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MANAGEMENT LETTER

To the Board of Education and Management
Independent School District No. 2689
Pipestone Area Schools
Pipestone, Minnesota 56164

In planning and performing our audit of the financial statements of the Independent School District No. 2689, Pipestone Area Schools, Pipestone, Minnesota, for the year ended June 30, 2025, we considered its compliance with applicable laws and regulations for the purpose of expressing our opinion on the financial statements. In addition, during the process of planning and performing our audit of the financial statements other areas of comment came to our attention, which will be discussed below:

Food Service Net Cash Resource Limitation

Attached is a copy of a publication prepared by the Minnesota Department of Education regarding excess funds in food Service at yearend. This publication describes the computation of excess cash in the Food Service fund. According to their computation, the District has \$307,511 in excess funds. It is our understanding that the District will need to submit a written plan as to how the excess funds will be spent. MDE will notify Districts in January requiring this plan.

Recommended Adjusting Journal Entries

Attached to this letter is a copy of the recommended year-end adjusting journal entries. Please review these entries. These are the adjustments required to be made in order for your accounting system to be in agreement with the year-end audit. If the adjustments meet with your approval, please instruct your bookkeeper to enter them into SMART Finance for the year ended June 30, 2025.

Independent School District No. 2689
Pipestone Area Schools
Pipestone, Minnesota
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We feel that these comments and observations deserve the attention of the School Board. We would be willing to discuss any of these comments with you at any time. We appreciate the opportunity to provide auditing services to Independent School District No. 2689.

Sincerely,

A handwritten signature in black ink, appearing to read "Meulebroeck, Taubert & Co., PLLP".

Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
Pipestone, Minnesota

November 14, 2025

ISD #2689 - PIPESTONE AREA SCHOOLS

Adjusting Journal Entries

July 1, 2024 - June 30, 2025

Date	Reference	Account	Description	Debit	Credit
Adjusting Journal Entries					
06/30/25	1		TO ADJUST FOR DISPOSAL		
		98-141-000-000-000-000	LAND IMPROVEMENTS		107,900.00
		98-430-000-000-000-000	Investment in General Fixed Assets	107,900.00	
06/30/25	2		TO BALANCE FUND 07 TO FUND 99		
		99-150-000-000-000-000	Amt For Retirement of Bonds	61,558.40	
		99-151-000-000-000-000	Amt Provided from Property Tax		61,558.40
06/30/25	3		TO ADJUST SEVERANCE PAYABLE (BB-4)		
		01-418-000-000-000-000	Designation for Separation/Ret	14,145.69	
		01-422-000-000-000-000	Unappropriated		14,145.69
		99-160-000-000-000-000	Available For Severance		14,145.69
		99-260-000-000-000-000	Separation & Severance Payable	14,145.69	
06/30/25	4		CLIENT PREPARED ENTRY 22094		
		21-005-298-937-301-401	School Store	1,000.00	
		21-005-298-955-301-401	Fall Concessions		1,000.00
06/30/25	5		TO ADJUST FUND BALANCES (CLIENT DOES NOT MAKE)		
		01-403-000-000-000-000	Rsvd For Staff Dev		18,977.30
		01-412-001-000-000-000	Reserved for Literacy Incent		55,186.65
		01-424-000-000-000-000	Reserved for Operating Capital		49,033.86
		01-428-000-000-000-000	Resvd-Learning & Development		21,181.56
		01-438-000-000-000-000	Reserved for Gifted and Talented		16,074.11
		01-441-000-000-000-000	Rsvd for Basic Skills	153,401.93	
		01-449-000-000-000-000	Rsvd Safe Sch - Crime Levy	4,401.43	
		01-456-000-000-000-000	RESERVED FOR LITERACY AID		43,207.78
		01-457-000-000-000-000	Rsvd for Teacher comp read act		21,680.71
		01-467-000-000-000-000	Long Term Deferred Maintenance		32,174.95
		01-472-000-000-000-000	Restricted/Reserved for MA		14,517.66
		01-462-001-000-000-000	Assigned Fund Balance Athletic Help Fund	4,995.27	
		01-462-002-000-000-000	Assigned Fund Balance-Help Fune		2,916.66
		01-462-003-000-000-000	Assigned Fund Balance Elem Help		3,592.63
		01-462-005-000-000-000	Assigned Fund Balance-VPK		130,475.91
		01-422-000-000-000-000	Unappropriated	246,221.15	
		04-431-000-000-000-000	Fund Balance-Community Education		33,930.96
		04-431-005-000-000-000	RSVD JO Volleyball		280.91
		04-432-000-000-000-000	Fund Balance-Ecfe		498.64
		04-444-000-000-000-000	School Readiness (Fd 04)	18,546.54	
		04-464-000-000-000-000	Restricted Fund Balance	16,163.97	
		21-401-913-000-000-000	Baseball	1,401.05	
		21-401-914-000-000-000	Boys Basketball	1,122.54	
		21-401-916-000-000-000	Cheerleading		707.50
		21-401-921-000-000-000	Cross Country		689.21
		21-401-922-000-000-000	Res for Student Activities	8,679.56	
		21-401-924-000-000-000	Football Club		1,531.55
		21-401-925-000-000-000	French Club		3,864.69
		21-401-926-000-000-000	Girls Basketball		655.87
		21-401-927-000-000-000	Girls Tennis	69.38	
		21-401-928-000-000-000	Golf Club		75.00
		21-401-929-000-000-000	Gymnastics		879.20
		21-401-930-000-000-000	HS Student Council		134.83
		21-401-932-000-000-000	Journalism	2,636.70	
		21-401-934-000-000-000	MS Student Council		523.65
		21-401-935-000-000-000	National Honor Society		1,832.13
		21-401-937-000-000-000	School Store	5,235.91	

ISD #2689 - PIPESTONE AREA SCHOOLS

Adjusting Journal Entries

July 1, 2024 - June 30, 2025

Date	Reference	Account	Description	Debit	Credit
		21-401-938-000-000-000	Softball		375.00
		21-401-939-000-000-000	Spanish Club		295.40
		21-401-940-000-000-000	Speech	282.48	
		21-401-942-000-000-000	Swing Choir		1,178.43
		21-401-944-000-000-000	Robotics		2,785.20
		21-401-946-000-000-000	Volleyball		446.54
		21-401-948-000-000-000	Wrestling Club		28.39
		21-401-951-000-000-000	One Act Play		1,921.09
		21-401-957-000-000-000	Prom	279.28	
		21-401-958-000-000-000	Homecoming		946.64
		21-401-960-000-000-000	Class of 2026		21.50
		21-401-965-000-000-000	Class of 2025	1,589.27	
		21-422-000-000-000-000	Unassigned Fund Balance		2,404.35
Totals for Adjusting Journal Entries				<u>663,776.24</u>	<u>663,776.24</u>
Report Totals				<u>663,776.24</u>	<u>663,776.24</u>

Journal Entry count = 5



Net Cash Resource Limitation in the Nonprofit School Foodservice Fund

Overview

According to Title 7, *Code of Federal Regulations*, sections 210.2, 210.14(b), and 210.19(a)(1), School Food Authorities (SFA) must limit their net cash resources (NCR) to an amount that does not exceed 3 months of average operating expenditures or other amount established by the state agency* in order to maintain its nonprofit status.

**The Minnesota Department of Education (MDE) has temporarily increased the NCR limitation to six months average operating expenditures through school year 202425.*

Net cash resources are defined as, "All monies, as determined in accordance with the state agency's established accounting system, that are available to or have accrued to a SFA's nonprofit school food service at any given time, less cash payable. Such monies may include, but are not limited to, cash on hand, cash receivable, earnings on investments, cash on deposit and the value of stocks, bonds, or other negotiable securities."

If net cash resources are greater than 6 months operating expense, the amount greater than 6 months operating expense is considered excess funds. SFAs with excess funds are out of compliance with regulation.

Excess NCR

MDE notifies public SFAs with excess funds in January of each year. These SFAs will be required to submit a written plan to outline how the excess funds will be spent to benefit the foodservice operation.

Non-public SFAs do not submit financial data to MDE for review using the Uniform Financial Accounting and Reporting Standards (UFARS). Therefore, nonpublic SFAs with excess funds in the school food service account must notify MDE of the amount of excess funds and their plan to reduce excess funds. Contact MDE (mde.fns-mp@state.mn.us) for a copy of the spend down plan form that must be submitted to the state agency for review.

The spend down plan should outline your actions to expend these excess funds in a manner designed to **improve the nonprofit school food service operations*** and bring the balance within compliance. **Allowable expenses** that excess funds may be used include:

- Procurement of higher quality food for the school lunch and/or breakfast program
- Food service staff development directly related to food service and nutrition education.
- Increase in the number of food service employees or hours worked by food service employees.
- Increase in salary and benefits for food service employees.

Three Months Average Operating Expense Calculation:

- Total Operating Expense divided by number of full months operation (usually nine months) multiplied by three.
- Compliance is achieved when Net Cash Resources is less than six months operating expenses.

Six Months Average Operating Expense Calculation:

- Total Operating Expense divided by number of full months operation (usually nine months) multiplied by six.
- Compliance is achieved when Net Cash Resources is less than six months operating expenses.

*Note: Although Minnesota Statutes 2023, section 124D.11 indicates the following,

"If a surplus in the food service fund exists at the end of a fiscal year for three successive years, a district may recode for that fiscal year the costs of lunchroom supervision, lunchroom custodial services, lunchroom utilities, and other administrative costs of the food service program charged to the general fund according to paragraph (c) and charge those costs to the food service fund in a total amount not to exceed the amount of surplus in the food service fund."

these costs cannot be included in the spend down plan as the items listed above do not improve the nonprofit school food service.

NCR Calculation

Fund Balance is a financial accounting concept rather than a program specific requirement. It is reported in a School Food Authority's (SFA) financial statement as the difference between the Food Service assets and its liabilities. Net Cash Resource, on the other hand, is the difference between the Food Service assets (except Inventories and Prepaid Expenses) and its liabilities.

- **Public SFAs:** It can be located on a Public SFA's Balance Sheet as "Restricted Fund Balance." It is a component of the total Fund Balance and is shown separately from the "Non-spendable Fund Balance." The Non-spendable Fund Balance is comprised of Inventories and Prepaid Expenses; both show as assets but are not available as a cash resource.
- **Non-public SFAs:** The concept is the same but may be recorded using different terms. It is not necessary to have a separate bank account for the food service program, but there must be a method to show food service funds are kept separate from the other funds in the account.

If the Restricted Fund Balance is not separated on the balance sheet, the method to calculate Net Cash Resource is as follows:

Current Assets**

Cash & Cash Equivalents	\$ <u>743,985</u>
Due from Other Governments	\$ <u>235,090</u>
Accounts Receivable	\$ <u>91,295</u>
Investments	\$ _____

$$\begin{array}{r} \text{Exp} \quad 1,054,222 \\ \div 9 \\ \times 6 \end{array}$$

Current Liabilities

Less Accounts Payable	\$ <u>40,883</u>
Less Accruals	\$ _____
Less Due to Other Funds	\$ _____
Less Deferred Revenue	\$ <u>19,161</u>

NCR
Excess

$$\begin{array}{r} 702,815 \\ 1,010,326 \\ \hline 307,511 \end{array}$$

Net Cash Resources \$ 1,010,326

**Do not include inventories in current assets.