

INDEPENDENT SCHOOL DISTRICT #423
HUTCHINSON PUBLIC SCHOOLS

MANAGEMENT LETTER

JUNE 30, 2025

CONWAY, DEUTH, & SCHMIESING
CPAS & ADVISORS
LITCHFIELD, MINNESOTA

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INDEPENDENT SCHOOL DISTRICT #423

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November 10th, 2025
Board of Education
Hutchinson, Minnesota

We have audited the financial statements of Independent School District #423 (the District) as of and for the year ended June 30, 2025, and have issued our report thereon dated November 10, 2025. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated August 19, 2025, our responsibility, as described by professional standards, is to form and express an opinion(s) about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of the system of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the system of internal control of the District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding significant control deficiencies over financial reporting and material noncompliance noted during our audit in a separate letter to you dated November 10, 2025.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, have complied with all relevant ethical requirements regarding independence.

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Morris Office

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Litchfield Office

820 Sibley Ave N
Litchfield, MN 55355
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Sartell Office

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(320) 252-7565
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The following safeguards have been applied to eliminate identified threats to independence or to reduce them to an acceptable level:

- Management oversight of review of work performed by individual with appropriate skills, knowledge and experience to oversee our services.
- Technical review performed by an individual who is not a member of the engagement team with sufficient technical expertise and experience.

Significant Risks Identified

We have identified the following significant risks:

- Management Override of Controls – Management override of internal control is considered a risk in substantially all engagements as management may be incentivized to produce better results.
- Expense Accrual - This risk is considered significant because if expenses or expenditures are not properly accrued and recorded in the correct accounting period, it could result in material misstatements in the financial statements.
- Capitalization of Expenditures – This risk is considered significant because if qualifying capital and right-to-use expenditures are not properly identified and capitalized, it could result in material misstatements due to the omission of assets and related depreciation or amortization in the financial statements.
- Net Position Classification – This risk is considered significant because incorrect calculation or presentation of net position classifications can result in material misstatements and affect the clarity and accuracy of information presented in the financial statements.

Qualitative Aspects of the Entity’s Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2025. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates and Related Disclosures

Accounting estimates and related disclosures are an integral part of the financial statements prepared by management and are based on management’s current judgments. Those judgments are normally based on 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 markedly from management’s current judgments.

The most sensitive accounting estimates affecting the financial statements are:

- Due from Minnesota Department of Education
- Due from Other Minnesota School Districts
- Due from Federal through Minnesota Department of Education
- Estimated useful lives of depreciable capital assets
- Estimated compensated absences liability
- Estimated pension on other post-employment benefit liabilities and related items
- Estimated lease and subscription terms and discount rates

Management's estimate of the Due from Minnesota Department of Education is based on amounts anticipated to be received from the state for various aid entitlements for fiscal 2024-2025. The most significant of these is the aid portion of general education revenue. General education revenue and certain other revenues are computed by applying an allowance per student to the number of students served by the District. Student attendance is accumulated in a statewide database - MARSS. Because of the complexity of student accounting and because of certain enrollment options, student information is input by other school districts and the MARSS data for fiscal year 2025 is not finalized until well into fiscal year 2026. Management expects any differences between estimated and actual data will be insignificant.

Management's estimate of Due from Other Minnesota School Districts is based on amounts that have been billed to other school districts under the Care and Treatment tuition billing system. The District has made a good faith effort to accurately calculate such amounts billed but, until the resident school district has an opportunity to review such underlying details as membership days, disability codes, and rates, it will not be known whether such amounts will be collected or not. Management expects any difference between amounts billed and amounts ultimately collected will be insignificant.

Management's estimate of Due from Federal through Minnesota Department of Education is based on amounts anticipated to be received through the state for various federal aid entitlements for fiscal 2024-2025. Many federal entitlements require that supporting financial reporting information be provided by the UFARS accounting system, MEGS and the SEDRA reporting system. To the extent that these three separate systems are not in agreement and reported in a timely manner, the estimated aid entitlement may be adversely affected. Management expects any differences between estimated and actual data will be insignificant.

Management's estimate of useful lives for depreciable assets is based on guidance recommended by the Minnesota Department of Education and other sources. The useful life of a depreciable asset determines the amount of depreciation that will be recorded in any given reporting period as well as the amount of accumulated depreciation that is reported at the end of a reporting period.

Management's estimate of compensated absences liability is based on current employee pay rates, accumulated unpaid leave balances, and the District's policies regarding vacation, sick leave, and other compensated absences. The estimate also considers assumptions regarding the likelihood that employees will utilize or forfeit accrued leave in the future. The compensated absences liability affects the amount reported in the government-wide financial statements. Changes in these assumptions or in District policies could have a significant effect on the amounts reported.

Management's estimate of pension and other post-employment benefit liabilities and related items is based on actuarial valuations performed by consultants specializing in those areas.

Management's estimate of lease terms and discount rates on leases is based on information stated in the lease agreement and expectations of the lease. The lease terms and discount rates determine the amount of interest revenue that will be recorded during each reporting period as well as the amount of deferred inflows of resources and lease receivable that is reported at the end of a reporting period.

We evaluated the factors and assumptions used to develop the accounting estimates listed above and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The basic financial statement disclosures are neutral, consistent and clear.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards also require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all such misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The following material misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management and are available by request from management.

Disagreements with Management

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

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated November 10, 2025.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the District's auditors.

Other Information Included in Annual Reports

Pursuant to professional standards, our responsibility as auditors for other information, whether financial or nonfinancial, included in the District's annual reports, does not extend beyond the information identified in the audit report, and we are not required to perform any procedures to obtain assurance about such other information.

We applied certain limited procedures to the Management's Discussion and Analysis, the Schedule of Proportionate Share of the Net Pension Liability for Pension Plans Administered through a Trust, Schedule of Employer Contributions for Pension Plans Administered through a Trust, the Schedule of Changes in the District's Total Pension Liability for Pension Plans not Administered through a Trust and the Schedule of Changes in the District's Total OPEB Liability as listed in the table of contents, which are required supplementary 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 required supplementary information and do not express an opinion or provide any assurance on the required supplementary information.

We were engaged to report on the statements and schedules listed in the table of contents as supplementary information, which accompany the financial statements but are not required supplementary information. 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 Elected Officials and Administration page, which accompany the financial statements but are not required supplementary information. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

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

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
CPAS & ADVISORS
LITCHFIELD, MINNESOTA

November 10, 2025

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INDEPENDENT SCHOOL DISTRICT #423

SCHEDULE OF FINDINGS ON ACCOUNTING ISSUES AND INTERNAL CONTROLS
JUNE 30, 2025

We noted certain matters involving the internal control structure and its operation that we consider being deficiencies in internal control under standards established by the American Institute of Certified Public Accountants. 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.

INTERNAL CONTROL

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the valuation of these factors necessarily requires estimates and judgments by management.

It should be recognized that within the District, an inherent risk is present with certain positions. It is very common for districts such as Independent School District #423, Hutchinson, Minnesota, to assign many major responsibilities to a few key individuals in an attempt to operate within limited budgets. The audit did not raise any specific concerns with any position. The inherent risk is again addressed only to maintain the awareness of the internal control structure and to encourage the Board's continual review of financial information at monthly meetings.

GENERAL COMMENTS

Throughout the course of the audit, we spoke to management regarding certain items that we see as an opportunity to improve. None of these were considered significant within the scope of the audit. The items discussed requiring action have been resolved or are in the process of resolution.