



Annual Financial Report

Lincoln Pipestone Rural Water System

Lake Benton, Minnesota

For the year ended December 31, 2021

Lincoln Pipestone Rural Water System
 Lake Benton, Minnesota
 Annual Financial Report
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 For the Year Ended December 31, 2021

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INTRODUCTORY SECTION
LINCOLN PIPESTONE RURAL WATER SYSTEM
LAKE BENTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

Lincoln Pipestone Rural Water System
Lake Benton, Minnesota
Board of Commissioners and Administration
For the Year Ended December 31, 2021

Board of Commissioners

<u>Name</u>	<u>Title</u>
Mitch Kling	Chairperson
Joe Weber	Vice-Chairperson
Randy Kraus	Secretary
Rod Spronk	Treasurer
Frank Engels	Commissioner
Bill Ufkin	Commissioner
Jerry Lonneman	Commissioner
Jan Moen	Commissioner
J. Brent Feikema	Commissioner
Peter Petersen	Commissioner
Earl DeWilde	Commissioner
Ron Schramel	Board Attorney

Administration

Jason Overby	General Manager
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FINANCIAL SECTION
LINCOLN PIPESTONE RURAL WATER SYSTEM
LAKE BENTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Lincoln Pipestone Rural Water System (the System), Lake Benton, Minnesota, as of and for the year ended December 31, 2021 and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of December 31, 2021, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Emphasis of Matter - Prior Period Adjustment

As described in Note 6, the System reported a prior period adjustment during 2021 for special assessment receivables. Our opinion is not modified with respect to this matter.

Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 9 and the Schedule of Employer's Share of the Net Pension Liability, the Schedule of Employer's Contributions and the related note disclosures, starting on page 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2022, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.



Abdo
Mankato, Minnesota
April 11, 2022



Management's Discussion and Analysis

As management of the Lincoln Pipestone Rural Water System (the System), Lake Benton, Minnesota, we offer readers of the System's financial statements this narrative overview and analysis of the financial activities of the System for the fiscal year ended December 31, 2021.

Financial Highlights

- The assets and deferred outflows of resources of the System exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$58,302,179 (net position). Of this amount, \$11,028,377 (unrestricted net position) may be used to meet the System's ongoing obligations to its users and creditors and provide for future rate stabilization.
- The System's total net position increased by \$819,959 as compared to an increase of \$1,412,478 in the previous year. The increase in the current year was mainly due to intergovernmental grant dollars related to capital projects and contributions related to new hookups.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the System's basic financial statements. The System's basic financial statements comprise two components: 1) fund financial statements, and 2) notes to the financial statements. The notes explain some of the information in the financial statements and provide more detailed data. The statements are followed by a supplementary schedules that further explains and supports the information in the financial statements.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The System, like other State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The System maintains one type of fund: a proprietary fund.

Proprietary fund. The System maintains one type of proprietary fund. The System uses an enterprise fund to account for its water functions.

The basic proprietary fund financial statements can be found starting on page 14 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found starting on page 19 of this report.

Fund Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the System, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$58,302,179 at the close of the most recent fiscal year.

A large portion of the System's net position (58.2 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that are still outstanding. The System uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the System's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Lincoln Pipestone Rural Water System's Summary of Net Position

	Business-type Activities		
	2021	Restated 2020	Increase (Decrease)
Current and Other Assets	\$ 12,464,263	\$ 11,898,094	\$ 566,169
Restricted Assets	12,826,841	15,019,632	(2,192,791)
Capital Assets	67,737,053	69,484,443	(1,747,390)
Total Assets	<u>93,028,157</u>	<u>96,402,169</u>	<u>(3,374,012)</u>
Deferred Outflows of Resources	626,222	522,562	103,660
Long-term Liabilities Outstanding	33,892,548	37,320,552	(3,428,004)
Other Liabilities	917,995	2,097,382	(1,179,387)
Total Liabilities	<u>34,810,543</u>	<u>39,417,934</u>	<u>(4,607,391)</u>
Deferred Inflows of Resources	541,657	24,577	517,080
Net Investment in Capital Assets	33,905,539	32,225,135	1,680,404
Restricted	13,368,263	16,004,197	(2,635,934)
Unrestricted	11,028,377	9,252,888	1,775,489
Total Net Position	<u>\$ 58,302,179</u>	<u>\$ 57,482,220</u>	<u>\$ 819,959</u>

An additional portion of the System's net position (22.9 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance, \$11,028,377 or (18.9 percent) represents unrestricted net position which may be used to meet the System's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the System is able to report positive balances in all categories of net position.

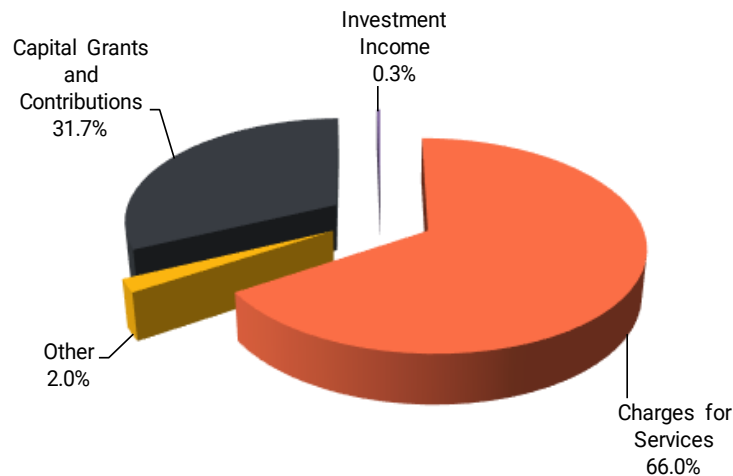
The System's net position increased by \$819,959 during the current fiscal year. Key elements of this increase are as follows:

Lincoln Pipestone Rural Water System's Changes in Net Position

	Business-type Activities		
	2021	Restated 2020	Increase (Decrease)
Revenues			
Program Revenues			
Charges for services	\$ 6,046,277	\$ 5,687,951	\$ 358,326
Capital grants and contributions	2,910,732	3,750,127	(839,395)
General Revenues			
Investment income	26,156	138,130	(111,974)
Other	186,689	176,579	10,110
Total Revenues	<u>9,169,854</u>	<u>9,752,787</u>	<u>(582,933)</u>
Expenses			
Operating	7,525,523	7,239,594	285,929
Non-operating	824,372	1,100,715	(276,343)
Total Expenses	<u>8,349,895</u>	<u>8,340,309</u>	<u>9,586</u>
Change in Net Position	819,959	1,412,478	(592,519)
Net Position, January 1	<u>57,482,220</u>	<u>56,069,742</u>	<u>1,412,478</u>
Net Position, December 31	<u><u>\$ 58,302,179</u></u>	<u><u>\$ 57,482,220</u></u>	<u><u>\$ 819,959</u></u>

The following graph shows revenues by source for 2021:

Revenues by Source



Capital Asset and Debt Administration

Capital Assets. The System's investment in capital assets as of December 31, 2021, amounts to \$67,737,053 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, distribution system, buildings, machinery, equipment and vehicles. The total decrease in the System's investment in capital assets for the current fiscal year was 2.5 percent.

The major capital asset events during the current fiscal year included the following:

- Completion of the Priority 2-203 SCADA Up project for \$1,461,833
- Completion of the Lincoln Pump Station project for \$172,564
- Add-ons totaling \$893,028

Lincoln Pipestone Rural Water System's Capital Assets (net of depreciation)

	Water System		Increase (Decrease)
	2021	2020	
Land and Improvements	\$ 3,875,544	\$ 3,875,544	\$ -
Construction in Progress	735,022	1,881,880	(1,146,858)
Distribution System	62,905,741	63,508,733	(602,992)
Buildings	26,250	30,486	(4,236)
Machinery and Equipment	24,921	39,852	(14,931)
Vehicles	169,575	147,948	21,627
Total	<u>\$ 67,737,053</u>	<u>\$ 69,484,443</u>	<u>\$ (1,747,390)</u>

Additional information on the System's capital assets can be found in Note 2C starting on page 26 of this report.

Long-term debt. At the end of the current fiscal year, the System had total bonded debt outstanding of \$33,107,000. All of which is revenue debt. While all of the System's bonds have revenue streams, they are all backed by the full faith and credit of the System.

Lincoln Pipestone Rural Water System's Outstanding Debt

	Water System		Increase (Decrease)
	2021	2020	
Revenue Bonds	<u>\$ 33,107,000</u>	<u>\$ 36,782,000</u>	<u>\$ (3,675,000)</u>

The System's total debt decreased \$3,675,000, or 10.0 percent during the current fiscal year.

Additional information of the System's long-term debt can be found on Note 2D starting on page 27 of this report.

Factors Bearing on the Systems 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.

Requests for Information

This financial report is designed to provide a general overview of the System's finances for all those with an interest in the System's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Lincoln Pipestone Rural Water System's office, 415 East Benton Street, Box 188, Lake Benton, MN 56149.

FUND FINANCIAL STATEMENTS
ENTERPRISE FUND

LINCOLN PIPESTONE RURAL WATER SYSTEM
LAKE BENTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

Lincoln Pipestone Rural Water System
 Lake Benton, Minnesota
 Statement of Net Position
 December 31, 2021

Assets	
Current Assets	
Cash and temporary investments	\$ 5,555,631
Receivables	
Accounts	470,101
Notes	3,743
Inventories	468,148
Special assessments - current portion	746,602
Prepaid items	55,573
Total Current Assets	<u>7,299,798</u>
Noncurrent Assets	
Board designated cash and temporary investments	
Short-term assets	1,622,561
Long-term assets	429,533
System improvements	1,825,384
Land acquisition	45,512
Tank maintenance	549,985
Total Board designated cash and temporary investments	<u>4,472,975</u>
Restricted assets	
Cash and investments	<u>1,972,073</u>
Receivables	
Special assessments, net of current	<u>10,678,310</u>
Other assets	
Patronage dividend receivable	<u>691,490</u>
Receivables	
Accounts, net of current	<u>176,458</u>
Capital assets	
Nondepreciable	3,875,544
Construction in progress	735,022
Depreciable, net	<u>63,126,487</u>
Total Capital Assets	<u>67,737,053</u>
Total Noncurrent Assets	<u>85,728,359</u>
Total Assets	<u>93,028,157</u>
Deferred Outflows of Resources	
Deferred pension resources	<u>626,222</u>
Liabilities	
Current Liabilities	
Accounts payable	195,962
Accrued salaries payable	50,648
Unearned revenue	36,259
Accrued interest payable	28,722
Total Current Liabilities	<u>311,591</u>
Noncurrent Liabilities	
Due within one year	
Long-term liabilities	881,656
Due in more than one year	
Long-term liabilities	33,010,892
Net pension liability	606,404
Total Noncurrent Liabilities	<u>34,498,952</u>
Total Liabilities	<u>34,810,543</u>
Deferred Inflows of Resources	
Deferred pension resources	<u>541,657</u>
Net Position	
Net investment in capital assets	33,905,539
Restricted for debt service	13,368,263
Unrestricted	<u>11,028,377</u>
Total Net Position	<u>\$ 58,302,179</u>

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

Lincoln Pipestone Rural Water System
Statement of Activities
For the Year Ended December 31, 2021

<u>Functions/Programs</u>	Program Revenues			Net (Expenses) Revenues and Changes in Net Position	
<u>Business-type Activities</u>	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Business-type Activities
Water	\$ 8,349,895	\$ 6,046,277	\$ -	\$ 2,910,732	\$ 607,114
General Revenues					
Unrestricted investment earnings					26,156
Other revenues					186,689
Total General Revenues					212,845
Change in Net Position					819,959
Net Position, January 1					57,624,202
Prior Period Adjustment (Note 6)					(141,982)
Net Position, January 1 as Restated					57,482,220
Net Position, December 31					\$ 58,302,179

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

Lincoln Pipestone Rural Water System
Lake Benton, Minnesota
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2021

Operating Revenues	
Charges for sales and services	
Consumers	\$ 4,632,104
Municipalities	848,238
Other	425,935
Total Operating Revenues	<u>5,906,277</u>
Operating Expenses	
Sources of Supply and Pumping	
Salaries	151,373
Employee benefits	67,868
Transportation	9,339
Purchased power	281,966
New water source/well head protection	2,062
Repairs and materials	184,630
Chemical and supplies	242,033
Telephone	8,866
Licenses, permits and fees	65,336
Water purchases	649,311
Total Source of Supply and Pumping	<u>1,662,784</u>
SCADA	
Salaries	90,277
Employee benefits	45,411
Transportation	13,035
Purchased power	202,668
Repairs and materials	17,641
Telephone	743
Total SCADA	<u>369,775</u>
Distribution	
Salaries	524,337
Employee benefits	278,595
Transportation	112,190
Repairs and materials	184,246
Gopher location	7,854
Telephone	21,061
Damage claims	9,032
Purchased power	4,141
Total Distribution	<u>1,141,456</u>
General and Administrative	
Salaries	269,311
Employee benefits	102,473
Pension expense	187,955
Directors fees	68,623
Board meetings	2,258
Supplies	14,087
Other services and charges	217,387
Repairs and materials	31,841
Transportation	8,043
Advertising and promotion	16,136
Dues and memberships	9,242
Training	6,515
Insurance	81,083
Utilities	9,134
Real estate taxes	28,892
Other	1,755
Total General and Administrative	<u>1,054,735</u>
Depreciation	<u>3,296,773</u>
Total Operating Expenses	<u>7,525,523</u>
Operating Loss	<u>(1,619,246)</u>

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

Lincoln Pipestone Rural Water System
 Lake Benton, Minnesota
 Statement of Revenues, Expenses and Changes in Net Position (Continued)
 For the Year Ended December 31, 2021

Nonoperating Revenues (Expenses)	
Interest income	\$ 26,156
Capacity charges	140,000
Farm rental (net)	135,689
Amortization of bond premium	77,709
Membership fees	51,000
Bond issuance costs	(134,917)
Interest expense	(884,772)
Miscellaneous income	74,503
Gain (loss) on sale of capital assets	43,105
Total Nonoperating Revenues (Expenses)	<u>(471,527)</u>
Loss Before Contributions	<u>(2,090,773)</u>
Contributions	
Special assessment revenue	1,766,945
Intergovernmental contributions	
Federal	575,847
State	19,940
Capital contributions	548,000
Total Contributions	<u>2,910,732</u>
Change in Net Position	<u>819,959</u>
Net Position, January 1	57,624,202
Prior Period Adjustment (Note 6)	<u>(141,982)</u>
Net Position, January 1 as Restated	<u>57,482,220</u>
Net Position, December 31	<u>\$ 58,302,179</u>

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

Lincoln Pipestone Rural Water System
Lake Benton, Minnesota
Statement of Cash Flows
For the Year Ended December 31, 2021

Cash Flows from Operating Activities	
Receipts from customers	\$ 5,859,054
Payments to suppliers and vendors	(2,840,004)
Payments to and on behalf of employees	(1,336,208)
Net Cash Provided by Operating Activities	<u>1,682,842</u>
Cash Flows from Noncapital Financing Activities	
Membership fees	51,000
Miscellaneous non-operating income	74,503
Farm rental income	135,689
Net Cash Provided by Noncapital Financing Activities	<u>261,192</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition of capital assets	(1,833,403)
Intergovernmental - federal	902,972
Intergovernmental - state	19,940
Capacity charges	140,000
Notes receivable	17,099
Interest on notes receivable	1,157
Special assessments	1,891,914
Capital contributions	548,000
Proceeds from bonds issued, net of premiums/discounts	5,694,915
Principal paid on long-term debt	(9,045,000)
Interest and fees paid on long-term debt	(1,546,448)
Net Cash Used by Capital and Related Financing Activities	<u>(3,208,854)</u>
Cash Flows from Investing Activities	
Interest received on cash and investments	<u>26,086</u>
Net Decrease in Cash and Cash Equivalents	(1,238,734)
Cash and Cash Equivalents, January 1	<u>13,239,413</u>
Cash and Cash Equivalents, December 31	<u>\$ 12,000,679</u>
Reconciliation of Cash and Temporary Investments	
Cash and temporary investments - unrestricted	\$ 5,555,631
Board designated cash and temporary investments	4,472,975
Cash and temporary investments - restricted	<u>1,972,073</u>
Total Cash and Temporary Investments	<u>\$ 12,000,679</u>
Reconciliation of Operating Loss to Net	
Cash Provided (Used) by Operating Activities	
Operating loss	\$ (1,619,246)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	3,296,773
(Increase) decrease in assets	
Accounts receivable	(36,957)
Inventories	(23,416)
Prepaid items	(7,895)
Patronage dividend	(14,124)
(Increase) decrease in deferred outflows of resources	
Deferred pension resources	(103,660)
Increase (decrease) in liabilities	
Accounts payable	(48,313)
Contracts payable	(60,809)
Due to other governments	(466)
Accrued salaries payable	7,192
Compensated absences payable	(210)
Unearned revenue	3,858
Net pension liability	(226,965)
Increase (decrease) in deferred inflows of resources	
Deferred pension resources	<u>517,080</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,682,842</u>
Schedule of Noncash Investing, Capital and Financing Activities	
Gain on trade in of capital assets	\$ 43,105
Amortization of bond premium	\$ (77,709)

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

Lincoln Pipestone Rural Water System
Lake Benton, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The Lincoln Pipestone Rural Water System (the System) was established pursuant to MN Statutes 116A under the jurisdiction of the Fifth Judicial District. The participating counties of Lincoln, Pipestone, Jackson, 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 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 relating to Lincoln Pipestone Rural Water System.

The System considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the System are such that exclusion would cause the System's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. The System has no component units that meet the GASB criteria.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The System's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* in accordance with accounting principles generally accepted in the United States of America. Under this method, revenues are recorded when earned and expenses are recorded when a liability is incurred.

The System is accounted for as an enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the determination of net income is necessary or useful to sound financial administration. The intent of the governing body is that the costs of providing goods or services to the members and cities on a continuing basis be financed or recovered primarily through user charges.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the System receives value without directly giving equal value in return, include grants, entitlement and donations. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the System must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the System on a reimbursement basis.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The System reports the following major proprietary fund:

The *Water fund* accounts for the activities of the System's water distribution system operations.

Lincoln Pipestone Rural Water System
Lake Benton, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 1: Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the System's enterprise fund is charges to customers for sales and services. The System also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Deposits and Investments

The System's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash balances are invested to the extent available in various deposits and investments authorized by Minnesota State statutes. For purposes of the statement of cash flows, cash equivalents include demand deposit account balances and certificates of deposit.

The System may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
8. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
9. Guaranteed investment contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

Broker money market funds operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the shares.

Lincoln Pipestone Rural Water System
Lake Benton, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 1: Summary of Significant Accounting Policies (Continued)

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Minnesota Municipal Money Market Fund is regulated by Minnesota statutes and the Board of Directors of the League of Minnesota Cities and is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the regulatory rules of the SEC. In accordance with GASB Statement No. 79, the System's investment in this pool is valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the 4M Liquid Asset Fund. Investments in the 4M Plus must be deposited for a minimum of 14 calendar days. Withdrawals prior to the 14-day restriction period will be subject to a penalty equal to seven days interest on the amount withdrawn. Seven days' notice of redemption is required for withdrawals of investments in the 4M Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption. Financial statements of the 4M Fund can be obtained by contracting RBC Global Management at 100 South Fifth Street, Suite 2300, Minneapolis, MN 55402-1240.

The System has not adopted a formal investment policy that addresses interest rate and credit risk.

Restricted Cash

The System has received monies restricted for specific purposes. The balance in restricted cash represents assets of \$1,972,073 to be used for capital improvements and debt payments.

Board Designated Cash and Temporary Investments

The System has designated dollars for future capital needs for short-term and long-term assets, system improvements, land acquisitions and tank maintenance.

Accounts Receivable

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2021. All receivables are reported at their gross value and, if appropriate, reduced by the estimated portion that is expected to be uncollectible. Uncollectible accounts are periodically charged to operations on a direct write-off method. There is no allowance for uncollectible amounts in the fund.

Special Assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as receivable upon certification to the County. Special assessments are recognized as revenue when they are received in cash or within 60 days after year end.

Inventories and Prepaid Items

All inventories are valued at the lower of cost or market using the first-in, first-out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Lincoln Pipestone Rural Water System
 Lake Benton, Minnesota
 Notes to the Financial Statements
 December 31, 2021

Note 1: Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the financial statements. Capital assets are defined by the System as assets with an initial estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects as constructed.

Property, plant and equipment are depreciated in the proprietary fund of the System using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Distribution System	7 - 40
Machinery and Equipment	5 - 20
Buildings	20

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The System has only one item that qualifies for reporting in this category. Accordingly, the item, deferred pension resources, is reported only in the statements of net position. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.

Compensated Absences

The established vacation year is the calendar year, January 1 through December 31 each year. Vacations are accrued or earned based on the employee's length of service and the time actually worked. Employees will not continue to accrue vacation time once they have accrued 125 percent of the maximum number of hours they can earn in the current calendar year.

Full-time employees will accrue paid vacation according to the following schedule, (annual totals will be rounded to the nearest whole hour):

<u>Service Period</u>	<u>Paid Vacation Accrual Rate</u>
First calendar year or part thereof	3.333 hours per month worked (40 hours per year maximum earned)
Calendar years 2 though 5	6.666 hours per month worked (80 hours per year maximum earned)
Calendar years 6 though 15	10.0 hours per month worked (120 hours per year maximum earned)
Calendar years 16 and over	13.33 hours per month worked (160 hours per year maximum earned)

Lincoln Pipestone Rural Water System
Lake Benton, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 1: Summary of Significant Accounting Policies (Continued)

Employees may not receive vacation pay in lieu of time off. In addition, employee will cease to earn additional vacation time once they have accrued 125 percent of the maximum number of hours they can earn in the current calendar year.

When employment is terminated, employees will received vacation pay for any unused vacation accrued at the time of termination.

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities. The recognition of bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period incurred.

Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The total pension expense for the GERP is \$265,389.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has one type of item, which arises only under a modified accrual basis of accounting that qualifies as needing to be reported in this category. The System has one item which qualifies for reporting in this category. The item, deferred pension resources results from actuarial calculations. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position

Net position represents the difference between assets and liabilities. Net position is displayed in three components:

- a. Net Investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted net position - Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position that do not meet the definition of "restricted" or "Net investment in capital assets."

When both restricted and unrestricted resources are available for use, it is the System's policy to use restricted resources first, then unrestricted resources as they are needed.

Lincoln Pipestone Rural Water System
Lake Benton, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 2: Detailed Notes

A. Deposits and Investments

Deposits

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the System's deposits may not be returned or the System will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the System, the System maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

Minnesota statutes require that all System deposits be protected by insurance, surety bond, or collateral. The fair value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- Time deposits that are fully insured by any federal agency.

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a 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. The selection should be approved by the government entity.

At year end, the System's carrying amount of deposits was \$498,393 and the bank balance was \$580,282 . At the end of the year, \$250,000 was covered by FDIC insurance while the remaining was covered by collateral.

Lincoln Pipestone Rural Water System
 Lake Benton, Minnesota
 Notes to the Financial Statements
 December 31, 2021

Note 2: Detailed Notes (Continued)

Investments

As of December 31, 2021, the System had the following investments that are insured or registered, or securities held by the System's agent in the System's name:

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Amount
Pooled Investments at Amortized Cost			
4M Fund	N/A	less than 1 year	\$ 11,090,409
Non-pooled Investments at Amortized Cost			
Money Market Funds	N/A	less than 1 year	<u>411,628</u>
Total Investments			<u><u>\$ 11,502,037</u></u>

(1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.

(2) Interest rate risk is disclosed using the segmented time distribution method.

N/A Indicates not applicable or available.

Note: The System does not have carry any investments subject to fair value measurements.

A reconciliation of cash and investments as shown on the statement of net position for the System follows:

Carrying Amount of Deposits	\$ 498,393
Investments	11,502,037
Cash on Hand	<u>249</u>
Total	<u><u>\$ 12,000,679</u></u>
Cash and Temporary Investments	\$ 5,555,631
Board Designated Cash and Temporary Investments	4,472,975
Restricted Cash and Temporary Investments	<u>1,972,073</u>
Total Deposits	<u><u>\$ 12,000,679</u></u>

B. 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 in the form of a direct reduction loan at 5 percent interest. The balance of the loans outstanding at December 31, 2021, are as follows:

<u>Municipality</u>	<u>Balance at Year End</u>
Fairview	<u><u>\$ 3,743</u></u>

Lincoln Pipestone Rural Water System
 Lake Benton, Minnesota
 Notes to the Financial Statements
 December 31, 2021

Note 2: Detailed Notes (Continued)

C. Capital Assets

Capital asset activity for the System for the year ended December 31, 2021 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets not Being Depreciated				
Land	\$ 3,875,544	\$ -	\$ -	\$ 3,875,544
Construction in progress	1,881,880	509,506	(1,656,364)	735,022
Total Capital Assets not Being Depreciated	<u>5,757,424</u>	<u>509,506</u>	<u>(1,656,364)</u>	<u>4,610,566</u>
Capital Assets Being Depreciated				
Distribution System	117,013,152	2,570,806	-	119,583,958
Buildings	193,138	-	-	193,138
Vehicles	626,550	114,672	(82,454)	658,768
Machinery and equipment	1,214,016	10,763	-	1,224,779
Office equipment	88,526	-	-	88,526
Total Capital Assets being Depreciated	<u>119,135,382</u>	<u>2,696,241</u>	<u>(82,454)</u>	<u>121,749,169</u>
Less Accumulated Depreciation for				
Distribution System	(53,504,419)	(3,173,798)	-	(56,678,217)
Buildings	(162,652)	(4,236)	-	(166,888)
Vehicles	(478,602)	(93,045)	82,454	(489,193)
Machinery and equipment	(1,174,164)	(25,694)	-	(1,199,858)
Office equipment	(88,526)	-	-	(88,526)
Total Accumulated Depreciation	<u>(55,408,363)</u>	<u>(3,296,773)</u>	<u>82,454</u>	<u>(58,622,682)</u>
Total Capital Assets Being Depreciated, Net	<u>63,727,019</u>	<u>(600,532)</u>	<u>-</u>	<u>63,126,487</u>
Total Capital Assets, Net	<u>\$ 69,484,443</u>	<u>\$ (91,026)</u>	<u>\$ (1,656,364)</u>	<u>\$ 67,737,053</u>

The depreciation was all part of the water system and totaled \$3,296,773.

Lincoln Pipestone Rural Water System
 Lake Benton, Minnesota
 Notes to the Financial Statements
 December 31, 2021

Note 2: Detailed Notes (Continued)

D. General Long-term Debt

General Obligation Revenue Bonds

The following bonds will be repaid from future revenues.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Water System Refunding Bonds of 2013A	3,055,000	2.00 - 2.35	12/11/13	01/01/23	\$ 330,000
G.O. Water Revenue Refunding Bonds of 2016A	4,260,000	2.00 - 2.50	06/01/16	01/01/34	3,300,000
G.O. Water Revenue Refunding Bonds of 2016A - Pipestone	1,080,000	1.75 - 2.10	03/15/16	01/01/28	670,000
G.O. Water Revenue Bonds of 2016B - Lincoln	3,108,000	2.25	06/16/16	01/01/56	2,843,000
G.O. Water Temporary Water Revenue Bonds of 2019A	9,890,000	2.25	09/27/19	01/01/59	9,564,000
G.O. Water Revenue Bonds of 2020A	2,065,000	2.00 - 3.00	05/27/20	03/01/32	1,910,000
G.O. Water Revenue Refunding Bonds of 2020B	9,340,000	1.00 - 3.00	12/17/20	01/01/50	9,120,000
G.O. Water Revenue Refunding Bonds of 2021A	5,370,000	2.00 - 4.00	12/01/21	01/01/42	<u>5,370,000</u>
Total Revenue Bonds					<u><u>\$ 33,107,000</u></u>

The pledged revenue for the G.O. Revenue Bonds is operating revenue of \$5,906,277 which is used for principal and interest payments of \$10,591,448 or 55.7%. Special assessments are also pledged for bond payments with revenue for 2021 was \$1,891,914.

Lincoln Pipestone Rural Water System
 Lake Benton, Minnesota
 Notes to the Financial Statements
 December 31, 2021

Note 2: Detailed Notes (Continued)

The annual service requirements to maturity for the general obligation revenue bonds are as follows:

Year Ending December 31	Revenue Bonds		
	Business-type Activities		
	Principal	Interest	Total
2022	\$ 830,000	\$ 321,259	\$ 1,151,259
2023	1,165,000	730,551	1,895,551
2024	1,230,000	698,189	1,928,189
2025	1,240,000	664,314	1,904,314
2026	1,270,000	629,851	1,899,851
2027 - 2031	6,452,000	2,631,026	9,083,026
2032 - 2036	5,198,000	1,970,293	7,168,293
2037 - 2041	4,781,000	1,489,718	6,270,718
2042 - 2046	3,955,000	1,014,107	4,969,107
2047 - 2051	3,641,000	588,251	4,229,251
2052 - 2056	2,244,000	277,605	2,521,605
2057 - 2059	1,101,000	49,905	1,150,905
Total	<u>\$ 33,107,000</u>	<u>\$ 11,065,069</u>	<u>\$ 44,172,069</u>

Changes in Long-term Liabilities

During the year ended December 31, 2021, the following changes occurred in non-current liabilities reported on the government-wide statements.

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Business-type Activities					
Bonds Payable					
Revenue Bonds	\$ 36,782,000	\$ 5,370,000	\$ (9,045,000)	\$ 33,107,000	\$ 830,000
Bond Premium	477,308	324,915	(77,709)	724,514	-
Compensated Absences Payable	61,244	62,602	(62,812)	61,034	51,656
 Business-Type Activity Long-term Liabilities	 <u>\$ 37,320,552</u>	 <u>\$ 5,757,517</u>	 <u>\$ (9,185,521)</u>	 <u>\$ 33,892,548</u>	 <u>\$ 881,656</u>

Bond Refunding

On December 1, 2021, the System issued General Obligation Water Revenue Refunding Bonds, Series 2021A for \$5,370,000. The refunding bonds were issued with a net interest cost of 1.8832990 percent to refund the maturities of the System's General Obligation Revenue Bonds, Series 2010B. The refunded bonds earned an average coupon rate of 2.3237324 percent. The reoffering premium on the refunded bonds was \$324,915.

Lincoln Pipestone Rural Water System
Lake Benton, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 3: Defined Benefit Pension Plans - Statewide

A. Plan Description

The Rural Water System participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with *Minnesota statutes*, chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan

All full-time and certain part-time employees of the Rural Water System are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

B. Benefits Provided

PERA provides retirement, disability and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

General Employee Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989 receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent for average salary for all years of service. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989 normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

C. Contributions

Minnesota statutes chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2021 and the Rural Water System's was required to contribute 7.50 percent for Coordinated Plan members. The Rural Water System's contributions to the General Employees Fund for the year ending December 31, 2021, 2020 and 2019 were \$77,076, \$74,922 and \$72,509, respectively. The Rural Water System's contributions were equal to the required contributions for the year as set by state statute.

Lincoln Pipestone Rural Water System
 Lake Benton, Minnesota
 Notes to the Financial Statements
 December 31, 2021

Note 3: Defined Benefit Pension Plans - Statewide (Continued)

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2021, the Rural Water System reported a liability of \$606,404 for its proportionate share of the General Employees Fund's net pension liability. The Rural Water System's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2021. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the System totaled \$25,647. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Rural Water System's proportionate share of the net pension liability was based on the Rural Water System's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2020 through June 30, 2021 relative to the total employer contributions received from all of PERA's participating employers. The Rural Water System's proportion was 0.0142 percent which was a 0.0003 percent increase from its proportion measured as on June 30, 2020.

Rural Water System's Proportionate Share of the Net Pension Liability	\$ 606,404
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the Rural Water System	<u>18,602</u>
Total	<u><u>\$ 625,006</u></u>

For the year ended December 31, 2021, the Rural Water System recognized pension expense of \$263,888 for its proportionate share of the General Employees Plan's pension expense. In addition, the Rural Water System recognized \$1,501 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2021, the Rural Water System reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources, related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ 3,489	\$ 18,512
Changes in Actuarial Assumptions	370,258	12,951
Net Difference Between Projected and Actual Earnings on Plan Investments	-	510,194
Changes in Proportion	214,533	-
Contributions Paid to PERA Subsequent to the Measurement Date	<u>37,942</u>	<u>-</u>
Total	<u><u>\$ 626,222</u></u>	<u><u>\$ 541,657</u></u>

Lincoln Pipestone Rural Water System
 Lake Benton, Minnesota
 Notes to the Financial Statements
 December 31, 2021

Note 3: Defined Benefit Pension Plans - Statewide (Continued)

The \$37,942 reported as deferred outflows of resources related to pensions resulting from the Rural Water System’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2022	\$ 187,239
2023	3,288
2024	(662)
2025	(143,242)

E. Actuarial Assumptions

The total pension liability in the June 30, 2021, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.5 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.5 percent was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25 percent for the General Employees Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan. Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 29 years of service and 6.0 percent per year thereafter. Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. The tables are adjusted slightly to fit PERA’s experience.

Actuarial assumptions used in the June 30, 2021 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and become effective with the July 1, 2020 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2021:

General Employees Fund

Changes in Actuarial Assumptions

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Changes in Plan Provisions

- There were no changes in plan provisions since the previous valuation.

Lincoln Pipestone Rural Water System
 Lake Benton, Minnesota
 Notes to the Financial Statements
 December 31, 2021

Note 3: Defined Benefit Pension Plans - Statewide (Continued)

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity	33.5 %	5.10 %
Alternative Assets (Private Markets)	25.0	5.90
Bonds (Fixed Income)	25.0	0.75
International Equity	16.5	5.30
Total	<u>100.0 %</u>	

F. Discount Rate

The discount rate used to measure the total pension liability in 2021 was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

The following presents the Rural Water System's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the Rural Water System's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	Rural Water System's Proportionate Share of NPL		
	1 Percent Decrease (5.50%)	Current (6.50%)	1 Percent Increase (7.50%)
General Employees Fund	\$ 1,236,754	\$ 606,404	\$ 89,163

H. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

Lincoln Pipestone Rural Water System
Lake Benton, Minnesota
Notes to the Financial Statements
December 31, 2021

Note 4: Other Information

A. Concentration

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

B. Risk Management

The System is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the System carries insurance. The System obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT) which is a risk sharing pool with approximately 800 other governmental units. The System pays an annual premium to LMCIT for its property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the System's coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The System's management is not aware of any incurred but not reported claims.

Note 5: COVID-19

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus ("COVID-19") and the risks to the international community as virus spreads globally. On March 11, 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. In response to the pandemic, the State of Minnesota has issued stay-at-home orders and other measures aimed at slowing the spread of the coronavirus.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. Due to the rapid development and fluidity of this situation, the System cannot determine the ultimate impact that the COVID-19 pandemic will have on its financial condition, liquidity, and future revenue collection, and therefore any prediction as to the ultimate impact on the System's financial condition, liquidity, and future results of its revenue collections is uncertain.

Note 6: Prior Period Adjustment

During 2021, a prior adjustment was needed to remove an overstated special assessment receivable in the prior year which resulted in a \$141,982 decrease in beginning net position.

REQUIRED SUPPLEMENTARY INFORMATION
LINCOLN PIPESTONE RURAL WATER SYSTEM
LAKE BENTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

Lincoln Pipestone Rural Water System
 Lake Benton, Minnesota
 Required Supplementary Information
 December 31, 2021

Schedule of Employer's Share of PERA Net Pension Liability - General Employees Fund

Fiscal Year Ending	Rural Water System's Proportion of the Net Pension Liability	Rural Water System's Proportionate Share of the Net Pension Liability (a)	Rural Water System's Proportionate Share of the Net Pension Liability Associated with the System (b)	Total (a+b)	Rural Water System's Covered Payroll (c)	Rural Water System's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/2021	0.0142 %	\$ 606,404	\$ 18,602	\$ 625,006	\$ 1,024,406	59.2 %	87.0 %
6/30/2020	0.0139	833,369	25,647	859,016	991,780	84.0	79.0
6/30/2019	0.0133	735,327	22,832	758,159	471,348	156.0	80.2

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Schedule of Employer's PERA Contributions - General Employees Fund

Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Rural Water System's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/2021	\$ 77,076	\$ 77,076	\$ -	\$ 1,027,682	7.50 %
12/31/2020	74,922	74,922	-	998,956	7.50
12/31/2019	72,509	72,509	-	966,790	7.50

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Lincoln Pipestone Rural Water System
Lake Benton, Minnesota
Required Supplementary Information
December 31, 2021

Notes to the Required Supplementary Information - General Employees Fund

Changes in Actuarial Assumptions

2021 - The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes. The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

2020 - The price inflation assumption was decreased from 2.50% to 2.25%. The payroll growth assumption was decreased from 3.25% to 3.00%. Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates. Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements. Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter. Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females. The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments. The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019. The assumed spouse age difference was changed from two years older for females to one year older. The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

2019 - The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions

2021 - There were no changes in plan provisions since the previous valuation.

2020 - Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019 - The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The state's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

OTHER REQUIRED REPORTS
LINCOLN PIPESTONE RURAL WATER SYSTEM
LAKE BENTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

**INDEPENDENT AUDITOR'S REPORT ON
MINNESOTA LEGAL COMPLIANCE**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of the Lincoln Pipestone Rural Water System (the System) as of and for the year ended December 31, 2021, and the related notes to the financial statements, and have issued our report thereon dated April 11, 2022.

In connection with our audit, nothing came to our attention that caused us to believe that the Lincoln Pipestone Rural Water System failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the System's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

This report is intended solely for the information and use of those charged with governance and management of the Lincoln Pipestone Rural Water System and the State Auditor and is not intended to be, and should not be, used by anyone other than these specified parties.



Abdo
Mankato, Minnesota
April 11, 2022

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the enterprise fund activities of the Lincoln Pipestone Rural Water System (the System), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated April 11, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A deficiency in internal control 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Abdo
Mankato, Minnesota
April 11, 2022

