

## **Management's Discussion and Analysis**

This page intentionally left blank.

Tualatin Valley Fire and Rescue  
**Management's Discussion and Analysis**  
For the Year Ended June 30, 2010

---

As management of Tualatin Valley Fire & Rescue (the 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, 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages three through nine of this report.

### **Financial Highlights**

- In the government-wide financial statements, the assets of the District exceeded its liabilities at June 30, 2010 by \$79,856,381. Of this amount, \$27,397,380 represents the District's investment in capital assets, net of related debt, \$1,207,841 is restricted for debt service, \$10,852,844 is restricted for capital projects, and the balance of \$40,398,316 will be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net assets increased by \$3,136,459 for the year ended June 30, 2010. Unrestricted net assets increased by \$13,211,997, net assets invested in capital assets increased by \$561,309, restricted net assets restricted for debt service increased by \$663,422, and restricted net assets for capital projects decreased by \$11,300,269.
- As of June 30, 2010, the District's governmental funds reported combined ending fund balances of \$65,400,806, a decrease of \$7,922,980 in comparison with the prior year. Planned expenditures on projects funded through Capital Projects Fund resulted in an \$11,300,269 reduction in ending fund balance of the Capital Projects offset by increases of \$1,149,417 in the General Fund and \$2,227,872 in non-major funds.
- At June 30, 2010, unreserved fund balance for the General Fund was \$37,979,877 or 60 percent of total General Fund expenditures. This fund balance percentage reflects the achievement of District policy of maintaining five months of budgeted operating expenditures as ending fund balance each year. This policy is in place because the majority of District revenue is provided from property taxes, which are not received until the end of the fifth month of each succeeding fiscal year. Before the District adds permanent positions, the District attempts to build fund balance to sustain payroll during subsequent years prior to receipt of property tax revenue.

Tualatin Valley Fire and Rescue  
**Management's Discussion and Analysis**  
For the Year Ended June 30, 2010

---

- The District's total debt decreased by \$2,135,122 during the current fiscal year. This was due to principal and interest payments on the District's outstanding bond issues.

### **Overview of the 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 are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. The government-wide and fund financial statements are combined for presentation purposes. This report also contains required supplementary information and other supplemental 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, and include the *Statement of Net Assets* and the *Statement of Activities*.

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.

The *Statement of Activities* presents information showing how the District's net assets changed during the most recent fiscal year. 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 only result in cash flows in future fiscal periods (e.g., 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*. The governmental activities of the District include general government and public safety, and are principally supported by property taxes and charges for services.

The combined government-wide and governmental fund financial statements can be found on pages 31 through 33 of this report.

---

Tualatin Valley Fire and Rescue  
**Management's Discussion and Analysis**  
For the Year Ended June 30, 2010

---

**Fund financial statements**

The *fund financial statements* provide more detailed information about the District's funds, focusing on its most significant or "major" funds. 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. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, internal service fund, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial information focuses on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund *Balance Sheet* and *Statement of Revenues, Expenditures, and Changes in Fund Balances* are reconciled to the government-wide *Statement of Net Assets* and *Statement of Activities* in the combined presentation.

The District maintains nine individual governmental funds. Information is presented separately in the governmental funds *Balance Sheet* and *Statement of Revenues, Expenditures, and Changes in Fund Balances* for the General Fund and Capital Projects Fund, which are considered to be major funds. Data from the other seven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided as Supplemental Information.

Additionally, the District adopts an annual appropriated budget for all funds as required by Oregon budget law. Budgetary comparison statements/schedules have been provided to demonstrate compliance elsewhere in this report.

---

Tualatin Valley Fire and Rescue  
**Management's Discussion and Analysis**  
For the Year Ended June 30, 2010

---

**Internal service fund.** The District maintains one internal service fund, the Insurance Fund, which is a proprietary fund type. This fund accounts for the accumulation of resources used for payment of claims and losses less than deductible limits for insurance coverage. Because this fund predominately benefits governmental functions, it has been included within the *governmental activities* in the *government-wide financial statements*.

The basic internal service fund financial statements can be found on pages 36 through 38 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting basis used for fiduciary funds is much like that used for internal service funds. The basic fiduciary fund financial statements can be found on pages 39 and 40 of this report.

**Notes to the basic financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the combined government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 41 through 64 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the District's progress in funding its obligation to provide pension benefits to past employees and volunteer firefighters. Required supplementary information can be found on page 67 of this report.

Combining and individual fund statements and schedules can be found on pages 71 through 86 of this report. The Schedule of Property Tax Transactions and Outstanding Balances can be found on page 87 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceed liabilities by \$79,856,381 at June 30, 2010. A significant portion of the District's net assets (34 percent) reflects its investment in capital assets (e.g., land, buildings and improvements, fire apparatus, and furniture and equipment); less any related debt used to acquire those

---

Tualatin Valley Fire and Rescue  
**Management's Discussion and Analysis**  
For the Year Ended June 30, 2010

assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. The remaining assets consist mainly of cash and cash equivalents, investments, and property taxes receivable, which are used to meet the District's ongoing obligations to its citizens.

<b>Net Assets</b>	<b>Governmental Activities</b>		<b>Increase (Decrease) from</b>
	<b>2010</b>	<b>2009</b>	<b>Fiscal 2009</b>
Current and other assets	\$ 77,384,668	\$ 82,078,734	\$ (4,694,066)
Capital assets	61,769,816	52,043,360	9,726,456
Total assets	<u>139,154,484</u>	<u>134,122,094</u>	<u>5,032,390</u>
Current liabilities	11,648,336	9,602,125	2,046,211
Long-Term obligations	47,649,767	47,800,047	(150,280)
Total liabilities	<u>59,298,103</u>	<u>57,402,172</u>	<u>1,895,931</u>
Net assets:			
Invested in capital assets, net of related debt	27,397,380	26,836,071	561,309
Restricted for debt service	1,207,841	544,419	663,422
Restricted for capital projects	10,852,844	22,153,113	(11,300,269)
Unrestricted	<u>40,398,316</u>	<u>27,186,319</u>	<u>13,211,997</u>
Total net assets	<u>\$ 79,856,381</u>	<u>\$ 76,719,922</u>	<u>\$ 3,136,459</u>

The District's largest liability (78 percent) is for the repayment of general obligation bonds. Current liabilities of the District consist largely of accounts payable, accrued salaries, benefits payable and accrued compensated absences.

During the current fiscal year, the District's net assets increased by \$3,136,459. The District seeks to ensure the net assets of the District are sufficient to support operational costs in future years. Interest revenue in future years is expected to remain marginal and the growth rate of property tax collections is expected to continue to be at low levels in 2010-11 and future years as new development and property reinvestment are curtailed due to the slowed economy. In addition, because of forecasted future low revenue growth levels, forecasted pension cost increases and the District's desire to manage taxpayer resources prudently; we have continued to focus on managing expenses to ensure they are less than property tax revenue in order to achieve our strategic goal of financial stability.

Tualatin Valley Fire and Rescue  
**Management's Discussion and Analysis**

For the Year Ended June 30, 2010

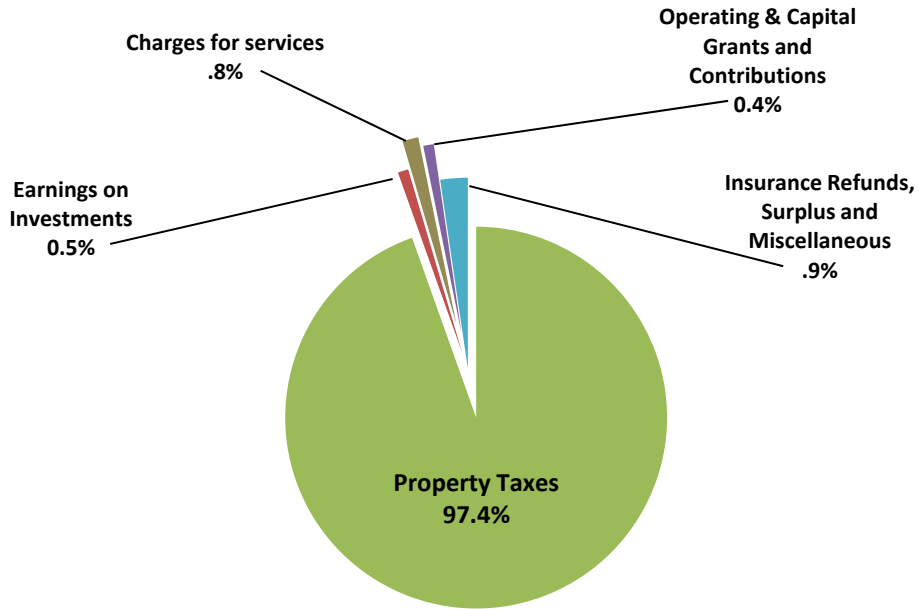
**Governmental activities.** Governmental activities increased the District's net assets in the current year by \$3,136,459. Property taxes increased, reflecting increased assessed valuation of the District. Earnings on investments, due to a weak economy, fell during the year ended June 30, 2010. Expenses for public safety increased, reflecting personnel cost increases in wages and benefits. Expenses were managed to ensure that net assets as of year end increased proportionately to the cost of annual operations.

<b>Changes in Net Assets</b>	<b>Governmental Activities</b>		<b>Increase (Decrease) from</b>
	<b>2010</b>	<b>2009</b>	<b>Fiscal 2009</b>
<b>Revenues:</b>			
Program revenues			
Charges for services	\$ 587,305	\$ 758,476	\$ (171,171)
Operating grants and contributions	241,384	134,753	106,631
Capital grants	43,950	432,805	(388,855)
General revenues:			
Property taxes	72,601,267	68,254,733	4,346,534
Earnings on investments	406,556	1,006,351	(599,795)
Insurance refunds	420,993	236,921	184,072
Gain on sale of capital assets	6,255	32,173	(25,918)
Miscellaneous	264,188	92,978	171,210
Total revenues	74,571,898	70,949,190	3,622,708
<b>Expenditures/expenses:</b>			
Public safety-fire protection	69,649,810	67,371,019	2,278,791
Interest on long-term debt	1,785,629	950,457	835,172
Total expenses	71,435,439	68,321,476	3,113,963
Change in net assets	3,136,459	2,627,714	508,745
Net assets - July 1	76,719,922	74,092,208	2,627,714
Net assets - June 30	\$ 79,856,381	\$ 76,719,922	\$ 3,136,459

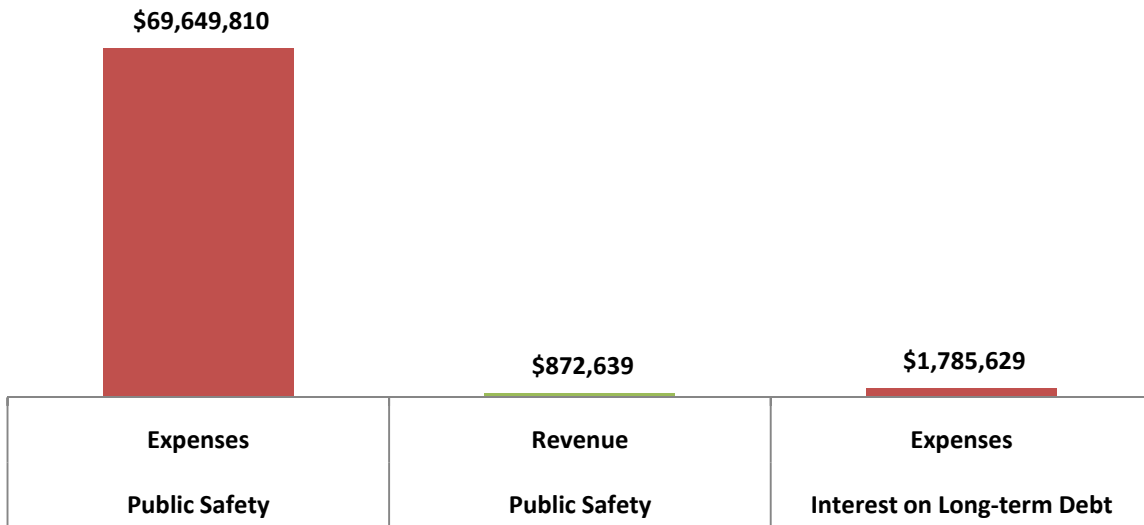
Tualatin Valley Fire and Rescue  
**Management's Discussion and Analysis**  
 For the Year Ended June 30, 2010

---

**Revenue Sources - Governmental Activities  
 Fiscal Year 2010**



**Expenses and Program Revenues - Governmental Activities  
 Fiscal Year 2010**



Tualatin Valley Fire and Rescue  
**Management's Discussion and Analysis**  
For the Year Ended June 30, 2010

---

### **Financial Analysis of the Government's Funds**

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the District's *governmental funds* is to provide information on short-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2010, the District's governmental funds reported combined ending fund balances of \$65,400,806, a decrease of \$7,922,980 in comparison with the prior year. The majority of this total amount (81 percent) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is reserved for capital projects, supplies inventory, debt service, and retiree medical insurance payments.

*General Fund.* The General Fund is the chief operating fund of the District. As of June 30, 2010, unreserved fund balance of the General Fund was \$37,979,877, while total fund balance reached \$38,261,159. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 60 percent of total General Fund expenditure.

The fund balance of the District's General Fund increased by \$1,149,417, or approximately 3.1 percent during the current fiscal year; most of this increase was due to receiving \$2,806,887 more in tax revenue over the prior year and controlling the rate of expenditure growth.

*Capital Projects Fund.* The Capital Projects Fund accounts for the accumulation of resources for building site acquisitions and construction costs for new and existing facilities. As of June 30, 2010, the ending fund balance of the Capital Projects Fund was \$10,852,844 and was reserved for capital projects. This fund accounts for the proceeds of debt issuances to fund construction, land and apparatus purchases.

### **General Fund Budgetary Highlights**

There was one budget transfer resolution to the Pension Trust fund during the year. The budgeted property tax revenues were exceeded by the actual as the District had forecasted a negative impact on the District's

---

Tualatin Valley Fire and Rescue  
**Management's Discussion and Analysis**  
For the Year Ended June 30, 2010

---

property tax collection rate from the typical 94% to 92% during budget development due to concerns about foreclosures. However, the actual collection rate remained at 94%. Interest revenue was budgeted to be earned at rates of 1.25% and the actual rates were significantly less on the District's conservative portfolio.

**Capital Asset and Debt Administration**

**Capital assets.** The District's investment in capital assets includes land and improvements, buildings and improvements, fire apparatus and vehicles, furniture, fixtures and equipment, and construction in progress. As of June 30, 2010, the District had invested \$61,353,530 in capital assets, net of depreciation, as shown in the following table:

<b>Capital Assets (net of depreciation)</b>	<b>Governmental Activities</b>		<b>Increase (Decrease) from</b>
	<b>2010</b>	<b>2009</b>	<b>Fiscal 2009</b>
Land	\$ 10,744,660	\$ 10,353,233	\$ 391,427
Buildings and improvements	13,747,886	10,648,202	3,099,684
Fire apparatus and other vehicles	15,189,295	16,766,473	(1,577,178)
Furniture, fixtures and equipment	1,652,780	1,351,029	301,751
Work in progress	20,435,195	12,924,423	7,510,772
Total	<u>\$ 61,769,816</u>	<u>\$ 52,043,360</u>	<u>\$ 9,726,456</u>

During the year, the District's investment in capital assets increased by \$9,726,456, reflecting the \$13,203,697 of assets added during the year, were offset by \$2,961,847 of depreciation and \$515,394 of net asset disposals. The District work in progress includes three fire stations and the seismic reinforcement and interior construction of the command and business operations center building that was purchased at the end of fiscal year 2009.

Additional information on the District's capital assets can be found in the notes to the basic financial statements on page 49 of this report.

**Long-term debt.** At the end of the current fiscal year, the District had total bonded debt of \$45,225,280, consisting of general obligation bonds, net of unamortized premiums and discounts. Reduction of outstanding debt reflects scheduled principal payments made during the fiscal year. The District has been given an "Aaa" rating from Moody's Investors Service. The State of Oregon mandates a general obligation debt limit of 1.25 percent of true cash value of assessed property. The District's legal debt margin is

Tualatin Valley Fire and Rescue  
**Management's Discussion and Analysis**  
For the Year Ended June 30, 2010

---

approximately \$736 million. Additional information on the District's long-term debt can be found in note III.D.1 on page 50 of this report.

### **Economic Factors and Next Year's Budget**

The District anticipates increased property tax revenues in future years based upon projected assessed value increases. While the local economy is experiencing continued lack of new construction, and market value has declined 6.7% overall, assessed value still remains far below market value, as assessed value is 64% of market value on June 30, 2010. The District monitors its property tax collection rates for declines due to the economy and has prepared for both growth rate and collection rate declines in the next few years. Additionally, property tax revenue may be negatively impacted if our cities and counties utilize urban renewal measures to develop new areas. Accordingly, we continue to be very involved in this issue, both locally and at the state level. The District lost approximately \$1.7 million dollars of its property tax levy to urban renewal areas in fiscal year 2010 which equates to a loss of approximately 4.3 cents of our \$1.5252 permanent tax rate.

Because of poor investment returns, the state's pension system for its public employees, PERS, has forecasted higher employer contributions rates for 2011-13 biennium, and additional increases for the 2013-15 biennium and thereafter. The District's future financial forecasts include current projections that employer rates will continue to increase based upon recent actuarial information. The recently released December 31, 2009 actuarial valuation reflecting recent negative investment returns requires a rate increase of 4.51% of payroll for the 2011-13 biennium.

The District's \$.25 local option levy allows the continued funding of 33 firefighters and associated support staff through June 30, 2015, as we were strongly supported by our voters at the November 4, 2008 election to continue to fund this levy. This provides a welcome measure of financial stability in the years ahead.

### **Requests for Information**

This financial report is designed to provide a general overview of Tualatin Valley Fire & Rescue's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Tualatin Valley Fire & Rescue, 20665 SW Blanton Street, Aloha, Oregon 97007.

---