

Annual Financial Report

Lincoln Pipestone Rural Water System

Lake Benton, Minnesota

For the Year Ended
December 31, 2019

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Lincoln Pipestone Rural Water System
 Lake Benton, Minnesota
 Annual Financial Report
 Table of Contents
 For the Year Ended December 31, 2019

	<u>Page No.</u>
Introductory Section	
Board of Directors and Administration	7
Financial Section	
Independent Auditor's Report	11
Management's Discussion and Analysis	15
Basic Financial Statements	
Fund Financial Statements - Enterprise Fund	
Statement of Net Position	20
Statement of Activities	21
Statement of Revenues, Expenses and Changes in Net Position	22
Statement of Cash Flows	24
Notes to the Financial Statements	25
Required Supplementary Information	
Schedule of Employer's Share of Public Employees Retirement Association Net Pension Liability - General Employees Retirement Fund	40
Schedule of Employer's Public Employees Retirement Association Contributions - General Employees Retirement Fund	40
Notes to the Required Supplementary Information – General Employees Retirement Fund	41
Other Required Reports	
Independent Auditor's Report on Minnesota Legal Compliance	45
Independent Auditors 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	46
Federal Financial Award Programs	
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required By the Uniform Guidance	50
Schedule of Expenditures of Federal Awards	52
Notes to the Schedule of Expenditures of Federal Awards	53
Schedule of Findings, Responses and Questioned Costs	55

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INTRODUCTORY SECTION
LINCOLN PIPESTONE RURAL WATER SYSTEM
LAKE BENTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2019

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Lincoln Pipestone Rural Water System
Lake Benton, Minnesota
Board of Commissioners and Administration
For the Year Ended December 31, 2019

Board of Commissioners

<u>Name</u>	<u>Title</u>
Earl DeWilde	Chairperson
Mitch Kling	Vice-Chairperson
Jan Moen	Secretary
Rod Spronk	Treasurer
Frank Engels	Commissioner
Bill Ufkin	Commissioner
Jerry Lonneman	Commissioner
Randy Kraus	Commissioner
J. Brent Feikema	Commissioner
Glen Grant	Commissioner
Joe Weber	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, 2019

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2019 and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, 2019, 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.

Change in Accounting Standards

As described in Note 3 to the financial statements, the System adopted the provisions of Governmental Accounting Standard Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pension – an Amendment of GASB No. 27 and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date and Amendment of GASB Statement 68*, for the year ended December 31, 2019. Adoption of the provisions of these statements results in significant change to the classifications of the components of the financial statements.

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Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 15 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 40 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.

Report on Summarized Comparative Information

We have previously audited the System's 2018 financial statements, and we expressed unmodified opinions on the respective financial statements in our report dated March 28, 2019. In our opinion, the summarized comparative information presented as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Information

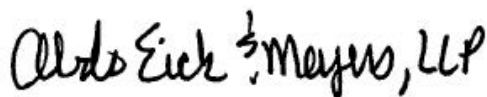
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The introductory section, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, individual fund financial schedules and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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 21, 2020, 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, EICK & MEYERS, LLP
Mankato, Minnesota
April 21, 2020

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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, 2019.

Financial Highlights

- The assets of the System exceeded its liabilities at the close of the most recent fiscal year by \$56,069,742 (net position). Of this amount, \$8,052,891 (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 \$1,108,041 as compared to an increase of \$505,585 in the previous year. The change from the previous year is mainly due to an increase in capacity charges in the amount of \$744,570.

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 20 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 25 of this report.

Fund Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the System, assets exceeded liabilities by \$56,069,742 at the close of the most recent fiscal year.

A large portion of the System's net position (53.7 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		
	2019	2018	Increase (Decrease)
Current and Other Assets	\$ 10,336,484	\$ 7,884,292	\$ 2,452,192
Restricted Assets	17,014,276	22,884,448	(5,870,172)
Capital Assets	67,652,391	66,228,627	1,423,764
Total Assets	95,003,151	96,997,367	(1,994,216)
Deferred Outflows of Resources	605,738	-	605,738
Long-term Liabilities Outstanding	38,256,681	41,120,258	(2,863,577)
Other Liabilities	1,270,480	915,408	355,072
Total Liabilities	39,527,161	42,035,666	(2,508,505)
Deferred Inflows of Resources	11,986	-	11,986
Net Investment in Capital Assets	30,141,146	30,857,853	(716,707)
Restricted	17,875,705	17,847,255	28,450
Unrestricted	8,052,891	6,256,593	1,796,298
Total Net Position	\$ 56,069,742	\$ 54,961,701	\$ 1,108,041

An additional portion of the System's net position (31.9 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance, \$8,052,891 or (14.4 percent) represents unrestricted net position which may be used to meet the System's ongoing obligations to citizens and creditors.

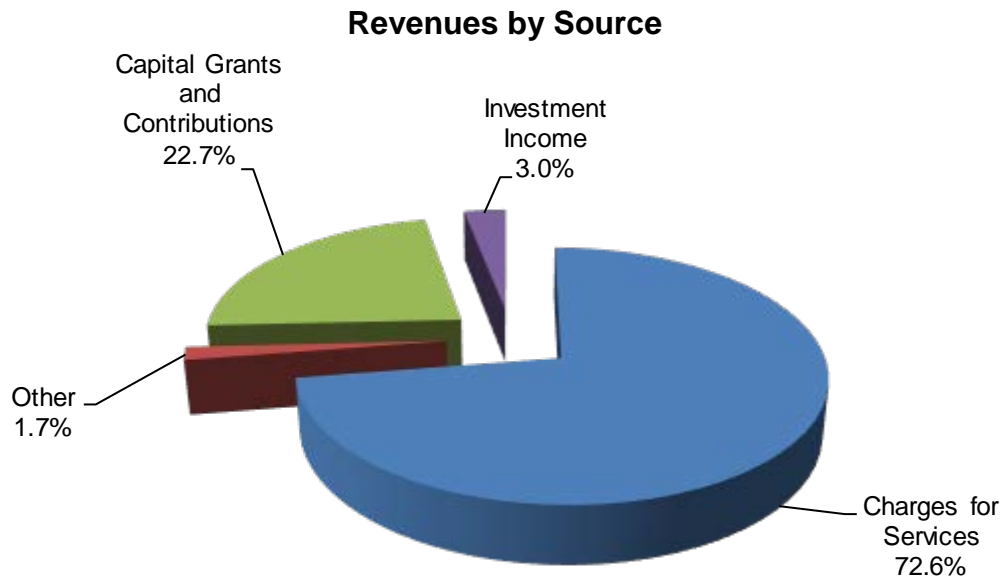
At the end of the current fiscal year, the System is able to report positive balances in all categories of net position.

The System's net position increased by \$1,108,041 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		
	2019	2018	Increase (Decrease)
Revenues			
Program Revenues			
Charges for services	\$ 6,525,451	\$ 6,048,041	\$ 477,410
Capital Grants and Contributions	2,043,915	1,976,114	67,801
General Revenues			
Investment income	273,574	183,129	90,445
Other	152,609	313,468	(160,859)
Total Revenues	<u>8,995,549</u>	<u>8,520,752</u>	<u>474,797</u>
Expenses			
Operating Expenses	6,942,888	7,062,851	(119,963)
Non-operating	944,620	952,316	(7,696)
Total expenses	<u>7,887,508</u>	<u>8,015,167</u>	<u>(127,659)</u>
Change in Net Position	1,108,041	505,585	602,456
Net Position - January 1	<u>54,961,701</u>	<u>54,456,116</u>	<u>505,585</u>
Net Position - December 31	<u>\$ 56,069,742</u>	<u>\$ 54,961,701</u>	<u>\$ 1,108,041</u>

The following graph shows revenues by source for 2019:



Capital Asset and Debt Administration

Capital assets. The System's investment in capital assets as of December 31, 2019, amounts to \$67,652,391 (net of accumulated depreciation). This investment in capital assets includes land, buildings and distribution system. The total increase in the System's investment in capital assets for the current fiscal year was 2.1 percent.

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

- Water tower painting - \$431,060
- Automated meter reading (AMRS) - \$612,058
- Magnolia line - \$100,000
- Edgerton pumping station - \$138,902
- Improvements added to construction in progress of \$3,293,894

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

	Water System		
	2019	2018	Increase (Decrease)
Land and Improvements	\$ 3,866,544	\$ 3,866,544	\$ -
Construction in Progress	3,064,552	389,539	2,675,013
Distribution System	60,573,189	61,703,598	(1,130,409)
Buildings	35,185	40,394	(5,209)
Machinery and Equipment	62,736	85,903	(23,167)
Vehicles	50,185	141,021	(90,836)
Office Equipment	-	1,628	(1,628)
Total	<u>\$ 67,652,391</u>	<u>\$ 66,228,627</u>	<u>\$ 1,423,764</u>

Additional information on the System's capital assets can be found in Note 2C starting on page 32 of this report.

Long-term debt. At the end of the current fiscal year, the System had total bonded debt outstanding of \$37,305,119. 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		
	2019	2018	Increase (Decrease)
Revenue Bonds	<u>\$ 37,305,119</u>	<u>\$ 40,841,000</u>	<u>\$ (3,535,881)</u>

The System's total debt decreased \$3,535,881, or 8.7 percent during the current fiscal year.

Additional information of the System's long-term debt can be found on Note 2D starting on page 33 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, 2019

Lincoln Pipestone Rural Water System
Lake Benton, Minnesota
Statement of Net Position
December 31, 2019
With Comparative Totals for December 31, 2018

	2019	2018
Assets		
Current Assets		
Cash and temporary investments	\$ 5,372,413	\$ 4,386,545
Receivables		
Interest	20,459	1,258
Accounts	474,139	477,824
Notes	20,842	15,352
Inventories	279,567	334,815
Special assessment - current portion	877,630	741,048
Prepaid items	44,263	36,987
Total Current Assets	7,089,313	5,993,829
Noncurrent Assets		
Board designated cash and temporary investments		
Short-term Assets	1,116,435	755,466
Long-term Assets	209,446	100,871
System Improvements	1,055,191	-
Land Acquisition	45,322	17,188
Tank Maintenance	145,597	370,849
Restricted assets		
Cash and investments	5,476,237	10,828,627
Receivables		
Notes, net of current	16,201	37,043
Special Assessments	11,521,838	12,018,778
Other assets		
Patronage Dividend Receivable	675,180	646,089
Capital assets		
Nondepreciable	3,866,544	3,866,544
Construction in progress	3,064,552	389,539
Depreciable, net	60,721,295	61,972,544
Total Noncurrent Assets	87,913,838	91,003,538
Total Assets	95,003,151	96,997,367
Deferred Outflows of Resources		
Deferred pension resources	605,738	-
Liabilities		
Current Liabilities		
Accounts payable	407,007	79,028
Due to other governments	9,554	1,568
Accrued salaries payable	36,725	30,257
Compensated absences payable	43,607	47,358
Unearned revenue	58,491	43,149
Accrued interest payable	715,096	714,048
Current portion of long-term liabilities	1,565,000	11,093,000
Total Current Liabilities	2,835,480	12,008,408
Noncurrent Liabilities		
Compensated absences payable - net of current portion	10,109	8,286
Net pension liability	735,327	-
Bonds payable - net of current portion	35,946,245	30,018,972
Total Noncurrent Liabilities	36,691,681	30,027,258
Total Liabilities	39,527,161	42,035,666
Deferred Inflows of Resources		
Deferred pension resources	11,986	-
Net Position		
Net investment in capital assets	30,141,146	30,857,853
Restricted for debt service	17,875,705	17,847,255
Unrestricted	8,052,891	6,256,593
Total Net Position	\$ 56,069,742	\$ 54,961,701

The notes to the financial statements are an integral part of this statement 20

Lincoln Pipestone Rural Water System
Statement of Activities
For the Year Ended December 31, 2019
With Comparative Totals for Year Ended December 31, 2018

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Business-type Activities	
Business-type Activities					2019	2018
Water	<u>\$ 7,887,508</u>	<u>\$ 6,525,451</u>	<u>\$ -</u>	<u>\$ 2,043,915</u>	<u>\$ 681,858</u>	<u>\$ 143,469</u>
General revenues						
Unrestricted investment earnings					273,574	183,129
Other revenues					152,609	178,987
Total General Revenues					<u>426,183</u>	<u>362,116</u>
Change in net position					1,108,041	505,585
Net position, January 1					<u>54,961,701</u>	<u>54,456,116</u>
Net position, December 31					<u>\$ 56,069,742</u>	<u>\$54,961,701</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
For the Year Ended December 31, 2019
With Comparative Actual Amounts for Year Ended December 31, 2018

	2019	2018
Operating Revenues		
Charges for sales and services		
Consumers	\$ 4,516,345	\$ 4,291,133
Municipalities	854,934	1,372,040
Other	31,077	68,250
Total Operating Revenues	5,402,356	5,731,423
Operating Expenses		
Sources of supply and pumping		
Salaries	209,658	193,150
Employee benefits	88,046	84,169
Transportation	9,993	10,461
Purchased power	270,706	284,151
New water source/well head protection	70,850	22,518
Repairs and materials	140,587	182,965
Chemical and supplies	218,030	226,238
Telephone	7,495	11,412
Licenses, Permits, Fees	47,490	57,017
Water Purchases	570,665	967,634
Total Source of Supply and Pumping	1,633,520	2,039,715
SCADA		
Salaries	68,164	77,556
Employee benefits	34,297	34,427
Transportation	13,120	13,643
Purchased power	190,510	221,652
Repairs and materials	55,301	65,076
Utilities	-	1,872
Telephone	706	11,758
Total SCADA	362,098	425,984
Distribution		
Salaries	439,533	376,995
Employee benefits	197,846	180,435
Transportation	92,840	70,693
Repairs and materials	136,364	138,013
Gopher Location	12,266	7,011
Telephone	21,700	22,047
Damage claims	7,730	6,289
Purchased power	5,120	3,427
Total Distribution	913,399	804,910
General and administrative		
Salaries	254,981	253,127
Employee benefits	100,030	92,748
Pension expense	143,285	-
Directors fees	73,019	76,514
Board Meetings	3,470	4,048
Supplies	21,221	22,494
Other services and charges	168,115	158,738
Repairs and materials	37,017	37,295
Transportation	12,815	12,398
Advertising and promotion	16,496	17,399
Dues and memberships	14,848	11,398
Training	4,911	2,000
Insurance	68,436	65,248
Utilities	9,729	15,448
Real estate taxes	38,248	32,808
Other	8,142	8,913
Total General and administrative	974,763	810,576
Depreciation	3,059,108	2,981,666
Total Operating Expenses	6,942,888	7,062,851
Operating Loss	(1,540,532)	(1,331,428)

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, 2019
 With Comparative Actual Amounts for Year Ended December 31, 2018

	2019	2018
Nonoperating Revenues (Expenses)		
Interest income	\$ 273,574	\$ 183,129
Capacity charges	1,123,095	426,999
Farm rental (net)	133,009	178,987
Amortization of bond premium	64,846	64,846
Miscellaneous income	19,600	24,100
Bond issuance costs	(14,754)	(4,245)
Interest expense	(994,712)	(1,015,568)
Miscellaneous expense	-	(1,000)
Gain (loss) on sale of capital assets	-	3,651
Total Nonoperating Revenues (Expenses)	604,658	(139,101)
Loss Before Contributions	(935,874)	(1,470,529)
Contributions		
Special assessment revenue	1,287,508	1,507,115
Intergovernmental Contributions		
Federal	94,475	95,840
State	29,982	29,734
Capital Contributions	631,950	343,425
Total Contributions	2,043,915	1,976,114
Change in Net Position	1,108,041	505,585
Net Position, January 1	54,961,701	54,456,116
Net Position, December 31	\$ 56,069,742	\$ 54,961,701

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, 2019
With Comparative Actual Amounts for Year Ended December 31, 2018

	2019	2018
Cash Flows from Operating Activities		
Receipts from customers	\$ 5,392,292	\$ 5,324,526
Payments to suppliers and vendors	(2,335,472)	(2,833,687)
Payments to and on behalf of employees	(1,246,440)	(1,291,352)
Net Cash Provided by Operating Activities	1,810,380	1,199,487
Cash Flows from Noncapital Financing Activities		
Miscellaneous non-operating expense	-	(1,000)
Miscellaneous non-operating income	19,600	24,200
Net Cash Provided by Noncapital Financing Activities	19,600	23,200
Cash Flows from Capital and Related Financing Activities		
Acquisition of capital assets	(4,254,688)	(2,080,707)
Intergovernmental - Federal	94,475	95,840
Intergovernmental - State	29,982	29,734
Proceeds from sale of capital assets	-	6,576
Capacity charges	1,123,095	426,899
Farm rental income	133,009	178,987
Notes receivable	15,352	18,600
Interest on notes receivable	1,646	4,969
Special assessments	1,647,866	1,887,145
Capital contributions and grants	631,950	343,425
Proceeds from bonds issued, net of premiums/discounts	7,897,119	-
Principal paid on long-term debt	(11,433,000)	(6,731,000)
Interest and fees paid on long-term debt	(1,008,418)	(1,090,104)
Net Cash Used by Capital and Related Financing Activities	(5,121,612)	(6,909,636)
Cash Flows from Investing Activities		
Interest received on cash and investments	252,727	178,389
Net Decrease in Cash and Cash Equivalents	(3,038,905)	(5,508,560)
Cash and Cash Equivalents, January 1	16,459,546	21,968,106
Cash and Cash Equivalents, December 31	\$ 13,420,641	\$ 16,459,546
Reconciliation of Cash and Temporary Investments		
Cash and temporary investments - Unrestricted	\$ 5,372,413	4,386,545
Board designated cash and temporary investments	2,571,991	1,244,374
Cash and temporary investments - Restricted	5,476,237	10,828,627
Total Cash and Temporary Investments	\$ 13,420,641	\$ 16,459,546
Reconciliation of Operating Loss to Net		
Cash Provided (Used) by Operating Activities:		
Operating loss	\$ (1,540,532)	\$ (1,331,428)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	3,059,108	2,981,666
(Increase) decrease in assets		
Accounts receivable	3,685	(377,478)
Inventories	55,248	34,797
Prepaid items	(7,276)	(17,136)
Patronage dividend	(29,091)	(13,584)
Increase in deferred outflows of resources		
Deferred pension resources	(605,738)	-
Increase (decrease) in liabilities		
Accounts payable	99,795	(62,880)
Due to other governments	7,986	110
Accrued salaries payable	6,468	3,933
Compensated absences payable	(1,928)	(2,678)
Unearned revenue	15,342	(15,835)
Net pension liability	735,327	-
Increase in deferred inflows of resources		
Deferred pension resources	11,986	-
Net Cash Provided (Used) by Operating Activities	\$ 1,810,380	\$ 1,199,487
Noncash Investing, Capital and Financing Activities		
Gain of sale of fixed asset	\$ -	\$ 3,651
Book value of disposed/traded capital assets	\$ -	\$ 2,925
Capital assets acquired on account	\$ 228,184	\$ -
Amortization of bond premium	\$ (64,846)	\$ (64,846)

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, 2019

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, 2019

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, 2019

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 System has the following recurring fair value measurements as of December 31, 2019:

- Negotiable certificates of deposit of \$3,444,110 are valued using a matrix pricing model (Level 2 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 unspent deposits of \$5,476,237 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 2019. 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, 2019

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 through 5	6.666 hours per month worked (80 hours per year maximum earned)
Calendar years 6 through 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)

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.

Lincoln Pipestone Rural Water System
Lake Benton, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 1: Summary of Significant Accounting Policies (Continued)

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 \$175,277.

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.

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.

Lincoln Pipestone Rural Water System
 Lake Benton, Minnesota
 Notes to the Financial Statements
 December 31, 2019

Note 2: Detailed Notes (Continued)

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 \$3,203,437 and the bank balance was \$3,422,826. At the end of the year, \$3,260,535 was covered by FDIC insurance. The remaining was covered by collateral.

Investments

As of December 31, 2019, 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	Fair Value Measurement Using	
				Level 1	Level 2
Pooled Investments at Amortized Costs					
4M Fund	N/A	less than 1 year	\$ 6,404,330		
Non-pooled Investments at Amortized Costs					
Money Market Funds	N/A	less than 1 year	368,414		
Non-Pooled Investments at Fair Value					
Negotiable certificates of deposits	N/A	less than 1 year	3,444,110	\$ -	\$ 3,444,110
Total Investments			<u>\$ 10,216,854</u>	<u>\$ -</u>	<u>\$ 3,444,110</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.

Lincoln Pipestone Rural Water System
 Lake Benton, Minnesota
 Notes to the Financial Statements
 December 31, 2019

Note 2: Detailed Notes (Continued)

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

Carrying Amount of Deposits	\$ 3,203,437
Investments	10,216,854
Cash on Hand	<u>350</u>
Total	<u><u>\$ 13,420,641</u></u>
Cash and Temporary Investments	\$ 5,372,413
Board Designated Cash and Temporary Investments	2,571,991
Restricted Cash and Temporary Investments	<u>5,476,237</u>
Total Deposits	<u><u>\$ 13,420,641</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, 2019, are as follows:

Municipality	Balance at Year End
Fairview	\$ 13,564
Ihlen	5,175
Hardwick	<u>18,304</u>
Total	<u><u>\$ 37,043</u></u>

Lincoln Pipestone Rural Water System
 Lake Benton, Minnesota
 Notes to the Financial Statements
 December 31, 2019

Note 2: Detailed Notes (Continued)

C. Capital Assets

Capital asset activity for the System for the year ended December 31, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 3,866,544	\$ -	\$ -	\$ 3,866,544
Construction in progress	389,539	3,293,894	(618,881)	3,064,552
Total capital assets not being depreciated	<u>4,256,083</u>	<u>3,293,894</u>	<u>(618,881)</u>	<u>6,931,096</u>
Capital Assets Being Depreciated				
Distribution System	109,237,431	1,807,859	-	111,045,290
Buildings	193,138	-	-	193,138
Vehicles	515,573	-	-	515,573
Machinery and equipment	1,206,916	-	-	1,206,916
Office Equipment	88,526	-	-	88,526
Total Capital Assets Being Depreciated	<u>111,241,584</u>	<u>1,807,859</u>	<u>-</u>	<u>113,049,443</u>
Less Accumulated Depreciation for				
Distribution System	(47,533,833)	(2,938,268)	-	(50,472,101)
Buildings	(152,744)	(5,209)	-	(157,953)
Vehicles	(374,552)	(90,836)	-	(465,388)
Machinery and equipment	(1,121,013)	(23,167)	-	(1,144,180)
Office Equipment	(86,898)	(1,628)	-	(88,526)
Total Accumulated Depreciation	<u>(49,269,040)</u>	<u>(3,059,108)</u>	<u>-</u>	<u>(52,328,148)</u>
Total Capital Assets Being Depreciated, Net	<u>61,972,544</u>	<u>(1,251,249)</u>	<u>-</u>	<u>60,721,295</u>
Total Capital Assets, Net	<u>\$ 66,228,627</u>	<u>\$ 2,042,645</u>	<u>\$ (618,881)</u>	<u>\$ 67,652,391</u>

The depreciation was all part of the water system and totaled \$3,059,108.

Lincoln Pipestone Rural Water System
 Lake Benton, Minnesota
 Notes to the Financial Statements
 December 31, 2019

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 2012	\$ 1,050,000	2.00 %	02/15/12	01/01/22	\$ 245,000
G.O. Water Revenue Crossover Refunding Bonds of 2012A	1,595,000	2.00	04/01/12	01/01/24	620,000
G.O. Water Revenue Bonds of 2011A	5,000,000	3.00	12/20/11	01/01/52	4,470,000
G.O. Water Revenue Bonds of 2011B	5,917,000	3.00	12/20/11	01/01/52	5,289,000
G.O. Water System Refunding Bonds of 2013A	3,055,000	2.00 - 2.35	12/11/13	01/01/23	1,025,000
G.O. Water Revenue Bonds of 2010 Jackson-Nobles	8,500,000	3.75	12/20/10	01/01/50	7,150,000
G.O. Water Bonds	800,000	3.25	09/22/10	01/01/49	689,000
G.O. Water Revenue Refunding Bonds of 2013A	2,910,000	3.00 - 3.75	12/11/13	03/01/32	2,255,000
G.O. Water Revenue Refunding Bonds of 2016A	4,260,000	2.00 - 2.50	06/01/16	01/01/34	3,780,000
G.O. Water Revenue Refunding Bonds of 2016A - Pipestone	1,080,000	1.75 - 2.10	03/15/16	01/01/28	880,000
G.O. Water Revenue Bonds of 2016B - Lincoln	3,108,000	2.25	06/16/16	01/01/56	3,005,000
G.O. Water Temporary Water Revenue Bonds of 2019A	* 9,890,000	2.25	09/27/19	01/01/59	<u>7,897,119</u>
Total Revenue Bonds					<u><u>\$ 37,305,119</u></u>

* Includes undrawn proceeds of \$1,992,881

Lincoln Pipestone Rural Water System
 Lake Benton, Minnesota
 Notes to the Financial Statements
 December 31, 2019

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
2020	1,565,000	1,040,074	\$ 2,605,074
2021	1,708,000	1,038,351	2,746,351
2022	1,608,000	997,288	2,605,288
2023	1,305,000	956,888	2,261,888
2024	1,186,000	923,008	2,109,008
2025 - 2029	6,067,000	4,132,491	10,199,491
2030 - 2034	5,716,000	3,275,303	8,991,303
2035 - 2039	4,385,000	2,576,370	6,961,370
2040 - 2044	4,889,000	1,902,173	6,791,173
2045 - 2049	5,471,000	1,151,915	6,622,915
2050 - 2054	3,369,000	428,075	3,797,075
2055 - 2059	2,029,000	130,882	2,159,882
Total	<u>\$ 39,298,000</u>	<u>\$ 18,552,817</u>	<u>\$ 57,850,817</u>

Includes undrawn bond proceeds of \$1,992,881.

Changes in Long-term Liabilities

During the year ended December 31, 2019, 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	\$ 40,841,000	\$ 7,897,119	\$(11,433,000)	\$ 37,305,119	\$ 1,565,000
Bond Premium	270,972	-	(64,846)	206,126	-
Compensated Absences Payable	55,644	57,102	(59,030)	53,716	43,607
Business-Type Activity Long-term Liabilities	<u>\$ 41,167,616</u>	<u>\$ 7,954,221</u>	<u>\$(11,556,876)</u>	<u>\$ 37,564,961</u>	<u>\$ 1,608,607</u>

Lincoln Pipestone Rural Water System
Lake Benton, Minnesota
Notes to the Financial Statements
December 31, 2019

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 (GERP)

All full-time and certain part-time employees of the Rural Water System are covered by the General Employees Retirement Plan (GERP). GERP 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.

GERP Benefits

GERP 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.

Annuities, disability benefits and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be 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 2019 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, 2019 was \$175,277. 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, 2019

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

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2019, the Rural Water System reported a liability of \$735,327 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 2019. 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 \$22,832. The net pension liability was measured as of June 30, 2019, 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, 2018 through June 30, 2019 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the Rural Water System's proportion was 0.0133 percent.

Rural Water System's proportionate share of the net pension liability	\$ 735,327
State of Minnesota's proportionate share of the net pension liability associated with the Rural Water System	<u>22,832</u>
Total	<u><u>\$ 758,159</u></u>

For the year ended December 31, 2019, the Rural Water System recognized pension expense of \$173,567 for its proportionate share of the General Employees Plan's pension expense. In addition, the Rural Water System recognized \$1,710 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, 2019, the Rural Water System reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ 10,468	\$ -
Changes in Actuarial Assumptions	-	11,986
Net Difference Between Projected and Actual Earnings on Plan Investments	4,740	-
Changes in Proportion	553,372	-
Contributions paid to PERA subsequent to the Measurement Date	<u>37,158</u>	<u>-</u>
Total	<u><u>\$ 605,738</u></u>	<u><u>\$ 11,986</u></u>

The \$37,158 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, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2020	\$ 185,136
2021	185,136
2022	185,136
2023	1,186
2024	-
Thereafter	-

Lincoln Pipestone Rural Water System
 Lake Benton, Minnesota
 Notes to the Financial Statements
 December 31, 2019

Note 4: Defined Benefit Pension Plans – Statewide (Continued)

E. Actuarial Assumptions

The total pension liability in the June 30, 2019, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabled members were based on RP-2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for General Employees Plan.

Actuarial assumptions used in the June 30, 2019 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. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions and plan provisions occurred in 2019:

General Employees Fund

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- 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.

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	35.5 %	5.10 %
Private Markets	25.0	5.90
Fixed Income	20.0	0.75
International Equity	17.5	5.90
Cash Equivalents	2.0	-
Total	100.0 %	

Lincoln Pipestone Rural Water System
 Lake Benton, Minnesota
 Notes to the Financial Statements
 December 31, 2019

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

F. Discount Rate

The discount rate used to measure the total pension liability in 2019 was 7.50 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 1 percentage point lower or 1 percentage point higher than the current discount rate:

	Rural Water System's Proportionate Share of NPL		
	1 Percent Decrease (6.50%)	Current (7.50%)	1 Percent Increase (8.50%)
	General Employees Fund	\$ 1,208,838	\$ 735,327

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.

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: Subsequent Event

In December 2019, a novel strain of coronavirus (COVID-19) surfaced. The spread of COVID-19 around the world in the first quarter of 2020 has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies and, as such, the System is unable to determine if it will have a material impact to its operations.

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

FOR THE YEAR ENDED
DECEMBER 31, 2019

Lincoln Pipestone Rural Water System
 Lake Benton, Minnesota
 Required Supplementary Information
 December 31, 2019

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+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/2019	0.0133 %	\$ 735,327	\$ 22,832	\$ 758,159	\$ 471,348	160.8 %	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)
12/31/2019	\$ 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, 2019

Notes to the Required Supplementary Information - General Employees Fund

Changes in actuarial assumptions

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

2018 - The mortality projection scale was changed from MP-2015 to MP-2017. The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

2017 - The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years. The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

Changes in plan provisions

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.

2018 - The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018. Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply. Contribution stabilizer provisions were repealed. Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors. Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 - The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter. The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The state's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

2015 - On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

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

FOR THE YEAR ENDED
DECEMBER 31, 2019

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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, 2019, and the related notes to the financial statements, and have issued our report thereon dated April 21, 2020.

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, EICK & MEYERS, LLP
Mankato, Minnesota
April 21, 2020



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, 2019, 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 21, 2020.

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) to determine the 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.

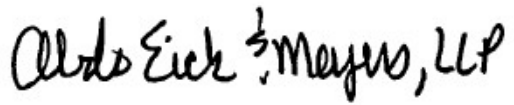
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

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 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*.

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, EICK & MEYERS, LLP
Mankato, Minnesota
April 21, 2020

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FEDERAL FINANCIAL AWARD PROGRAMS
LINCOLN PIPESTONE RURAL WATER SYSTEM
LAKE BENTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2019



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND REPORT
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited the Lincoln Pipestone Rural Water System (the System), Lake Benton, Minnesota compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the System's major federal programs for the year ended December 31, 2019. The System's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

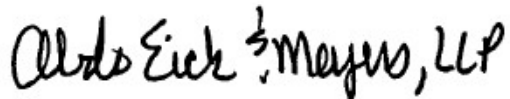
Report on Internal Control Over Compliance

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

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

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

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



ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
April 21, 2020

Lincoln Pipestone Rural Water System
 Schedule of Expenditures of Federal Awards
 For the Year Ended December 31, 2019

<u>Federal Funding Source</u>	<u>Program Name</u>	<u>Federal Domestic Assistance Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Federal Expenditures</u>
U.S. Department of Agriculture	Water and Waste Disposal Systems for Rural Communities	10.760	N/A	<u>\$4,011,247</u>

Lincoln Pipestone Rural Water System
Lake Benton, Minnesota
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2019

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Lincoln Pipestone Rural Water System (the System) for the year ended December 31, 2019. The System's reporting entity is defined in Note 1A to the System's financial statements. The information in this schedule is presented in accordance with the requirement of the Uniform Guidance, Audits of States, Local Governments, and Non-Profit Organizations. All Federal awards received directly from Federal agencies as well as Federal awards passed through other government agencies are included on the schedule.

2. Summary of Significant Accounting Policies for Expenditures

Expenditures reported on this schedule are reported on the modified accrual basis of accounting.

3. Pass-through Entity Identifying Numbers

Pass-through entity identifying numbers are presented where available.

4. Subrecipients

No federal expenditures presented in this schedule were provided to subrecipients.

5. Indirect Cost Rate

During the year ended December 31, 2019, the System did not elect to use the 10 percent de minimis indirect cost rate.

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Lincoln Pipestone Rural Water System
 Schedule of Findings, Responses and Questioned Costs
 For the Year Ended December 31, 2019

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2CFR section 200.516(a)?	No

Identification of Major Programs/Projects

	CFDA No.
Water and Waste Disposal Systems for Rural Communities	10.760
Dollar threshold used to distinguish between Type A and Type B Programs	\$ 750,000
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

None

Section III - Major Federal Award Findings and Questioned Costs

There are no significant deficiencies, material weaknesses, or instances of noncompliance including questioned costs that are required to be reported in accordance with Uniform Guidance.

Section IV - Schedule of Prior Year Audit Findings

None