



Executive Governance Summary

Independent School District No. 206

Alexandria, Minnesota

For the year ended June 30, 2025



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November 24, 2025

Members of the School Board
Independent School District No. 206
Alexandria, Minnesota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Independent School District No. 206, (the District) for the year ended June 30, 2025, and have issued our report thereon dated November 24, 2025. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 2, 2025. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described on the following pages, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiency described in the following pages as item 2025-003 to be a material weakness.

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. We consider the deficiencies described in the following pages as items 2025-001 and 2025-002 to be significant deficiencies.

Finding

Description

2025-001

Financial Report Preparation

Condition:

We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Auditing standards require auditors to communicate this situation to the Board as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. It is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process..

Criteria:

Internal controls should be in place to provide reasonable assurance over financial reporting.

Cause:

From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organization of your size.

Effect:

The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting.

Recommendation:

It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. We have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. While the District is reviewing the financial statements, we recommend a disclosure checklist is utilized to ensure all required disclosures are presented and the District should agree its financial software to the numbers reported in the financial statements.

Management Response: There is no disagreement with the audit finding.

2025-002

Limited Segregation of Duties

Condition:

The District has a lack of segregation of duties in certain areas due to limited staff. The District has limited segregation of duties in many accounting and financial reporting internal control areas. The areas involved are receipts and receivables, disbursements and payables, payroll, deposits, and reconciliations of these areas.

Criteria:

A good system of internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

Effect:

Inadequate segregation of duties could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions. School Board oversight will mitigate some of the effect.

Cause:

The District does not have the economic resources to hire additional qualified accounting staff in order to segregate duties.

Recommendation:

While we recognize that your staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal control, the functions should be reviewed to determine if additional segregation is feasible and to improve efficiency and effectiveness of financial management of the District.

Management Response: There is no disagreement with the audit finding.



<u>Finding</u>	<u>Description</u>
2025-003	Year-end Audit Adjustments
<i>Condition:</i>	During our audit, adjustments were needed to record several audit adjustments, including some material to the financial statements related to taxes and grant receivables.
<i>Criteria:</i>	The financial statements are the responsibility of the District's management.
<i>Cause:</i>	District staff has not prepared a year-end trial balance reflecting all necessary accruals and year-end adjustments without auditor assistance.
<i>Effect:</i>	It is likely that if a misstatement were to occur, it would not be detected by the District's system of internal control. The audit firm cannot serve as a compensating control over this deficiency.
<i>Recommendation:</i>	We recommend that management review each journal entry, obtain an understanding of why the entry was necessary and modify current procedures to ensure that future corrections are not needed.
<i>Management Response:</i> There is no disagreement with the audit finding.	

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters 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. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or Minnesota statutes.

2025-004	Student Activities
<i>Condition:</i>	Auditing of legal compliance requires a review of the District's student activities. Our study indicated instances of noncompliance related to negative balances and student activity purpose summaries that we believe are required to be remedied.
<i>Criteria:</i>	In accordance with Minnesota Statute, section 123B.49 and Minnesota Rules, part 3545.0800, the District is required to have specific procedures in place around student activities.
<i>Cause:</i>	The District did not follow the MAFA manual.
<i>Effect:</i>	At year end, the District was out of compliance with various statutes and rules related to negative balances and student activity purpose summaries.
<i>Recommendation:</i>	We recommend the District establish enhanced procedures around student activities.
<i>Management Response:</i> There is no disagreement with the audit finding.	

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. The District changed accounting policies during the year ended June 30, 2025 related to compensated absences (GASB 101). We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period except those noted in Note 8. Our opinion is not modified with respect to this matter.



Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates are as follows:

- Management's estimate of depreciation is based on the estimated useful lives of capital assets.
- Management's estimate of amounts due from the Minnesota Department of Education is based on pupil unit and other information provided by the MDE.
- Management's estimate of its OPEB liability is based on several factors including, but not limited to, anticipated retirement age for active employees, life expectancy, turnover, and healthcare cost trend rate.
- Management's estimate of its pension liability is based on several factors including, but not limited to, anticipated investment return rate, retirement age for active employees, life expectancy, salary increases, and form of annuity payment upon retirement.
- Management's estimates of its lease liability and intangible right to use assets are based on several factors including, but not limited to, a discount rate based on the District's estimated incremental borrowing rate.
- Management's estimate of future paid sick time usage is based on historical usage data.

We evaluated the key factors and assumptions used to develop these accounting estimates in determining that it is reasonable in relation to the financial statements taken as a whole. The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

We assisted in preparing a number of year end accounting entries. These were necessary to adjust the District's records at year end to correct ending balances. The District should establish more detailed processes and procedures to reduce the total number of entries in each category. The District will receive better and timelier information if the preparation of year end entries is completed internally.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 24, 2025.



Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the District’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Matters

We applied certain limited procedures to the required supplementary information (RSI) (Management’s Discussion and Analysis, the Schedules of Employer’s Share of the Net Pension Liability, the Schedule of Employer’s Contributions and the Schedules of Changes in the District’s Total OPEB Liability and Related Ratios), which is information that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information (combining and individual fund financial statements and schedules and table), which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory section, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Future Accounting Standard Changes

The following Governmental Accounting Standards Board (GASB) Statements have been issued and may have an impact on future District financial statements:

GASB Statement No. 103 – *Financial Reporting Model Improvements*

Effective: 06/30/2026

GASB Statement No. 104 – *Disclosure of Certain Capital Assets*

Effective: 06/30/2026

Further information on upcoming [GASB pronouncements](#).



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Restriction on Use

This communication is intended solely for the information and use of the members of the School Board, management and others within the administration of the District, federal awarding agencies and the Minnesota Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

The comments and recommendations in the report are purely constructive in nature, and should be read in this context. Our audit would not necessarily disclose all weaknesses in the system because it was based on selected tests of the accounting records and related data.

If you have any questions or wish to discuss any of the items contained in this letter, please feel free to contact us at your convenience. We wish to thank you for the opportunity to be of service and for the courtesy and cooperation extended to us by your staff.



Abdo
Mankato, Minnesota
November 24, 2025

