

# MILFORD CENTRAL SCHOOL

JUNE 30, 2022

## MANAGEMENT LETTER RESPONSE AND CORRECTIVE ACTION PLAN

The following is management's response and corrective action plan to the recommendations noted in the Management Letter and Financial Statements for the year ended June 30, 2022.

### **Control Improvement - Leases:**

*GASB* Statement 87 applies to all local governments, school districts and Boards of Cooperative Educational Services (BOCES) in New York State (NYS). For school districts and BOCES that prepare annual financial statements in accordance with generally accepted accounting principles (GAAP), Statement 87 reporting requirements are effective for fiscal years beginning after June 15, 2021.

Operating leases previously only consisted of an inflow and outflow of resources. Information was not readily available in the financial statements displaying the long-term impact of the lease. Capital leases, however, were required to be accounted for as if they were acquisitions financed by debt. Statement 87 requires all contracts meeting the GASB's definition of a lease to be accounted for the same way.

The district forwarded schedules prepared by BOCES to the auditor to comply with the new standard. We recommend that the district consider the type of leases they currently have with BOCES, review the documentation provided by the comptroller's office to determine the proper accounting to comply with the new accounting standard.

- ❖ The treatment of leases is new for the district as of this fiscal year and there was a difference in the understanding as to what was required in the schedules. The School Business Manager will review the guidance from the OSC and other sources to ensure that the proper accounting of these leases to comply with the new accounting standard is in place for the next fiscal year.

### **Compliance Item - Excess Fund Balance:**

The unassigned balance of the District's General Fund exceeds 4% of the subsequent year's budget. It is 9.3% of the subsequent year's budget. Budgeting is done based on conservative assumptions and a budget shortage are avoided. It is possible but unlikely that State aid may be reduced for the fund balance in excess of the 4%. We recommend examining future budgets and budgeting procedures as well as investigate various reservations of fund balance allowed under New York State Law.

- ❖ The School Business Manager, the Superintendent, and the Board of Education discuss fund balance during the budgeting process, current reserve balances, and the option of authorizing additional legal reserves that would be appropriate for the district.
- ❖ The Board of Education plans to go out to the voters during the 2022-2023 school year to establish a Capital Reserve and begin to fund the Capital Reserve from unrestricted fund balance. The district has received the results of the Building Condition Survey and Five-Year Plan and will be developing the proposition for the establishment of the Capital Reserve. The Board of Education plans to have this proposition on the May 2023 ballot. The establishment of a Capital Reserve will help to prepare the district for future needs as well as address fund balance concerns.