

**CHARIHO REGIONAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

As management of the CHARIHO Regional School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the notes to the basic financial statements and the financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

- General Fund revenues accounted for \$51.6 million in revenues, or 91.5 percent of all fiscal year 2008 governmental fund revenues, compared to \$49.9 million, or 90.8 percent for fiscal year 2007. Program specific revenues in the form of grants and contributions accounted for \$4.8 million or 8.6 percent of total fiscal year 2008 governmental fund revenues, compared to \$5.3 million or 9.2 percent for fiscal year 2007.
- The District had approximately \$56.1 million in expenses related to governmental activities; of which \$7.0 million of these expenses were offset by program specific charges for services or grants and contributions. An increase from \$52.6 million in expenses; of which \$7.1 million of expenses were offset by program specific charges for services or grants and contributions.
- The District had business-type activity in only one proprietary fund – the School Lunch Fund. Operating and non-operating revenues totaled \$1,055,241 and operating expenses totaled \$1,050,527 (including depreciation of \$7,610) leaving a net income of \$4,714. Operating and non-operating revenues totaled \$1,000,997 and operating expenses totaled \$1,014,882 (including depreciation of \$7,885), leaving a net loss of \$13,285 for June 30, 2007.
- Among major funds, the General Fund had \$51.6 million in fiscal year 2008 revenues as compared to \$49.9 million in 2007, which primarily consisted of contributions from the Towns of Charlestown, Richmond, and Hopkinton, and \$50.1 million in expenditures in 2008 compared to \$48.1 million in 2007. The General Fund's fund balance increased from \$6.8 million to \$7.7 million.
- The General Fund's fund balance at the close of the fiscal year consisted of the following:
 - \$ 1,500,000 designated for 2008-09 expenditures
 - \$ 1,545,475 designated for participation in health care plan
 - \$ 75,000 designated for special education
 - \$ 3,244 designated for building committee
 - \$ 142,364 designated for environmental clean-up
 - \$ 4,472,072 unreserved and undesignated
- The District's long-term liabilities stayed consistent compared to prior year.

7,738,155

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements - The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

REVENUE SOURCES (CONTINUED)

Housing Aid: In accordance with RI General Law 16-7-35 to 16-7-47, districts that undertake school housing projects for maintenance, renovation or new construction supported by general obligation bonds, and certain lease revenue bonds, capital leases, and capital reserve funds, are eligible for state housing aid reimbursement. Housing aid by law has a one year reference which results in the first payment of the construction entitlement being made in the fiscal year following the completion of the project. Housing aid received from the State for FY 2008 totaled \$580,760.

Intergovernmental grants: Revenues in this category are proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Revenues are derived principally from federal and state governments and private foundations. These funds are detailed in the financial statements under the caption of Grant Programs.

EXPENDITURES BY FUNCTION – The expenditures of governmental activities are categorized by function in the seven areas as listed below:

Instruction: Includes teachers, substitutes, instructional paraprofessionals and all classroom materials.

Instruction and improvement: Includes pupil support in the areas of library, audio visual services; and teacher support in the areas of curriculum development, in-service, staff development, and text books.

Special student programs: Includes special education costs, as well as social work and psychological services, and guidance.

Academic support: Includes non-instructional pupil services such as transportation and safety, nursing, facilities upkeep and maintenance, district-wide and school-based senior management, and business operations.

Administration: Includes school board, insurance and legal costs.

Community services: Includes community service operations, including private school text book costs.

Employee benefits: Include the costs for district provided benefits, primarily retirement (pension and social security) and health care programs.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were minor differences between the District's original budget and the final amended budget. There were no additional appropriations necessary during the fiscal year.

Actual revenues and other sources exceeded budgeted amounts by \$389,143. Factors contributing to this include, receipt of greater than anticipated career and technical center student tuitions, greater than budgeted interest on investments and greater than budgeted Medicaid reimbursement.

Actual expenditures were less than budgeted amounts by \$2,278,773. Significant positive budget variances occurred in the Instruction category (\$282,919 primarily due to a number of staff positions that were filled at lower than anticipated salaries, along with lower than anticipated substitute teacher costs) in the Special Student Programs category (\$746,919 primarily due to certified staff positions that were budgeted for and not filled or paid for via grant funding instead of operating budget funds, along with district tuitions and purchased services that were unexpended due to changes in student population) in the Academic Support category (\$482,312 primarily due to lower than anticipated district-wide transportation costs and lower than anticipated salaries in the areas of custodial, custodial overtime, technology services and school based management) and the Employee Benefit category (\$698,702 primarily due to positive operating results within the district's health care self insurance program, negotiation of a successful support staff contract which resulted in increased employee co-payments on health and dental insurance and significantly reduced insurance buy-backs, along with payroll expense (fica/retirement contribution) savings due to lower than expected salaries.) The Schedule of Revenues and Expenditures - Budget and Actual is presented on Exhibit E-1, following the Notes to the Financial Statements.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS As of June 30, 2008, the District's investment in capital assets for its governmental activities was \$24.8 million less accumulated depreciation of \$10.8 million for a net investment in capital assets of \$14 million. This investment in capital assets includes buildings and building improvements, equipment and vehicles.

CAPITAL RESERVE FUND

The District maintains a Capital Reserve Fund for costs incurred for capital projects. The RI law was changed in 1998 to allow Housing Aid reimbursement of non-bonded capital projects paid for out of a district capital reserve fund. However, the district must document that projects reimbursed under this provision of the law are indeed supported by properly constituted capital reserve funds. The district, therefore, maintains a separate fund for this specific purpose. The funds to support these projects come from contributions from participating Towns

LONG TERM LIABILITIES

At June 30, 2008, the District had long-term liabilities, all related to governmental activities, totaling \$4.1 million consisting of a capital lease payable and compensated absences, with the amounts due within one year estimated to be \$1.05 million. Additional information related to the District's long term liabilities can be found in Note 12 to the Financial Statements.

FACTORS AFFECTING NEXT YEAR'S BUDGET (FY 2009)

- Increase in teachers retirement contributions of \$498,000
- Increase in municipal retirement contributions of \$83,000
- Increase in district-wide buildings fuel and electricity costs of \$112,000
- Increase in district-wide textbook purchases of \$73,000
- Increase in charter school tuitions of \$87,000
- Increase in capital improvement budget of \$567,000
- Increase in Career & Technical Center Tuition revenue of \$174,000
- Decrease in special education transportation costs of \$47,000

- \$1,500,000 of the General Fund's fund balance was appropriated for spending in the 2008-09 budget

- In the aggregate, member town contributions to the District increased by \$1,200,554, or 2.49%, for the 2008-09 fiscal year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the CHARIHO Regional School District's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to:

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