STATE OF MINNESOTA

Office of the State Auditor

Patricia Anderson
State Auditor

PRAIRIELAND SOLID WASTE BOARD
TRUMAN, MINNESOTA

YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

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Tax Increment Financing, Investment and Finance - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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PRAIRIELAND SOLID WASTE BOARD
TRUMAN, MINNESOTA

Year Ended December 31, 2004

Audit Practice Division
Office of the State Auditor
State of Minnesota

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PRAIRIELAND SOLID WASTE BOARD
TRUMAN, MINNESOTA

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Introductory Section

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PRAIRIELAND SOLID WASTE BOARD
TRUMAN, MINNESOTA

ORGANIZATION
2004

	Position	County	Term Expires
Board of Commissioners			
Gerald Boler	Chair	Martin	December 31, 2004
Edwin Potter	Secretary	Martin	December 31, 2004
Steven Pierce	Member	Martin	December 31, 2006
Dan Schmidtke	Member	Martin	December 31, 2006
Steven Donnelly	Member	Martin	December 31, 2004
Tom Warmka	Member	Faribault	December 31, 2004
Barbara Steier	Vice Chair	Faribault	December 31, 2004
Paul Meyer*	Member	Faribault	December 31, 2004
Loren Lein	Member	Faribault	December 31, 2006
Tom Loveall	Member	Faribault	December 31, 2006
William Groskreutz, Jr.**	Member	Faribault	December 31, 2004
Director			
Mark Bauman			Indefinite

*Deceased August 11, 2004.
**Won special election on September 28, 2004, to fill seat vacated by Paul Meyer.

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Financial Section

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PATRICIA ANDERSON
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Prairieland Solid Waste Board

We have audited the basic financial statements of the Prairieland Solid Waste Board as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the management of the Prairieland Solid Waste Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Prairieland Solid Waste Board at December 31, 2004, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the financial statements, the Prairieland Solid Waste Board adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments,* as amended; and Statement No. 38, *Certain Financial Statement Note Disclosures,* as of and for the year ended December 31, 2004. These statements result in a change in format and content of the basic financial statements.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

/s/Pat Anderson	*/s/Greg Hierlinger*
PATRICIA ANDERSON	GREG HIERLINGER, CPA
STATE AUDITOR	DEPUTY STATE AUDITOR

End of Fieldwork: March 7, 2005

MANAGEMENT’S DISCUSSION AND ANALYSIS

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PRAIRIELAND SOLID WASTE BOARD
TRUMAN, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2004
(Unaudited)

The Prairieland Solid Waste Management Board's (Board) Management's Discussion and Analysis (MD&A) provides an overview of the Board's financial activities for the fiscal year ended December 31, 2004. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the Board's financial statements.

The Board is a joint powers enterprise operation of Faribault and Martin Counties created to operate and manage a solid waste compost facility serving the two counties.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. The Board's basic financial statements consist of two parts: the financial statements and the notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and, therefore, is included as required supplementary information.

The financial statements present different views of the Board's financial activities and consist of the following:

- The statement of net assets compares the assets and liabilities to give an overall view of the financial health of the Board.

- The statement of revenues, expenses, and changes in net assets provides information on an aggregate view of the Board's finances. All of the current year's revenues and expenses are taken into account regardless of when the cash was received or paid.

- The statement of cash flows provides sources and uses of cash for the Board.

FINANCIAL ANALYSIS

NET ASSETS

	2003	2004	Increase/ (Decrease)	% Change
Assets				
Current and other assets	$ 1,799,878	$ 1,956,842	$ 156,964	8.72%
Capital assets	3,797,775	3,375,836	(421,939)	(11.11%)
Total Assets	$ 5,597,653	$ 5,332,678	$ (264,975)	(4.73%)
Liabilities				
Current liabilities	$ 518,942	$ 561,636	$ 42,694	8.23%
Noncurrent liabilities	3,160,302	2,753,203	(407,099)	(12.88%)
Total Liabilities	$ 3,679,244	$ 3,314,839	$ (364,405)	(9.90%)
Net Assets				
Invested in capital assets, net of related debt	$ 236,310	$ 185,179	$ (51,131)	(21.64%)
Unrestricted	1,682,099	1,832,660	150,561	8.95%
Total Net Assets	$ 1,918,409	$ 2,017,839	$ 99,430	5.18%

The decrease in total liabilities from 2003 to 2004 is due mainly to the decrease in bond payment obligations via bond payments to Faribault and Martin Counties.

CHANGES IN NET ASSETS

	2003	2004	Increase/ (Decrease)	% Change
Operating Revenues				
Charges for services	$ 2,122,405	$ 2,183,064	$ 60,659	2.86%
Miscellaneous	35,443	70,916	35,473	100.09%
Nonoperating Revenue				
Interest income	23,002	21,039	(1,963)	(8.53%)
Total Revenues	$ 2,180,850	$ 2,275,019	$ 94,169	4.32%
Operating Expenses				
Personal services	$ 444,103	$ 505,404	$ 61,301	13.80%
Contracted services	425,983	398,062	(27,921)	(6.55%)
General services	205,171	172,928	(32,243)	(15.72%)
Administration and fiscal services	24,991	15,921	(9,070)	(36.29%)
Other	107,012	106,559	(453)	(0.42%)
Utilities	207,811	250,494	42,683	20.54%
Depreciation	492,455	483,565	(8,890)	(1.81%)
Nonoperating Expenses				
Loss on disposal of capital assets	2,100	-	(2,100)	(100.00%)
Interest expense	256,285	237,343	(18,942)	(7.39%)
Amortization of deferred charges	5,312	5,313	1	0.02%
Total Expenses	$ 2,171,223	$ 2,175,589	$ 4,366	0.20%
Change in Net Assets	$ 9,627	$ 99,430	$ 89,803	932.82%

Operating income increased from 2003 to 2004 due mainly to increased tonnage of garbage delivered to the facility (tipping fees) and an increase in service fee revenues collected by Faribault and Martin Counties.

Total expenses increased from 2003 to 2004 due mainly to increases in cost of utilities and personal services.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS (NET OF DEPRECIATION)

	2003	2004	Increase/ Decrease	% Change
Land	$ 32,147	$ 32,147	$ -	0.00%
Buildings and improvements	2,612,240	2,403,565	(208,675)	(7.99%)
Machinery, furniture, and equipment	1,153,388	940,124	(213,264)	(18.49%)
Total Capital Assets	$ 3,797,775	$ 3,375,836	$ (421,939)	(11.11%)

The only major addition this year was the purchase of a spare grinder for $40,000. Additional information on capital assets can be found in Note 2.A.3. of the financial statements.

During 2003 and 2004, the Prairieland Solid Waste Board had outstanding debt in the form of bonds issued by Martin and Faribault Counties. See Note 2.B. for information on debt.

FUTURE EVENTS

In 2005, Martin and Faribault Counties plan to re-issue the Prairieland Solid Waste bonds to take advantage of lower interest rates. The Prairieland Board also plans to take $500,000 from its reserve fund and further pay down the bonds resulting in a decrease in yearly payments as well as decreasing the length of the bond years by one year.

CONTACTING THE BOARD'S FINANCIAL MANAGEMENT

This financial report is designated to provide our citizens, taxpayers, customers, and creditors with a general overview of the Board's finances and to show the Board's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director, Mark Bauman, P. O. Box 100, Truman, Minnesota 56088.

BASIC FINANCIAL STATEMENTS

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PRAIRIELAND SOLID WASTE BOARD
TRUMAN, MINNESOTA

EXHIBIT 1

STATEMENT OF NET ASSETS
DECEMBER 31, 2004

<u>Assets</u>		
Current assets		
Cash	$	1,285,854
Investments		342,470
Accounts receivable		162,588
Accrued interest receivable		1,717
Due from other governments		127,026
Total current assets	**$**	**1,919,655**
Other assets		
Deferred debt issue costs	**$**	**37,187**
Capital assets		
Nondepreciable	$	32,147
Depreciable (net)		3,343,689
Total capital assets	**$**	**3,375,836**
Total Assets	**$**	**5,332,678**
<u>Liabilities</u>		
Current liabilities		
Accounts payable	$	79,795
Compensated absences payable - current		17,652
Accrued interest payable		14,189
General obligation bonds payable - current		450,000
Total current liabilities	**$**	**561,636**
Noncurrent liabilities		
Compensated absences payable - long-term	$	12,546
General obligation bonds payable - long term		2,740,657
Total noncurrent liabilities	**$**	**2,753,203**
Total Liabilities	**$**	**3,314,839**
<u>Net Assets</u>		
Invested in capital assets, net of related debt	$	185,179
Unrestricted		1,832,660
Total Net Assets	**$**	**2,017,839**

PRAIRIELAND SOLID WASTE BOARD
TRUMAN, MINNESOTA

EXHIBIT 2

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2004

Operating Revenues		
Charges for services	$	2,183,064
Miscellaneous		70,916
Total Operating Revenues	**$**	**2,253,980**
Operating Expenses		
Personal services	$	505,404
Contracted services - trucking		398,062
General services - repairs and maintenance		172,928
Administration and fiscal services - legal and accounting		15,921
Other		106,559
Utilities		250,494
Depreciation		483,565
Total Operating Expenses	**$**	**1,932,933**
Operating Income (Loss)	**$**	**321,047**
Nonoperating Revenues (Expenses)		
Interest income	$	21,039
Interest expense		(237,343)
Amortization of deferred charges		(5,313)
Total Nonoperating Revenues (Expenses)	**$**	**(221,617)**
Change in Net Assets	**$**	**99,430**
Net Assets - January 1, as restated		**1,918,409**
Net Assets - December 31	**$**	**2,017,839**

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

PRAIRIELAND SOLID WASTE BOARD
TRUMAN, MINNESOTA

EXHIBIT 3

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2004
Increase (Decrease) in Cash and Cash Equivalents

Cash Flows From Operating Activities		
Receipts from customers and users	$	2,101,259
Receipts from other sources		70,916
Payments to suppliers		(937,002)
Payments to employees		(504,386)
Net cash provided by (used in) operating activities	**$**	**730,787**
Cash Flows From Capital and Related Financing Activities		
Purchases of capital assets	$	(61,626)
Principal bond payments		(430,000)
Interest payments		(179,728)
Net cash provided by (used in) capital and related financing activities	**$**	**(671,354)**
Cash Flows From Investing Activities		
Interest	$	17,849
Investments sold		321,574
Net cash provided by (used in) investing activities	**$**	**339,423**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**398,856**
Cash and Cash Equivalents at January 1		**886,998**
Cash and Cash Equivalents at December 31	**$**	**1,285,854**
Reconciliation of operating income to net cash provided by (used in) operating activities		
Operating income	**$**	**321,047**
Adjustments to reconcile operating income to net cash provided by (used in) operating activities		
Depreciation expense	$	483,565
(Increase) decrease in accounts receivable		(72,541)
(Increase) decrease in due from other governments		(9,264)
Increase (decrease) in accounts payable		6,962
Increase (decrease) in salaries payable		(343)
Increase (decrease) in compensated absences payable		1,361
Total adjustments	**$**	**409,740**
Net Cash Provided by Operating Activities	**$**	**730,787**

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

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1. Summary of Significant Accounting Policies

The Prairieland Solid Waste Board's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Board has the option to apply FASB pronouncements issued after that date, the Board has chosen not to do so. The more significant accounting policies established in GAAP and used by the Board are discussed below.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments.* For the first time, the financial statements include a Management's Discussion and Analysis (MD&A) section providing an analysis of the Board's overall financial position and results of operations.

This and other changes are reflected in the accompanying financial statements (including the notes to financial statements). The Board has elected to implement all provisions of the statement in the current year.

A. Financial Reporting Entity

The Board is a joint powers authority between Faribault and Martin Counties formed under a joint powers agreement entered into pursuant to Minn. Stat. § 471.59, the Joint Powers Act. The Board has ten members who are the commissioners from Faribault and Martin Counties.

Both of the counties are authorized and obligated pursuant to Minn. Stat. chs. 400 and 115A to provide for the management and disposal of solid waste. It is the intention of the counties to cooperate in a joint venture to provide the greatest public benefit possible for the entire contiguous two-county area in planning, management, and implementation of methods to deal with solid waste in South Central Minnesota.

The facility and administrative office for the Board are located in Truman, Minnesota. The major function of the facility is to process municipal solid waste to recover recyclable materials and produce compost.

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

The accounts of the Board are organized as an enterprise fund. The fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

C. Measurement Focus and Basis of Accounting

The Board's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

2. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements. Capital assets are defined by the Board as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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 are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. During the current period, the Board did not have any capitalized interest.

1. Summary of Significant Accounting Policies

   D. Assets, Liabilities, and Net Assets or Equity

      2. Capital Assets (Continued)

         Property, plant, and equipment of the Board are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and building improvements	20 - 30
Machinery, furniture, and equipment	3 - 15

      3. Compensated Absences

         The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred.

      4. Long-Term Obligations

         Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond issuance costs, discounts, and the unamortized difference between the reacquisition price and the net carrying amount of the refunded debt are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the unamortized bond discount and the unamortized difference between the reacquisition price and the net carrying amount of the refunded debt. Bond issuance costs are reported as deferred charges.

      5. Use of Estimates

         The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1. Summary of Significant Accounting Policies (Continued)

E. Restatement

1. Reclassification of Fund Equity to Net Assets

Prairieland Solid Waste Board has implemented GASB No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments.* Implementation of this new standard required the Board to change the format and content of the financial statements. This change must be considered when comparing financial statements of this report with those of prior reports. Implementation of the new standard required the following restatement of fund equity to net assets:

	2004
Retained earnings, as previously reported - December 31, 2003	$ 1,168,997
Contributed capital, as previously reported - December 31, 2003	864,524
Net Assets - December 31, 2003	$ 2,033,521

2. Capital Assets

Prairieland Solid Waste Board changed the capitalization threshold for capital assets to $5,000. The adjustments made to accumulated depreciation include an addition of $103,019 for building depreciation and an additional $513 in machinery, furniture, and equipment depreciation, because of errors made in prior years. The effect of the new limit and the correction of errors in recording depreciation are summarized below:

	Beginning Balance	Change in Capital Assets Threshold	Depreciation Errors from Previous Years	Beginning Balance Restated
Capital assets, not depreciated				
Land	$ 32,147	$ -	$ -	$ 32,147
Capital assets, depreciated				
Buildings and improvements	$ 5,192,954	$ -	$ -	$ 5,192,954
Machinery, furniture, and equipment	3,816,174	(32,831)	-	3,783,343
Total capital assets, depreciated	$ 9,009,128	$ (32,831)	$ -	$ 8,976,297
Less: accumulated depreciation for				
Buildings and improvements	$ 2,477,695	$ -	$ 103,019	$ 2,580,714
Machinery, furniture, and equipment	2,650,693	(21,251)	513	2,629,955
Total accumulated depreciation	$ 5,128,388	$ (21,251)	$ 103,532	$ 5,210,669
Total Capital Assets	$ 3,912,887	$ (11,580)	$ 103,532	$ 3,797,775

1. Summary of Significant Accounting Policies

E. Restatement (Continued)

3. Net Assets

The corrections to the capital assets accounts required a restatement of net assets.

Net Assets - December 31, 2003 (Note 1.E.1.)	$	2,033,521
Less: corrections explained in Note 1.E.2. above		
Changes in capital asset threshold		(11,580)
Correction of error in calculating depreciation		(103,532)
Net Assets - January 1, 2004	$	1,918,409

2. Detailed Notes

A. Assets

1. Deposits and Investments

Minn. Stat. §§ 118A.02 and 118A.04 authorize the Prairieland Solid Waste Board to designate a depository for public funds and to invest in certificates of deposit. Minnesota statutes require that all Board deposits be covered by insurance, surety bond, or collateral.

Prairieland Solid Waste Board's total cash and investments are reported as follows:

Cash	$	1,285,854
Investments		342,470
Total Cash and Investments	$	1,628,324

At December 31, 2004, the bank deposits totaled $1,641,884. Minnesota statutes require that all deposits be covered by insurance, surety bond, or collateral.

2. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

Following is a summary of the deposits covered by insurance or collateral at December 31, 2004:

	Bank Balance
Covered Deposits	
Insured, or collateralized with securities held by the Board or its agent in the Board's name	$ 609,053
Collateralized with securities held by the pledging financial institution's agent in the Board's name	1,032,831
Total covered deposits	$ 1,641,884
Uncollateralized	-
Total	$ 1,641,884

2. Receivables

Prairieland did not have any receivables scheduled to be collected beyond one year.

3. Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

	Beginning Balance (Restated)	Increase	Decrease	Ending Balance
Capital assets, not depreciated				
Land	$ 32,147	$ -	$ -	$ 32,147
Capital assets, depreciated				
Buildings and improvements	$ 5,192,954	$ -	$ -	$ 5,192,954
Machinery, furniture, and equipment	3,783,343	85,938	36,469	3,832,812
Total capital assets, depreciated	$ 8,976,297	$ 85,938	$ 36,469	$ 9,025,766
Less: accumulated depreciation for				
Buildings and improvements	$ 2,580,714	$ 208,675	$ -	$ 2,789,389
Machinery, furniture, and equipment	2,629,955	274,890	12,157	2,892,688
Total accumulated depreciation	$ 5,210,669	$ 483,565	$ 12,157	$ 5,682,077
Total Capital Assets	$ 3,797,775	$ 397,627	$ 24,312	$ 3,375,836

2. Detailed Notes (Continued)

B. Liabilities

1. Long-Term Debt

Types of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issues Amount	Outstanding Balance December 31, 2004
General Obligation Bonds					
1996 Martin County G.O. Refunding Bonds	2011	$255,000 - $335,000	4.00 - 5.00	$ 3,975,000	$ 2,055,000
1996 Faribault County G.O. Refunding Bonds	2011	$195,000 - $255,000	4.15 - 4.75	3,000,000	1,550,000
Total General Obligation Bonds				$ 6,975,000	$ 3,605,000
Less: unamortized discount					(37,737)
Less: difference between refunded and refunding bonds					(376,606)
Total General Obligation Bonds, Net					$ 3,190,657

Bonds payable are reported on the balance sheet net of $376,606, which is the unamortized difference between the reacquisition price and the net carrying amount of the refunded debt, and $37,737 of unamortized discount on bonds.

2. Debt Service Requirements

Debt service requirements at December 31, 2004, were as follows:

Year Ending December 31	General Obligation Bonds Principal	Interest
2005	$ 450,000	$ 160,143
2006	465,000	139,455
2007	490,000	117,517
2008	515,000	93,985
2009	535,000	69,045
2010-2014	1,150,000	56,994
Total	$ 3,605,000	$ 637,139

2. Detailed Notes

B. Liabilities (Continued)

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable					
1996 Martin County G.O. Refunding Bonds	$ 2,300,000	$ -	$ (245,000)	$ 2,055,000	$ 255,000
1996 Faribault County G.O. Refunding Bonds	1,735,000	-	(185,000)	1,550,000	195,000
Less: deferred amounts for issuance discounts	(43,128)	-	5,391	(37,737)	-
Less: difference between refunded and refunding debt	(430,407)	-	53,801	(376,606)	-
Total bonds payable	$ 3,561,465	$ -	$ (370,808)	$ 3,190,657	$ 450,000
Compensated absences	28,837	1,361	-	30,198	17,652
Total Long-Term Liabilities	$ 3,590,302	$ 1,361	$ (370,808)	$ 3,220,855	$ 467,652

C. Operating Budget

	Budget	Actual	Variance
Operating Revenues	$ 2,124,750	$ 2,253,980	$ 129,230
Operating Expenses	1,979,822	1,932,933	(46,889)
Operating Income (Loss)	$ 144,928	$ 321,047	$ 176,119
Nonoperating Revenues (Expenses)	(219,228)	(221,617)	(2,389)
Net Income (Loss)	$ (74,300)	$ 99,430	$ 173,730

3. Employee Retirement Systems and Pension Plans

A. Plan Description

All full-time and certain part-time employees of the Prairieland Solid Waste Board are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan.

The PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The retirement 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 Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

For Public Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

3. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund. That report may be obtained on the web at mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The Board makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. The Board is required to contribute the following percentages of annual covered payroll:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53

The Board's contributions for the years ending December 31, 2004, 2003, and 2002, were $21,889, $20,744, and $19,618, respectively, equal to the contractually required contributions for each year as set by state statute.

4. Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the Board carries commercial insurance. To cover these risks, the Board is a member of both the Minnesota Counties Insurance Trust (MCIT) Workers' Compensation and Property and Casualty Divisions. For other risk, the Board carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

4. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at $760,000 per claim in 2005. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the Board in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining, and the Board pays an annual premium to cover current and future losses. The MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess the Board in a method and amount to be determined by MCIT.

5. Subsequent Events

On February 11, 2005, the Prairieland Solid Waste Board approved a resolution to pledge $500,000 for payment to Faribault and Martin Counties, toward the Counties' planned 2005 refinancing of the 1996 G.O. Refunding Bonds.

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Management and Compliance Section

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REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Commissioners
Prairieland Solid Waste Board

We have audited the basic financial statements of the Prairieland Solid Waste Board as of and for the year ended December 31, 2004, and have issued our report thereon dated March 7, 2005.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, the Prairieland Solid Waste Board complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Board of Commissioners and management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson	*/s/Greg Hierlinger*
PATRICIA ANDERSON STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

End of Fieldwork: March 7, 2005