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March 6, 2015

Dr. Michael J. Hynes
Members of the Board of Education
Patchogue-Medford Union Free School District
241 South Ocean Avenue
Patchogue, NY 11772

Report Number: B7-15-1

Dear Dr. Hynes and Members of the Board of Education:

Chapter 109 of the Laws of 2006 authorizes the Patchogue-Medford Union Free School District (District) to issue debt totaling \$6 million to liquidate the accumulated deficit in the District's general fund as of June 30, 2006. New York State Local Finance Law (Law) Section 10.10 requires all local governments that have been authorized to issue obligations to fund operating deficits to submit to the State Comptroller each year, starting with the fiscal year during which the local government is authorized to issue obligations and for each subsequent fiscal year during which the deficit obligations are outstanding, their tentative budget for the next succeeding fiscal year.

The budget must be submitted no later than 30 days before the date scheduled for the governing board's vote on its adoption or the last date on which the budget may be finally adopted, whichever is earlier. The State Comptroller must examine the tentative budget and make recommendations for any changes that are needed to bring the tentative budget into balance. Such recommendations are made after the examination into the estimates of revenues and expenditures of the District.

Our Office has recently completed a review of the District's budget for the 2015-16 fiscal year. The objective of the review was to provide an independent evaluation of the tentative budget. Our review addressed the following question related to the District's budget for the upcoming fiscal year:

- Are the significant revenue and expenditure projections in the District's tentative budget reasonable?

To accomplish our objectives in this review, we requested your tentative budget, salary schedules, debt payment schedules and other pertinent information which was originally submitted to us on

February 12, 2015. We also reviewed the revisions made to the tentative budget's revenues and expenditure estimates received on March 4, 2015. We identified and examined significant estimated revenues and expenditures for reasonableness with emphasis on significant and/or unrealistic increases or decreases. We analyzed, verified and/or corroborated trend data and estimates, where appropriate. We identified any significant new or unusually high revenue or expenditure estimates, made appropriate inquiries and reviewed supporting documentation to determine the nature of the items and to assess whether the estimate was realistic and reasonable. We also evaluated the amount of fund balance appropriated in the tentative budget to be used as a financing source and determined if the amount of fund balance was available and sufficient for that purpose.

The scope of our review does not constitute an audit under generally accepted government auditing standards (GAGAS). We do not offer comments or make specific recommendations on public policy decisions, such as the type and level of services under consideration to be provided.

The tentative budget package submitted for review for the fiscal year ended June 30, 2016 consisted of the following:

- 2015-16 Tentative Budget received February 12, 2015
- Revisions to the 2015-16 Tentative Budget received on March 4, 2015
- Supplementary Information

The tentative budget submitted to our Office is summarized as follows:

Fund	Appropriations and Provisions for Other Uses	Estimated Revenues	Appropriated Fund Balance	Real Property Taxes
General	\$173,068,899	\$65,841,981	\$3,663,642	\$103,563,276

Based on the results of our limited review, we found that the significant revenue and expenditure projections in the revised tentative budget are reasonable.

The District's 2015-16 tentative budget includes the appropriation of over \$3.6 million of fund balance to help finance 2015-16 operations. District officials project that approximately \$6.9 million in fund balance may be available. While we generally advise against the use of fund balance to finance operating expenditures, the District's actions are reasonable given the constraints imposed by the real property tax cap. However, District officials must be aware that continued use of fund balance will eventually lead to its depletion and a new revenue source will need to be identified to fund operating expenditures. District officials should monitor the District's use of fund balance to ensure that action is taken, if necessary, to identify other funding sources that can be used to fund operations.

Tax Cap Compliance

The State Legislature and the Governor enacted Chapter 97 of the Laws of 2011 that established a tax levy limit on all local governments and school districts, which was effective beginning in the 2012 fiscal year. The law precludes a local government or school district from adopting a budget that requires a tax levy that exceeds the prior year's tax levy by more than 2 percent or the rate of inflation, whichever is less,¹ and certain exclusions permitted by law, unless 60 percent of district voters approve a budget that requires a tax levy that exceeds the statutory limit.

The District's tentative budget complies with the tax levy limit because it includes a tax levy within the limits established by law. In adopting the 2015-16 budget, the District should be mindful of the legal requirement to maintain the tax levy increase to no more than the calculated limit, unless, as noted above 60 percent of District residents vote to exceed this statutory limit. Furthermore, due to how early the District adopts its budget, it is imperative that District officials pay careful attention to school aid estimates and other guidance, and make the appropriate changes to its budget and/or tax levy limit calculation as more information becomes available.

We request that you provide us with a copy of the adopted budget.

We hope that this information is useful as you adopt the upcoming budget for the District. If you have any questions on the scope of our work, please feel free to contact Ira McCracken, Chief Examiner of the Long Island Regional Office, at (631) 952-6534.

Sincerely,

Gabe Deyo
Deputy Comptroller

cc: Donna Jones, Assistant Superintendent for Business
Dennis M. Logan, District Clerk
Dean T. Lucera, Chief Operating Officer, Eastern Suffolk BOCES
Hon. John A. DeFrancisco, Chair, Senate Finance Committee
Hon. Herman D. Farrell, Jr., Chair, Assembly Ways and Means Committee
Hon. Dean Murray, NYS Assembly
Hon. Thomas D. Croci, NYS Senate
Mary Beth Labate, Director, Division of the Budget
Elizabeth Berlin, Acting Commissioner, State Education Department
Maria C. Guzman, Director, Office of Audit Services, State Education Department
Andrew A. SanFilippo, Executive Deputy Comptroller, Local Government and School
Accountability
Ira McCracken, Chief Examiner, Local Government and School Accountability

¹ Our Office has previously determined that the rate of inflation applicable to school districts with a fiscal year beginning July 1, 2015 is no greater than 1.62 percent. Therefore, the property tax levy is capped at 1.62 percent.