

**Town of Arlington  
Massachusetts**

**Report of the  
Finance Committee**



**SPECIAL TOWN MEETING  
Monday, November 15, 2010**

## **REPORT OF THE CHAIR OF THE FINANCE COMMITTEE**

This Special Town Meeting was made necessary by the fiscal year 2010 deficit in the school department budget. The Department of Revenue, which must approve the Town's tax rate next month, requires that any budgetary deficit must be raised on the next year's tax rate. By raising this deficit of approximately \$1.5 million, the Town's overall budget, which was balanced at the end of the Annual Town Meeting last May, is immediately put into a deficit for fiscal year 2011 by that amount. The school department has identified \$1.5 million plus in increased or unanticipated revenues that will allow the Town's appropriation from last spring to the school department to be reduced by that amount without impacting services. We are recommending this action under Article 2. In addition, we are recommending an increase in the Town's reserve fund to help protect the Town from further deficits in the current fiscal year. Thus the Town's budget for fiscal year 2011 will be restored into balance allowing the assessors to set the tax rate in December and mail the tax bills in a timely manner.

The Finance Committee first became aware of the potential for a school deficit last April when the school department presented its fiscal year 2011 proposed budget. The presentation by the school department explained why they had projected very conservative revenue numbers because of the low actual numbers coming in during the current year. Several members expressed concern over whether the school department would be able to balance the budget by June, but were reassured by the Superintendent that they had been aware of the problem since the previous August and were taking steps to curtail other expenditures. In May the school department requested a transfer of \$250,000 from the Town's reserve fund. However, before the Finance Committee meeting in June, they withdrew the request assuring the Finance Committee that after a review of all of the numbers the budget situation was "ok." In August, after a review by the outside auditor, we found out that the situation was not "ok."

Rather than going into our analysis, we are going to let the report by Powers & Sullivan, the Town's outside auditor, speak for itself. The report is attached as Attachment A and explains very thoroughly how and why the situation developed and, more importantly, what steps are necessary to make sure this situation does not happen again. The School Committee contracted for its own study on school management and financial practices. It is our understanding that this report will be made public on its web site before the start of Town Meeting.

The Finance Committee shares the serious concern of most other officials and citizens that a deficit of this magnitude would occur. Some of the causes were clearly outside the school department's control and their reserves in their special revenue and rollover accounts have been drawn down over the last few years, but the magnitude of the problem should have been recognized much sooner, stronger actions should have been taken, and the problem should have been shared with other Town officials (including the School Committee) in a timely manner. Working together we could have solved, or at least reduced the magnitude of, this problem, which is an embarrassment to not only the school department, but the entire Town.

The Finance Committee strongly recommends that town and school officials move to implement the recommendations in the Powers & Sullivan report as soon as possible. Only by quickly implementing these reforms can we begin to earn back the trust of our citizens which will be crucial in the near future.

We have added comments to each of our recommendations to explain the logic behind each. Please don't hesitate to call us with questions prior to the Town Meeting.

**Respectfully submitted,**

**Allan Tosti, Chair**

**The Finance Committee recommends passages of the following votes:**

*(Unless otherwise indicated, the following recommendations were by unanimous votes: any exceptions are noted in parentheses following the text of the recommended vote. The Chairman votes only when the recommendation of the Finance Committee will be affected.)*

**ARTICLE 2**

**AMENDMENTS TO FY2011 BUDGETS**

To see if the Town will vote to revise various FY2011 appropriations previously voted by the 2010 Annual Town Meeting; or take any action related thereto.

(Inserted by the Board of Selectmen and at the request of the Town Manager)

**Voted**

**That the amounts previously appropriated by the 2010 Annual Town Meeting under Sub-Budget No. 20 under Article 52 to defray obligations, outlays, and expenses for Education for the Fiscal Year ending June 30, 2011, to be raised by the general tax except as otherwise specifically voted, be and hereby are amended by reducing the amount appropriated by \$1,702,610 to \$36,888,841,**

**and provided further that the sum of \$377,589 be and hereby is appropriated to the Town's reserve fund in addition to the sums appropriated by the 2010 Annual Town Meeting under Sub-Budget No. 25 under Article 52; \$177,589 of said sum to be raised by the general tax and \$200,000 be and hereby is transferred from the Arlington Tip Fee Stabilization Fund established under Chapter 8 of the Acts of 1998. (12-5)**

**Comment:**

See the Report of the Chair of the Finance Committee for the conditions which required the reduction of the school budget by \$1,525,021 to compensate for the fiscal year 2010 deficit and bring the Town's overall budget into balance allowing the tax rate to be set in a timely manner.

In addition to this required adjustment, the finance committee recommends increasing the Town's reserve fund with a further reduction to the school budget of \$177,589 and a transfer of \$200,000 from the Tip Fee account. The Finance Committee took this further action because it is uneasy with the increased revenue numbers of the school department and the Superintendent's statement that the school budget is very tight. The Finance Committee believes more reductions should be made now and set aside to protect the Town against another deficit situation. The school department will still have an increase over their voted budget of last spring from the \$600,000 "Bridge the Gap" funds.

**ARTICLE 3**

**CONTINGENT TRANSFER OF REAL ESTATE/  
THOMPSON SCHOOL AND NORTH UNION  
STREET PLAYGROUND**

To see if the Town will vote (1) to transfer the care, custody, management, and control of the Thompson School building and appurtenant land from the School Committee to the Parks and Recreation Commission for the purpose of demolishing the building and creating a new playground upon the site; and (2) to transfer the care, custody, management, and control of the North Union Street Playground and appurtenant land from the Parks and Recreation Commission to the School Committee for the purpose of rebuilding the Thompson School upon the site, the effectiveness of said vote to be contingent upon (a) the assent of the Parks and Recreation Commission and the School Committee to these transfers; and (b) the subsequent appropriation by Town Meeting of funds to accomplish these purposes, or take any action related thereto.

(Inserted at the request of the School Committee)

**VOTED: That no action be taken under this article.**

**Comment:** The Finance Committee is concerned with this “swap” proposal for a number of reasons. This option will require the digging up of two areas of land instead of none with a renovation and one with a new building on site. The Town has already experienced the costly dangers of not knowing what is under school and recreation lands. The Thompson Building Committee has rejected the least expensive option of renovating the current building and instead offered three options all over \$32 million. The “swap” proposal is the most expensive of these with extra costs for rebuilding the recreation fields and playgrounds. In addition, the steps to approve this proposal are extensive. The Finance Committee believes that the Thompson School Building Committee should drop this option and add a less expensive renovation of the current building.

**ARTICLE 4**

**CAPITAL BUDGET/STRATTON SCHOOL**

To see if the Town will vote to appropriate a sum of money for Phase 2 renovations to the Stratton School, determine how the money shall be raised and expended, including the possibility of borrowing all or some of same; or take any action related thereto.

(Inserted at the request of the School Committee)

**Voted That the sum of \$1,360,000 be and hereby is appropriated to fund Phase 2 renovations to the Stratton School and for costs incidental and related thereto; that to raise this appropriation the Treasurer, with the approval of the Board of Selectmen, is authorized to borrow \$1,360,000 under and pursuant to Chapter 44 Section 7(3A) of the General Laws, as amended, or any other enabling authority and to issue bonds or notes of the Town therefore, said sum to be expended under the direction of the Town Manager, and,**

**Notwithstanding the foregoing, in the event that monies are not expended for the purposes delineated above then the Comptroller is authorized and directed not to transfer these excess funds to available funds, but said funds shall remain and be accounted for in the warrant article pending further vote of the Town Meeting, except as otherwise provided by law.**

Comment: This appropriation is for the continuation of the three phase Stratton School renovation which began last summer. The reason for a vote in this Special Town Meeting, rather than at the next annual, is the long lead time for certain items (4-5 months), which, if they are not ordered soon, will delay the project by a year and add to the project costs. The Permanent Town Building Committee is getting low contractor bids right now, and if they can order these materials, parts and components, they can get the work done next summer.

This appropriation will not require cash until Fiscal Year 2012, and the treasurer won't Bond until Fiscal Year 2012, so it doesn't actually affect the five year Capital Plan as presented at the Annual Town Meeting last Spring.

**ARTICLE 5 HOME RULE LEGISLATION/ GROUP INSURANCE COMMISSION**

To see if the Town will vote to authorize and request the Board of Selectmen to file home rule legislation with the General Court to allow the Town to provide health-insurance benefits to its employees, retirees, and their dependents through the Group Insurance Commission without the necessity of collective bargaining; or take any action related thereto.

(Inserted at the request of the Town Manager)

**Voted: The Finance Committee will report at Town Meeting.**

Comment: The Town Manager and the unions representing town employees have been negotiating over the last several months on alternative health plans including entering the State plan know as the GIC. With both sides apparently negotiating in good faith, the Finance Committee is withholding judgement on this article to see the results of these negotiations.

**ARTICLE 6 APPROPRIATE/TRANSFER FUNDS FY2011 APPROPRIATIONS**

To see if the Town will vote to appropriate and or transfer funds between various FY2011 appropriations and or various stabilization/reserve funds, as previously voted by the 2010 Annual Town Meeting, or take any action related thereto.

(Inserted at the request of Gordon Jamieson and 100 registered voters)

**Voted That no action be taken under this article.**

Comment Action under this article will be taken under article 2 above.



100 Quannapowitt Parkway  
Suite 101  
Wakefield, MA 01880  
T. 781-914-1700  
F. 781-914-1701  
www.powersandsullivan.com

October 29, 2010

Diane Mahon, Chair  
Arlington Board of Selectmen  
Town Hall, 2nd floor  
730 Massachusetts Avenue  
Arlington, MA 02476

Dear Ms. Mahon:

At your request, we have performed the procedures documented below regarding the Arlington School Department's fiscal year 2010 budget deficit. The budget deficit was initially discovered during the annual audit of the Town's financial statements in August, 2010. The deficit represents an illegally overspent appropriation in the Town's general fund budget. This represents a material weakness in the Town's system of internal controls over financial reporting, and it has a direct financial impact for the Town as the deficit will be required to be raised in the subsequent fiscal year. The procedures that follow were designed to address deficiencies in the School Department's budget practices. The procedures did not identify any instances of individuals taking funds for personal use.

Review and report on the School Department's processes and actions that led to the fiscal year 2010 budget deficit.

The Arlington School Department (Department) manages an overall budget of approximately \$45 million (fiscal year 2010), which is comprised of a \$36.8 million general fund appropriation, \$1.7 million in ARRA grants, \$2.7 million in non-ARRA grants and \$4.5 million in other special revenue sources. The Department manages the budget on a combined basis, in which they consider all revenue sources contributing to the total school budget. From a budget management perspective, they do not identify specific budget lines with specific revenue sources, or segregate the general fund budget from grants and other funds. This methodology can be problematic when the non-general fund sources of funding are not realized.

The School Department's budget deficit was not created by the summer pay accrual as the total payroll for the school year, including teacher's summer pay, was properly budgeted and known. The accrual for teacher's summer pay was the final year-end transaction that brought to light the fact that the school had overspent their fiscal year 2010 budget, as it was the final accrual recorded.

*Increased Reliance on Fees and Offset Revenues*

The Department's fiscal year 2010 budget was balanced by projecting \$4.5 million (10%) of revenues from other special revenue sources. This represents an increase of \$2.2 million from the 4% budgeted in fiscal year 2007, as demonstrated in Appendix B. Over the past several years, the Department has increased its reliance on other special revenue sources to balance annual increases in the Department's budget. Since these other revenue sources are not guaranteed, and can fluctuate significantly from the original projected revenues, this system makes it imperative for the Department to continuously monitor revenues against the budget, and to make timely budget and spending adjustments, should actual revenues not meet the Department's projections. During fiscal year 2010, the Department's initial budget

was balanced with what turned out to be overly-aggressive revenue estimates. The Department recognized that other revenues were not going to meet original projections early in the school year. However, no formal plan was adopted and approved by the School Committee to reduce budgeted appropriations. The Department attempted to cover the shortfalls through spending reductions against non-salary line items. To do this, the Department's CFO, signed all non-salary purchase orders that were processed in an effort to control spending. Throughout the year, the revenue projections continued to decrease and the spending reductions were not enough to cover deficit. School Department documents show that actual receipts in other special revenue sources were \$1.8 million lower than original anticipated (see Appendix E).

The Department used approximately \$1.1 million of cost saving initiatives as a source of funds to balance the fiscal year 2010 budget, as identified in Appendix E of this report. They consist of LABB school credits and distributions, lunch program offsets, special education cost saving initiatives, and custodial savings. These sources do not come to the school in the form of revenue, but are costs that the school predicted it could save in expenditures. The LABB credits and distributions, when available, are used to reduce required payments to the LABB School. If a source of funds does not provide cash from either internal or external sources, then using it to balance a budget creates a structural deficit, as there is no real funding source. Cost saving initiatives should only be used as adjustments to budgeted appropriations.

#### *Inadequate Action Taken to Address Revenue Shortfalls*

The Department became aware that actual revenues would not meet projections at various times throughout the fiscal year. Some of the shortfalls were identified as early as September, and others were identified around February. The Department attempted to cover the shortfalls through reductions in non-salary related expenditures and not by formally reducing their total budget and initiating spending reductions sufficient to cover the deficits. This process takes a great deal of effort in monitoring all expenditures, and has no assurance of working. As revenue shortfalls were identified, the Department should have formally reduced its overall spending budget to match projected revenues. This likely would have required staff reductions in the School Department, since approximately 80% of the Department's budget is comprised of salaries. To properly address the revenue reductions, the Department should have identified specific expenditures to be cut to keep the budget in balance.

#### *Aggressive Budgeting Practices, Decreased Ability to Manage Unanticipated Mid-Year Changes*

Because the Department has increased the reliance on other special revenue funds to balance the budget, the balances in these accounts have been depleted, which decreases the Department's ability to manage unanticipated changes in costs or in revenues during the budget year.

#### *Changes in Key Financial Staff*

The School Department has experienced turnover in the Superintendent and Chief Financial Officer (CFO) positions over the past several years. Key changes in management often lead to new policies, procedures, and management styles. The current Superintendent has acted as interim Superintendent since August of 2008 and became the Superintendent during the fiscal year 2010 school year. The current CFO began at the beginning of the 2009/2010 school year, and was not involved in the process of creating the fiscal year 2010 budget, that she was responsible for managing.

During her first year, in an effort to improve the budgetary control and reporting process, the new CFO has implemented a new chart of accounts, a new budget format, and a position control system. However, during fiscal year 2010, she did not have a process for reporting budgetary results as required by the

School Committee's published policies. When the CFO and the Superintendent became aware that the deficit was growing and would not be covered through cost saving measures, we were recently told that they planned to recover the fiscal year 2010 deficit through more conservative budgeting in fiscal years 2011 and 2012. They informed us that they were not aware that this practice is not allowed by Massachusetts General Law. Additionally, they were not aware that other special revenue funds operate on a cash basis, and they are not allowed to accrue for revenues that they expect to receive in the subsequent fiscal year.

The Department did not have a formal process for projecting salaries to ensure that there were enough funds to cover the salary commitments through the end of the year. The school budget analyst typically begins the process of projecting salaries during the last 4 months of the fiscal year, which does not provide adequate time to react to any identified shortfalls.

During fiscal year 2011, the CFO has implemented a process for reporting budget to actual results for both revenues and expenditures to the School Committee.

#### *Managing special education reserves*

As shown in Appendix D, the School Department had a special education reserve account in fiscal year 2006 of \$350,000 that was entirely used as of fiscal year 2010. This fund was not used for unforeseen and unanticipated costs during the fiscal year. Instead, \$300,000 of the reserve was used in the School Department's fiscal year 2008 and fiscal year 2009 revenue budgets used to balance planned costs. This system of using reserves to balance the budget does not leave any flexibility for unforeseen costs during the fiscal year. By fiscal year 2010, these reserves had been entirely exhausted, and it appears that other revenues were estimated more aggressively rather than decreasing costs.

Review how summer salaries and end of year revenue receivables have been handled for the last five years.

#### *Summer salaries*

At the beginning of each 10 month school year teachers have the option to elect to be paid over a 10 month period or a 12 month period. Regardless of the payment method, the total salary earned for the 10 month work period does not change. From a practical standpoint, the teacher's summer salaries can be calculated at the start of the school year in September, with only minor adjustments during the year. We caution the reader not to conclude that the structural deficit that existed in the School Department during fiscal year 2010 was created through an unknown accrual that is not calculated until the end of the fiscal year. Salaries are one of the easiest line items to budget as the term is through June 30<sup>th</sup>, and the rate is collectively bargained. The only variable is the number of staff hired, which is under the School Department's direct control. For fiscal year 2011, the School Department has already calculated what the teacher's summer pay accrual will be at June 30, 2011 and could have done this early in prior fiscal years.

The School Budget Analyst does not calculate what funds will be required to pay teacher's salaries due until after year end. She then prepares a letter of the open purchase orders to be carried forward and amount to be carried forward for the teacher's summer pay. The amount put on the letter is the total amount that is available in the school budget, not just the amount calculated. The letter is signed by the school CFO, and provided to the Comptroller's Office to carryover in the general ledger system. For prior years, the amount carried forward has exceeded the actual expenditure which still resulted in a balanced budget. The fiscal year 2010 actual teacher's summer pay was \$3.3 million compared to \$3.2 million in fiscal year 2009. While the accrual was very consistent, the difference was that in fiscal year 2010 the



School Department only had \$1.6 million of available budget, which left the fiscal year 2010 school budget in a deficit.

The process for making funds available in the general ledger essentially increases the ability to spend in the subsequent fiscal year. As the payroll warrants are processed during the summer, they are charged to the increased appropriation. The School Department does not calculate the amount for teacher's summer pay that was what was actually charged against the carryforward. This calculation was done by the Comptroller's Office for purposes of this report and can be found in Exhibit A. As demonstrated in Exhibit A, fiscal year 2010 was the only year in the past five years examined that the funds available in the school budget were not sufficient to cover the summer salary commitments to teachers. For fiscal years 2006 through 2009 the actual expenditures ranged from \$54,000 to \$1 million under the amount encumbered. This had the impact of making additional funds available in the subsequent year's budget that, had they been identified, should have been made available for reappropriation.

#### *End of year revenue receivables*

The Town, in accordance with Massachusetts General Laws, records revenues on a cash basis. In accordance with this policy, the Town has not accrued a receivable for non-grant related special revenue funds over the past five years. We reviewed the accounts receivable balances in the Town's special revenue funds for the past five years and verified that the only receivable recorded was for the deficit in the Circuit Breaker fund, which was fully deferred. This means that the Town did not record revenue until the year the funds were actually received.

Department's are allowed to overspend certain grant accounts for expenditure driven grants that require funds to be spent prior to requesting reimbursement from the state or federal government. The Town reports these deficits and the subsequent receipt of funds for credit when submitting year end balances to the Department of Revenue for the certification of free cash. The most significant of these year-end deficit balances is in the Circuit Breaker fund and has been reflected in *Appendix D*.

#### Review the School Department's process for managing changes in budget projections during the fiscal year.

Management of the School Department recognized early in the school year that the revenue estimates used in their budget were not likely to be realized. They attempted to manage the changes in the revenue projections through cost cutting measures on the non-salary side of the budget. This was not done by formally reducing budgets, or identifying specific costs that would be cut, but by initiating what was considered an "essential purchases only" system where the CFO approved all non-salary purchases. The extent of the deficit became most apparent toward the end of the fiscal year. We were advised that management of the School Department knew that they would not be able to cover all salary commitments within the fiscal year 2010 budget, and planned on covering the deficit over the next one or two fiscal years. This plan and the deficit were not communicated to the Comptroller's Office.

During the budget planning process for the fiscal year 2011 budget, documents reveal that 2010 revenue estimates had significantly decreased, and that the expenditure budget was not reduced.

Review the School Department's current process for reporting budgetary results to the School Committee, and to the Comptroller's Office.

Prior to fiscal year 2011, the School Department did not have a process for reporting budgetary results to the Comptroller's Office outside of the information available to the Comptroller's Office through the Town's general ledger system. During fiscal year 2010 the School Department did not have a formal process for reporting budgetary results to the School Committee. However, decreases in estimated revenues were reported as part of the fiscal year 2011 budget planning process.

During fiscal year 2011, the School Department has implemented a new budget process and is now reporting monthly budget to actual reports along with year end projections for both revenues and expenditures to the School Committee.

Review the Comptroller's system for monitoring the School Department's spending against the appropriated budget.

The Comptroller's Office monitors budgetary results through the Town's general ledger system where the School Department's general fund budget is monitored on a bottom line basis only. Since the expenditures and the encumbrance amount reported by the School Department did not exceed the general fund appropriation, the over expenditure was not detected. However, the Comptroller does need to implement procedures to monitor the actual subsequent expenditures against encumbrances along with verifying the accuracy of year end accruals.

Additionally, for expenditure driven grants, the Comptroller's Office allows budgets to be overspent only to the extent of the approved grant. In other special revenue funds, spending is allowed to the extent that funds have been received.

The Town's contribution to the school budget did not change during the year. However, because other funding sources were reduced, there were less sources of revenue to charge expenditures against, which caused more costs to be charged against the general fund. The School Department historically charges many of their costs against the general fund appropriation first, and then reclassifies expenses, to the extent necessary, to other special revenue funds. Reclassifications are only made to the extent that is required to essentially use the general fund appropriation first, and use other special revenue funds as necessary. This process makes it difficult to project the status of the school's general fund budget during the fiscal year.

Additionally, the Town does not have a process for the Comptroller to verify that the School Department has adequate funds available to cover all salary commitments. The School Department has not provided salary projections to the Comptroller's Office, and there is currently no process for the Comptroller to verify that adequate funds have been appropriated during the hiring process for school employees.

Recommend budgeting and reporting practices that will reduce the risk that similar situations could occur in the future.

*Implement formal monthly reporting of budgetary results and projections for both revenues and expenditures.*

In fiscal year 2011, the Department has implemented monthly reporting of revenue and expenditure budgets, actuals, and year-end projections to the school committee. We recommend that this practice

continue, that these documents be provided to the Town Comptroller, Town Manager and that the Superintendent and CFO, in concert with the School Committee, implement formal budget reductions, as necessary, to maintain a balanced budget at all times.

*Implement formal salary projections and a system to verify that adequate funds have been appropriated to cover salary commitments*

In prior years, the School Department did not calculate and report salary projections on a regular basis, and did not have a system for verifying that adequate funds were available prior to making staffing decisions. The budget analyst typically calculates an estimate of the teacher's summer payroll accrual as well as salary projections beginning around March or April for year end planning purposes. This does not provide adequate time for the Department to identify and act on projected shortfalls. For fiscal year 2011, the School CFO has implemented a position control system to better monitor each position and the associated salary for the School Department.

*Increase communication and controls between the School Department and the Town Comptroller's Office*

We recommend that the School Department share budget projections throughout the year with the Comptroller's Office and that they establish formal monthly budget meetings to enable the Comptroller to be better informed about the School Department's financial position and plans throughout the year. The Comptroller would then be responsible to inform the Town Manager of any concerns.

*Encumber school salaries in the general ledger*

The Town and School currently record encumbrances on the general ledger to reserve appropriations for known commitments as a control feature to keep budgets from being overspent. This system is not done for salaries. The Town's general ledger system has a functionality that will allow for salaries to be encumbered. We recommend that the Town explore the possibility of also recording encumbrances in the general ledger for the School Department's salaries as an additional budgetary control.

*Implement a more conservative budget process*

A large contributing factor to the fiscal year 2010 budget deficit was an increased reliance on other revenue sources, that can vary significantly from one year to the next. For fiscal year 2011, the School Department has increased fees, and is still relying heavily on other revenue sources to fund the budget. We recommend that future budgets be built with a top-down approach by using conservative estimates to first determine the projected revenues and then to adjust the spending plan accordingly.

The School Department must only budget sources of funds that will provide cash available for expenditure. Any cost savings initiatives must be budgeted for as a change in appropriation.

A more conservative approach to budgeting would be to acknowledge that some expenditures are not as easily controlled than others (utilities, special education costs, etc.), and to plan for unanticipated increases during the initial budget process. By putting less reliance on revolving and other special revenue funds would provide management with a place to offset some eligible costs, to allow for more room to address unanticipated cost increases during the year without mid-year cuts in staffing.

*Charge expenditures to appropriate fund as they occur*

The School Department should charge expenditures to the correct fund or appropriation as they occur and rely less on year-end transfers of expenditures to balance things out. This would better enable the

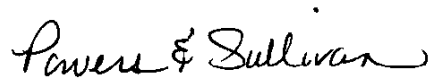
School Department's management as well as the Comptroller's Office to monitor the financial condition in a meaningful manner throughout the year. This system has not been implemented for fiscal year 2011.

*Accounting for expenditures against prior year encumbrances.*

We recommend that the School Department provide the Comptroller's Office with a listing of all vendor encumbrances and a detailed calculation to support future teacher's payroll encumbrances at year end. These prior year encumbrances must be accounted for separately from the current year appropriations. Only expenditures and salaries that relate to the prior period or a valid purchase order can be charged to the prior year encumbrances. Any unspent prior year encumbrance would then become available for reappropriation or be turned back to fund balance.

Thank you for giving us the opportunity to provide services to the Town of Arlington. We are available to discuss this report along with its findings and recommendations.

Sincerely,

A handwritten signature in cursive script that reads "Powers & Sullivan".

Powers & Sullivan  
Certified Public Accountants

**Town of Arlington  
School Teacher's Summer Pay Accrual and Related Expenditures  
Past Five Years**

	Fiscal Year				
	<u>2010 (a)</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Teacher's summer pay accrual (b).....	\$ 1,579,908	\$ 3,254,246	\$ 3,179,641	\$ 3,515,953	\$ 3,408,740
Less expenditures against accrual (c).....	<u>(3,264,105)</u>	<u>(3,200,096)</u>	<u>(2,899,543)</u>	<u>(2,702,987)</u>	<u>(2,359,674)</u>
Variance .....	<u>\$ (1,684,197)</u>	<u>\$ 54,150</u>	<u>\$ 280,098</u>	<u>\$ 812,966</u>	<u>\$ 1,049,066</u>
Accrual change from prior year	-51.5%	2.3%	-9.6%	3.1%	8.4%
Summer pay change from prior year	2.0%	10.4%	7.3%	14.5%	2.7%

- (a) Amount on original carryover letter submitted to Comptroller, final encumbrance was adjusted for fiscal year 2010.  
 (b) Amounts represent the value on the carryover letter sent from the School CFO to the Comptroller's office to encumber at fiscal year end. Supporting calculations were not provided.  
 (c) Calculated by Comptroller's Office subsequent to fiscal year 2010. The School Department concurs with the fiscal year 2010 calculation and was unable to provide a calculation for 2006 through 2009.

**Town of Arlington  
School Department Budgeted Funding Sources  
Past Five Years**

	Fiscal Year				
	2010	2009	2008	2007	2006
Funding Sources:					
Town contribution.....	\$ 36,767,241	\$ 37,878,871	\$ 36,775,603	\$ 35,319,943	\$ 34,280,901
ARRA grants.....	1,663,355	-	-	-	-
Non ARRA Grants.....	2,678,556	2,548,599	2,447,209	2,886,100	n/a
Other revenue (offsets):					
Circuit breaker.....	1,319,500	1,327,979	1,282,585	899,014	n/a
Full day kindergarten.....	766,500	751,500	505,000	350,000	n/a
Special ed tuition-in students.....	525,000	325,000	250,000	128,300	n/a
Custodial maintenance grey bill to Town..	75,000	75,000	75,000	75,000	n/a
Athletic fees.....	178,550	178,550	151,000	71,000	n/a
Pierce field rental.....	10,000	30,000	-	-	n/a
Instrumental music fees.....	120,000	119,768	68,350	65,000	n/a
Building rental fees.....	315,000	315,387	221,197	50,000	n/a
Transfer from Treasurer's budget.....	-	-	-	41,214	n/a
Athletic ticket sales and donations.....	17,500	17,500	17,500	17,500	n/a
Integrated preschool.....	15,000	23,000	16,500	-	n/a
Bishop bus fees.....	16,000	15,982	17,925	15,300	n/a
AEA offset (20% union salary offset).....	12,700	12,680	11,940	11,573	n/a
Extracurricular activity fee.....	-	40,000	75,199	-	n/a
Special education reserve reduction.....	-	150,000	150,000	-	n/a
LABBB tuition credit.....	200,000	-	-	-	n/a
LABBB distribution.....	250,000	370,000	-	-	n/a
Reduction of facilities reserve.....	-	200,000	-	-	n/a
Lunch program.....	150,000	215,000	-	-	n/a
Special education cost saving initiative....	400,000	-	-	-	n/a
Foreign students F-1 Visas.....	100,000	-	-	-	n/a
Custodial savings.....	75,000	-	-	-	n/a
Subtotal other revenue.....	4,545,750	4,167,346	2,842,196	1,723,901	n/a
Total funding sources budget.....	\$ 45,654,902	\$ 44,594,816	\$ 42,065,008	\$ 39,929,944	n/a
Revenue budget percentages					
Town contribution and ARRA.....	84%	85%	87%	88%	n/a
Non ARRA Grants.....	6%	6%	6%	7%	n/a
Other revenue sources.....	10%	9%	7%	4%	n/a
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	n/a

Note: A detailed fiscal year 2006 revenue budget was not provided, however the total revenue offsets were published at \$694,232.

**Town of Arlington**  
**Arlington School Department General Fund Budget to Actual - Without Minuteman Appropriation**  
**Last Five Fiscal Years**

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Available Sources:					
Prior Year Purchase Orders.....	\$ 291,909	\$ 477,765	\$ 356,600	\$ 1,189,284	\$ 1,033,068
Prior Year Teachers Summer Pay....	3,254,146	3,179,641	3,515,593	3,408,741	3,145,998
Town Annual Contribution.....	<u>36,767,241</u>	<u>37,878,871</u>	<u>36,775,603</u>	<u>35,319,943</u>	<u>34,280,901</u>
Available Initial Budget.....	<u>40,313,296</u>	<u>41,536,277</u>	<u>40,647,796</u>	<u>39,917,968</u>	<u>38,459,967</u>
Available Final Budget.....	<u>40,313,276</u>	<u>41,177,925</u>	<u>40,615,566</u>	<u>39,957,414</u>	<u>38,459,975</u>
Change in available budget.....	<u>20</u>	<u>358,352</u> (a)	<u>32,230</u>	<u>(39,446)</u>	<u>(8)</u>
Expenditures and Carryforwards:					
Salary.....	29,498,210	29,505,975	28,185,022	27,007,223	24,914,378
Non Salary.....	8,512,230	7,465,043	8,772,693	9,013,478	8,947,564
Year End Encumbrances.....	563,752	291,909	477,765	356,600	1,189,284
Teachers Summer Pay.....	<u>3,264,105</u>	<u>3,254,146</u>	<u>3,179,641</u>	<u>3,515,593</u>	<u>3,408,741</u>
Total Expenditures and Carryforwards.....	<u>41,838,297</u>	<u>40,517,073</u>	<u>40,615,121</u>	<u>39,892,894</u>	<u>38,459,967</u>
Variance to Final Budget.....	<u>\$ (1,525,021)</u>	<u>\$ 660,852</u> (b)	<u>\$ 445</u>	<u>\$ 64,520</u>	<u>\$ 8</u>

(a) = Partially the result of \$200,000 voted budget reductions from 9 (c) cuts.

(b) = State Fiscal Stabilization Fund required turnback, \$655,099.

**Town of Arlington**  
**Fund Balances of Select Other Special Revenue and Revolving Fund**  
**Past Five Years**

		Fiscal Year				
		2010	2009	2008	2007	2006
0750	Circuit breaker (a).....	\$ (263,973)	\$ (329,064)	\$ (358,735)	\$ -	\$ -
0751	Special education reserve.....	-	150,000	150,000	300,000	350,000
0755	Residential school.....	-	-	-	-	30,085
1330	Community education.....	40,128	70,292	17,481	21,919	28,113
1720	Full day kindergarten.....	100,372	150,315	100,942	55,829	134,635
1512	Hardy extended day.....	168,993	172,803	200,298	191,667	161,192
1430	Athletic fees.....	692	-	(257)	675	15,400
1440	Athletic miscellaneous.....	8,117	8,984	-	57,299	95,266
1650	Pierce fieldhouse.....	-	7,517	7,366	7,050	32,135
1480	Instrumental music fees.....	-	37,605	57,418	125,535	171,868
1520	Building rental fees.....	-	204,683	164,091	200,752	352,372
1660	Tuition payment revolving.....	-	-	99,710	97,792	324,783
1840	Foreign languages.....	-	26,555	67,500	15,000	23,000
1500	School miscellaneous.....	-	75,583	75,583	118,889	164,577
1510	Menotomy preschool.....	26,178	37,788	63,892	92,026	106,357
1810	Arlington high school improvement fund..	-	-	8,126	16,719	11,253
5275	Field user fees.....	88,846	52,865	76,975	10,769	21,539
1800	Bridge the gap.....	483,800	-	-	-	-
		<u>\$ 653,153</u>	<u>\$ 665,926</u>	<u>\$ 730,390</u>	<u>\$ 1,311,921</u>	<u>\$ 2,022,575</u>

Note: Selected only funds with significant balances that have been used to balances budgets.  
(a) Circuit breaker funds due from the Commonwealth in June, and not received by the Town until the first week of July.



**Town of Arlington  
School Department Revenue Budget to Actual  
Fiscal Year 2010**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenue			
Town contribution.....	\$ 36,767,241	\$ 36,767,241	\$ -
ARRA grants.....	<u>1,663,355</u>	<u>2,048,123</u>	<u>384,768</u>
(d) Non ARRA Grants.....	<u>2,678,556</u>	<u>2,460,288</u>	<u>(218,268)</u>
Other revenue (offsets):			
(a) Circuit breaker.....	1,319,500	905,619	(413,881)
Full day kindergarten.....	766,500	805,536	39,036
(b) Special education tuition-in students.....	525,000	13,084	(511,916)
Custodial maintenance grey bill to Town...	75,000	56,000	(19,000)
Athletic fees.....	178,550	229,997	51,447
Pierce field rental.....	10,000	28,425	18,425
Instrumental music fees.....	120,000	135,712	15,712
Building rental fees.....	315,000	356,754	41,754
Athletic ticket sales and donations.....	17,500	4,776	(12,724)
Integrated preschool.....	15,000	-	(15,000)
Bishop bus fees.....	16,000	19,406	3,406
AEA offset (20% union salary offset).....	12,700	12,701	1
(c) LABBB tuition credit.....	200,000	-	(200,000)
(c) LABBB distribution.....	250,000	-	(250,000)
(c) Lunch program.....	150,000	-	(150,000)
(c) Special education cost saving initiative.....	400,000	-	(400,000)
Foreign students F-1 Visas.....	100,000	227,339	127,339
(c) Custodial savings.....	<u>75,000</u>	<u>-</u>	<u>(75,000)</u>
Subtotal other revenue.....	<u>4,545,750</u>	<u>2,795,349</u>	<u>(1,750,401)</u>
Total.....	\$ <u>45,654,902</u>	\$ <u>44,071,001</u>	\$ <u>(1,583,901)</u>

(e)

- (a) Deficit due to state budget reductions.
- (b) Primarily state approved tuition charged to other communities for students living in group homes in Arlington.
- (c) Represent cost-saving initiatives and not actual revenue sources.
- (d) Actual grant revenues represent approved grants as reported by School Department not all funds have been received.
- (e) As reported by Arlington School Department.

# Stratton School Project Adjustment Bond Advance

- HVAC/Furnace, other equipment long lead time (4-5 months), Spring bond authorization would delay project a year.
- Article moves bond authorization to this STM, allowing parts to be ordered so that work can proceed in the Summer; PTBC won't spend cash and Treasurer won't borrow till FY 2012.
- Taxpayer impact same as in Capital Plan with possible savings at Project end.
- Capital Planning Committee has voted for the Article

# Stratton Project Bond Advance

Project Phase	Funding Source	Capital Plan as Voted	Proposed/Actual Nov 2010	Proposed/Actual vs. As Voted
Phase 1 FY2011	Bonding	\$695,000	\$695,000	
	Advance Bonds to Nov 2010		\$1,360,000	\$1,360,000
Phase 2 FY 2012	Bonding	\$1,015,000		(\$1,015,000)
Phase 3 FY2013	Bonding	\$545,000	\$200,000	(\$345,000)
<b>Total</b>		<b>\$2,255,000</b>	<b>\$2,255,000</b>	