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April 10, 2026

Mr. Antonio Santana, Superintendent of Schools  
Members of the Board of Education  
South Country Central School District  
189 North Dunton Avenue  
East Patchogue, NY 11772

Report Number: B26-7-4

Dear Superintendent Santana and Members of the Board of Education (Board):

Following the South Country Central School District's (District) October 22, 2025 disclosure that an unplanned deficit occurred during the 2024-25 fiscal year, interested stakeholders requested our Office provide an independent review of the District's finances. As a result, we began a review of the District's general fund budgets. The objective of the review was to provide an independent evaluation of the adopted budgets and to address the following questions:

- Were significant revenues and expenditures in the adopted 2024-25 and 2025-26 fiscal year budgets reasonable?
- Are the significant revenue and expenditure projections in the District's proposed 2026-27 fiscal year budget reasonable?

To accomplish our objective, we requested the adopted 2024-25 and 2025-26 fiscal years' budgets, the proposed 2026-27 fiscal year budget, salary schedules, debt payment schedules and other pertinent information. Based on this information, we:

- Identified and examined significant estimated revenues and expenditures for reasonableness with emphasis on significant and/or unrealistic increases or decreases.
- Analyzed, verified and/or corroborated trend data and estimates, where appropriate.
- 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 estimates were realistic and reasonable.
- Evaluated the amount of fund balance District officials appropriated in the 2024-25 and 2025-26 fiscal year budgets to use as a financing source and determined whether the amount of fund balance was available and sufficient for that purpose.

The District's former Assistant Superintendent for Finance and Management Services (ASFM) who was responsible for developing the 2024-25 and 2025-26 fiscal year budgets resigned in October 2025, prior to the commencement of our review and was replaced by an Acting ASFM.

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.

## **Summary**

Our review of the records and documentation provided by District officials indicate that the District is on track to incur a 2025-26 fiscal year budget deficit of approximately \$8.7 million due to inaccurate estimates in the Board-adopted budget even after accounting for the cost-savings measures, including spending freezes and personnel layoffs, recently implemented by the Superintendent and Board. In addition, the District has no available surplus fund balance to mitigate this budgetary deficit. The District reported an unassigned general fund balance deficit of \$1.8 million as of June 30, 2025. Therefore, if current District operating trends continue, based on District-provided information, we project the District will have a fiscal year-end deficit of approximately \$10.5 million. Finally, despite staffing cuts and spending freezes, District officials indicated the District will need to borrow \$6 million to balance the 2026-27 budget. While deficit financing can provide immediate relief, any such borrowing would most likely increase the overall deficit and create future funding gaps due to the District's reliance on debt to pay for operating expenses.

## **2024-25 Adopted Budget**

Significant estimated revenues and expenditures in the \$143.1 million Board-adopted 2024-25 fiscal year budget were not reasonable. As a result, the District's fund balance decreased \$16.3 million (51.4 percent) from \$31.7 million as of June 30, 2024 to \$15.4 million as of June 30, 2025. We reviewed the District's adopted budget for the 2024-25 fiscal year and determined the following causes for this deficit:

### **Nonrecurring Funding Sources**

The Board-adopted 2024-25 fiscal year budget relied on the use of nonrecurring funding of \$8.3 million to finance operating expenditures. In a structurally balanced budget, recurring revenues, such as property taxes, are used to pay recurring expenditures such as salaries and benefits. Short-term grants, fund balance and reserves are generally used to fund non-recurring and unexpected expenditures. If these non-recurring funding sources are used for recurring costs, once these funds are exhausted, new funding sources, such as increases in taxes or cuts in expenditures, are required to balance future budgets. Additionally, temporary funding related to the COVID-19 pandemic which the District used in prior years to offset payroll expenses expired during fiscal year 2024-25. The risks associated with this practice are detailed below.

Appropriated Fund Balance – The Board and District officials appropriated \$4 million (45.7 percent) of the \$8.8 million in unrestricted fund balance available as of June 30, 2024 to help fund the 2024-25 fiscal year budget. Additionally, District officials increased appropriations by \$750,000 in March 2025 and \$2.45 million in June 2025, totaling \$3.2 million funded by surplus fund balance, because costs for tuition, employee benefits, Board of Cooperative Educational Services (BOCES) special education services, and transportation exceeded budgeted

appropriations. District officials made significant budgetary adjustments in June 2025, after the budgetary accounts were overspent, rather than monitoring the budget and making adjustments throughout the year. When the budget is not properly controlled, monitored and adjusted, District officials do not have accurate information to plan and make management and budgeting decisions. This resulted in a \$7.2 million decrease in fund balance.

Appropriated Restricted Funds – The Board and District officials appropriated \$4.25 million (19.2 percent) of the \$22.1 million in restricted fund balance as of June 30, 2024 in the 2024-25 fiscal year adopted budget. During fiscal year 2024-25, the District actually used \$5.6 million of restricted fund balance (25.4 percent). This contributed to a significant reduction in reserves, and to the District’s \$16.3 million (51.4 percent) reduction in fund balance. Further, as outlined below, District officials made errors in budgeting the appropriation lines that were funded by the workers’ compensation and employee benefit accrued liability (EBAL) reserves contributing to the deficit fund balance.

Temporary COVID-19 Funding –The District received \$4.5 million in temporary COVID-19 funding during the 2023-24 fiscal year, which was accounted for in the special revenue fund used to account for proceeds that are restricted for a specific purpose. District officials allocated the money at year-end to certain payroll lines in the general fund by journal entry. Because the COVID-19 funding was temporary, but the salary positions District officials used it to help to fund were not, District officials’ reliance on this non-recurring funding source to finance salaries contributed to the budget shortfalls in fiscal year 2024-25 when the funding was reduced to \$98,983. Officials did not properly consider that this funding source was unavailable to fund the fiscal year 2024-25 general fund budget. Salary lines, which were previously partially funded with grant money, were under-budgeted and the District experienced shortfalls in personal services appropriations. Further, because District officials made budgetary corrections and allocations after the year end, rather than maintaining accurate accounting records throughout the year, they were unaware of the extent of the budgetary shortfalls until it was too late to make corrections.

## **Expenditures**

Workers’ Compensation – District officials budgeted \$200,000 for workers’ compensation or \$976,840 (488 percent) less than actual costs totaling \$1.2 million. District officials planned to use \$650,000 from District reserves to help cover these costs. District expenditures for workers’ compensation averaged \$766,000 over the two prior fiscal years; therefore, District officials should have reasonably budgeted at least this amount. Rather than budget the full amount of anticipated expenditures, it appears the former ASFM budgeted the approximate difference between the estimated expenditure and the reserve-funded amount. As a result, fund balance was reduced by the shortfall on the appropriation line, as well as the reduction in the reserve account.

Terminal Leave Payouts and Sick Leave Buybacks – District officials budgeted \$100,000 for terminal leave payouts and sick leave buybacks or \$931,748 (932 percent) less than actual costs of about \$1 million. District officials planned to use \$750,000 of EBAL reserves to help cover these costs. District expenditures for terminal leave payouts and sick leave buybacks averaged \$875,000 over the two prior fiscal years; therefore, District officials should have reasonably budgeted at least this amount. Rather than budget the full amount of the anticipated expenditures, it appears the former ASFM budgeted the approximate difference between the estimated expenditures and the reserve-funded amount. As a result, fund balance was reduced by the deficit on the appropriation line, as well as the reduction in the reserve account.

Transfer to Capital Projects Fund – District officials budgeted a \$1 million transfer to the capital projects fund. However, the actual transfers totaled \$3.3 million, resulting in a \$2.3 million deficit. District voters approved using \$2.3 million of capital reserves for athletic facility upgrades and boiler replacements in May 2025 during the 2025-26 fiscal year budget approval. The transfer was an appropriate use of the reserve, but it contributed to the overall reduction in fund balance.

Personal Services – District officials budgeted \$65.7 million for personal services, or \$1.9 million (3 percent) less than actual costs totaling \$67.6 million. As shown in Figure 1, we identified personal services budgetary accounts with significant deficits totaling \$2.5 million.

**Figure 1: Deficits in Personal Services Budgetary Accounts**

Description	Budget	Actual	Variance
Teachers K-3	\$9,757,034	\$10,588,350	-\$831,316
Teacher Salaries -High School	7,913,650	8,328,195	-414,545
Teachers Salary - Middle School	1,479,040	1,818,877	-339,837
Security	776,400	1,392,443	-616,043
Operations Overtime	195,000	502,257	-307,257
<b>Total</b>	<b>\$20,121,124</b>	<b>\$22,630,122</b>	<b>-\$2,508,998</b>

We determined the appropriations for teachers’ salaries were insufficient because officials budgeted less than the amount required per 2024-25 fiscal year salary schedules. We also noted that District officials underbudgeted Teachers K-3 lines which were previously partially funded by temporary COVID-19 funds.

Further, District officials did not sufficiently budget appropriations for security and operations overtime. We reviewed prior year costs for security and noted that the \$776,400 budgeted for the 2024-25 fiscal year was \$674,000 (46.5 percent) less than actual costs of \$1.45 million incurred during fiscal year 2023-24. In addition, we reviewed prior year costs for operations overtime and noted that the \$195,000 budgeted for the 2024-25 fiscal year was \$202,000 (50.9 percent) less than actual costs of \$397,000 incurred during the 2023-24 fiscal year.

Transportation – District officials budgeted \$9.5 million for transportation costs, or \$1.3 million (13.6 percent) less than the actual transportation costs totaling \$10.8 million. We noted that the \$9.5 million budgeted for the 2024-25 fiscal year was \$484,326 (4.8 percent) less than actual transportation contract costs of \$10 million incurred during the 2023-24 fiscal year. While transportation contract costs are based on numerous factors, including number of students, routes, buses, matrons, size of buses and gas prices, there was a trend of increasing transportation costs.

The District’s transportation contract costs increased 11.1 percent from \$9 million during fiscal year 2022-23 to \$10.8 million in fiscal year 2023-24. When applying this 11.1 percent increase to the 2023-24 actual costs of \$10 million, District officials could have reasonably budgeted up to \$11.1 million in contract transportation costs for fiscal year 2024-25 instead of reducing the appropriation to \$9.5 million. In addition, the Acting ASFM indicated that additional unanticipated special education transportation costs contributed to the \$1.3 million deficit in this budget line.

BOCES Special Education Services – District officials budgeted \$5.8 million for BOCES special education services, or \$1.2 million (21.6 percent) less than actual costs totaling \$7 million. The District’s BOCES special education services increased \$1.8 million (42.4 percent) from \$4.4 million during fiscal year 2022-23 to \$6.2 million during fiscal year 2023-24. Given a trend of increasing costs, we question why District officials budgeted \$407,937 (6.6 percent) less than the prior year’s actual expenditures of \$6.2 million. The Acting ASFM told us additional students entered into the BOCES special education services during fiscal year 2024-25.

## 2025-26 Adopted Budget

Significant estimated revenues and expenditures in the \$147.2 million Board-adopted 2025-26 budget were not reasonable. District officials now anticipate an operating deficit of \$8.7 million. We reviewed the adopted 2025-26 fiscal year budget, along with Treasurer’s reports, Board meeting minutes, budget presentations, contracts and other supporting documentation, and noted the following:

Appropriated Fund Balance – District officials appropriated \$5 million of unassigned fund balance in the 2025-26 fiscal year budget that was not available as of June 30, 2025. The District ended the 2024-25 fiscal year with a deficit fund balance of \$1.8 million. Although possibly unaware of the extent of the 2024-25 fiscal year deficit when preparing the budget, the Board and District officials should have known that \$5 million of unassigned fund balance was not available to fund the 2025-26 fiscal year budget prior to adopting the budget.

The District began fiscal year 2024-25 with \$4.7 million in unassigned fund balance and officials appropriated \$750,000 of additional fund balance in March 2025. The Treasurer’s report as of February 28, 2025 presented to the Board on April 23, 2025 projected an \$8.9 million operating deficit for the year. Although much of the reported projected deficit was planned due to using appropriated fund balance and reserves in the 2024-25 fiscal year budget, officials should have known at this time there were no projected surpluses to replenish fund balance, and that it was not realistic to appropriate \$5 million.

Appropriated Restricted Funds – As shown in Figure 2, District officials appropriated \$4.6 million (27 percent) of the \$16.9 million of restricted fund balance as of June 30, 2025 in the 2025-26 fiscal year adopted budget. This included 100 percent of the teachers’ retirement reserve and more than 50 percent of the workers’ compensation reserve. Once these funding sources are used up, new funding sources, such as increases in taxes or cuts in expenditures, are required to balance future budgets.

**Figure 2: Appropriated Restricted Funds**

Reserve	Balance 6/30/25	2025-26 Budget Appropriation	Percentage
Employee Benefit Accrued Liability	\$7,091,668	\$750,000	11%
Employees' Retirement System	3,873,424	1,425,000	37%
Capital Reserves	1,819,312	0	0%
Teachers' Retirement System	1,600,001	1,600,000	100%
Unemployment Insurance	1,288,609	150,000	12%
Workers' Compensation	1,210,338	650,000	54%
<b>Total</b>	<b>\$16,883,352</b>	<b>\$4,575,000</b>	<b>27%</b>

Workers' Compensation – District officials budgeted \$450,000 for workers' compensation or \$717,700 (159 percent) less than actual projected costs of \$1.2 million. Similar to fiscal year 2024-25, the former ASFM planned to use \$650,000 in District reserves to cover these costs but did not include the full amount of the anticipated expenditures in the District's appropriation for workers' compensation. As a result, fund balance was reduced by the shortfall on the appropriation line, as well as the reduction in the reserve account.

Terminal Leave Payouts and Sick Leave Buybacks – District officials budgeted \$500,000 for terminal leave payouts and sick leave buybacks or \$455,476 (91 percent) less than projected costs of \$955,476. Similar to fiscal year 2024-25, the former ASFM planned to use \$750,000 of District EBAL reserves to fund these costs but did not include the full amount of the anticipated expenditures in the District's appropriation. As a result, fund balance was reduced by the shortfall on the appropriation line, as well as the reduction in the reserve account.

Personal Services – The District cut 53.5 full-time equivalent positions (FTEs) prior to the start of the 2025-26 school year, with an additional eight FTEs cut mid-year. Despite these cuts, the District is projected to experience budget shortfalls in personal services. District officials budgeted \$65.2 million for personal services, or about \$836,000 (1.28 percent) less than the projected personal services expenditure of \$66 million. As shown in Figure 3, projected shortfalls included security and operations overtime, which account for \$518,600 (62 percent) of this shortfall.

Description	Budget	Projected Expenditure	Shortfall
Security	\$976,400	\$1,250,000	-\$273,600
Operations Overtime	215,000	460,000	-245,000
<b>Total</b>	<b>\$1,191,400</b>	<b>\$1,710,000</b>	<b>-\$518,600</b>

We reviewed prior year costs for security and noted that the \$976,400 budgeted for fiscal year 2025-26 was about \$400,000 (29.9 percent) less than actual costs of \$1.4 million incurred during fiscal year 2024-25. In addition, we reviewed prior year costs for operations overtime and noted that the \$215,000 budgeted for fiscal year 2025-26 was \$287,000 (57 percent) less than actual costs of \$502,000 incurred during fiscal year 2024-25.

Transportation – District officials budgeted \$10.9 million for transportation contract costs, or \$1 million (9.1 percent) less than the projected transportation costs of \$11.9 million. The District's transportation contract costs grew an average of 9.6 percent per year from \$9 million during fiscal year 2022-23 to \$10.8 million during fiscal year 2024-25. Had District officials applied this 9.6 percent increase to the actual fiscal year 2024-25 costs of \$10.8 million, they could have budgeted up to \$11.9 million in contract transportation costs for fiscal year 2025-26.

The District's new transportation contract, effective July 1, 2025, included increased rates for large buses and vans and required the District to pay for fuel costs. The Acting ASFM indicated that the increased rates and additional fuel cost were not reflected in the fiscal year 2025-26 appropriation for transportation costs, which contributed to the deficit.

BOCES Special Education Services – District officials budgeted \$6.9 million for BOCES special education services, or \$1.4 million (19.8 percent) less than projected costs totaling \$8.3 million. District officials budgeted \$154,000 less than the prior year’s actual expenditures of \$7 million, without considering a trend of increasing costs. In addition, the District experienced an increase in the number of special education students during fiscal year 2025-26, contributing to the projected \$8.3 million in costs for fiscal year 2025-26.

Charter School Tuition – District officials budgeted \$495,000, or \$290,760 (58.7 percent) less than the projected charter school tuition costs of \$785,760. We compared fiscal year 2024-25 charter school invoices to fiscal year 2025-26 and determined that charter school tuition costs increased because student enrollment increased by 15 students, from 25 during fiscal year 2024-25 to 40 during fiscal year 2025-26. The projection of \$785,760 in charter school costs for fiscal year 2025-26 consists of \$769,760 for payments to charter schools (\$19,244 reimbursement rate times 40 students per invoice) plus \$16,000 in payments for charter school special education.

The Acting ASFM indicated that the District is not always aware of the number of students that will be attending charter schools when preparing the budget. However, officials did not budget for an increase over the prior year’s actual expenditures, despite a trend of increasing tuition and student enrollment.

**Fiscal Year 2026-27 Proposed Budget**

The proposed budget submitted to our Office is summarized in Figure 4:

**Figure 4: 2026-27 District Proposed Budget**

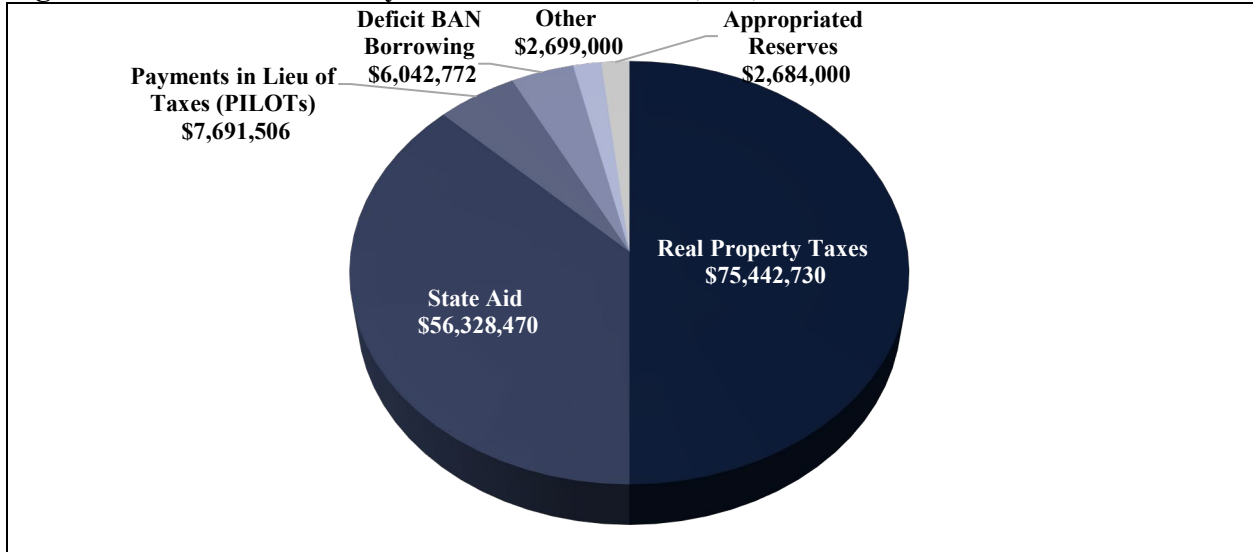
<b>Fund</b>	<b>Appropriations and Provisions for Other Uses</b>	<b>Estimated Revenue</b>	<b>Deficit BAN Borrowing<sup>1</sup></b>	<b>Appropriated Fund Balance</b>	<b>Appropriated Reserve Balance</b>	<b>Real Property Taxes</b>
General	\$150,888,478	\$66,718,976	\$6,042,772	\$0	\$2,684,000	\$75,442,730

The proposed budget submitted to our Office for the District’s general fund revenues is summarized in Figure 5:

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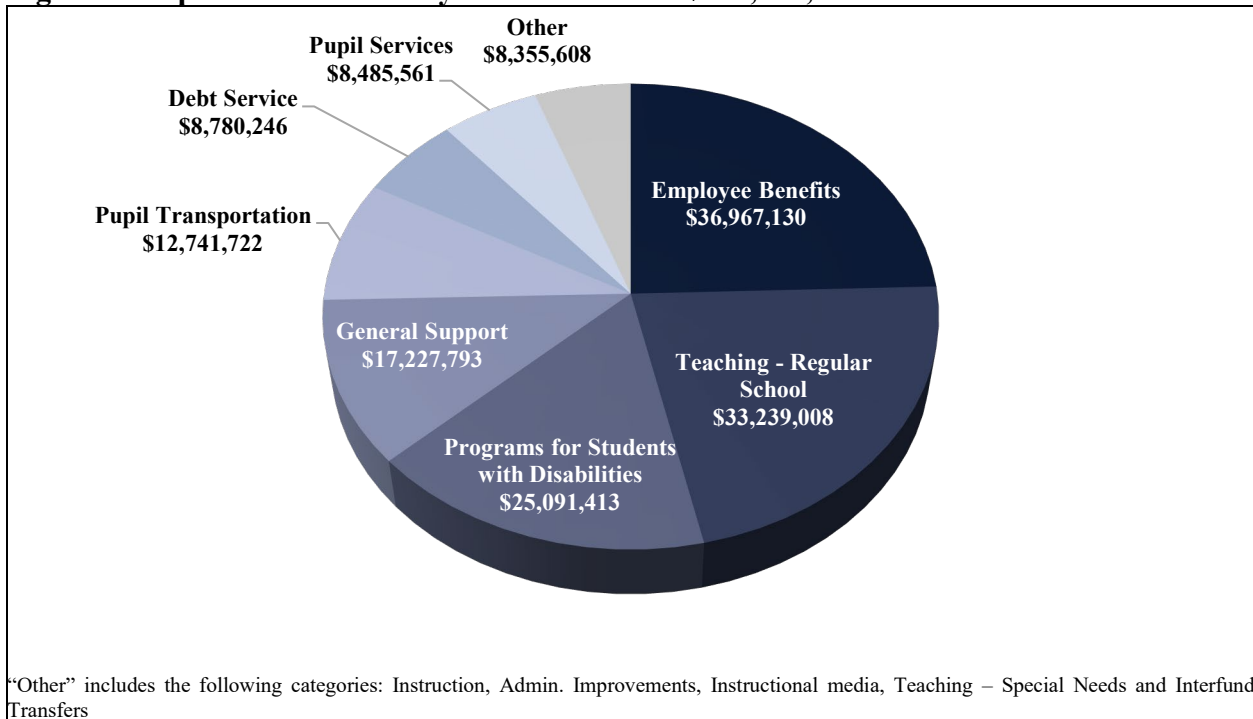
<sup>1</sup> To be able to issue Deficit BANs, the District will need to obtain an authorization for deficit financing from the State Legislature.

**Figure 5: Revenue Summary – General Fund \$150,888,478**



The proposed budget submitted to our Office for the District’s general fund expenditures is summarized in Figure 6:

**Figure 6: Expenditure Summary – General Fund \$150,888,478**



Revenue Estimates – The estimated revenue, appropriated reserves and property tax levy in the District’s proposed 2026-27 fiscal year budget are insufficient to finance the \$150.9 million in budgeted expenditures. District officials indicated that despite cuts in staffing and spending freezes, the District will need to borrow \$6 million to balance the budget. Although borrowing would provide short-term relief in the 2026-27 budget, it will further increase the District’s deficit. Furthermore, the District’s reliance on borrowing to finance its operating expenditures may cause funding gaps in the future.

BOCES Special Education Services – The 2026-27 fiscal year proposed budget includes appropriations totaling approximately \$8.3 million for BOCES special education services costs. However, the District’s BOCES special education services costs increased an average of 24.4 percent per year from fiscal years 2022-23 through 2025-26. When applying the 24.4 percent increase rate to the 2025-26 fiscal year projected costs of \$8.3 million, the District’s BOCES special education service costs could total up to \$10.3 million, or \$2 million (24 percent) more than the \$8.3 million budgeted. We caution the Board to be mindful of this when adopting the budget.

Terminal Leave Payouts and Sick Leave Buybacks – The 2026-27 fiscal year proposed budget includes \$800,000 for terminal leave payouts and sick leave buybacks or \$191,178 (19.3 percent) less than the average cost of \$991,178 during fiscal years 2023-24 through 2025-26. The Acting ASFM indicated his estimate assumes up to 14 retirees during 2026-27, which was communicated to him by the Human Resources Department. However, because we were not provided support for this amount and it is less than the prior years’ averages, we caution the Board to be mindful of this when adopting the budget.

Teachers’ Retirement System – The 2026-27 fiscal year proposed budget includes an appropriation for teachers’ retirement system (TRS) expenditures of \$4 million. However, we project TRS costs to total \$4.4 million by multiplying the proposed instructional salaries of \$53.4 million by the 2026-27 fiscal year TRS contribution rate of 8.24 percent. As a result, the TRS appropriation included in the 2026-27 fiscal year proposed budget may be under funded by approximately \$400,000. We caution the Board to be mindful of this when adopting the budget.

Personal Services – District officials have implemented significant cuts in staffing, and the 2026-27 budget estimates include further reductions. Officials included \$63.1 million in appropriations for personal service costs in the proposed 2026-27 budget, representing a decrease of \$2.1 million (3.3 percent) from the 2025-26 adopted budget of \$65.2 million. The proposed amount is \$3 million (4.5 percent) less than projected personal service costs for 2025-26. While the budget estimates provided appear reasonable when compared to salary schedules and other supporting documentation, three of the District’s collective bargaining agreements (Bellport Teachers Association, Civil Service Employees Association, South Country Guards Association) expire on June 30, 2026 and are in the negotiations process. Because the outcome of the negotiations may impact the District’s budget, we caution the Board to ensure appropriations remain sufficient once staffing decisions are finalized and contract negotiations are settled.

## **Tax Cap Compliance**

General Municipal Law Section 3-c establishes a tax levy limit on local governments and school districts. The law generally precludes local governments and school districts from adopting a budget with a tax levy that exceeds the prior year tax levy by more than 2 percent or the rate of inflation, whichever is less, unless at least 60 percent of district voters approve a budget that requires a tax levy that exceeds the statutory limit.

The District’s proposed budget complies with the tax levy limit because it includes a tax levy of \$75,442,730, which is within the limits established by law. In adopting the 2026-27 fiscal year budget, the Board should be mindful of the legal requirement to maintain the tax levy increase to no more than the tax levy limit as permitted by law, unless it obtains the proper voter approval to override the tax levy limit prior to adopting the budget.

## Recommendations

The Board should:

1. Develop a plan to fund operations and discontinue the practice of relying on one-time revenues to finance recurring expenditures.
2. Use trend analysis when developing budget appropriations.
3. Closely monitor revenues and expenditures and make budget modifications as necessary in a timely manner to ensure a balanced budget.

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

We hope 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 of Municipal Audits of the Hauppauge Regional Office, at (631) 952-6534.

Sincerely,

Robin L. Lois, CPA  
Deputy Comptroller

cc: Christine Flynn, District Clerk  
John Belmonte, Acting Assistant Superintendent for Finance and Management Services  
Joe DeStefano, Assemblyman, District 3  
Dean Murray, NY Senate, District 3  
Betty A. Rosa, Commissioner, State Education Department  
Jasmin Varela, District Superintendent, Eastern Suffolk BOCES  
Ira McCracken, Chief of Municipal Audits