,771</u></u>	<u><u>74,994,606</u></u>

BALANCE SHEET
DECEMBER 31, 2010 AND 2009

<u>Liabilities and Equity</u>	<u>2010</u>	<u>2009</u>
<u>Current Liabilities</u>		
Accounts Payable	105,544	298,689
Accrued Vacation	42,235	38,476
Bond Premium Payable	455,349	512,267
Total Current Liabilities	<u>603,128</u>	<u>849,432</u>
<u>Current Liabilities Payable From Restricted Assets</u>		
Current Portion Bonds Payable	941,479	913,000
Current Portion Capital Lease Obligation	23,430	22,312
Accrued Interest Payable		788
Total Current Liabilities Payable From Restricted Assets	<u>964,909</u>	<u>936,100</u>
<u>Long-Term Liabilities</u>		
Bonds Payable	36,859,000	36,989,000
Capital Lease Obligation	49,452	71,831
Less: Current Portion	964,909	935,312
Total Long-Term Liabilities	<u>35,943,543</u>	<u>36,125,519</u>
Total Liabilities	<u>37,511,580</u>	<u>37,911,051</u>
<u>Equity</u>		
Contributed Capital	32,272,103	27,889,065
Retained Earnings	10,152,088	9,194,490
Total Equity	<u>42,424,191</u>	<u>37,083,555</u>
Total Liabilities and Equity	<u><u>79,935,771</u></u>	<u><u>74,994,606</u></u>

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

<u>Operating Revenues</u>	<u>2010</u>	<u>2009</u>
Charges for Sales and Services	3,496,544	3,299,296
<u>Operating Expenses</u>		
Source of Supply/Pumping	1,035,129	1,143,198
SCADA	274,251	332,746
Distribution	831,703	695,098
General and Administrative	2,457,398	2,513,535
Total Operating Expenses	<u>4,598,481</u>	<u>4,684,577</u>
Operating Income (Loss)	(1,101,937)	(1,385,281)
<u>Non-Operating Revenues (Expenses)</u>		
Interest-Investments	136,734	87,910
Interest-Municipalities	39,533	41,809
Interest-Special Assessments	743,169	789,573
Farm Rental (Net)	39,486	39,321
Interest Expense-Other	(7,239)	(9,975)
Bond Premium	56,918	56,919
Bond Discount	(50,666)	(53,079)
Bond Issuance	(12,288)	(25,019)
Miscellaneous	292	69,528
Interest on Bonds	(623,911)	(870,313)
Sale of Assets		200
Total Non-Operating Revenues (Expenses)	<u>322,028</u>	<u>126,874</u>
Net Loss	(779,909)	(1,258,407)
Add: Depreciation on Assets Attributable to Contributed Capital	<u>1,737,507</u>	<u>1,730,073</u>
Increase to Equity	957,598	471,666
Equity-January 1	37,083,555	38,060,524
Deposits/Hookups/Local Contribution	6,120,545	281,438
Depreciation on Assets Attributable to Contributed Capital	<u>(1,737,507)</u>	<u>(1,730,073)</u>
Total Equity	<u><u>42,424,191</u></u>	<u><u>37,083,555</u></u>

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

<u>Cash Flows From Operating Activities</u>	<u>2010</u>	<u>2009</u>
Operating Income (Loss)	(1,101,937)	(1,385,281)
Adjustments to Reconcile to Net Cash Provided by Operating Activities:		
Depreciation	1,873,964	1,864,854
(Increase) Decrease in Accounts Receivable	(336)	7,488
(Increase) Decrease in Inventory	(6,909)	(31,637)
(Increase) Decrease in Prepaid Insurance	(1,267)	559
(Increase) Decrease in Patronage Dividend Receivable	9,878	11,467
Increase (Decrease) in Accounts Payable	(193,145)	131,623
Increase (Decrease) in Accrued Vacation	3,759	3,479
Increase (Decrease) in Bond Premium Payable	(56,918)	512,267
Total Adjustments	<u>1,629,026</u>	<u>2,500,100</u>
Net Cash Provided by Operating Activities	527,089	1,114,819
 <u>Cash flows From Capital and Related Financing Activities</u>		
Interest-Municipalities	51,636	29,855
Interest-Special Assessments	743,169	789,573
Farm Rental (Net)	39,486	39,321
Interest Expense-Other	(7,239)	(9,975)
Bond Premium	56,918	56,919
Bond Discount	(28,944)	(73,470)
Interest on Bonds	(624,699)	(878,741)
Capital Lease Payments	(22,379)	(21,312)
Bond Proceeds	10,985,000	18,910,000
Bond Principal Paid	(11,115,000)	(1,344,000)
Purchase of Property and Equipment	(14,594,099)	(10,116,620)
Deposits/Hookups/Local Contribution	6,120,545	281,438
Bond Issuance	(12,288)	(25,019)
Miscellaneous	292	69,528
Payments on Notes Receivable	55,846	26,721
(Increase) Decrease in Special Assessments	(830,332)	359,917
Sale of Assets		200
Total Cash Provided (Used) by Capital and Related Financing Activities	<u>(9,182,088)</u>	<u>8,094,335</u>
 <u>Cash Flows From Operating Activities</u>		
Interest-Investments	136,734	87,910
Total Cash Provided (Used) by Investing Activities	<u>136,734</u>	<u>87,910</u>
 Increase (Decrease) in Cash and Cash Equivalents	(8,518,265)	9,297,064
Cash and Cash Equivalents January 1	12,830,400	3,533,336
Cash and Cash Equivalents December 31	<u>4,312,135</u>	<u>12,830,400</u>
 Reconciliation of Cash and Cash Equivalents:		
Petty Cash	253	276
Cash and Cash Investments	350,047	598,320
Cash and Investments-Restricted	3,961,835	12,231,804
Cash and Cash Equivalents	<u>4,312,135</u>	<u>12,830,400</u>
 Supplemental Disclosure:		
Interest Paid	26	624,699
		<u>878,741</u>

**STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN RETAINED EARNINGS-DETAILED
 FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

<u>Operating Revenues</u>	<u>2010</u>	<u>2009</u>
Sales-Consumers	2,499,919	2,393,379
Sales-Municipalities	742,624	738,239
Sales-Materials and Revenues	254,001	167,678
Total Revenues	<u>3,496,544</u>	<u>3,299,296</u>
<u>Operating Expenses</u>		
<u>Source of Supply/Pumping</u>		
Labor	148,081	138,314
Labor Fringe Benefits	44,261	42,586
Transportation	11,150	11,096
Purchased Power	227,597	223,208
New Water Source/Well Head Protection	194,522	239,100
Repairs	65,838	111,767
Chemicals and Supplies	302,004	338,180
Utilities	16,297	9,960
Telephone	7,276	6,735
Licenses, Permits, Fines	18,103	22,252
Total Source of Supply/Pumping	<u>1,035,129</u>	<u>1,143,198</u>
<u>SCADA</u>		
Labor	62,255	59,171
Labor Fringe Benefits	19,966	18,518
Transportation	9,990	21,137
Purchased Power	170,112	149,020
Repairs and Materials	7,688	72,714
Utilities	1,499	10,780
Telephone	2,741	1,406
Total SCADA	<u>274,251</u>	<u>332,746</u>
<u>Distribution</u>		
Labor	390,764	326,893
Labor Fringe Benefits	144,926	130,938
Transportation	106,678	71,314
Excavation	5,147	1,483
Repairs and Materials	102,690	106,219
Gopher Location	7,599	7,009
Telephone	14,228	13,062
Damage Claims	7,114	5,283
Truck and Trenchers	31,332	11,999
Power	21,225	20,898
Total Distribution	<u>831,703</u>	<u>695,098</u>

**STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN RETAINED EARNINGS-DETAILED
 FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

<u>Operating Expenses-continued</u>	<u>2010</u>	<u>2009</u>
<u>General Administrative</u>		
Labor	204,016	202,484
Labor Fringe Benefits	64,940	69,067
Uniforms	945	1,017
Transportation	4,865	6,470
Directors Fees	51,160	56,444
Board Meetings	2,619	2,880
Insurance	95,511 57,403	95,020
Office Supplies	17,504	18,959
Utilities	4,371	3,859
Office Maintenance and Repair	11,185	7,023
Outside Services	64,817	83,543
Building and Grounds Maintenance	8,091	6,737
Telephone	5,785	5,443
Miscellaneous	11,467	11,099
Advertising and Promotion	18,143	15,620
Dues and Memberships	6,689	2,301
Training	15,363	23,502
Real Estate Taxes	18,978	17,126
Postage	11,514	13,078
Easements Recorded	3,879	7,009
Depreciation-Assets From Operation	136,457	134,781
Depreciation-Assets From		
Contributed Capital	1,737,507	1,730,073
Total General and Administrative	<u>2,457,398</u>	<u>2,513,535</u>
Total Operating Expenses	<u>4,598,481</u>	<u>4,684,577</u>
Operating Loss	<u>(1,101,937)</u>	<u>(1,385,281)</u>
 <u>Non-Operating Revenues (Expenses)</u>		
Interest-Investments	136,734	87,910
Interest-Municipalities	39,533	41,809
Interest-Special Assessments	743,169	789,573
Farm Rental (Net)	39,486	39,321
Interest Expense-Other	(7,239)	(9,975)
Bond Discount	(50,666)	(53,079)
Bond Premium	56,918	56,919
Bond Issuance	(12,288)	(25,019)
Miscellaneous Income	292	69,528
Interest on Bonds	(623,911)	(870,313)
Sale of Assets		200
Total Non-Operating Revenue (Expenses)	<u>322,028</u>	<u>126,874</u>
Net Loss	<u>(779,909)</u>	<u>(1,258,407)</u>
Add: Depreciation on Assets Attributed to		
Contributed Capital	<u>1,737,507</u>	<u>1,730,073</u>
Increase to Retained Earnings	957,598	471,666
Retained Earnings January 1	<u>9,194,490</u>	<u>8,722,824</u>
Retained Earnings December 31	<u><u>10,152,088</u></u>	<u><u>9,194,490</u></u>

MEULEBROECK, TAUBERT & CO., PLLP
CERTIFIED PUBLIC ACCOUNTANTS

PO Box 685
109 S Freeman Avenue
Luverne, Minnesota 56156
507 283-4055 Fax 507 283-4076
contactl@mtcocpa.com

PO Box 707
216 East Main
Pipestone, Minnesota 56164
507 825-4288 Fax 507 825-4280
contactp@mtcocpa.com

Russell, Minnesota 56169
507 823-4391
Tyler, Minnesota 56178
507 247-3939
Lake Wilson, Minnesota 56151
507 879-3538

PARTNERS

David L. Meulebroeck, CPA
Matthew A. Taubert, CPA
David W. Friedrichsen, CPA
Daryl J. Kanthak, CPA

WITH THE FIRM

Amanda K. Baarson Sandy, CPA
Amy L. Mollberg, CPA
Marjorie R. Winter, CPA
Michael K. Dubbelde, PA

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

Board of Commissioners
Lincoln-Pipestone Rural Water System
Lake Benton, Minnesota

We have audited the financial statements of the business-type activities of the Lincoln-Pipestone Rural Water System, Lake Benton, Minnesota, as of and for the year ended December 31, 2010 which collectively comprise the Lincoln-Pipestone Rural Water System's basic financial statements and have issued our report thereon dated February 16, 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, and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minnesota Statute §6.65.

Internal Control Over Financing Reporting

In planning and performing our audit, we considered Lincoln-Pipestone Rural Water System's internal control over financing 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 the Lincoln-Pipestone Rural Water System's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lincoln-Pipestone Rural Water System'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*.

The *Minnesota Legal Compliance Audit Guide for Local Government* covers five categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all the listed categories. The results of our tests indicate that for the items tested, the System has complied with the material terms and conditions of the applicable legal provisions.

This report is intended solely for the information use of the audit committee, management, Board of Commissioners, others within the organization and State and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Meulebroeck, Taubert & Co., PLLP

Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants

February 16, 2011

MEULEBROECK, TAUBERT & CO., PLLP
CERTIFIED PUBLIC ACCOUNTANTS

PO Box 685
109 S Freeman Avenue
Luverne, Minnesota 56156
507 283-4055 Fax 507 283-4076
contactl@mtcocpa.com

PO Box 707
216 East Main
Pipestone, Minnesota 56164
507 825-4288 Fax 507 825-4280
contactp@mtcocpa.com

Russell, Minnesota 56169
507 823-4391
Tyler, Minnesota 56178
507 247-3939
Lake Wilson, Minnesota 56151
507 879-3538

PARTNERS

David L. Meulebroeck, CPA
Matthew A. Taubert, CPA
David W. Friedrichsen, CPA
Daryl J. Kanthak, CPA

WITH THE FIRM

Amanda K. Baarson Sandy, CPA
Amy L. Mollberg, CPA
Marjorie R. Winter, CPA
Michael K. Dubbelde, PA

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Commissioners
Lincoln-Pipestone Rural Water System
Lake Benton, Minnesota

Compliance

We have audited the compliance of the Lincoln-Pipestone Rural Water System, Lake Benton, Minnesota, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2010. The Lincoln-Pipestone Rural Water System, Lake Benton, Minnesota's major federal programs are 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 each of its major federal programs is the responsibility of Lincoln-Pipestone Rural Water Systems, Lake Benton, Minnesota's management. Our responsibility is to express an opinion on Lincoln-Pipestone Rural Water Systems, Lake Benton, Minnesota'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 Lincoln-Pipestone Rural Water System, Lake Benton, Minnesota'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 on Lincoln-Pipestone Rural Water System, Lake Benton, Minnesota's compliance with those requirements.

In our opinion, Lincoln-Pipestone Rural Water System, Lake Benton, Minnesota, complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance


The management of Lincoln-Pipestone Rural Water System, Lake Benton, Minnesota, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contract and grants applicable to federal programs. In planning and performing our audit, we considered Lincoln-Pipestone Rural Water System's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our 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.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 audit committee, management, Board of Commissioners, others within the organization and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.


Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants

February 16, 2011

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

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Disbursements Expenditures
U.S. Department of Agriculture/ Rural Development Water and Waste Disposal Systems for Rural Communities	10.760	14,064,906 *

Notes

- 1) * Denotes Major Program
- 2) Major programs were determined using the 50% coverage rules. All programs are Type A.
- 3) Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Lincoln Pipetone Rural Water and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

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

Summary of Auditor's Results

- A. Type of Report Issued on the Financial Statements
Our report expresses an unqualified opinion on the financial statements of the Lincoln-Pipestone Rural Water System.
- B. No matters involving internal control over financial reporting were disclosed during the audit.
- C. No instances of noncompliance material to the financial statements of the Lincoln-Pipestone Rural Water System were disclosed during the audit.
- D. The Auditor's Report on compliance for the major award programs for the Lincoln-Pipestone Rural Water System expresses an unqualified opinion.
- E. The major program is:
10.760 - United States Department of Agriculture;
Rural Development Water and Waste Disposal Systems for Rural Communities
- F. The threshold for distinguishing between Type A and B programs was \$300,000.
- G. The Lincoln-Pipestone Rural Water System was determined to be a low-risk auditee.

Prior Audit Findings

- A. None

Corrective Action Plan:

No corrective action plan is required, as no Audit Findings were reported.