

Tualatin Valley Fire and Rescue
Management's Discussion and Analysis
For the Year Ended June 30, 2009

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, 2009. 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, 2009 by \$76,719,922. Of this amount, \$26,836,071 represents the District's investment in capital assets, net of related debt, \$544,419 is restricted for debt service, \$22,153,113 is restricted for capital projects, and the balance of \$27,186,319 will be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net assets increased by \$2,627,714 as of June 30, 2009. Unrestricted net assets decreased by \$9,757,139, net assets invested in capital assets increased by \$813,911, restricted net assets restricted for debt service decreased by \$777,233, and restricted net assets for capital projects increased by \$12,348,175.
- As of June 30, 2009, the District's governmental funds reported combined ending fund balances of \$73,323,786, an increase of \$14,086,929 in comparison with the prior year. On March 17, 2009 and on June 16, 2009, the District issued \$14,000,000 and \$15,000,000 of general obligation bonds, respectively. Of these sales, \$22,153,113 remains in the fund balance of the Capital Projects fund and is reserved for capital projects. An increase of the unreserved fund balance in the Capital Improvements fund, a special revenue fund type, was accomplished in order to pay for future capital replacements scheduled. The District's General Fund balance was increased in order to ensure continued funding of additional firefighters and other staffing during the "dry period" before receipt of property taxes in future years as we add employees to newly built fire stations and add apparatus to meet response time goals.
- At June 30, 2009, unreserved fund balance for the General Fund was \$36,809,276 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

Tualatin Valley Fire and Rescue
Management's Discussion and Analysis
For the Year Ended June 30, 2009

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.

- The District's total debt increased by \$26,943,167 during the current fiscal year. This planned increase was due to the sale of General Obligation Bonds for capital construction projects, less principal and interest payments on the District's prior 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.

Tualatin Valley Fire and Rescue
Management's Discussion and Analysis
For the Year Ended June 30, 2009

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 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.

Tualatin Valley Fire and Rescue
Management's Discussion and Analysis
For the Year Ended June 30, 2009

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.

The combined governmental fund and entity-wide financial statements can be found on pages 31 through 33 of 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 62 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 65 of this report.

Individual fund statements and schedules can be found on pages 69 through 84 of this report. The Schedule of Property Tax Transactions and Outstanding Balances can be found on page 85 of this report.

Tualatin Valley Fire and Rescue
Management's Discussion and Analysis
For the Year Ended June 30, 2009

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 \$76,719,922 at June 30, 2009. 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 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
	2009	2008	Fiscal 2008
Current and other assets	\$ 82,078,734	\$ 66,693,055	\$ 15,385,679
Capital assets	52,043,360	36,634,978	15,408,382
Total assets	<u>134,122,094</u>	<u>103,328,033</u>	<u>30,794,061</u>
Current liabilities	9,602,125	8,818,590	783,535
Long-Term debt	47,800,047	20,417,235	27,382,812
Total liabilities	<u>57,402,172</u>	<u>29,235,825</u>	<u>28,166,347</u>
Net assets:			
Invested in capital assets, net of related debt	26,836,071	26,022,160	813,911
Restricted for debt service	544,419	1,321,652	(777,233)
Restricted for capital projects	22,153,113	9,804,938	12,348,175
Unrestricted	27,186,319	36,943,458	(9,757,139)
Total net assets	<u>\$ 76,719,922</u>	<u>\$ 74,092,208</u>	<u>\$ 2,627,714</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 \$2,627,714. Unrestricted net assets decreased by \$9,757,139, net assets invested in capital assets increased by \$813,911, total restricted net assets restricted for debt service decreased \$777,233 and net assets restricted for capital projects increased

Tualatin Valley Fire and Rescue
Management's Discussion and Analysis

For the Year Ended June 30, 2009

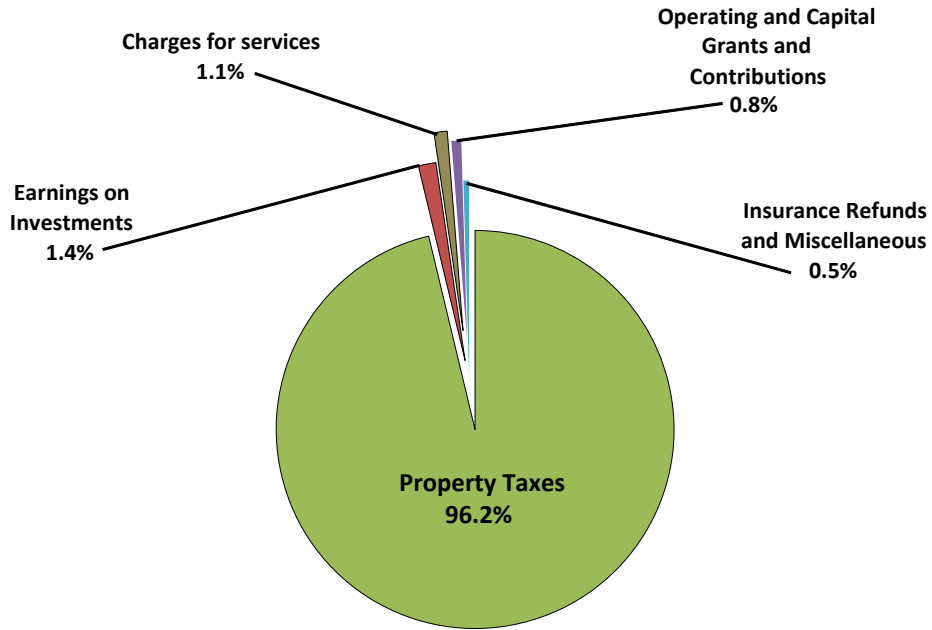
\$12,348,175. Net assets increased due to the increase in property taxes offset in part by reductions in interest revenue, the increase in expenditures in public safety in capital outlay and depreciation. The District seeks to ensure the net assets of the District are sufficient to support operational 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 decrease in 2009-10 and future years as new development is curtailed due to the slowed economy.

Governmental activities. Governmental activities increased the District's net assets in the current year by \$2,627,714. 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, 2009. Expenses for public safety increased, reflecting personnel cost increases in wages and mandated retirement benefits. Expenses were managed to ensure that net assets as of year end increased proportionately to the cost of annual operations.

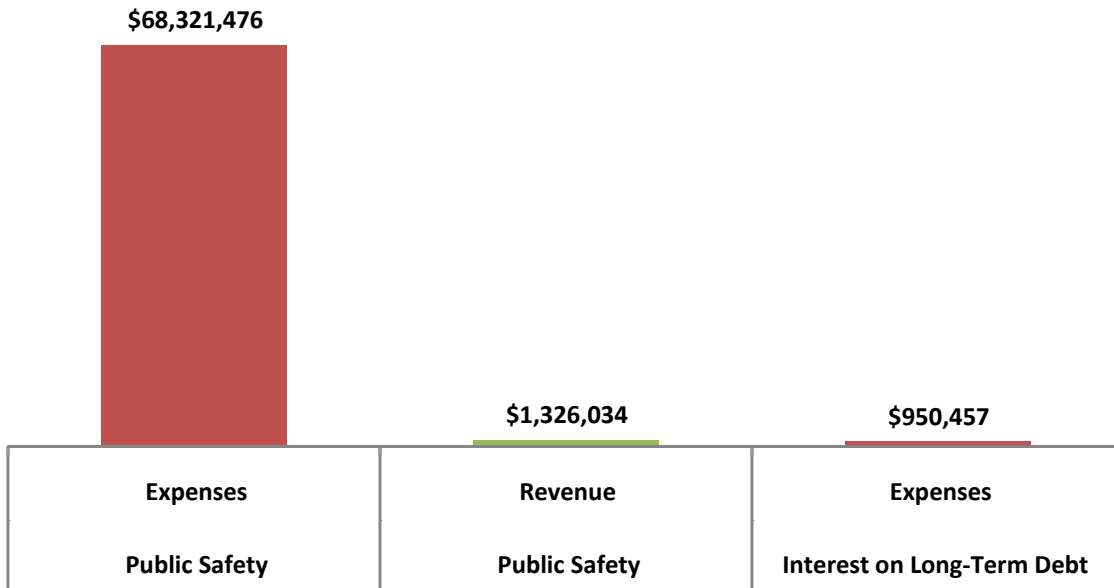
Changes in Net Assets	Governmental Activities		Increase (Decrease) from
	2009	2008	Fiscal 2008
Revenues:			
Program revenues			
Charges for services	\$ 758,476	\$ 916,859	\$ (158,383)
Operating grants and contributions	134,753	177,645	(42,892)
Capital grants	432,805	167,984	264,821
General revenues:			
Property taxes	68,254,733	66,146,305	2,108,428
Gain (loss) on sale of capital assets	8,834	(38,671)	47,505
Earnings on investments	1,006,351	2,755,890	(1,749,539)
Insurance refunds	236,921	646,230	(409,309)
Proceeds from sale of surplus property	23,339	5,289	18,050
Miscellaneous	92,978	47,083	45,895
Total revenues	70,949,190	70,824,614	124,576
Expenditures/expenses:			
Public safety-fire protection	67,371,019	61,874,697	5,496,322
Interest on long-term debt	950,457	921,830	28,627
Total expenses	68,321,476	62,796,527	5,524,949
Change in net assets	2,627,714	8,028,087	(5,400,373)
Net assets - July 1	74,092,208	66,064,121	8,028,087
Net assets - June 30	\$ 76,719,922	\$ 74,092,208	\$ 2,627,714

Tualatin Valley Fire and Rescue
Management's Discussion and Analysis
 For the Year Ended June 30, 2009

**Revenue Sources - Governmental Activities
 Fiscal Year 2009**



**Expenses and Program Revenues - Governmental Activities
 Fiscal Year 2009**



Tualatin Valley Fire and Rescue
Management's Discussion and Analysis
For the Year Ended June 30, 2009

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, 2009, the District's governmental funds reported combined ending fund balances of \$73,323,786, an increase of \$14,086,929 in comparison with the prior year. The majority of this total amount (68 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, prepaid items, 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, 2009, unreserved fund balance of the General Fund was \$36,809,276, while total fund balance reached \$37,111,742. 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 56 percent of total General Fund expenditures and other financing uses.

The fund balance of the District's General Fund increased by \$1,904,596 or approximately 5.4 percent during the current fiscal year; most of this increase was due to receiving \$2,108,428 more in tax revenue over the prior year and balancing the rate of expenditure growth. The District also elected to not make a budgeted transfer from the General Fund to the Property and Building Fund in the amount of \$1,365,585 to preserve funds in the General Fund.

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, 2009, the ending fund balance of the Capital Projects Fund was \$22,153,113 and was reserved for capital projects. This fund accounts for the proceeds of a \$14 million and a \$15 million debt issuance to fund construction, land and apparatus purchases in 2009, as well as the remaining proceeds from a \$20 million debt issuance in 2007.

Tualatin Valley Fire and Rescue
Management's Discussion and Analysis
For the Year Ended June 30, 2009

General Fund Budgetary Highlights

The Board approved one supplemental budget resolution and one budget transfer resolution amending the adopted budget for June 30, 2009. These budget changes authorized funding for bond costs for two sales of bonds that were not anticipated during budget development, costs incurred by a reorganization of the Fire Chief's department, cost increases due to an infrastructure change in the local dispatch office, additional inoculations for occupational health and the additional staffing in Human Resources to accomplish the hiring of lateral and entry level firefighters.

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, 2009, the District had invested \$52,043,360 in capital assets, net of depreciation, as shown in the following table:

Capital Assets (net of depreciation)	Governmental Activities		Increase (Decrease) from Fiscal 2008
	2009	2008	
Land	\$ 10,353,233	\$ 9,156,352	\$ 1,196,881
Buildings and improvements	10,648,202	11,065,698	(417,496)
Fire apparatus and other vehicles	16,766,473	11,391,007	5,375,466
Furniture, fixtures and equipment	1,351,029	1,407,371	(56,342)
Work in progress	12,924,423	3,614,550	9,309,873
Total	<u>\$ 52,043,360</u>	<u>\$ 36,634,978</u>	<u>\$ 15,408,382</u>

During the year, the District's investment in capital assets increased by \$15,408,382, reflecting the \$18,398,220 of assets added during the year were offset by \$2,916,318 of depreciation and \$73,520 of net asset disposals.

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 \$47,360,402, consisting of general obligation bonds, net of unamortized premiums and issuance costs. The District has been given an "Aa1" 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

Tualatin Valley Fire and Rescue
Management's Discussion and Analysis
For the Year Ended June 30, 2009

margin exceeds \$790 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 a significant construction slow down, and market value is declining due to the October 2008 credit crisis, assessed value still remains far below market value. The District is monitoring its 2009-10 property tax collection rate for declines due to the economy and is preparing 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 \$1.6 million dollars of its property tax levy to urban renewal areas in fiscal year 2009 which equates to a loss of approximately 4.1 cents of our \$1.5252 permanent tax rate.

The state's pension system for its public employees, PERS, had been under significant legislative and public scrutiny as the costs of the benefits had been projected to continue to significantly increase. This pension system was subject to significant legislative reform as well as changes mandated from court rulings. These reforms were contested through the court system, creating additional uncertainty for pension costs in the future. The 2009-10 budget and future forecasts reflect current projections that employer rates will increase based upon recent actuarial information. The recently released December 31, 2008 actuarial valuation update reflecting negative 2008 investment returns reflects dramatically increasing rates for 2011-12 and 2012-13 and beyond.

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 strong 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.
