

TUALATIN VALLEY FIRE AND RESCUE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005

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, 2005. 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 one through seven of this report.

Financial Highlights

- In the government-wide financial statements, the assets of the District exceeded its liabilities at June 30, 2005 by \$53,304,101. Of this amount, \$23,463,387 represents the District's investment in capital assets, net of related debt, \$1,031,033 is restricted for debt service and the balance of \$28,809,681 will be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net assets increased by \$5,374,802, primarily due to increases in property tax revenue from growth within the District and the City of West Linn annexation, and expected delays in pension cost increases.
- As of June 30, 2005 the District's governmental funds reported combined ending fund balances of \$30,788,371, an increase of \$2,386,472 in comparison with the prior year. The majority of this amount is unreserved.
- At June 30, 2005, unreserved fund balance for the general fund was \$22,218,710, or 44.9 percent of total general fund expenditures. This fund balance percentage reflects the achievement of District policy of maintaining five months or 41.7 percent of 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.
- The District's total debt decreased by \$1,582,100 (23 percent) during the current fiscal year. This decrease was due to scheduled principal and interest payments on the District's outstanding bond issues and financing loan.

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Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. 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 government-wide financial statements can be found on pages 23 and 24 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

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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 funds, 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 statements focus 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 more narrow 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*.

The District maintains eight 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 Property and Building Fund, which are considered to be major funds. Data from the other six 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 its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget on pages 29 and 30.

The basic governmental fund financial statements can be found on pages 25 and 27 of this report.

Internal service funds. 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*.

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The basic internal service fund financial statements can be found on pages 31-33 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 used for fiduciary funds is much like that used for internal service funds. The basic fiduciary fund financial statements can be found on pages 34 and 35 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 government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 36-53 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 its employees, past employees and volunteer firefighters. Required supplementary information can be found on page 54 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 55 and 56 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 \$53,304,101 at June 30, 2005.

The largest portion of the District's net assets (44 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.

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Net Assets	Governmental Activities		Increase (Decrease) from Fiscal 2004
	2005	2004	
Current and other assets	\$ 37,338,900	\$ 35,013,388	\$ 2,325,512
Capital assets	28,752,204	26,348,129	2,404,075
Total assets	<u>66,091,104</u>	<u>61,361,517</u>	<u>4,729,587</u>
Current liabilities	7,498,186	6,578,220	919,966
Long-term debt	5,288,817	6,853,998	(1,565,181)
Total liabilities	<u>12,787,003</u>	<u>13,432,218</u>	<u>(645,215)</u>
Net assets:			
Invested in capital assets, net of related debt	23,463,387	19,494,131	3,969,256
Restricted for debt service	1,031,033	858,636	172,397
Unrestricted	28,809,681	27,576,532	1,233,149
Total net assets	<u>\$ 53,304,101</u>	<u>\$ 47,929,299</u>	<u>\$ 5,374,802</u>

The District's largest liability (41 percent) is for the repayment of general obligation bonds. The balance of a prior year financing loan was paid in full during the year ended June 30, 2005. Current liabilities of the District consist largely of accounts payable, salaries and benefits and compensated absences.

During the current fiscal year, the District's net assets increased by \$5,374,802. Unrestricted net assets increased by \$1,233,149 due to management of expenditures in order to achieve fund balance targets. Total capital assets increased by \$2,404,075 primarily due to continued investments in capital assets.

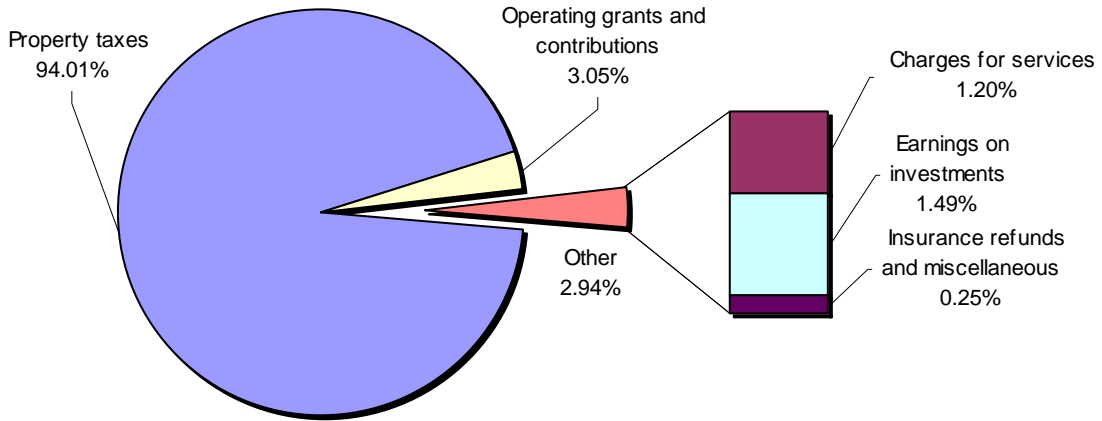
Governmental activities. Governmental activities increased the District's net assets in the current year by \$5,374,802. Property taxes increased, reflecting increased assessed valuation and the City of West Linn annexation. Charges for services decreased reflecting the cessation of the City of West Linn fire protection contract due to annexation by the District of the City effective July 1, 2004. An increased level of operating grants and contributions were also received in fiscal year 2005. Expenditures for public safety increased reflecting personnel cost increases in wages and mandated retirement benefits. Expenditures were managed to ensure that net assets as of year end increased proportionately to operations.

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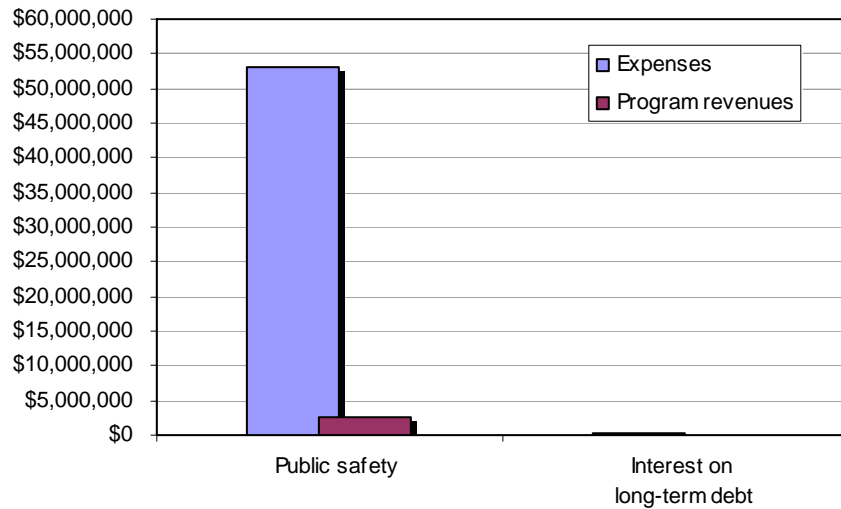
Changes in Net Assets	Governmental Activities		Increase (Decrease) from
	2005	2004	Fiscal 2004
Revenues:			
Program revenues			
Charges for services	\$ 704,506	\$ 3,767,913	\$ (3,063,407)
Operating grants and contributions	1,794,138	197,112	1,597,026
General revenues:			
Property taxes	55,233,714	48,961,590	6,272,124
(Loss)/Gain on sale of capital assets	(77,030)	204,634	(281,664)
Earnings on investments	875,339	484,643	390,696
Insurance refunds	148,656	119,642	29,014
Miscellaneous	76,822	32,790	44,032
Total revenues	58,756,145	53,768,324	4,987,821
Expenses:			
Public safety-fire protection	53,100,610	50,656,606	2,444,004
Interest on long-term debt	280,733	342,004	(61,271)
Total expenses	53,381,343	50,998,610	2,382,733
Change in net assets	5,374,802	2,769,714	2,605,088
Net assets - July 1	47,929,299	45,159,585	2,769,714
Net assets - June 30	\$ 53,304,101	\$ 47,929,299	\$ 5,374,802

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Revenue Sources - Governmental Activities
Fiscal Year 2005



Expenses and Program Revenues - Governmental Activities
Fiscal Year 2005



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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.

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, 2005, the District's governmental funds reported combined ending fund balances of \$30,788,371, an increase of \$2,386,472 in comparison with the prior year. The majority of this total amount (95 percent) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is reserved for 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, 2005 unreserved fund balance of the general fund was \$22,218,710, while total fund balance reached \$22,423,022. 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 42 percent of total general fund expenditures and other financing uses and total fund balance also represents 42 percent of that same amount.

The fund balance of the District's general fund increased by \$2,031,907 or approximately 10.0 percent during the current fiscal year.

Property and Building Fund. The Property and Building Fund accounts for the accumulation of resources for building site acquisitions and construction costs for new and existing facilities. As of June 30, 2005, the ending fund balance of the Property and Building Fund was \$4,224,381, an increase of \$1,568,307 during the current fiscal year. This increase is due to transfers intended to be utilized for future station seismic reconstructions and station land purchases.

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General Fund Budgetary Highlights

The Board approved one budget transfer to the adopted budget for June 30, 2005. The budget transfer authorized funding for higher workers compensation costs, temporary personnel funding in two departments to replace lost work hours of support staff due to disabilities of two employees, higher election costs than anticipated, and several other areas. During the year, all General Fund expenditures were within budget.

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 work in progress. As of June 30, 2005, the District had invested \$28,752,204 in capital assets, net of depreciation, as shown in the following table:

Capital Assets (net of depreciation)	Governmental Activities		Increase (Decrease) from
	2005	2004	Fiscal 2004
Land	\$ 4,207,210	\$ 3,720,152	\$ 487,058
Buildings and improvements	10,754,489	11,421,745	(667,256)
Fire apparatus and other vehicles	11,192,227	8,945,977	2,246,250
Furniture, fixtures and equipment	1,952,284	1,579,308	372,976
Work in progress	645,994	680,947	(34,953)
Total	<u>\$ 28,752,204</u>	<u>\$ 26,348,129</u>	<u>\$ 2,404,075</u>

During the year, the District's investment in capital assets increased by \$2,404,075, reflecting significant capital asset investments. The major capital asset events for the year included the purchases of emergency response apparatus, including two aerial ladder trucks, one engine, and a specialized hazardous materials unit; fleet public safety vehicles; and firefighting equipment, including a new cache of cardiac monitors and mobile data computers.

Additional information on the District's capital assets can be found in the notes to the basic financial statements on page 44 of this report.

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Long-term debt. At the end of the current fiscal year, the District had total bonded debt of \$5,288,817, consisting of general obligation bonds, net of unamortized premiums. The District maintains an "Aa2" rating from Moody's Investors Service and an "AA-" from Standard & Poor's. The State of Oregon mandates a general obligation debt limit of 1.25 percent of true cash value of assessed property. Thus, the District's legal debt margin exceeds \$532 million. Additional information on the District's long-term debt can be found in note III.D.1 on pages 45 and 46 of this report.

Economic Factors and Next Year's Budget

The District's service area appears to be coming out of the recent economic slowdown, which had especially impacted the high tech service arena. While the District has conservatively forecasted its long term assessed value growth rates for financial forecasting and future budget purposes, we still anticipate continuing to increase property tax revenues in future years based upon continued assessed value increases.

The state's pension system for its public employees, PERS, has been under significant legislative and public scrutiny as the costs of the benefits had become higher than acceptable and 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 have served to slow down the rate of increase in mandatory pension contribution rates for employers for now, but the majority of the reforms were contested through the court system creating additional uncertainty for pension costs in the future. The litigation has largely settled and the PERS board is obtaining updated actuarial data to ascertain the overall effect. The 2005-06 budget and future forecasts reflect these significant factors.

The District's 25 cent local option levy was strongly supported at the November 2004 election. This support allows the continued funding of 33 firefighters and associated support staff through June 30, 2010.

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.