



# Mexico Academy Central School District Financial Management

## Report of Examination

Period Covered:

July 1, 2014 – April 5, 2016

2016M-219



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

September 2016

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Mexico Academy Central School District, entitled Financial Management. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*

# Introduction

## Background

The Mexico Academy Central School District (District) is located in the Towns of Hastings, Mexico, New Haven, Palermo, Parish, Richland, Scriba and Volney in Oswego County. The District is governed by the Board of Education (Board), which is composed of seven elected members and is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the Board's direction.

The District operates five schools with approximately 2,000 students and 460 employees. The District's budgeted appropriations for the 2015-16 fiscal year were \$54.2 million, funded primarily with State aid and real property taxes.

The District had a payment in lieu of taxes (PILOT) agreement with a nuclear power plant (NPP) located in the Town of Scriba which expired at the end of the 2010-11 fiscal year. A new PILOT agreement was renegotiated in April 2016 with the first payment to occur in the 2016-17 fiscal year. During the timeframe when there was no PILOT agreement, the NPP had an average assessed value of \$640 million with an average tax liability of \$12.7 million. The NPP filed tax grievances each of these years, starting in 2011-12, requesting a reduction in the assessed value and a refund of property taxes previously paid to the District. The grievance was settled in favor of the District, and the District is not required to refund any of the taxes paid.

## Objective

The objective of our audit was to determine if District officials effectively managed the District's finances. Our audit addressed the following related question:

- Did the Board and District officials effectively manage the District's financial condition?

## Scope and Methodology

We examined the District's financial records for the period July 1, 2014 through April 5, 2016. We extended our scope back to July 1, 2010 to analyze the District's financial condition, budgeting trends, fund balance and restricted fund expenditures; and forward to June 30, 2016 to analyze and project revenues, expenditures and fund balance trends. Based on the financial information available, we also analyzed the District's financial trends and projected the amount of fund balance that would be available in future years ending with the 2020-21 fiscal year.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

**Comments of  
District Officials and  
Corrective Action**

The results of our audit have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our findings and recommendations and indicated they will take appropriate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

# Financial Management

The Board and District officials are accountable to District residents for the use of District resources and are responsible for effectively planning and managing the District’s financial operations. A key aspect of effectively managing the District’s financial condition is recognizing future economic trends and implementing measures to control costs in the event that revenues may be negatively affected. Controlling costs incrementally over several budget cycles is often preferable to making drastic budgetary changes in a single year. Effective financial management also includes maintaining sufficient and appropriate balances in reserves to address long-term obligations or planned future expenditures.

Generally, the Board and District officials have effectively managed the District’s finances. However, the new PILOT agreement and recent tax certiorari ruling may present financial challenges in the upcoming fiscal years if mitigating steps are not taken. In 2010-11, the expiration of the District’s PILOT agreement with the NPP generated additional real property tax revenue of approximately \$13.5 million for the 2011-12 fiscal year. Since the 2011-12 fiscal year, the NPP has filed tax grievances regarding the assessment of the property and associated tax bill while the District attempted to renegotiate a PILOT agreement. In case of an unfavorable ruling regarding the NPP’s tax grievance, District officials funded two reserves, starting in 2011-12, with operating surpluses. As a result, from the end of the 2010-11 fiscal year through 2014-15, the District’s two reserves associated with NPP increased by \$15.2 million (180 percent).

**Figure 1: Surpluses and Selected Reserve Balances**

	2010-11	2011-12	2012-13	2013-14	2014-15
Operating Surplus	\$388,600	\$9,083,695	\$3,609,853	\$1,734,866	\$1,979,624
Tax Certiorari Reserve	\$1,960,239	\$1,966,596	\$1,970,570	\$2,973,393	\$4,975,993
Nuclear Facility Tax Stabilization Reserve <sup>a</sup>	\$6,347,537	\$16,674,042	\$18,474,615	\$18,734,412	\$18,520,571
<b>Total Reserve Balances Associated with NPP</b>	<b>\$8,307,776</b>	<b>\$18,640,638</b>	<b>\$20,445,185</b>	<b>\$21,707,805</b>	<b>\$23,496,564</b>

<sup>a</sup> This reserve is authorized for school districts in which a nuclear-powered electric generating facility is located. The reserve is available to lessen or prevent any projected increase in the amount of the real property tax levy needed to finance the general fund portion of the school district budget for the succeeding school year.

Additionally, with the 2011-12 significant increase in tax revenue, the District’s expenditures increased by approximately \$10 million, an average of 6 percent, over the last five completed fiscal years (2010-

11 through 2014-15). The current Superintendent<sup>1</sup> recognized this expenditure growth would be unsustainable due to reduced PILOT income (discussed below) and implemented a spending freeze in November 2015 when the NPP announced a potential closing of operations.<sup>2</sup> We project the spending freeze should result in another surplus of \$2.7 million for 2015-16.

The NPP dropped its grievance in April 2016 and entered into a new PILOT agreement with the District, which will expire in 2020-21. Based on the new terms of the PILOT agreement, the District will receive approximately \$18 million in payments over the next five years compared to the \$63 million received over the previous five years. Nonetheless, the District currently has two significantly funded reserves. Further, with the favorable tax certiorari ruling, the \$5 million balance in the tax certiorari reserve is no longer needed for its original purpose.

Using the terms of the new PILOT agreement, we projected the results of operations the District may expect if it does not continue to control expenditures.<sup>3</sup> In addition, since the PILOT agreement payment decreases annually, the reserves<sup>4</sup> will need to be used as a budgetary financing source. However, since fund balance is a finite resource, continued reliance on it will eventually be detrimental to the District's financial stability. Based on our projections, at the conclusion of the 2019-20 fiscal year, the selected reserves and unassigned fund balance will be depleted if projected expenditure growth is not curtailed (Figure 2). Without a long-term financial plan for continuing to decrease expenditures, District officials may need to consider other options to fund the financing gap.

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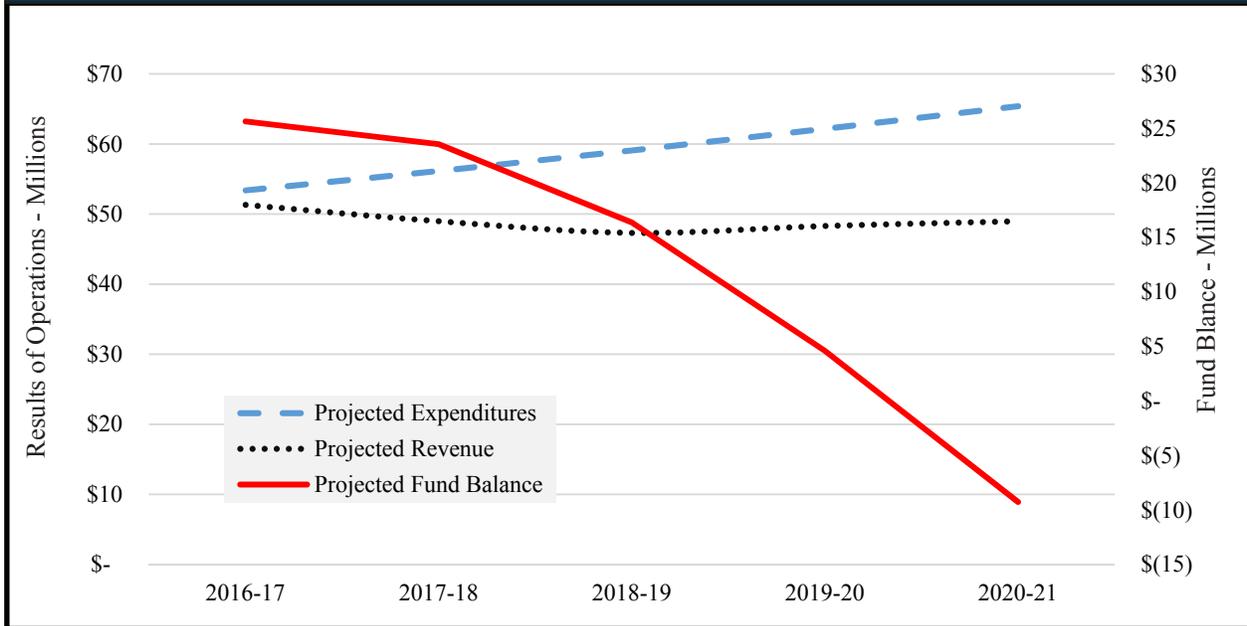
<sup>1</sup> The current Superintendent assumed that office in August 2015.

<sup>2</sup> As of July 2016, the NPP has remained in operation.

<sup>3</sup> See Appendix B for details on our methodology.

<sup>4</sup> In addition to available funds from the unassigned unappropriated fund balance, we included funds from the tax certiorari reserve and the nuclear facility tax stabilization reserve as financing sources for future budgets. We recognize that the District also has other reserves available for use in future budgets that would alter these projections.

**Figure 2: Projected Results of Operation and Selected Reserves and Fund Balance**



We also reviewed the 2016-17 adopted budget and found that estimates for revenues and expenditures were more closely aligned with historical trends and include approximately \$3 million in reductions to expenditures from the prior year. We recognize the District’s recent efforts to align budgets with actual historical costs, and we urge District officials to continue controlling costs where possible.

**Recommendations**

The Board and District officials should:

1. Maintain District expenditures at reasonable levels and incrementally reduce them over several budget cycles to gradually align with ongoing revenue estimates.
2. Use reserve funds as intended, and fund balance when needed, to balance the budget with the understanding that these budgetary revenue sources are finite.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

The District officials' response to this audit can be found on the following page.



SEAN C. BRUNO, Superintendent of Schools

Tel. (315) 963-8400 ext. 5401

Fax (315) 963-5801

August 5, 2016

Attention: [REDACTED]  
Office of the New York State Comptroller  
Division of Local Government & School Accountability  
110 State Street, 12<sup>th</sup> Floor  
Albany, New York 12236

Dear [REDACTED]:

Mexico Academy & Central School District (MACS) is in receipt of the findings and recommendations outlined in your DRAFT "Report of Examination" (report) of the Mexico Academy & Central School District for the period of July 1, 2014 – April 5, 2016.

MACS greatly appreciates your recognition of our recent efforts to align budgets with actual historical costs. In our quest for continuous improvement, we are confident in our ability to control costs incrementally over several budget cycles as we transition to our new financial reality.

Furthermore, we agree with the following statements in your report, *"The Board and District officials are accountable to District residents for the use of District resources and are responsible for effectively planning and managing the District's financial operations. A key aspect of effectively managing the District's financial condition is recognizing future economic trends and implementing measures to control costs in the event that revenues may be negatively affected."*

*Controlling costs incrementally over several budget cycles is often preferable to making drastic budgetary changes in a single year. Effective financial management also includes maintaining sufficient and appropriate balances in reserves to address long-term obligations or planned future expenditure. ....recent tax certiorari ruling may present financial challenges in the upcoming fiscal years if mitigating steps are not taken."*

In order to order to successfully achieve the above agreed upon responsibilities and recommendations in a fiscally responsible manner for both the short term and long term, we interpret our reserves to be sufficiently funded. As you are aware, the district was facing upwards of a \$62 million dollar tax refund along with costs for substantial legal fees. While the district was ultimately able to negotiate a reasonable PILOT settlement that was fair to our tax payers, our students, and the Entergy Corporation, the reserve funds will be necessary for reasonable, timely, and fiscally prudent transition to our new fiscal realities.

We would like to express our gratitude towards the field auditors involved in the comprehensive examination of our financial operations and their professionalism in conducting this audit. We appreciate the feedback received and the comments made by the audit team in support of our continuing efforts.

Sincerely,

Sean Bruno  
Superintendent of Schools

James Emery  
President, Board of Education

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials and reviewed Board minutes to gain an understanding of the budget process and the financial information provided to the Board.
- We interviewed District officials regarding the past PILOT agreement to determine the amounts of previous payments, expiration dates and if any other PILOT agreements existed.
- We examined the newly negotiated PILOT agreement to determine the timeframe and conditions of the PILOT agreement along with the District's yearly revenue amounts from the PILOT agreement.
- We calculated the results of operations for fiscal years 2010-11 through 2014-15 to determine the amount of surplus available to fund reserves and calculated the average rate of increase for expenditures.
- We compared the budgeted revenues and appropriations to the actual revenues and expenditures for the general fund for fiscal years 2010-11 through 2014-15 to determine if budget estimates were reasonable.
- We reviewed the total fund balance and reserve fund balances to determine the trends from fiscal years 2010-11 through 2014-15 and noted significant increases in reserves related to the NPP.
- We projected revenues and expenditures to June 30, 2016, as of June 22, 2016, to project the District's results of operations.
- We reviewed the District's 2016-17 proposed budget to determine if estimates were reasonable and if any of the 2016-17 appropriation reductions could have been implemented in prior years.
- We projected future results of operations for fiscal years 2017-18 through 2020-21 based on historical operating trends, and assuming a 2 percent increase in property taxes and a 5.2 percent increase in expenditures based on the average rate of change from 2010-11 to the 2016-17 budgeted appropriations. We calculated when the District would exhaust selected reserves and fund balance.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## APPENDIX C

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