

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

KNIFE RIVER-LARSMONT SANITARY DISTRICT
KNIFE RIVER, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2012

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

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 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of 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;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - 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 Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**KNIFE RIVER-LARSMONT SANITARY DISTRICT
KNIFE RIVER, MINNESOTA**

For the Year Ended December 31, 2012



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**KNIFE RIVER-LARSMONT SANITARY DISTRICT
KNIFE RIVER, MINNESOTA**

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**KNIFE RIVER-LARSMONT SANITARY DISTRICT
KNIFE RIVER, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2012

<u>Board of Managers</u>	<u>Term Ending</u>
Robert Entzion, Chair	January 1, 2015
Randy Ellestad, Vice Chair	January 1, 2013
Chris Skadberg, Treasurer	January 1, 2016
Tom Bothwell, Member	January 1, 2014
Robert Mitchell, Member	January 1, 2015

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REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of Managers
Knife River-Larsmont Sanitary District

Report on the Financial Statements

We have audited the accompanying financial statements of the Knife River-Larsmont Sanitary District as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the

financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Knife River-Larsmont Sanitary District as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2014, on our consideration of the Knife River-Larsmont Sanitary District'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 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 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 Knife River-Larsmont Sanitary District's internal control over financial reporting and compliance.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 17, 2014

BASIC FINANCIAL STATEMENTS

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**KNIFE RIVER-LARSMONT SANITARY DISTRICT
KNIFE RIVER, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2012**

Assets

Current assets

Cash	\$ 152,490
Accounts receivable	35,465
Assets restricted for capital replacement	
Cash	4,656

Total current assets **\$ 192,611**

Capital assets

Depreciable - net of accumulated depreciation	2,489,663
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Total Assets **\$ 2,682,274**

Liabilities

Current liabilities

Accounts payable	\$ 20,837
Due to other governments	28,307
Public Facilities Authority (PFA) loans payable	44,000

Total current liabilities **\$ 93,144**

Noncurrent liabilities

PFA loans payable	578,212
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Total Liabilities **\$ 671,356**

Net Position

Net investment in capital assets	\$ 1,867,451
Restricted for	
Capital replacement	4,656
Unrestricted	138,811

Total Net Position **\$ 2,010,918**

**KNIFE RIVER-LARSMONT SANITARY DISTRICT
KNIFE RIVER, MINNESOTA**

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012**

Operating Revenues	
Charges for services	\$ 116,107
Miscellaneous	586
	<hr/>
Total Operating Revenues	\$ 116,693
	<hr/>
Operating Expenses	
Contracted services	\$ 26,200
Professional services	12,701
Repair and maintenance	5,349
Supplies	1,711
Utilities	10,802
Insurance	7,375
Other services and charges	35,071
Depreciation	117,874
	<hr/>
Total Operating Expenses	\$ 217,083
	<hr/>
Operating Income (Loss)	\$ (100,390)
	<hr/>
Nonoperating Revenues (Expenses)	
Interest income	\$ 236
Interest expense	(8,726)
	<hr/>
Total Nonoperating Revenues (Expenses)	\$ (8,490)
	<hr/>
Change in Net Position	\$ (108,880)
	<hr/>
Net Position - January 1	2,119,798
	<hr/>
Net Position - December 31	\$ 2,010,918
	<hr/> <hr/>

**KNIFE RIVER-LARSMONT SANITARY DISTRICT
KNIFE RIVER, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Cash Flows from Operating Activities	
Cash receipts from customers	\$ 119,587
Cash paid to suppliers	<u>(107,549)</u>
Net cash provided by (used in) operating activities	<u>\$ 12,038</u>
Cash Flows from Capital and Related Financing Activities	
Principal paid on long-term debt	\$ (44,000)
Interest paid on long-term debt	(8,726)
Acquisition of capital assets	<u>(1,243)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (53,969)</u>
Cash Flows from Investing Activities	
Interest income	<u>\$ 236</u>
Net Increase (Decrease) in Cash	\$ (41,695)
Cash - January 1	<u>198,841</u>
Cash - December 31	<u><u>\$ 157,146</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities	\$ (100,390)
Depreciation	117,874
Decrease (increase) in receivables	2,894
Increase (decrease) in payables	<u>(8,340)</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ 12,038</u></u>

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**KNIFE RIVER-LARSMONT SANITARY DISTRICT
KNIFE RIVER, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012**

1. Summary of Significant Accounting Policies

The accounting policies of the Knife River-Larsmont Sanitary District conform to generally accepted accounting principles.

A. Financial Reporting Entity

The Knife River-Larsmont Sanitary District was formed May 8, 2001, pursuant to Minn. Stat. §§ 115.18 to 115.37. The District was created for the purpose of promoting the public health and welfare by providing an adequate and efficient means of collecting, conveying, pumping, treating, and disposing of domestic sewage and industrial waste within the District. The District is governed by a five-member Board. Each member of the Board must be a voter residing in the District.

The Knife River-Larsmont Sanitary District is a primary government, as defined by Governmental Accounting Standards Board (GASB) Statement 14, and there are no component units for which the District is financially accountable.

B. Basis of Presentation

The accounts of the Knife River-Larsmont Sanitary District are presented as an enterprise fund. Enterprise funds are used to account for operations financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as taxes, grants, and investment earnings, result from nonexchange transactions or incidental activities. The District's net position is reported in three parts: (1) net investment in capital assets; (2) restricted for capital replacement; and (3) unrestricted net position.

**KNIFE RIVER-LARSMONT SANITARY DISTRICT
KNIFE RIVER, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

The District uses the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred.

D. Assets and Liabilities

Cash

Cash consists of an operations checking account, a repair and replacement savings account, a project savings account, and a Larsmont savings account. Cash and cash equivalents include both restricted and unrestricted cash and petty cash.

Accounts Receivable

Accounts receivable consists of the December user charges, delinquent accounts, and annual debt service charge. The delinquent account balance is approximately 55 percent of the accounts receivable balance. The District does not set up an allowance for doubtful accounts; instead, it is the District's policy to certify these delinquent accounts over to Lake County to be placed on the individual's taxes. The District turned over the delinquent accounts to the County in 2012.

Restricted Assets

Certain funds of the District are classified as restricted assets on the statement of net position because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

Capital assets are stated at cost. Depreciation is determined using the straight-line method for the estimated useful lives of the assets.

<u>Classification</u>	<u>Estimated Life</u>
Sewer plant	15 years
Collection system	40 years
Equipment	5 years

**KNIFE RIVER-LARSMONT SANITARY DISTRICT
KNIFE RIVER, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 these estimates.

2. Detailed Notes

A. Deposits

The District is authorized by Minn. Stat. § 118A.02 to deposit its cash and to invest in certificates of deposit in financial institutions designated by the District's Board. The District does not have a policy on custodial credit risk. At December 31, 2012, the District's deposits totaled \$180,706, all cash deposits were insured as required by Minnesota statutes. The carrying value of these deposits was \$157,146. The District had an adequate amount of insurance and collateral pledged to cover its deposits.

B. Capital Assets

A summary of the changes in capital assets for the year ended December 31, 2012, follows:

	Balance January 1, 2012	Additions	Deletions	Balance December 31, 2012
Capital assets depreciated				
Collection system	\$ 4,705,002	\$ -	\$ -	\$ 4,705,002
Equipment	1,188	1,243	-	2,431
Total capital assets depreciated	<u>\$ 4,706,190</u>	<u>\$ 1,243</u>	<u>\$ -</u>	<u>\$ 4,707,433</u>
Less: accumulated depreciation for				
Collection system	\$ 2,098,708	\$ 117,625	\$ -	\$ 2,216,333
Equipment	1,188	249	-	1,437
Total accumulated depreciation	<u>\$ 2,099,896</u>	<u>\$ 117,874</u>	<u>\$ -</u>	<u>\$ 2,217,770</u>
Total Capital Assets, Net	<u>\$ 2,606,294</u>	<u>\$ (116,631)</u>	<u>\$ -</u>	<u>\$ 2,489,663</u>

**KNIFE RIVER-LARSMONT SANITARY DISTRICT
KNIFE RIVER, MINNESOTA**

2. Detailed Notes (Continued)

C. Long-Term Obligations

The following is a summary of the District's long-term debt activity for the year ended December 31, 2012:

	Balance January 1, 2012	Additions	Reductions	Balance December 31, 2012	Due Within One Year
Public Facilities Authority general obligation notes	\$ 666,212	\$ -	\$ 44,000	\$ 622,212	\$ 44,000

Long-term debt is composed of the following:

\$882,212 General Obligation Revenue Note issued to the Minnesota Public Facilities Authority. Amounts drawn or receivable on this note as of December 31, 2006, were \$876,212. Note payments are due semi-annually on February 20 and August 20, 2006 through 2025, at an interest rate of 1.31 percent.

Debt service requirements at December 31, 2012, are as follows:

Year Ending December 31	General Obligation Revenue Note	
	Principal	Interest
2013	\$ 44,000	\$ 8,151
2014	45,000	7,575
2015	45,000	6,985
2016	46,000	6,395
2017	47,000	5,793
2018 - 2022	242,000	19,638
2023 - 2025	153,212	4,043
Total	\$ 622,212	\$ 58,580

The note will be retired with income from operations, annual debt service charge, property taxes, investment income, and unused construction funding and is exempt from the limitations on net debt imposed by Minnesota law.

KNIFE RIVER-LARSMONT SANITARY DISTRICT
KNIFE RIVER, MINNESOTA

3. Risk Management

The Knife River-Larsmont Sanitary District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has purchased commercial insurance to insure these risks. There are no employees of the Knife River-Larsmont Sanitary District, as the District has hired independent contractors to operate the system and perform its accounting functions. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance during the audit period.

4. Summary of Significant Contingencies and Other Items

Contingent Liability

Lake County has paid for certain engineering and other expenses on behalf of the Knife River-Larsmont Sanitary District for the period of 1997 to 2005, with the understanding that if funding becomes available to the District, these expenses would be reimbursed to Lake County. According to Lake County records, the amount owed from the Knife River-Larsmont Sanitary District to Lake County is \$462,372 at December 31, 2012. This is not reported as a liability on the Knife River-Larsmont Sanitary District's financial statements.

5. Subsequent Event

The Knife River-Larsmont Sanitary District is a defendant in a breach of contract dispute. On May 27, 2014, the court ruled in the District's favor; however an amount still payable on past invoices was determined as part of the settlement. This District has 45 days to contest or accept the new invoices. The total amount payable under the settlement is \$23,617. The dollar amount of the settlement related to 2012 is not material, and therefore, is not reflected in the financial statements.

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**KNIFE RIVER-LARSMONT SANITARY DISTRICT
KNIFE RIVER, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2012**

**I. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

02-1 Internal Control/Segregation of Duties

Criteria: The Board of Managers is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Also, the Board of Managers is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals in the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements. Adequate segregation of duties is a key internal control in an organization's accounting system.

Condition: The limited number of personnel results in a lack of segregation of accounting duties necessary to ensure adequate internal accounting control. In addition, audit adjustments were necessary to convert the District's financial records to the financial statements as reported. These adjustments were determined to be material to the financial statements.

Context: It is not unusual for an organization the size of the Knife River-Larsmont Sanitary District to be limited in the internal control that the Board of Managers can design and implement into the organization.

Effect: Inadequate segregation of duties could adversely affect the District's ability to detect misstatements in a timely manner by personnel in the normal course of performing their assigned functions.

Cause: The size, structure, and economic resources of the District limit the internal control that management can design and implement into the organization. Based on the availability of the District's staff and the cost benefit of using our expertise, the Board of Managers has requested that we prepare the annual financial statements and related notes.

Recommendation: The Board of Managers should be aware that segregation of duties is not adequate from an internal control point of view. We recommend the Knife River-Larsmont Sanitary District be mindful that limited staffing causes inherent risks in safeguarding the District's assets and the proper reporting of its financial activity. We recommend the Knife River-Larsmont Sanitary District continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Client's Response:

The Secretary/Treasurer does the accounting for the District. A Board member (Treasurer) approves bank accounts and receivables. The full Board approves monthly bills, bank accounts, and receivables on a monthly basis.

10-2 Documentation of Claims Review and Approval

Criteria: The District requires the Board Treasurer to review all claims and sign the payment voucher signifying the Treasurer's review and approval.

Condition: We noted payment vouchers that did not contain the Treasurer's signature indicating the review and approval of claims.

Context: Four disbursements tested out of 13 did not contain the Treasurer's signature indicating review and approval.

Effect: When the review and approval of claims is not done or not documented, that oversight control cannot be verified, and errors or irregularities may not be detected timely.

Cause: The Treasurer did not sign all of the District's payment vouchers indicating his review and approval.

Recommendation: We recommend the Board monitor internal control procedures to ensure the proper oversight for claims is performed and documented.

Client's Response:

The Secretary presents all invoices to be reviewed and approved to the Treasurer each month at the monthly meeting. The Treasurer reviews all invoices to be paid for that month. After any questions or concerns are addressed, the Treasurer then initials all approved invoices. These invoices are then presented to the Board at the monthly meeting where Board approval is required before the Secretary can pay any invoices.

II. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Board Approval of Claims (10-3)

State law requires that claims be approved by the Board prior to payment. *See* Minn. Stat. §§ 115.25, 115.30, and 412.271. The Board can only transact public business at a public meeting. *See* Minn. Stat. § 13D.01. The District has the powers of a statutory city pursuant to Minn. Stat. § 115.30, which means the District has two options for paying bills prior to Board approval. First, the Board may delegate the authority to pay claims under Minn. Stat. § 412.271, subd. 8. When doing so, the Board must create internal control procedures commensurate with the delegation of authority. Second, the District can pay claims based upon contract, when such payments cannot be deferred without loss to the District, by obtaining the signatures of a majority of the Board pursuant to Minn. Stat. § 412.271, subd. 4. The claim must be formally acted upon at the next meeting. In 2011, there was one month of claims paid by the District that did not have any documentation that the claims for payment were approved by the District's Board of Managers.

Resolution

All claims were approved by the District's Board of Managers in 2012.

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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*

Independent Auditor's Report

Board of Managers
Knife River-Larsmont Sanitary District

We have audited, in accordance with auditing standards generally accepted in United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Knife River-Larsmont Sanitary District as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Knife River-Larsmont Sanitary District's basic financial statements, and have issued our report thereon dated June 17, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Knife River-Larsmont Sanitary District's internal control over financial reporting to determine the 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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses may exist that were not identified. However, as described in the accompanying Schedule of Findings and Recommendations we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness and a significant deficiency.

A deficiency in internal control over financial reporting 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 combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 02-1 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 10-2 to be a significant deficiency.

Compliance and Other Matters

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

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, 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 audit considered all of the listed categories, except that we did not test for compliance with the provisions for contracting and bidding because the Knife River-Larsmont Sanitary District did not enter into any applicable contracts.

In connection with our audit, nothing came to our attention that caused us to believe that the Knife River-Larsmont Sanitary District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. 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 District's noncompliance with the above referenced provisions.

Other Matters

The Knife River-Larsmont Sanitary District's responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Recommendations. The District's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and do not provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 17, 2014