



October 21, 2010

**To Board President Wyffels and
Members of the Board of Directors
of Tualatin Valley Fire and Rescue**

We are pleased to submit the Comprehensive Annual Financial Report of Tualatin Valley Fire and Rescue for the fiscal year ended June 30, 2010. The responsibility for the completeness, fairness, and accuracy of the data presented and all accompanying disclosures rests with the District. To provide a reasonable basis for making these representations, the District's management has established a comprehensive internal control framework that is designed both to protect the District's assets from loss, theft, or misuse; and to compile sufficient reliable information for the preparation of the District's financial statements in conformity with accounting principles generally accepted in the United States of America. Because the cost of internal controls should not outweigh their benefits, the District's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The District is a special district established to provide a full range of fire protection and emergency response services to its citizens. This report has been prepared in accordance with accounting principles generally accepted in the United States of America and follows guidelines recommended by the Government Finance Officers Association of the United States and Canada.

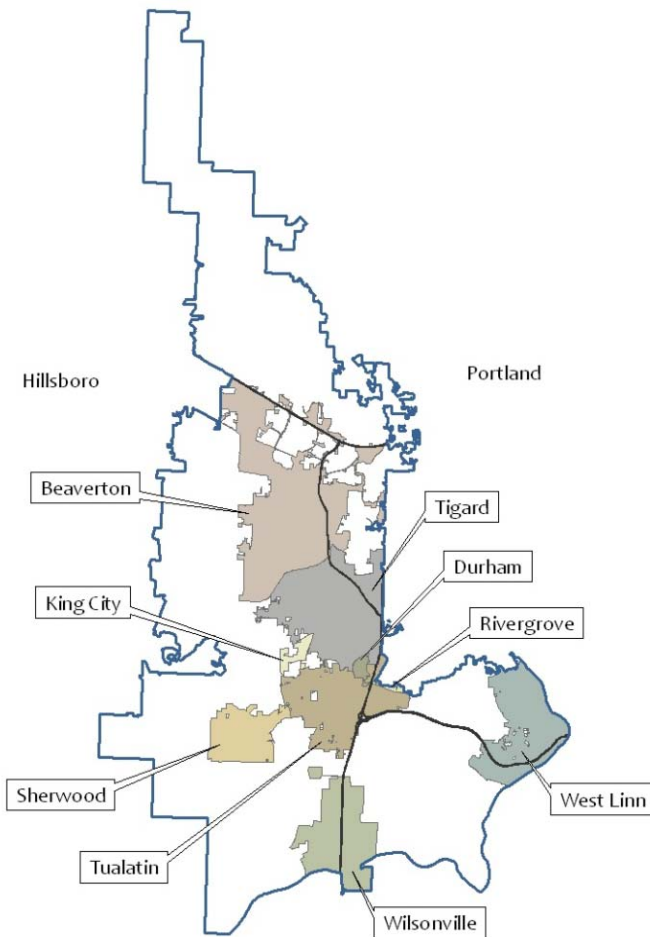
State of Oregon Revised Statutes, ORS 297.405 to 297.555, require an annual audit of the fiscal affairs of the District by independent public accountants selected by the Board of Directors. This requirement has been complied with and the auditor's opinion has been included at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

Letter of Transmittal

The Reporting Entity and Its Services

The District operates under Oregon Revised Statutes Chapter 478 as a separate municipal corporation and is managed by a Board of Directors comprised of a President and four Directors including a Vice-President and a Secretary-Treasurer. The Board hires a Fire Chief to manage the day-to-day operations of the District. The governing Board appoints members of the community to serve on boards and commissions, which include the Budget Committee and the Civil Service Commission.



Tualatin Valley Fire and Rescue, a Rural Fire Protection District, was formed in 1989, through the legal merger of Washington County Fire Protection District No. 1 and Tualatin Rural Fire Protection District. Since that time, the District has expanded through the mergers of two additional fire districts, Multnomah County Rural Fire Protection District Nos. 4 and 20, and the annexation of the Valley View Water District on July 1, 1995. The District continued to grow by the annexation of the City of Beaverton to the District's service territory effective July 1, 1996. The most recent annexation was the City of West Linn, which was legally annexed on July 1, 2004, after the culmination of six years of contracted services by the District for city residents.

The District currently operates 21 career and volunteer fire stations with a complement of fire engines, ladder trucks, aerial pumpers, hazardous materials response units, technical rescue units, one heavy CBRNE unit, water tenders, brush rigs, and several other pieces of equipment, including medics, response cars, water rescue units, a mobile command unit, and an additional fleet utilized to supplement response needs. District employees - approximately 437 in 2010 - were supplemented by approximately 70 volunteer firefighters.

The District has been and continues to be focused on providing the taxpayers the highest level of service in an efficient and effective operation. The District continues to implement continuing operational improvements in order to accomplish its strategic goals.

Tualatin Valley Fire and Rescue

Letter of Transmittal

The District serves northeast Washington County, northwest Clackamas County, and the western edge of Multnomah County. The District is a special service district supported by the property owners within its boundaries.

The District serves a population of an estimated 440,339 people. Assessed valuation continues to grow and to provide additional tax revenue. The District's funding is based upon a permanent tax rate of \$1.5252 levied on assessed valuation. Increases in assessed valuation result in increased tax revenue to the District. Assessed valuation increased from \$38.8 billion in 2008-09 to approximately \$40.3 billion in the 2009-10 fiscal year. In addition, the District depends upon an additional local option levy of 25 cents per thousand to supplement the permanent levy rate. The District's voters firmly supported the third renewal of the 25 cent levy for an additional five years at the November 2008 election. This levy will provide funding for operations through June 30, 2015.

Capital funding for the next several years will continue to be provided from a series of general obligation bond sales. The authority to issue up to \$77.5 million of bonds was strongly supported by our voters at the November 2006 election to provide funding for new stations, significant seismic reconstruction of existing stations, a command center, and for emergency response apparatus throughout the District. The District has sold a total of \$49.5 million in three issuances. A fourth issuance is planned for 2011.

The area served, which includes the cities of Beaverton, Durham, King City, Rivergrove, Tigard, Tualatin, Sherwood, West Linn, and Wilsonville, lies within one of the fastest growing regions of the state. The District is an area encompassing densely populated suburbs, rural farmlands, retail and commercial establishments, and growing industrial complexes.

Fire stations are strategically placed throughout the District to protect property and the District population. The District utilizes defined response time standards, projected population densities, and urban growth, as well as actual and planned traffic conditions to determine the best station sites to optimize response times.

As a result of the high quality of services provided, training standards, equipment, staffing, and related support functions, the District is among the leaders in the State of Oregon in obtaining a favorable insurance classification, class 2, according to the standards set forth by the Insurance Services Office, Inc. To the property owner in the District, this classification results in very low premium rates for fire insurance.

The District is a multi-service district with services and programs tailored to meet the needs of the community. The District is committed to creating safer communities through education, prevention, preparedness and emergency response. Emergency response services include fire suppression, emergency medical services, water dive, high angle, and heavy rescue. For several years, the District has served as a Regional Hazardous Material Response provider for the State of Oregon with a service response area ranging from the City of Portland boundary on the

Tualatin Valley Fire and Rescue

Letter of Transmittal

east to the Pacific Ocean on the west and from the District's northern boundary in Multnomah County southerly to Marion County.

The District's Integrated Operations staff is dedicated to meeting all of the state mandates regarding fire investigations, commercial and retail occupancy inspections, and educating District citizens. To deal with emergencies, both fire and medical, the District staffs a team of professional firefighters and paramedics 24-hours a day with skills and equipment necessary to deal with a wide variety of emergencies. Over half of the District's professional firefighters are certified as Advanced Life Support paramedics, while 100% of the remaining fire suppression personnel are certified at either the Basic or Intermediate Emergency Medical Technician life support levels. Under the guidance of physician advisors, emergency medical service personnel (all of whom are firefighters) maintain a high skill level through several specialized programs.

Modern training facilities, including a six-story training tower, a burn building for live fire training, a 19-acre training center, and a live TV studio and media center, provide personnel with constant training to keep their skills at the highest level. The TVF&R Training Center facility, which was constructed in several phases using public funding and private donations, provides advanced training opportunities in flammable liquids and gases and usage of live props, including a tanker truck, a vehicle driving course, propane rail cars, a bridge and excavation tunnels. The Training Center provides private businesses, District employees, and other customers a site to train for actual emergency situations and to meet federally mandated training requirements. The Training Center's facility and grounds are used for the many intensive District training operations, as well as District employer taxpayers requiring specialized training.

Economic Condition and Outlook

The District, through its broad geographic base, serves a developing and growing part of Oregon's economic base. The annual growth in the District's assessed valuation and market value of protected property each year is one indication of the growth in both industrial and residential areas. Economic and regional population forecasts continue to project the area's continued growth and development. Assessed valuation of existing property is limited to three percent increases a year; and growth in the District's assessed valuation is largely expected to come from legally allowed increases in assessed valuation, which is only 64% of market value. For 2009-10, the assessed value of the District grew 3.7% to \$40.3 billion, although market value decreased to \$62.5 billion from almost \$67.0 billion in 2009. While it may be several years before new development and other increases to market value occur, the legally allowed increase in assessed value of 3% per year is expected to provide a stable funding source for the District.

The District's population is expected to continue to grow in the next 20 years. We are working proactively and cooperatively with other governments and regional planning groups to ensure continued ability to serve this future population. This includes participating in neighborhood and street planning, emergency access and road

Tualatin Valley Fire and Rescue

Letter of Transmittal

construction planning processes, as well as evaluating and working across jurisdictional boundaries to ensure closest force response to population centers regardless of where city and county boundary lines fall

This area serves as the home to internationally recognized companies such as Nike, Mentor Graphics, In Focus, and Tektronix. Top metropolitan area employers include Intel, Fred Meyer, Inc., Qwest Communications International, Inc., Portland General Electric, IBM, Kaiser Permanente, Providence Health System, U.S. Bank, and Maxim Integrated Products, among others. The area has attracted significant retail and wholesale marketers such as Costco Wholesale Clubs, Dayton-Hudson Stores, and Rite-Aid Drug Stores; and companies such as Pacific Realty Associates have developed acres of land adjacent to the Sunset Highway. Nike's world headquarters complex houses thousands of employees in office buildings bordering a seven-acre manmade lake and five acres of wetlands. Intel has continued to invest in multi-million dollar facility expansions to manufacture state-of-the-art computer chips, largely in the neighboring City of Hillsboro.

Major Initiatives

For the Year and For the Future

In fiscal year 2010, the District focused on two significant areas. The station construction and project management of the capital projects being funded through the bond program impacts almost every division within the District. Our combined efforts are required in order to manage the projects and build fire stations and purchase apparatus that will provide taxpayers the best service and value for the next 20 years. We have reviewed our standardized station designs to incorporate seismic structural improvements, reduce overall square footage of future bond projects, and included environmental considerations. The District's efforts in 2010 have been toward the seismic reconstruction of three fire stations and the District's Command and Business Operation Center. In addition, land for fire station relocations for response coverage improvements was identified and negotiations completed for the purchase completion in fiscal year 2011.

Secondly, the District has continued to implement the replacement of the financial and other support division software systems with an enterprise resource planning system that integrates most of the business operations of the District. The implementation of this project was started in 2009 with financial systems. The project will continue through the 2010-11 fiscal year for work orders, human resources and payroll, among other modules. The project is on time and on budget through the dedicated efforts of the project team.

Department Service Efforts and Accomplishments

During the fiscal year ended June 30, 2010, all divisions and departments of the District contributed toward the accomplishments of our 2010 strategic goals. These goals, as outlined in our Strategic Plan are:

Tualatin Valley Fire and Rescue

Letter of Transmittal

- *Reduce the number and severity of emergency incidents.*
- *Increase citizens' participation in their safety and preparedness, and knowledge and support of the District's services.*
- *Enhance preparedness for catastrophic and unforeseen events.*
- *Ensure the health and safety of all employees and volunteers.*
- *Develop and enhance a workforce that honors and respects our individual and group differences and reflects the community we serve.*
- *Promote craftsmanship, innovation, and excellence throughout the organization.*
- *Leverage use of existing resources for the greatest community good.*
- *Ensure ongoing financial and business operations stability and predictability.*

Efforts during the fiscal year ended June 30, 2010, as a result of these goals, included:

- Reconstruction of Stations 53, 58, and 59 was largely completed in 2010.
- Seismic reinforcement and improvements were made to the Command and Business Operating Center.
- Sites for two fire stations were identified and purchases negotiated.
- Purchase and replacement of emergency fire apparatus with bond proceeds continued.

Other Information

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Tualatin Valley Fire and Rescue for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2009. This was the 22nd consecutive year the District has received this prestigious award. In order to be awarded a Certificate of Achievement, the District published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both accounting principles generally accepted, in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the District also received the GFOA's Award for Distinguished Budget Presentation for its annual appropriated budget for the budget year ended June 30, 2010. In order to qualify for the Distinguished Budget Presentation Award, the District's budget document was judged to be proficient in several categories including policy documentation, financial planning and organization. This was the 22nd year the District received the award.

Tualatin Valley Fire and Rescue

Letter of Transmittal

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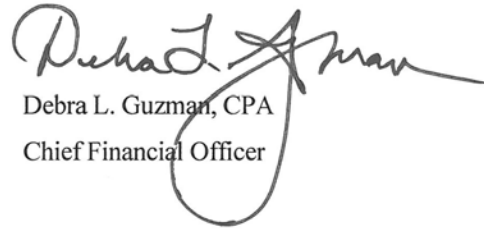
We express our sincere gratitude to the personnel of the Finance Division who assisted and contributed to this report. We also would like to extend our appreciation to the Board of Directors, managers, employees, and citizens of the District whose continuing support is vital to the financial and community affairs of the District.

Respectfully submitted,

Tualatin Valley Fire and Rescue



Michael R. Duyck
Fire Chief



Debra L. Guzman, CPA
Chief Financial Officer