

**THREE RIVERS/JOSEPHINE COUNTY UNIT JOINT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
30 JUNE 2008**

The discussion and analysis of Three Rivers School District's financial performance provides an overall review of the District's financial activities for the fiscal year ending June 30, 2008. The intent of this discussion and analysis is to review the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34. Certain comparative information between the current year and prior years is required to be presented in the MD&A.

Overview of the Financial Statements

The District's basic financial statements consist of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the basic financial statements. In addition to the basic financial statements, we provide supplementary information that you may also find useful.

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

The ***Statement of Net Assets***, which presents information on all of the assets and liabilities of the District at year end. Net assets are what remain after the liabilities have been paid or otherwise satisfied. 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.

The ***Statement of Activities***, which presents information showing how the net assets of the District changed over the year, by tracking revenues, expenses and other transactions that increase or reduce net assets. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods (for example, uncollected taxes and earned but unused vacation leave).

In the government-wide financial statements, the District's activities are shown in one category, *Governmental Activities*. Most of the District's functions are shown here, such as regular and special education, child nutrition services, transportation, administration, and facilities acquisition and construction. These activities are primarily financed through property taxes, Oregon's State School Fund and other intergovernmental revenues.

Fund Financial Statements. The *fund financial statements* provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives (like the Food Service Fund) or to show that it is meeting legal responsibilities for using certain grants (like Title I and other federal, state, or locally funded grants). All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds reporting focuses on showing how money flows into and out of funds, and the balances left at year-end that are available for spending. They are reported using an accounting method called modified accrual, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the District's operations and the services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

The District maintains many individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances for the General, Special Revenue, Capital Projects Fund, and Debt Service Fund, all of which are considered to be major funds.

The District maintains one **Proprietary Fund**; this fund is used to accumulate and allocate costs internally among the District's various functions. The District also uses its internal service fund for self-insurance purposes, primarily for employees' unemployment benefits, deductibles on insurance, and for the costs of vandalism.

Fiduciary funds are used to account for resources held for the benefit of parties by the District in a trustee capacity. These funds include student scholarships and foundation funds. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the District's own programs.

Government-Wide Financial Analysis

As this is the fifth year that the Three Rivers School District has reported under GASB 34, we are able to provide you with a comparative analysis for the last five years, Fiscal Years 2004, 2005, 2006, 2007 and 2008.

- Over time, net assets may serve as a useful indicator of the District's financial position; as of 30 June 2008, the District's assets exceeded its liabilities by \$29.24 million, a decrease of approximately \$24,000 from Fiscal year 2007.
- The District's long-term liabilities are about \$54.08 million (with \$2.8 million due within one year) and consist of the following:

▪	Obligations for early retirees -	\$ 6.54 million
▪	2001 G. O. bonds -	\$20.55 million
▪	2004 PERS (UAL) bonds -	\$26.62 million
▪	1994 Certificates of Participation -	\$.29 million
- The District's current liabilities, including the obligations due within the next year (above), are \$4.8 million.

**Statement of Net Assets Summary
Governmental Activities**

Assets	2004	2005	2006	2007	2008	Increase (Decrease): 2007 to 2008
Current and other assets	38,697,322	34,978,196	35,524,209	34,240,529	34,094,854	(145,675)
Capital assets	55,427,807	54,519,098	52,458,110	53,701,529	51,446,673	(2,254,856)
Total assets	94,125,129	89,497,294	87,982,319	87,942,058	85,541,527	(2,400,531)
Liabilities						
Current liabilities	5,420,064	3,249,818	3,889,801	4,526,176	4,555,746	29,570
Long term liabilities	57,398,496	57,188,878	55,947,516	54,154,162	51,748,550	(2,405,612)
Total Liabilities	62,818,560	60,438,696	59,837,317	58,680,338	56,304,296	(2,376,042)
Net Assets						
Invested in capital assets, net of debt	31,022,807	29,322,912	29,463,110	32,321,529	30,141,673	(2,179,856)
Restricted	5,991,850	4,997,417	4,664,391	3,957,295	3,995,686	38,391
Unrestricted	(5,708,088)	(5,261,731)	(5,982,496)	(7,017,104)	(4,900,128)	2,116,976
Total Net Assets	31,306,569	29,058,598	28,145,005	29,261,720	29,237,231	(24,489)

Changes in Net Assets Governmental Activities							
Revenues		2004	2005	2006	2007	2008	Increase (Decrease): 2007 to 2008
Program revenues							
	Charges for service	1,973,850	743,113	690,271	620,968	2,423,504	1,802,536
	Operating grants and contributions	7,525,453	7,566,557	8,090,665	7,932,308	7,081,433	(850,875)
	Capital grants and contributions	-					-
General revenues							
	Property taxes	10,933,801	11,162,771	11,694,630	12,418,925	13,034,559	615,634
	State school fund	26,806,141	24,331,735	28,005,299	27,899,218	30,135,887	2,236,669
	Other state and local sources	1,102,989	4,273,278	5,916,787	6,114,168	3,954,735	(2,159,433)
	Earnings on investments	215,431					-
	Other	428,099	254,990				-
	Loss on sale of asset	(243,837)	-	(1,689)		(2,524)	(2,524)
	Total Revenues	48,741,927	48,332,444	54,395,963	54,985,587	56,627,594	1,642,007
Expenses							
	Instruction	25,872,705	28,481,966	29,786,287	30,829,702	31,386,900	557,198
	Support services	17,480,863	18,210,206	19,550,769	20,089,847	20,778,313	688,466
	Enterprise and community services	2,058,099	2,411,426	2,544,013	2,555,073	2,445,084	(109,989)
	Facilities acquisition & construction	17,258			41,101		(41,101)
	Interest on long-term debt	1,676,242	2,405,783	3,428,493	3,469,587	2,393,325	(1,076,262)
	Total Expenses	47,105,167	51,509,381	55,309,562	56,985,310	57,003,622	18,312
Change in net assets		1,636,760	(3,176,937)	(913,599)	(1,999,723)	(376,028)	1,623,695
Net Assets (Beginning)		29,669,809	31,306,569	29,058,598	28,145,003	29,261,720	(913,595)
Prior Period Adjustment			928,966		3,116,440	351,539	3,116,440
Net Assets (Ending)		31,306,569	29,058,598	28,145,004	29,261,719	29,237,230	1,116,715

Financial Analysis of the District's Funds

The significance of the District's governmental funds is that they provide information about short-term cash flow and funding for future basic services. This information is useful in assessing the District's financing requirements. In particular, the *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year.

General Fund: The General Fund is the primary operating fund of the District. As of June 30, 2008, the unreserved fund balance was \$3.87 million, and an *increase* of \$430,000 thousand from the previous year. This was due primarily to a prior year adjustment for the common school fund.

Debt Service - The Ending Fund Balance in the debt service fund increased by about \$219,000, from \$2.29 million to \$2.51 million, as we received \$50,000 more in taxes and interest than the required debt service payments for the 2001 G.O. bond issue; \$165,000 was also added to a PERS Reserve for possible future year cost increases.

Capital Projects (Funds 400 and 405) – The Ending Fund Balance in the Capital projects fund continued its descent, decreasing from about \$1.67 million to \$1.49 million in 2008. Of cash remaining in Capital Projects, \$290,000 is for the remaining COPS debt payment due in Fiscal Year 2009; leaving only \$1.2 million for any regularly scheduled or catastrophic repair and maintenance issues.

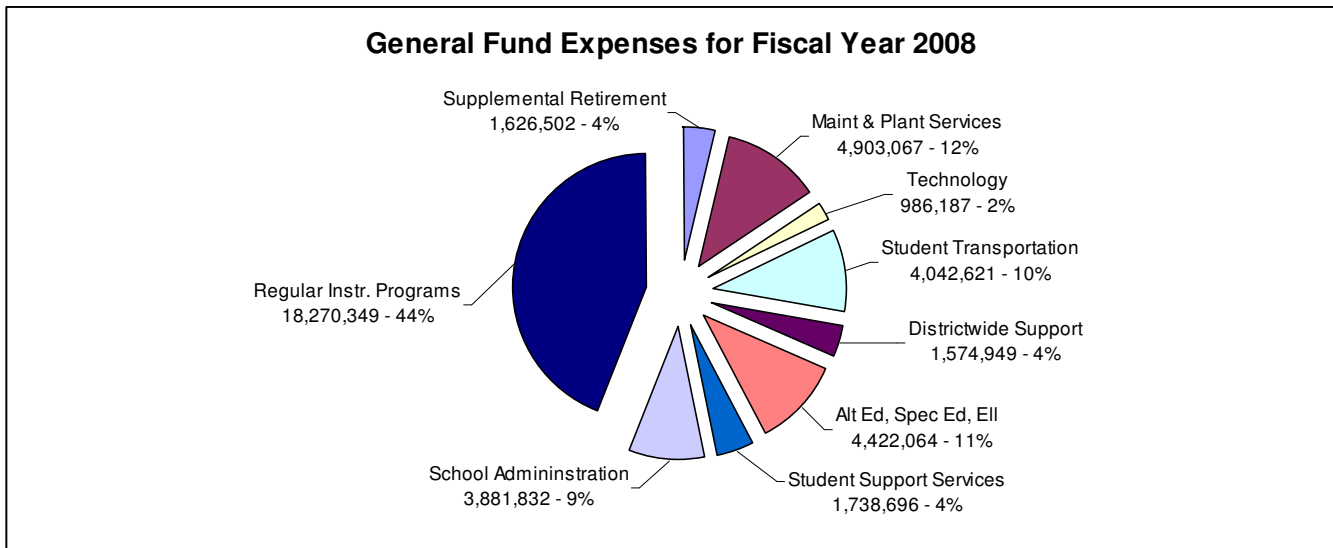
Balance Sheet Governmental Activities

	2004	2005	2006	2007	2008	Increase (Decrease): 2007 to 2008
Assets						
Equity in cash and investments	10,945,950	6,745,289	9,726,768	8,685,092	9,246,093	561,001
Taxes receivable	838,104	727,001	562,538	650,780	717,039	66,259
Other receivables	722,702	2,158,806	1,242,903	1,521,586	2,020,083	498,497
Intergovernmental & due from other funds	861,016	471,825	-	-	-	-
Prepaid expenses	46,098	340,883	-	375,863	-	(375,863)
Total Assets	13,413,870	10,443,804	11,532,209	11,233,321	11,983,215	749,894
Liabilities						
Accounts Payable	1,888,678	374,602	380,114	684,590	753,318	68,728
Accrued payroll and interest payable	63,030	57,460	865,395	1,213,016	1,229,638	16,622
Other liabilities	562,632	471,825	-	0	0	-
Deferred revenue	670,224	731,945	449,769	460,100	546,644	86,544
Total Liabilities	3,184,564	1,635,832	1,695,278	2,357,706	2,529,600	171,894
Fund Balances						
Reserved balances	5,991,699	-	-	-	-	-
Unreserved balances	4,237,607	8,807,972	9,836,932	8,875,614	9,453,615	578,001
Total Fund Balances	10,229,306	8,807,972	9,836,931	8,875,615	9,453,615	578,000
Total Liabilities and Fund Balances	13,413,870	10,443,804	11,532,209	11,233,321	11,983,215	749,894

General Fund Expenditures

General Fund Expenditures

	<- Fiscal Year 2006 -->		<- Fiscal Year 2007 -->		<- Fiscal Year 2008 -->		Change	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Instruction	21,253,553	21,331,134	23,343,206	22,660,637	23,672,611	22,692,413	329,405	31,776
Support Services	17,119,365	17,216,563	18,533,875	18,283,184	19,231,015	18,732,252	697,140	449,068
Community Services		1,708	-	-	-	-	-	-
Building Improvement Services	2,750		2,750	140	23,350	21,601	20,600	21,461
Debt Service			5,000	-	-	-	(5,000)	-
Contingency	835,536		135,417	-	243,050	-	107,633	-
							-	-
							-	-
Total Expenditures	39,211,204	38,549,405	42,020,248	40,943,961	43,170,026	41,446,266	1,149,778	502,305



Capital Assets

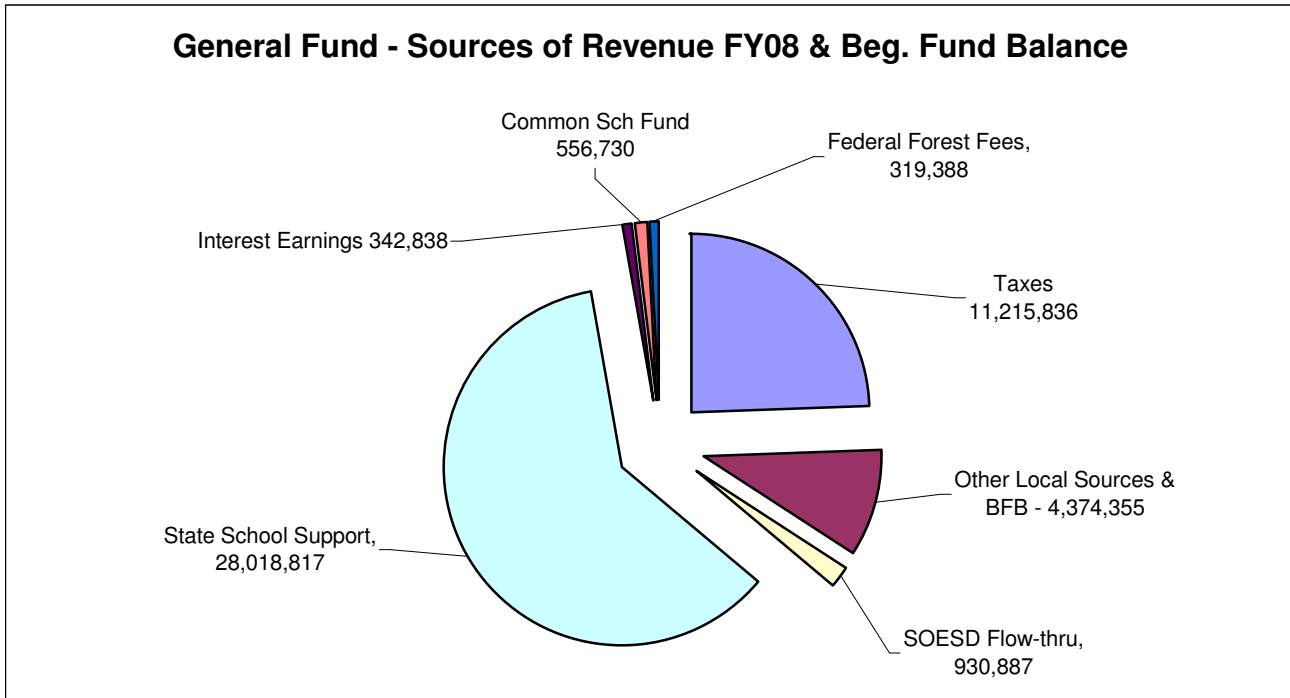
- The District's investment in capital assets includes land, vehicles, equipment, buildings and improvements and was about \$51.45 million, a decrease of 2.25 million from the previous year. The decrease was due to accumulated depreciation compounded by the fact that a small portion of capital equipment was added.
- Increases to the District's capital assets included upgrading 3 fleet vehicles, servers for internet connectivity, locker refurbishing at the high schools, new fire alarm system at Fleming middle school, a boiler at Lincoln Savage middle school, and playground equipment at Fort Vannoy.

Long Term Debt Administration

- The district maintains an Aa2 rating from Moody's for general obligation debt and at the end of the Fiscal Year 2008, the District had a total outstanding bonded debt of \$47.17 million.

Economic Factors

In 2008, about 61.2 percent of the District's revenue came from the State School Fund Grant



Fiscal Year 2008 was a year with many interesting financial twists. Fortunately Three Rivers School District was funded at the highest per student level in the history of the district at \$6,357 per ADMw. Unfortunately, the increase in per student funding did not compensate for our continued declining student enrollment and the astronomical increases in fuel and transportation costs. Diesel fuel prices soared into the high three dollar a gallon range even with minimal taxes being applied and the increase was not gradual. This price put our budget out of balance in both fuel oil to heat the buildings and in our transportation expenses. Three Rivers School District spent more than four million dollars on transportation in Fiscal Year 2008. The state legislature also developed a new fund for Fiscal Years 2008 and 2009 called the School Improvement Fund. Rather than funding the General Fund at an amount needed to effectively operate, the legislature allocated some dollars to the School Improvement Fund and designated the areas where those funds could be spent. For Three Rivers School District, those areas were Vocational Education, Alternative Education and class size reduction teachers at the elementary level.

On a positive note, Three Rivers School District showed vision for the future by working with McKinstry Energy in a Phase 1 project to provide more energy efficient solutions in three of our buildings and the hope is that these energy projects will continue in the future.

Requests for Information

This financial report is designed to present the user (citizens, taxpayers, investors, and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the District's Superintendent at 8550 New Hope Road, Grants Pass, Oregon 97527.

David B. Huber-Kantola, Superintendent

Lisa J. Cross, Accounting Manager