



# Acton-Boxborough Regional School District

15 Charter Road - Acton, MA 01720  
www.abschools.org

Finance Department  
David A. Verdolino, Director  
(978) 264-4700  
dverdolino@abschools.org

To: Superintendent, School Committee  
From: Dave Verdolino  
Re: Financial Report on FY2022 Closeout  
Date: September 22, 2022

Peter, Members –

The Finance Department has completed the closeout process for FY2022; materials have been submitted to the independent auditors (who have completed their engagement fieldwork) and the DESE and DOR End-of-Year reporting tasks are in process.

This memo provides a detailed summary of FY2022 operating fund activities (revenue and expenditures, budget versus actual), a preliminary estimate of E&D Reserve as of July 1, 2022, a summary of other reserve positions and revolving accounts, an update of federal grants (including Covid/stimulus awards) and a look-ahead to FY2023.

## **I - FY2022 Budget-to-Actual**

<b>REVENUES –</b>	Total Appropriated Budget	\$99,719,222
	Less – Budgeted Use of Reserves	<u>(1,595,000)</u>
	Total Budgeted Revenues	\$98,124,222
	Actual Revenues	<u>98,561,437</u>
	<b>Net Revenue Variance</b>	<b>\$ 437,215 (0.45%)</b>

A preliminary yearend revenue summary is included with this report. Significant components of the yearend variance are discussed below. Note that much of this variance information was known, and projected in financial reports, previously during the year just ending.

**1. Chapter 70 (State Education Aid); total FY22 revenue = \$15.4M; variance <\$2K>**

The Student Opportunity Act (SOA) mandated that all districts receive a baseline increase in Chapter 70 Aid (Minimum Aid) of \$30 per student, which the District received in FY22. The budget-to-actual variance represents a small difference between the enrollment estimate used during budget development and the actual enrollment reported to DESE.

**2. Regional Transp. Aid; total FY22 revenue = \$2.1M; variance \$176K**

The final state regional transportation aid payment was received on June 30 and represented a total reimbursement rate of 85% of eligible transportation costs. When this revenue source is estimated for budgeting purposes, it is too early to know (1) the final total costs of the then current year on which the aid reimbursement will be based, and (2) the final rate approved by the state legislature. The District's strategy has been to conservatively but realistically budget transportation aid to avoid unpleasant surprises (deficits) and minimize surpluses.

**3. Charter Reimbursement Aid; total FY22 revenue = \$190K; variance \$90K**

Reimbursements and assessments relating to the Charter School program are subject to fluctuation during the year, as student data are processed. Reimbursements are intended to phase in the potential cost to districts of students opting for enrollment in charter schools. While A-B received more FY22 Charter Aid than budgeted, this was (as in previous years) offset by an increased assessment; see EXPENDITURES below in this section of the report.

**4. Medicaid Reimbursement; total FY22 revenue = \$610K; variance \$360K**

The federal government significantly changed cost reimbursement guidelines to reflect the impact of the pandemic on providing eligible medical services. This is likely to be a one-year phenomenon, so the net variance being the primary source of net revenue surplus accruing to E&D is appropriate. In comparison, the \$610K net revenue received in FY22 greatly exceeded the previous 5-year average (\$219K) by nearly \$400K; the District estimated \$200K in Medicaid reimbursement in developing its FY23 budget.

**5. Investment Income; total FY22 revenue = \$89K; variance <\$176K>**

Similar to last year, interest rates continued to be depressed for most of the year, resulting in a deficit (as had been projected all year). Rates did increase rather significantly during the fourth quarter, from under 0.2% to nearly 1.6% by June 30. At that rate, the budget estimate for investment earnings in FY23, \$150K, should reasonably be attained.

<b>EXPENDITURES –</b>	Total Appropriated Budget	\$99,719,222
	Actual Expenditures	98,179,161
	Preliminary Encumbrances	860,626
	<b>Net Expenditure Variance</b>	<b>\$ 679,435 (0.68%)</b>

Included with this report are detailed expenditure summaries, by administrative area (budget responsibility) and by character code (account classification). Significant components of the anticipated yearend expenditure variance are discussed below; the discussion tracks to administrative areas, with character code data used as applicable for explanatory purposes.

**Admin 01 – Superintendent/School Committee; FY22 budget = \$133K; variance <\$160K>**

The FY22 budget was exceeded primarily by two causes. The District engaged the continued services of The Leadership Academy to foster equity-based instruction at a cost of \$37K; in FY21, the initial contract with this firm was funded via Covid relief funds. Second, the District paid its share (\$130K) of the assessment required to liquidate the remaining liabilities of EDCO, as extensively discussed by the Superintendent, complying with its plan of dissolution.

**Admin 02 – Teaching & Learning; FY22 budget = \$308K; variance <\$74K>**

The District centrally purchased a new mathematics curriculum for all elementary schools. The resulting deficit in this administrative category is offset by the resulting aggregate savings from the individual schools not using their own funds for this purpose.

**Admin 03 – Finance; FY22 budget = \$22.9 million; variance <\$106K>**

This department's budget consists overwhelmingly of non-discretionary costs, such as: debt service; employee health insurance premiums; retirement-related costs (retiree health insurance premiums, Medicare employer contributions, Middlesex County Retirement System assessment,

and contributions to the district's OPEB Trust), workers compensation and property & casualty insurance premiums; and, assessments by the state's Charter School program and Minuteman Tech's program at R.J. Grey Junior High School.

Significant budget variances within this administrative area are as follows:

**1. Health insurance premiums; FY22 total budget (employees and retirees) = \$9.8 million; total variance <\$156K>**

There were several more benefitted staff members and retirees than had been budgeted. In total, health insurance costs exceeded the total budget for active employees and retirees by 1.5%.

**2. Middlesex County Retirement System assessment; FY22 budget = \$3.2 million; variance \$55K**

This assessment is determined actuarially by the state's pension administration. The assessment funds both this year's annuity payments to retirees plus a share of the unfunded actuarial liability considered earned by current eligible (non-certified) employees who will retire with future pension benefits. The District took advantage of the System's offer of a discount for early payment of this obligation, resulting in budget savings.

**3. State Charter School Assessment; FY22 budget = \$475K; variance <\$99K>**

This program is intended to assess districts for the Foundation Budget costs of resident students. As discussed above, in FY22 the state's final Charter School Tuition assessment (\$574K) was significantly higher than had been budgeted (\$475K). When offset by the Charter Aid provided by the state, the net variance (reimbursement minus assessment) was <\$9K>.

**4. Workers Compensation and P&C Insurance; FY22 budget = \$684K; variance \$57K**

Through taking advantage of prepayment discounts, generally favorable claims experience and conservative budgeting, the District again had favorable budget variances through its membership with MIIA (MA Interlocal Insurance Agency).

**Admin 04 – Human Resources; FY22 budget = \$63.4 million; variance \$710K (1.1%)**

Individual cost centers within this administrative budget generally experienced modest favorable variances to budget (e.g., teachers \$130K favorable variance from a budget of \$42 million, or 0.3%). Two major exceptions to this generalization were support staff and substitutes, whose explanations are related, and a state Covid-related reimbursement program.

The District experienced a recurring shortage of hourly staff (teacher assistants, custodians, bus drivers, etc.) due to the inability to promptly fill vacancies, sometimes if at all. This issue carried over from similar experiences felt (though more severely) during FY21, and can be largely be blamed on the continued effects of Covid. Collectively, these shortages resulted in a budget variance of over \$500K. Partially offsetting this favorable budget result was the need to pay more, often at a premium, for substitutes.

In addition, the District benefitted from a one-time state program to reimburse public employers for the cost of sick time benefits used by employees for Covid-related absences. Through the dedicated efforts of HR department staff to maximize the opportunity presented by this grant, the District received over \$200K in related reimbursements.

In summary, the District generally has experienced a yearend personnel budget variance of between \$200-\$400K. The much larger variance in FY22 is directly attributable to the factors identified in the previous two paragraphs. Many other individual personnel cost centers experienced much more modest variances that, in the aggregate, were favorable.

**Admin 05 – Special Education; FY22 budget (net of CB) \$6.8 million; variance \$516K**

97% of this department’s budget consists of three categories: out-of-district tuition; special needs transportation; and, in-district contracted services. By systematically making significant additions to special education certified staff over the last several years, the District has experienced a downward trend in budgeting for out-of-district tuition costs. FY22 tuition costs were significantly under budget, due to several students returning to District placement or moving out-of-state; as a result, actual Circuit Breaker usage was reduced, thereby preserving reserve funds for FY23.

**1. Tuition, including Circuit Breaker (CB) offset; net variance \$420K**

<u>Type of Program</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Private Day (49 students)	\$4,203K	\$4,106K	\$ 97K
Residential (12 students)	2,045K	1,815K	230K
CASE Collab. (14 students)	895K	594K	301K
Other Collabs. (11 students)	484K	407K	76K
Public & Extended Year Services	<u>198K</u>	<u>197K</u>	<u>1K</u>
Gross Tuition cost	\$7,825K	\$7,119K	\$706K
Less – Circuit Breaker offset*	<u>&lt;3,599K&gt;</u>	<u>&lt;3,312K&gt;</u>	<u>&lt;287K&gt;</u>
Net Tuition expenditure	\$4,226K	\$3,806K	\$420K

\* - CB Reserve as of June 30, 2022 is \$2.4M, which must be spent during FY23.

**2. Special Needs Transportation; FY22 budget \$1.8 million; variance \$146K**

Our primary transportation service provider, CASE Collaborative, experienced a surplus which was credited proportionately to member districts in FY22.

**3. Special Needs Contracted Services; FY22 budget \$587K; variance <\$50K>**

This variance reflects the continued strategy of maximizing service delivery within the District to the extent educationally appropriate and economically beneficial.

**Admin 06 – Education Technology; FY22 budget \$617K; variance <\$127K>**

Technology purchases leading up to and during the pandemic were increased significantly, especially devices. Although there have been Covid-related grant opportunities to augment District spending on technology, through FY22 the budget has not yet kept pace with the additional needs for service and replacement of technology devices and applications.

**Admin 07 – Facilities and Operations; FY22 budget \$3.7 million; variance <\$432K>**

Most cost categories in this administrative area (consisting of capital outlays, building custodial and maintenance services, student transportation and utilities) experienced minor variances from their FY22 budgeted levels. The significant exception was the cost of utilities (principally electricity for building usage) and fuel (gasoline for buses), resulting from significantly higher rates experienced chiefly during the second half of the fiscal year.

The total cost variance for electricity utilities and fuel, a budget deficit of <\$185K>, was partially offset by modest surpluses throughout remaining line items.

## Update

The District's FY22 operating budget was subsidized from the existing balance of two FY21 stabilization reserves, Transportation (\$200K) and Capital (\$150K). To reflect these subsidies, expenditures totaling \$350K were charged directly to those Stabilization Funds. As a result, the operating budget for Facilities during FY22 was not charged for these expenditures; therefore, those costs need to be reflected in the variance analysis, and preliminary E&D estimate, contained here.

### **Admin 10 – Diversity, Equity & Inclusion; FY22 budget \$348K; variance \$151K**

Similar to FY21, through strategic use of several federal and state Covid-related relief grants, we were permitted to supplant what otherwise would have been budgeted costs with eligible grant expenditures. Primarily, “wrap-around” family services provided through our contract with the Assabet Valley Collaborative, stipends to staff for development of the remote and hybrid learning structures used during the school year, and savings from avoided costs of deferring many of the customary professional development initiatives and summer programs that were rendered moot by Covid, similar to our experience in the previous year.

### **Instructional Programs (Buildings and Departments); variance summary as follows:**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Admin 15 – Senior High</b>	\$520K	\$470K	\$ 50K
<b>Admin 16 – Junior High</b>	248K	208K	40K
<b>Admin 17 – Blanchard</b>	81K	72K	9K
<b>Admin 18 – Conant</b>	71K	55K	16K
<b>Admin 19 – Douglas</b>	70K	45K	25K
<b>Admin 20 – Gates</b>	63K	49K	13K
<b>Admin 21 – McC/Towne</b>	91K	76K	15K
<b>Admin 22 – Merriam</b>	74K	67K	8K
<b>Admin 08 – Performing Arts</b>	89K	75K	14K
<b>Admin 09 – Visual Arts</b>	128K	128K	-
<b>Admin 13 – Athletics</b>	113K	105K	8K
<b>Admin 39 – Health/Phys. Ed.</b>	31K	30K	1K
			<u>\$199K</u>

The Finance Department implemented a spending “pause” in the spring in order to try to bolster the resulting yearend turnback. Also, as noted in the discussion of Admin 02 (Teaching & Learning), the elementary budgets experienced savings from the central purchase of new mathematics curriculum materials, which were charged to the district-wide budget.

<b>GENERAL (OPERATING) FUND SUMMARY -</b>	<b><u>FY22</u></b>	<b><u>FY21</u> (\$000)</b>
FY2022 Revenue and Expenditures:		
Revenue Variance	\$ 437,215	\$ 70K
Expenditure Variance -		
District Identified Budget Items	809,627	835K
Covid Reserve Supplemental Budget	n/a	500K
Non-Budget (EDCO Settlement Costs)	<u>(130,192)</u>	<u>(165K)</u>
<b>Gross Budget Variance</b>	<b>\$ 1,116,650</b>	<b>\$1,240K</b>

**II – Preliminary Estimate of E&D Reserve as of July 1, 2022**

Certified E&D Reserve as of July 1, 2021	\$ 3,245,055 (3.2%)*
Add – Net FY22 Budget Variance (previous page)	1,116,650
Add – Net prior year encumbered variance	89,687
Add – Net change in prepaid expenses	48,873
Less – Appropriated with FY23 Budget	<u>(1,500,000)</u>
Preliminary E&D as of July 1, 2022	\$ 3,000,265 (2.9%)*

\* - percentage of subsequent year appropriation (max = 5.0%)

The foregoing calculation provides a reasonable estimate of E&D Reserve at the end of FY22; however, the certified balance may vary from that total. We are in the process of submitting the yearend reporting package to DOR; their review process will be scheduled and certification of E&D will result from that review. The review process took longer than usual during the last two years, with certification being received in January (FY20) and February (FY21), respectively.

**III – Summary of District Reserve Accounts as of June 30, 2022**

The District’s overall financial position, based on its identified reserve funds as of yearend, remains strong, as evidenced by the following reserve fund summary for FY22:

<u>Fund</u>	<u>Reserve Type</u>	<u>Begin Balance</u>	<u>Net Change**</u>	<u>Ending Balance</u>
1000	Unreserved FB*	\$ 3,350,185	\$(293,663)	\$ 3,056,522
3016	Circuit Breaker	2,410,016	193,344	2,603,360
3418	Transportation	200,000	(200,000)	-
4003	Capital Stabilization	<u>1,191,204</u>	<u>(146,219)</u>	<u>1,044,985</u>
	Totals (FYI)	\$ 7,151,405	\$(446,538)	\$ 6,704,867
	<i>% of Gen. Fund budget</i>	<i>7.2%</i>		<i>6.5%</i>

\* - General Fund Unreserved Fund Balance is the district’s accrual basis reserve, representing the cumulative difference between cash and other assets (including accrued receivables) versus liabilities (including accrued expenses) and other commitments of the general fund. On an accounting basis, it is the starting point from which E&D Reserve is determined, after making the statutory adjustments as discussed above. While “Certified E&D” is the more familiarly-used measure of uncommitted district reserves (just as “Free Cash” is to town reserves), Unreserved Fund Balance offers a more accurate measurement of financial position when presented in the above combined analysis.

\*\* - Net change for each reserve type represents, generally:

General Fund – Budget variance (\$1,116K per previous page) minus \$1.5M E&D usage committed to defray FY23 assessments (considered a FY22 transaction).

Circuit Breaker – Favorable tuition expense variance (see Admin 05, page 4 above) permitted lesser use of CB reserve than had been budgeted.

Transportation and Capital Stabilization – Expended reserve transfers from previous year (totaling \$350K) as planned.

#### **IV – Summary of Revolving Fund Accounts as of June 30, 2022**

With all school operations moving back toward more “normal” levels of participation, most special programs met or exceeded breakeven financial results in FY22.

Two external factors significantly improved the finances of specific programs.

The federal government extended the eligibility waiver for participation in the School Lunch program, meaning that every student who wanted a reimbursable meal could do so without cost. As a result, participation increased dramatically. Also, the federal reimbursement grant for such Free meals (lunch and breakfast) exceeds the District’s stated per meal pricing. This resulted in a banner year – nutritionally and financially – although Food Services staff continued to extend themselves as they had during the two previous (pandemic) years.

Also, through the generous partnership of Acton as to the use of its American Recovery Plan Act (ARPA) grant allocation, the District received \$1 million in FY22. Most of the funds were used to defray Covid-related expenditures (versus supplanting of budgeted costs). The largest share of this reimbursement was used to restore the balances in Community Education programs (Adult Education and Extended Day), which had been severely impacted during the previous two years, to levels that should allow for sustainability going forward.

As reported here last year, the District’s aggregate revolving fund balances had decreased by about \$3 million during the two pandemic-affected years. Participation is still not where it was pre-pandemic; and it is uncertain whether, and when, successful results enjoyed prior to FY20 will return.

A summary of financial results from major special revenue funds is as follows:

<u>Dept./Program</u>	<u>Begin Balance</u>	<u>Net Change*</u>	<u>ARPA**</u>	<u>End Balance</u>
Food Services Department –				
School Lunch	\$ 258,021	\$ 762,102	-	\$ 1,020,123
Community Education Department –				
Adult Ed. & Gifts	32,258	41,415	\$ 91,608	165,281
Driver Education	138,057	(22,404)	-	115,653
Extended Day	387,194	62,059	\$507,689	956,942
Other Departments -				
Athletics & Gifts	76,622	(75,214)	-	1,408
All-Day Kindergarten	63,955	132,793	-	196,748
Occ. Development	160,046	(13,345)	-	146,701
Integrated Pre-K	4,516	38,524	-	43,040

\* - Net change attributable to program operations

\*\* - Infusion of Acton ARPA funds

## **V – Summary of Federal Grant Accounts as of June 30, 2022**

**ENTITLEMENTS through DESE** – The district expended over \$1.6M from entitlement grants it received in FY22, including balances legally carried over from FY21; the aggregate total of grant expenditures remained constant between years. All required financial reports have been filed and there are no deficit grant balances.

**FEDERAL (Covid Relief) FUNDS** – In addition to the ARPA subgrantee funding noted in the previous section, the District expended funds from direct federal aid programs in FY22 as follows:

<u>Program</u>	<u>Purpose</u>	<u>Expended</u>
FEMA – FY22	Direct Covid mitigation	\$ 179,737
FEMA – FY21	Direct Covid mitigation	438,138
CARES Act – FY22	Municipal Covid assistance	128,498
ESSER-3 – FY22	District Covid assistance	331,378

FEMA claims represent 100% reimbursement for eligible costs associated with ongoing efforts to mitigate the impact of the pandemic. The FY21 claimed expenditure noted above had been initially denied, but subsequently approved by FEMA and a contract for the reimbursement of those funds was recently executed. We expect to file a final FEMA claim through December 31, 2022, which is currently projected to be the program’s expiration date.

CARES Act funding was (similar to ARPA per the preceding page) awarded at the municipal level. The District’s receipt of CARES Act funds was used primarily to underwrite the cost of the District’s community meals program that provided significant relief during the pandemic to food insecure families.

ESSER-3 is the third in a series of DESE-administered Covid relief grants. The District’s ESSER-3 allocation of \$918K can be used over three years (FY22-24) and has been earmarked by the District primarily for implementation of MTSS initiative.

## **VI – FY2023**

The first quarter financial report for FY23 will be presented at the November 1 School Committee meeting, and will contain a more detailed look at the positive revenue projections that have been identified to date, including:

- Boost in Minimum Chapter 70 Aid (to \$60 per pupil from \$30 as budgeted)
- Continued robust Medicaid reimbursement
- Investment income projected significantly ahead of prior year revenues and current year’s budget, due to federal fund rate increases

FY23 represents the state’s second year of funding implementation of the Student Opportunity Act, which was intended to provide an additional \$1.5B in education aid over a 7-year period. Because of continued declining enrollment, as well as a high target local share of the Foundation Budget (a component of the Chapter 70 formula calculation), A-B does not appear to be a candidate to receive anything in the way of additional Chapter 70 aid other than the \$30 per pupil Minimum Aid called for in the SOA.



The district's FY23 budget makes use of slightly lower total amount of reserves than in FY22, as follows:

Amounts in \$000s	Used to Offset Budget (year)	
	<u>FY22</u>	<u>FY23</u>
E&D Reserve	\$1,245	\$1,500
Stabilization Funds (capital, transp.)	350	300
Circuit Breaker (tuition budget offset)	<u>3,600</u>	<u>3,300</u>
Total Reserves Used	\$5,195	\$5,100

Last year in this space, it was stated that “Future budgets should attempt to level, if not reduce, the use of these reserves; that will be a difficult process when, as is essentially the case, use of reserves at the current levels represents the ‘base budget’”. The FY24 budget process (already underway) will undoubtedly be tasked with further reducing total reserve usage. When combined with what is expected to be pressure to minimize member assessments, that bodes for a challenging year ahead, financially.

Lastly, while this is intended to be a preliminary report on FY22 finances, the information contained herein will be augmented as necessary as anticipated events and/or conditions change.