

Management's Discussion and Analysis

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Tualatin Valley Fire and Rescue
Management's Discussion and Analysis
For the Year Ended June 30, 2011

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, 2011. 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, 2011 by \$83,124,855. Of this amount, \$30,510,984 represents the District's investment in capital assets, net of related debt; \$1,240,387 is restricted for debt service; \$71,895 is restricted under grant awards for staffing, and the balance of \$51,301,589 will be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net assets increased by \$3,268,472 for the year ended June 30, 2011. Unrestricted net assets increased by \$140,981, net assets invested in capital assets increased by \$3,113,604, restricted net assets for debt service increased by \$32,546, and restricted net assets restricted for grant awards for staffing decreased by \$18,659.
- As of June 30, 2011, the District's governmental funds reported combined ending fund balances of \$82,311,789, an increase of \$16,910,983 in comparison with the prior year. In the Capital Projects Fund, proceeds from the June 2, 2011 sale of general obligation bonds in the net amount of \$24,749,264, was offset in part by planned expenditures of \$9,233,206 and revenue of \$41,265. The net increase was also reflective of a \$10,107,472 increase in the General Fund balance and an offsetting decrease of \$8,753,812 in non-major funds.
- At June 30, 2011, unassigned fund balance for the General Fund was \$40,080,565 or 57 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. Currently, nine

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firefighting positions are funded through a two-year grant and the District is preparing to continue their funding after grant proceeds cease.

- The District's total debt increased by \$22,203,938 during the current fiscal year. This was due to the issuance of \$23.5 million in general obligation bonds offset by principal 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.

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

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 five individual governmental funds for reporting purposes. 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 three of these governmental funds are combined into a separate aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided as Supplemental Information. The District's fiscal year 2010-11 implementation of Governmental Accounting Standards Board Statement No. 54 combined for reporting purposes as the General Fund, five separately budgeted funds, the General fund and four previously classified Special Revenue Funds.

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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.

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 66 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 69 of this report.

Combining and individual fund statements and schedules can be found on pages 73 through 91 of this report. The Schedule of Property Tax Transactions and Outstanding Balances can be found on page 92 of this report.

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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 \$83,124,855 at June 30, 2011. A significant portion of the District's net assets (37 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 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.

Net Assets	Governmental Activities		Increase (Decrease) from Fiscal 2010
	2011	2010	
Current and other assets	\$ 93,241,597	\$ 77,384,670	\$ 15,856,927
Capital assets	70,747,745	61,769,816	8,977,929
Total assets	163,989,342	139,154,486	24,834,856
Current liabilities	13,587,042	14,188,458	(601,416)
Long-term debt	67,277,445	45,109,645	22,167,800
Total liabilities	80,864,487	59,298,103	21,566,384
Net assets:			
Invested in capital assets, net of related debt	30,510,984	27,397,380	3,113,604
Restricted for debt service	1,240,387	1,207,841	32,546
Restricted for staffing	71,895	90,554	(18,659)
Unrestricted (restated for 2010)	51,301,589	51,160,608	140,981
Total net assets	<u>\$ 83,124,855</u>	<u>\$ 79,856,383</u>	<u>\$ 3,268,472</u>

The District's largest liability (83 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 \$3,268,472 mostly due to the District's efforts to maintain operating expenditures under revenues in the General fund. The District seeks to ensure the net assets of the District are sufficient to support operational costs in future years. Interest revenue in

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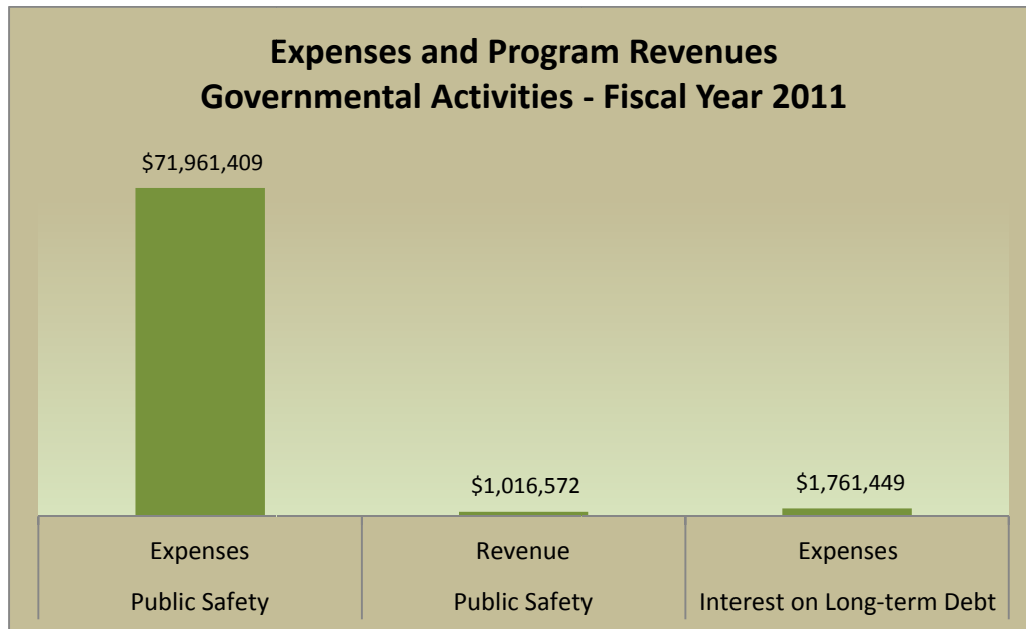
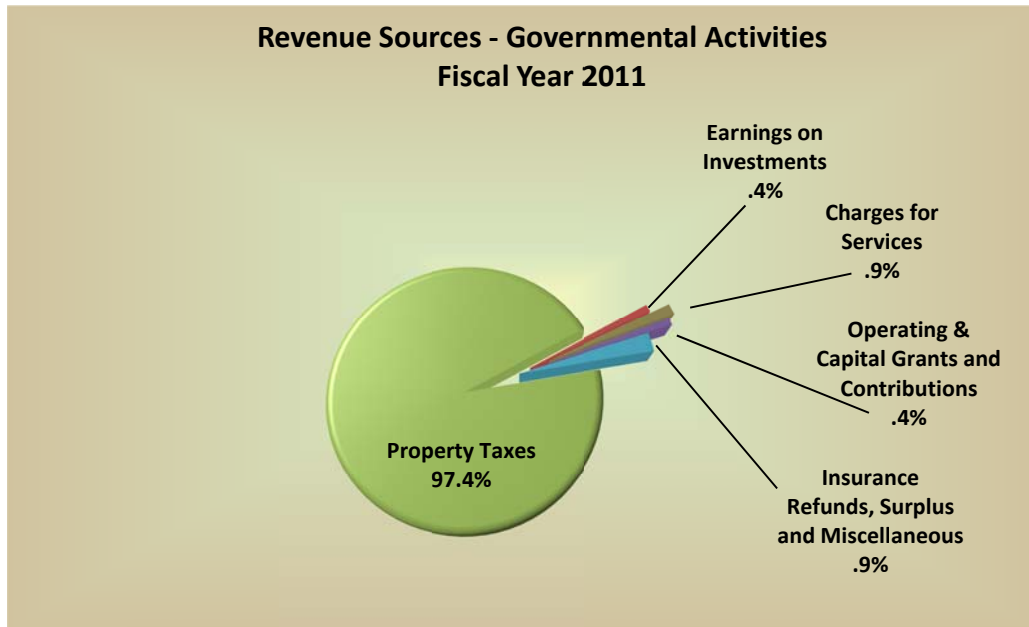
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future years is expected to remain marginal and the growth rate of property tax collections is expected to continue to be at low levels in 2011-12 and future years as new development and property reinvestment are curtailed due to the slowed economy. Because of forecasted future low revenue growth levels due to lack of property development and lingering economic concerns, 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.

Governmental activities. Governmental activities increased the District's net assets in the current year by \$3,268,472. Property taxes increased by 3%, reflecting increased assessed valuation of the District. Earnings on investments, due to a weak economy, fell again during the year ended June 30, 2011. Expenses for public safety increased by 3%, 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.

Changes in Net Assets	Governmental Activities		Increase (Decrease) from
	2011	2010	Fiscal 2010
Revenues:			
Program revenues			
Charges for services	\$ 738,164	\$ 587,305	\$ 150,859
Operating grants and contributions	278,408	241,384	37,024
Capital grants		43,950	(43,950)
General revenues:			
Property taxes	74,905,936	72,601,267	2,304,669
Gain on sale of capital assets		6,255	(6,255)
Earnings on investments	299,393	406,556	(107,163)
Insurance refunds	655,797	420,993	234,804
Miscellaneous	113,632	264,188	(150,556)
Total revenues	76,991,330	74,571,898	2,419,432
Expenditures/expenses:			
Public safety-fire protection	71,961,409	69,649,808	2,311,601
Interest on long-term debt	1,761,449	1,785,629	(24,180)
Total expenses	73,722,858	71,435,437	2,287,421
Change in net assets	3,268,472	3,136,461	132,011
Net assets - July 1	79,856,383	76,719,922	3,136,461
Net assets - June 30	\$ 83,124,855	\$ 79,856,383	\$ 3,268,472

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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.

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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, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

To further enhance this analysis, the District implemented GASB Statement 54 for fiscal year ended June 30, 2011. This GASB requires an analysis and breakdown of ending fund balance between five new fund balance categories. See Footnote I.D.9 for more information on the details behind each fund balance category.

At June 30, 2011, the District's governmental funds reported combined ending fund balances of \$82,311,789, an increase of \$16,910,983 in comparison with the prior year. A large portion of this total amount (48.7 percent) constitutes *unassigned fund balance*, which is a measure of the District's liquidity, is available for spending at the District's discretion. The remainder of fund balance is either non-spendable (.4 percent), restricted by external parties (33.7 percent), committed by the Board (9.7 percent) or assigned to a specific purpose such as capital projects (7.5 percent).

General Fund. The General Fund is the chief operating fund of the District. As of June 30, 2011, unassigned fund balance of the General Fund was \$40,080,565, while total fund balance reached \$48,368,631. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 57 percent of total General Fund expenditures and the total fund balance represents 69 percent of total General Fund expenditures.

The fund balance of the District's General Fund increased by \$2,051,369, or approximately 4.4 percent during the current fiscal year; most of this increase was due to receiving \$2,304,669 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, 2011, the ending fund balance of the Capital Projects Fund was \$26,410,167 and was restricted for capital projects. This fund accounts for the proceeds of debt issuances to fund construction, land and apparatus purchases.

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General Fund Budgetary Highlights

There was one budget transfer resolution to the General Fund during the year which was the result of realigning expenditures with a District reorganization of personnel. Actual property tax revenues exceeded budgeted amounts due to one of our cities closing its urban renewal district in June 2010 and returning its appreciated value to the tax rolls for 2010-11 fiscal year thereby reducing urban renewal district losses from \$1.7 million in 2009-10 to \$1 million in 2010-11. In addition, collection rates remained at historical averages of 94% although due to high foreclosure activity reported, the District had prepared and budgeted for a 92% collection rate. 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, 2011, the District had invested \$70,747,745 in capital assets, net of depreciation, as shown in the following table:

Capital Assets (net of depreciation)	Governmental Activities		Increase (Decrease) from
	2011	2010	Fiscal 2010
Land	\$ 11,425,560	\$ 10,744,660	\$ 680,900
Buildings and improvements	37,621,184	13,747,886	23,873,298
Fire apparatus and other vehicles	15,030,668	15,189,295	(158,627)
Furniture, fixtures and equipment	3,946,197	1,652,780	2,293,417
Construction in progress	2,724,136	20,435,195	(17,711,059)
Total	<u>\$ 70,747,745</u>	<u>\$ 61,769,816</u>	<u>\$ 8,977,929</u>

During the year, the District's investment in capital assets increased by \$8,977,929, reflecting assets of \$12,572,632 added during the year, offset by \$3,493,279 of depreciation and \$101,424 of net asset disposals. The District's construction in progress includes three fire stations and related land improvements as well as the construction of a burn prop to be used for training purposes.

Additional information on the District's capital assets can be found in the notes to the basic financial statements on page 50 of this report.

Long-term debt. At the end of the current fiscal year, the District had total bonded debt of \$67,429,218, consisting of general obligation bonds, net of unamortized premiums. Reduction of outstanding debt reflects scheduled principal payments made during the fiscal year. The District has been given an "Aaa"

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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 approximately \$665 million. Additional information on the District's long-term debt can be found in note III.E.1 on page 51 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 which by law may increase 3% a year unless assessed value exceeds real market value. While the local economy is experiencing continued lack of new construction, and market value has declined an additional 6.7% under prior year values, assessed value still remains far below market value, at 71% of market value on June 30, 2011. 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 is negatively impacted when our cities and counties utilize urban renewal measures to develop new or existing areas. Accordingly, we continue to be very involved in this issue, both locally and at the state level. The District lost approximately \$1 million dollars of its property tax levy to urban renewal areas in fiscal year 2011 which equates to a loss of approximately 2.4 cents of our \$1.5252 permanent tax rate.

Because of poor investment returns, the state's pension system for its public employees, PERS, has implemented higher employer contributions rates for the 2011-13 biennium, and forecasted 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, 2010 actuarial valuation indicates in all investment return scenarios, rate increases of 3.6% will be required 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, 11945 SW 70th Avenue, Tigard, Oregon 97223.
