LINCOLN PIPESTONE RURAL WATER

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
WITH SUPPLEMENTARY INFORMATION

DECEMBER 31, 2022

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Wohlenberg Ritzman & Co., LLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Lincoln Pipestone Rural Water System (the System), Lake Benton, Minnesota, as of and for the year ended December 31, 2022, 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 respective financial position of the System, as of December 31, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 opinion.

Responsibilities of Management for the Financial Statements

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

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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 opinion. 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of employer's share of public employees retirement association net pension liability – general employees retirement fund and schedule of employer's public employees retirement association contributions – general employees retirement fund be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated October 3, 2023, 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.

Other Reporting Required by Minnesota Legal Compliance

In accordance with Minnesota Legal Requirements, we have also issued our report dated October 3, 2023, on our consideration of the System's compliance with Minnesota Legal Compliance Audit Guidance for Other Political Subdivisions. The purpose of that report is solely to describe the scope of our testing over compliance with Minnesota Legal Compliance and the results of that testing.

Wohlenberg Ritzman + Co., LLC

Yankton, South Dakota
October 3, 2023

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, 2022.

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 $59,193,220 (net position). Of this amount, $11,792,886 (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 $891,041 as compared to an increase of $819,959 in the previous year. The increase in the current year was mainly due to contributions related to new hookups and increased water sales.

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 supplementary schedules that further explain and support 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 propriety 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 in the table of contents.

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 in the table of contents.

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 $59,193,220 at the close of the most recent fiscal year.

A large portion of the System's net position (58.3 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		
	2022	2021	Increase (Decrease)
Current and Other Assets	$ 8,251,683	$ 12,464,263	$ (4,212,580)
Restricted Assets	12,644,828	8,353,866	4,290,962
Board Designated Assets	5,772,617	4,472,975	1,299,642
Capital Assets	66,596,659	67,737,053	(1,140,394)
Total Assets	93,265,787	93,028,157	237,630
Deferred Outflows of Resources	335,958	626,222	(290,264)
Long-term Liabilities Outstanding	33,696,819	33,892,548	(195,729)
Other Liabilities	688,831	917,995	(229,164)
Total Liabilities	34,385,650	34,810,543	(424,893)
Deferred Inflows of Resources	22,875	541,657	(518,782)
Net Investment in Capital Assets	34,071,551	33,905,539	166,012
Restricted	13,328,783	13,368,263	(39,480)
Unrestricted	11,792,886	11,028,377	764,509
Total Net Position	$ 59,193,220	$ 58,302,179	$ 891,041

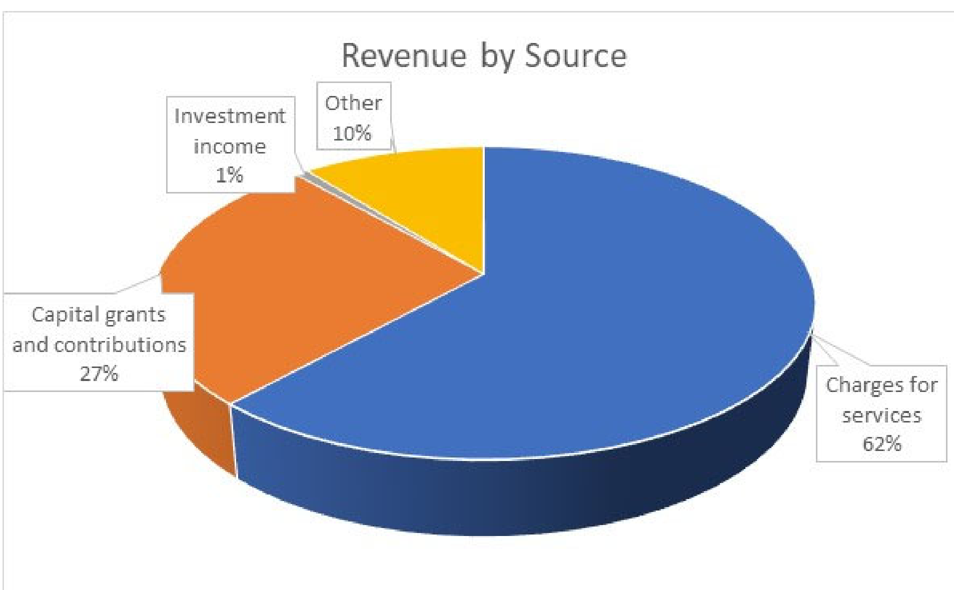
An additional portion of the System's net position (22.5 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance, $11,792,886 or (20.10 percent) represents unrestricted net position which may be used to meet the System's ongoing obligations 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.

Lincoln Pipestone Rural Water System's Changes in Net Position

	Business-type Activities		
	2022	2021	Increase (Decrease)
Revenues			
Program Revenues			
Charges for services	$ 5,983,108	$ 6,046,277	$ (63,169)
Capital grants and contributions	2,610,084	2,910,732	(300,648)
General Revenues			
Investment income	74,298	26,156	48,142
Other	1,033,729	186,689	847,040
Total Revenues	9,701,219	9,169,854	531,365
Expenses			
Operating	8,048,266	7,525,523	522,743
Non-operating	761,912	824,372	(62,460)
Total Expenses	8,810,178	8,349,895	460,283
Change in Net Position	891,041	819,959	71,082
Net Position, January 1	58,302,179	57,482,220	819,959
Net Position, December 31	$ 59,193,220	$ 58,302,179	$ 891,041

The following graph shows revenues by source for 2022:



Capital Asset and Debt Administration

Capital Assets. The System's investment in capital assets as of December 31, 2022, amounts to $66,596,659 (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 1.6 percent.

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

- Vehicle additions of $228,757
- Completion of the Rushmore hookup for $169,711
- Add-ons totaling $904,434

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

	Water System		
	2022	2021	Increase (Decrease)
Land and Improvements	$ 3,875,544	$ 3,875,544	$ -
Construction in Progress	1,425,159	735,022	690,137
Distribution System	60,909,458	62,905,741	(1,996,283)
Buildings	22,682	26,250	(3,568)
Machinery and Equipment	83,610	24,921	58,689
Vehicles	280,206	169,575	110,631
Total	$ 66,596,659	$ 67,737,053	$ (1,140,394)

Additional information on the System's capital assets can be found in Note 3 of this report.

Long-term debt. At the end of the current fiscal year, the System had total bonded debt outstanding of $31,842,000. 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		
	2022	2021	Increase (Decrease)
Revenue Bonds	$ 31,842,000	$ 33,107,000	$ (1,265,000)

The System's total debt decreased $1,265,000 or 3.8 percent during the current fiscal year.

Additional information of the System's long-term debt can be found on Note 4 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.

LINCOLN PIPESTONE RURAL WATER

STATEMENT OF NET POSITION
DECEMBER 31, 2022

CURRENT ASSETS	
Cash and cash equivalents	$ 5,182,300
Accounts receivable, net	488,479
Interest receivable	37,356
Inventories	604,178
Special assessments - current portion	978,179
Prepaid expense	55,669
Total current assets	7,346,161
NONCURRENT ASSETS	
Board designated cash and temporary investments	
Short-term assets	1,846,848
Long-term assets	475,204
System improvements	2,642,394
Land acquisition	46,188
Tank maintenance	761,983
Total Board designated cash and temporary investments	5,772,617
Restricted assets	
Cash and investments	2,525,049
Special assessments, net of current	10,119,779
Other assets	
Patronage dividend receivable	683,896
Accounts receivable, net of current portion	221,626
Capital assets	
Nondepreciable	3,875,544
Construction in progress	1,425,159
Depreciable, net	61,295,956
Total capital assets	66,596,659
Total noncurrent assets	85,919,626
Total assets	93,265,787
DEFERRED OUTFLOWS OF RESOURCES	
Pension related deferred outflows	335,958
CURRENT LIABILITIES	
Accounts payable	239,276
Accrued payroll liabilities	60,035
Unearned revenue	95,296
Accrued interest payable	294,224
Current portion of long-term liabilities:	
Bonds payable	730,000
Accrued compensated absences	47,180
Total current liabilities	1,466,011
LONG-TERM LIABILITIES	
Bonds payable	31,795,108
Net pension liability	1,108,804
Accrued compensated absences	15,727
Total noncurrent liabilities	32,919,639
Total liabilities	34,385,650
DEFERRED INFLOWS OF RESOURCES	
Pension related deferred outflows	22,875
NET POSITION	
Net investment in capital assets	34,071,551
Restricted for debt service	13,328,783
Unrestricted	11,792,886
TOTAL NET POSITION	$ 59,193,220

The accompanying notes are an integral part
of these financial statements.

LINCOLN PIPESTONE RURAL WATER

STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION - PAGE 1 OF 2
YEAR ENDED DECEMBER 31, 2022

OPERATING REVENUES	
Charges for sales and services	
Consumers	$ 4,733,323
Municipalities	844,753
Other	405,032
Total operating revenues	5,983,108
OPERATING EXPENSES	
Sources of supply and pumping	
Salaries	143,430
Employee benefits	56,964
Transportation	19,551
Purchased power	310,553
New water source/well head protection	2,000
Repairs and materials	129,706
Chemical and supplies	281,007
Telephone	7,626
Licenses, permits and fees	103,401
Water purchases	691,760
Total sources of supply and pumping	1,745,998
SCADA	
Salaries	75,925
Employee benefits	45,384
Transportation	20,947
Purchased power	207,044
Repairs and materials	31,939
Telephone	754
Total SCADA	381,993
Distribution	
Salaries	613,945
Employee benefits	322,036
Transportation	139,573
Repairs and materials	194,017
Gopher location	7,993
Telephone	25,738
Damage claims	7,152
Purchased power	8,679
Total distribution	1,319,133
General and administrative	
Salaries	279,509
Employee benefits	119,266
Pension expense	278,737
Directors fees	73,953
Board meetings	3,389
Supplies	17,446
Other services and charges	243,183
Repairs and materials	41,257
Transportation	10,370
Advertising and promotion	16,596
Dues and memberships	8,547
Training	7,040
Insurance	88,120
Utilities	10,962
Real estate taxes	29,476
Other	1,382
Total general and administrative	1,229,233
Depreciation	3,371,909
Total operating expenses	8,048,266
OPERATING INCOME (LOSS)	(2,065,158)

The accompanying notes are an integral part
of these financial statements.

LINCOLN PIPESTONE RURAL WATER

STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION - PAGE 2 OF 2
YEAR ENDED DECEMBER 31, 2022

NONOPERATING REVENUES (EXPENSES)	
Interest income	74,298
Capacity charges	680,000
Farm rental (net)	155,079
Membership fees	34,600
Bond issuance costs	(6,031)
Interest expense	(714,475)
Miscellaneous income	69,996
Gain (loss) on disposal of capital assets	52,648
Total nonoperating revenues (expenses)	346,115
Income (loss) before contributions	(1,719,043)
Contributions	
Special assessment revenue	652,687
Federal contributions	6,337
Capital contributions	1,951,060
Total contributions	2,610,084
Change in net position	891,041
Net position, beginning	58,302,179
Net position, ending	$ 59,193,220

The accompanying notes are an integral part
of these financial statements.

LINCOLN PIPESTONE RURAL WATER

STATEMENT OF CASH FLOWS - PAGE 1 OF 2
YEAR ENDED DECEMBER 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$ 5,986,193
Payments to suppliers and vendors	(2,756,631)
Payments to and on behalf of employees	(1,727,396)
Net cash provided by (used in) operating activities	1,502,166
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Membership fees	34,600
Miscellaneous nonoperating income	69,996
Farm rental income	155,079
Net cash provided by (used in) noncapital financing activities	259,675
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(2,178,866)
Federal contributions	6,337
Capacity charges	680,000
Special assessments	1,101,225
Capital contributions	1,829,476
Principal paid on long-term debt	(1,265,000)
Interest and fess paid on long-term debt	(496,410)
Net cash provided by (used in) capital financing activities	(323,238)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received on cash and investments	40,684
Net cash provided by (used in) capital activities	40,684
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,479,287
CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR	12,000,679
CASH AND CASH EQUIVALENTS - END OF THE YEAR	$ 13,479,966

The accompanying notes are an integral part
of these financial statements.

LINCOLN PIPESTONE RURAL WATER

STATEMENT OF CASH FLOWS - PAGE 2 OF 2
YEAR ENDED DECEMBER 31, 2022

Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income	$	(2,065,158)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense		3,371,909
Change in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable		(57,209)
Due from other governments		(6,337)
Inventory		(136,030)
Prepaid expense		(96)
Patronage dividend		7,594
Deferred pension outflows		290,264
Increase (decrease) in:		
Accounts payable		43,314
Accrued payroll liabilities		9,387
Compensated absences		1,873
Net pension liability		502,400
Unearned revenue		59,037
Deferred pension inflows		(518,782)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$	1,502,166
RECONCILIATION OF CASH TO THE STATEMENT OF FINANCIAL POSITION		
Cash and cash equivalents	$	5,182,300
Board designated cash and temporary investments		5,772,617
Restricted cash and investments		2,525,049
	$	13,479,966
SCHEDULE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Gain on trade in of capital assets	$	52,648
Amortization of bond premium	$	41,406

The accompanying notes are an integral part
of these financial statements.

LINCOLN PIPESTONE RURAL WATER SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Lincoln Pipestone Rural Water System (the System) was established pursuant to MN Statues 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 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 the 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.

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 determinization 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 covered 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation, continued

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 is presented as a single proprietary fund.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position, continued

Deposits and Investments, continued

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.

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 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 $2,525,049 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 2022. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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 levied.

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.

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 as historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded as 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.

Capital assets are depreciated in the proprietary fund of the System using the straight line method over the following estimated useful lives:

Assets	Years
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, deferred pension resources, is reported only in the statement of net position.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Deferred Outflows of Resources, continued

This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.

Compensated Absences

The stablished 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):

Service Period	Paid Vacation Accrual Rate
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, employees 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 receive vacation pay for any unused vacation accrued at the time of termination.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the entity. For the System, these revenues are charges for sales and services. Operating expenses are the necessary costs incurred to provide the service that is the primary activity for the entity. Revenues and expenses not meeting these definitions are reported as nonoperating.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Long-Term Liabilities

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 is $361,385.

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. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Net Position, continued

c. Unrestricted net position – All other net position that do not meet the definition of “restricted” or “net investment in capital asset.”

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.

2. 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 rated “A” or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers 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

2. DEPOSITS AND INVESTMENTS, continued

Deposits, continued

- 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 $1,058,656 and the bank balance was $1,099,298. At the end of the year, $250,000 was covered by FDIC insurance while the remaining was covered by collateral.

Investments

As of December 31, 2022, 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	$ 12,421,022
Total Investments			$ 12,421,022

(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 carry any investments subject to fair value measurements.

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.

2. DEPOSITS AND INVESTMENTS, continued

Investments, continued

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.

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

Carrying Amount of Deposits	$	1,058,656
Investments		12,421,022
Cash on Hand		288
Total	$	13,479,966
Cash and Temporary Investments	$	5,182,300
Board Designated Cash and Temporary Investments		5,772,617
Restricted Cash and Temporary Investments		2,525,049
Total Deposits	$	13,479,966

LINCOLN PIPESTONE RURAL WATER SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

3. CAPITAL ASSETS

Capital asset activity for the System for the year ended December 31, 2022 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	$ 3,875,544	$ -	$ -	$ 3,875,544
Construction in progress	735,022	690,137	-	1,425,159
Total capital assets not being depreciated	4,610,566	690,137	-	5,300,703
Capital assets being depreciated				
Distribution system	119,583,958	1,237,250	-	120,821,208
Buildings	193,138	-	-	193,138
Vehicles	658,768	228,757	(90,600)	796,925
Machinery and equipment	1,224,779	75,370	-	1,300,149
Office equipment	88,526	-	-	88,526
Total capital assets being depreciated	121,749,169	1,541,377	(90,600)	123,199,946
Less accumulated depreciation for				
Distribution system	56,678,217	3,233,532	-	59,911,749
Buildings	166,888	3,568	-	170,456
Vehicles	489,193	118,127	(90,600)	516,720
Machinery and equipment	1,199,858	16,681	-	1,216,539
Office equipment	88,526	-	-	88,526
Total accumulated depreciation	58,622,682	3,371,908	(90,600)	61,903,990
Total capital assets being depreciated, net	63,126,487	(1,830,531)	-	61,295,956
Total capital assets, net	$ 67,737,053	$ (1,140,394)	$ -	$ 66,596,659

4. LONG-TERM LIABILITIES

During the year ended December 31, 2022, 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	$33,107,000	$ -	$ (1,265,000)	$31,842,000	$ 730,000
Bond premium	724,514	-	(41,406)	683,108	-
Compensated absences payabe	61,034	62,907	(61,034)	62,907	47,180
Business-type activity Long-term liabilities	$33,892,548	$ 62,907	$ (1,367,440)	$32,588,015	$ 777,180

4. LONG-TERM LIABILITIES, continued

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 Revenue Refunding Bonds of 2016A	4,260,000	2.00 - 2.50	06/01/16	01/01/34	$ 3,055,000
G.O. Water Revenue Refunding Bonds of 2016A - Pipestone	1,080,000	1.75 - 2.10	03/15/16	01/01/28	565,000
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	1,760,000
G.O. Water Revenue Refunding Bonds of 2020B	9,340,000	1.00 - 3.00	12/17/20	01/01/50	8,880,000
G.O. Water Revenue Refunding Bonds of 2021A	5,370,000	2.00 - 4.00	12/01/21	01/01/42	5,175,000
Total Revenue Bonds					$31,842,000

The pledged revenue for the G.O. Revenue Bonds is operating revenue of $5,983,108 which is used for principal and interest payments of $2,721,479.

4. LONG-TERM LIABILITIES, continued

General Obligation Revenue Bonds, 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
2023	$ 730,000	$ 731,898	$ 1,461,898
2024	1,215,000	699,438	1,914,438
2025	1,255,000	666,382	1,921,382
2026	1,280,000	631,251	1,911,251
2027	1,306,000	595,819	1,901,819
2028-2032	6,476,000	2,490,926	8,966,926
2033-2037	4,880,000	1,849,592	6,729,592
2038-2042	4,597,000	1,389,421	5,986,421
2043-2047	3,770,000	930,479	4,700,479
2048-2052	4,159,000	431,001	4,590,001
2053-2057	2,174,000	227,334	2,401,334
Total	$31,842,000	$10,643,541	$42,485,541

5. DEFINED BENEFIT PENSION PLANS – STATEWIDE

Plan Description

The 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. The System joined the plan in January 2019.

All full-time and certain part-time employees of the 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.

5. DEFINED BENEFIT PENSION PLANS – STATEWIDE, continued

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 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 the 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 the first 10 years of service and 1.7 percent for each additional year. Under Method 2, the accrual rate for Coordinated members Is 1.7 percent for all years of service. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service qual 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 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.

Contributions

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

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2022 and the System was required to contribute 7.50 percent for Coordinated Plan members. The System's contributions to the General Employees Fund for the year ending December 31, 2022, 2021 and 2020 were $82,648, $77,076 and $74,922, respectfully. The System's contributions were equal to the required contributions for the year as set by state statute.

5. DEFINED BENEFIT PENSION PLANS – STATEWIDE, continued

Pension Costs

At December 31, 2022, the System reported a liability of $1,108,805 for its proportionate share of the General Employees Fund's net pension liability. The System's net pension liability reflected a reduction due to the State of Minnesota's contribution of $16 million. 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 $32,483. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The System's proportionate share of the net pension liability was based on the System's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021 through June 30, 2022 relative to the total employer contributions received from all of PERA's participating employers. The System's proportion was 0.0140 percent at the end of the measurement period and 0.0140 percent for the beginning of the period.

Rural Water System's Proportionate Share of the Net Pension Liability	$	1,108,805
State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the Rural Water System		32,483
Total	$	1,141,288

For the year ended December 31, 2022, the System recognized pension expense of $273,883 for its proportionate share of the General Employees Plan's pension expense. In addition, the System recognized an additional $4,854 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, 2022, the 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differents between expected and actual economic experience	$ 9,262	$ 11,991
Changes in actuarial assumptions	254,419	4,478
Net collective difference between projected and actual investment earnings	12,828	-
Changes in proportion	17,286	6,406
Contributions paid to PERA subsequent to measurement date	42,163	-
Total	$ 335,958	$ 22,875

5. DEFINED BENEFIT PENSION PLANS – STATEWIDE, continued

Pension Costs, continued

The $42,163 reported as deferred outflows of resources related to pensions resulting from the 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, 2023. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2023	$	107,042
2024		103,092
2025		(39,488)
2026		100,275
	$	270,921

Long-Term Expected Return on Investment

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%
International Equity	16.5%	5.30%
Fixed Income	25.0%	0.75%
Private Markets	25.0%	5.90%
Total	100.0 %	

Actuarial Methods and Assumptions

The total pension liability in the June 30, 2022, 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.

5. DEFINED BENEFIT PENSION PLANS – STATEWIDE, continued

Actuarial Methods and Assumptions, continued

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 27 years of. 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 for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2022 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2022:

Changes in Actuarial Assumptions

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

Changes in Plan Provisions

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

Discount Rate

The discount rate for the General Employees Plan used to measure the total pension liability in 2022 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 was 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.

5. DEFINED BENEFIT PENSION PLANS – STATEWIDE, continued

Pension Liability Sensitivity

The following presents the System's proportionate share of net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the 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:

	System's Proportionate Share of NPL		
	1 Percent Decrease (5.50%)	Current (6.50%)	1 Percent Increase (7.50%)
General Employees Fund	$ 1,751,415	$ 1,108,804	$ 581,765

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.

6. CONCENTRATION OF REVENUES

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.

7. 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.

REQUIRED SUPPLEMENTARY INFORMATION

LINCOLN PIPESTONE RURAL WATER

SCHEDULE OF EMPLOYER'S SHARE OF PUBLIC EMPLOYEES RETIREMENT
ASSOCIATION NET PENSION LIABILITY -
GENERAL EMPLOYEES RETIREMENT FUND

YEAR ENDED DECEMBER 31, 2022

Fiscal Year Ending	Employer's Proportion (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the System (b)	Employer's Proportionate Share (Amount) of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability (a+b)	Employer's Covered-Employee Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Net Pension Liability
6/30/2022	0.0140%	$ 1,108,805	$ 32,483	$ 1,141,288	$ 1,045,696	109.14%	76.70%
6/30/2021	0.0142%	$ 606,404	$ 18,602	$ 625,006	$ 1,024,400	61.01%	87.00%
6/30/2020	0.0139%	$ 833,369	$ 25,647	$ 859,016	$ 991,780	86.61%	79.10%
6/30/2019	0.0133%	$ 735,327	$ 22,832	$ 758,159	$ 471,347	160.85%	80.20%

*Schedule is intened to show 10-year trend. Additional years will be reported as they become available.
**For purposes of this schedule, covered employee payroll is defined as "pensionable wages".

LINCOLN PIPESTONE RURAL WATER

SCHEDULE OF EMPLOYER'S PUBLIC EMPLOYEES RETIREMENT ASSOCIATION CONTRIBUTIONS
GENERAL EMPLOYEES RETIREMENT FUND

YEAR ENDED DECEMBER 31, 2022

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess)(a-b)	Covered-Employee Payroll (d)	Contributions as a Percentage of Covered-Employee Payroll (b/d)
December 31, 2022	$ 82,648	$ 82,648	$ -	$ 1,101,969	7.50%
December 31, 2021	$ 77,076	$ 77,076	$ -	$ 1,027,680	7.50%
December 31, 2020	$ 74,922	$ 74,922	$ -	$ 998,953	7.50%
December 31, 2019	$ 72,509	$ 72,509	$ -	$ 966,788	7.50%

* Schedule is intended to show 10-year trend. Additional years will be reported as they become available.
** For purposes of this schedule, covered employee payroll is defined as "pensionable wages".

LINCOLN PIPESTONE RURAL WATER SYSTEM

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
GENERAL EMPLOYEES FUND
DECEMBER 31, 2022

Changes in Actuarial Assumptions

2022 – The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

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 change results in fewer predicted disability retirements for males and females. The base mortality table for healthy annuitants and employees was changed from 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-201 to Scale MP-2019. The assumed spouse age difference was changed form 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.

Changes in Plan Provisions

2022 – There were no changes in plan provisions since the previous valuation.

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.

OTHER REQUIRED REPORTS

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* used 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, 2022, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated October 3, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Sytem'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 opinion 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.

Wohlenberg Ritzman + Co., LLC

Yankton, South Dakota
October 3, 2023

Wohlenberg Ritzman & Co., LLC
CERTIFIED PUBLIC ACCOUNTANTS

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, 2022, and the related noted to the financial statements, and have issued our report thereon dated October 3, 2023.

In connection with our audit, nothing came to our attention that caused us to believe that the 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.

Wohlenberg Ritzman + Co., LLC

Yankton, South Dakota
October 3, 2023

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