



November 22, 2006

**Board President Larry Goff and
Members of the Board of Directors**

We are pleased to submit the Comprehensive Annual Financial Report of Tualatin Valley Fire and Rescue for the fiscal year ended June 30, 2006. 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 government'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 (GAAP). 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.

This Comprehensive Annual Financial Report is presented in four sections: Introductory, Financial, Statistical, and Audit Comments and Disclosures.

The *Introductory Section* includes this Letter of Transmittal, a list of principal officials, the District's organizational chart as well as budget committee members.

The *Financial Section* includes the independent auditor's report, Management's Discussion and Analysis (MD&A), basic financial statements for the entity as a whole, notes to the basic financial statements, required supplementary information and supplemental information. MD&A immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

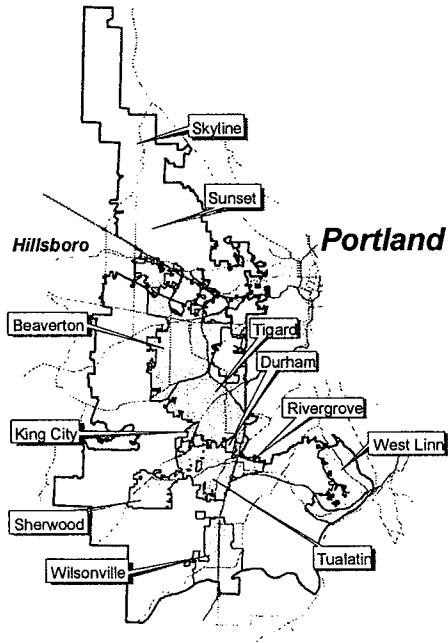
The *Statistical Section* includes selected financial and demographic information, generally presented on a multi-year basis.

The *Audit Comments and Disclosures Section* contains related comments and disclosures required by the Minimum Standards for Audits of Oregon Municipal Corporations.

TUALATIN VALLEY FIRE AND RESCUE
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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.

The Reporting Entity and Its Services



The District operates under Oregon Revised Statutes (ORS) 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/Administrator 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 22 career and volunteer fire stations, 21 first-line fire engines, two first-line ladder trucks, 14 squad units, six water tenders and several other pieces of equipment, including six volunteer company engines. These apparatus are complemented by additional training and reserve apparatus, which are utilized for training, maintenance and other uses. District employees of approximately 400 in 2006 were supplemented by 100 volunteer firefighters.

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

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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 424,000 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 31.0 billion dollars in 2004-05 to approximately 33.4 billion dollars in the 2005-06 fiscal year. In addition, the District depends upon an additional local option levy of 25 cents a thousand to supplement our permanent levy rate. This was first levied in 2001-02 as part of a four year levy request. We were again strongly supported by our voters at the November 2004 election, to continue the 25 cent levy for an additional five years. This levy will provide funding through June 30, 2010. Capital funding for the next several years will be provided from a series of general obligation bond sales. The authority to issue up to \$77.5 million dollars of bonds was strongly supported by our voters at the November, 2006 election and will provide funding for new stations, significant seismic reconstruction of existing stations, a command center combining other office space and adding functions, and for emergency response apparatus throughout the District.

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 of Oregon. 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, level 2, according to the standards set forth by the Insurance Services Office, Inc. To the property owner in the District, this classification results in a very low premium rate for fire insurance.

The District is a multi-service district with services and programs tailored to meet the needs of the community. The District provides fire prevention, fire education, and emergency services operations, which include fire suppression, emergency medical services, and water dive, high angle, and heavy rescue to the primary community, and to other contiguous communities on a contracted basis. 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 East to the Pacific Ocean on the West and from the District's northern boundary in Multnomah County southerly to Marion County.

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The District's fire prevention 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 life support levels. Through its specialized and sophisticated training programs, the District assists the rest of the State of Oregon's fire departments in emergency medical services training. 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, 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 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 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. While the recent economic slowdown, especially in the areas of high-tech businesses, has affected recent growth, 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 continued development within its service boundaries. The true cash value, or market value, of the District grew 11.2% to almost \$48 billion while assessed value grew 7.7% for the property tax year 2006.

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 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,

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Inc., Portland General Electric, IBM, Kaiser Permanente, Providence Health System, U.S. Bank, Freightliner, Tektronix Inc., Nike Inc., 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 LP have continued development of acres of land adjacent to the Sunset Highway. Nike's world headquarters complex houses thousands of employees in office buildings bordering a seven-acre man-made 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 2006, the District's largest single focus was the passage of the District's general obligation bond request for \$77.5 million dollars at the November 7, 2006 election. The District has significant capital needs through out the District and securing the ability to sell general obligation bonds and levy taxes above our permanent rate to repay the bonds will provide long term financial stability for these stations and apparatus needs. The District continues to study and plan for the future different election year and funding models. We must plan for providing additional firefighters in growing areas as well as the support staff needed to support the emergency responders. We are projecting the level of additional staffing we can accommodate utilizing growth in property tax revenue provided from the permanent levy as well as the local option levy, which by law, can not extend past five years. We anticipate that at some point in time, we will need to ask our voters for a rate increase to the local option levy, but are trying to determine the timing of that potential request.

In addition, the District has recently begun a major restructuring of its strategic plan and goals as well as how those goals then filter through out the organization in order to meet these organizational goals. We are working to implement many of these plan changes in our budget process for 2007-08 and to continue to refine it in the years ahead. Our primary focus in this area is to provide more accountability and measurement basis to be able to determine organization wide if we are achieving our key strategic goals, rather than just expending "effort".

Department Service Efforts and Accomplishments

During the fiscal year ended June 30, 2006, all divisions and departments of the fire department contributed toward the accomplishments of our 2006 strategic goals. These goals, as outlined in our prior Strategic Plan are:

- *Ensure health and safety of all members.*
- *Reduce number and severity of emergency incidents.*
- *Seek efficiencies through cooperative initiatives.*
- *Pursue maximum institutional financial stability and predictability.*
- *Enhance preparedness for catastrophic events.*

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- *Develop and enhance a diverse workforce that reflects the community we serve and that honors and respects our individual and group difference.*
- *Promote craftsmanship throughout the organization.*
- *Increase community understanding of TVF&R's mission and the community's role in the safety partnership.*
- *Build strategic, mission-oriented community understanding, which leads to involvement. Maintain a positive work environment through collaborative labor/manager relations with both bargaining and non-bargaining unit employees..*
- *Maintain CFAI accreditation and industry credentials.*

Efforts during the fiscal year ended June 30, 2006, as a result of these goals, included:

- Continuing deployment of mobile data terminals into response apparatus with additional response maps and preplans provided to response personnel.
- Education of our citizens regarding the needs for additional capital funding.
- Monitoring of a newly implemented Peak Activity Unit program in the attempt to improve response times performance and increase total units in the field.
- Update a revised Standards of Coverage for Emergency Response operations.
- Continued station land purchase negotiations and closed two sales.

Cash Management

The District invests available cash primarily in the Oregon State Treasury's Local Government Investment Pool and in government agency securities. The Pension Trust Fund is primarily invested in U.S. Government Agency obligations, certificates of deposit and mutual funds. The Volunteer LOSAP Fund is invested in mutual funds and the Local Government Investment Pool.

Risk Management

The policy adopted by the Board of Directors mandates that a program for risk management be adopted that is consistent with legal requirements and with the ability of the District to finance. Board policy states that the District shall purchase the necessary insurance or set aside adequate reserves to self-insure.

Errors and omissions coverage, called public officials liability, is written in conjunction with Oregon Revised Statutes as they apply to public agency tort liability in accordance with tort law. The total limit of liability is \$1,000,000 per person and \$1,000,000 per occurrence. Coverage is written on claims made form and includes prior acts.

Risk management for workers' compensation provides coverage for boards and commissions, employees and volunteers. Where non-paid persons are involved, an assumed monthly wage rate is identified for the premium and benefit purposes.

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Other Information

Independent Audit

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 in this report.

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, 2005. This was the 18th 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 generally accepted accounting principles 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.

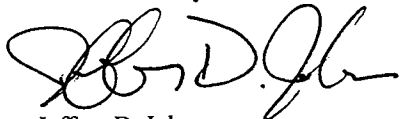
In addition, the District also received the GFOA's Award for Distinguished Budget Presentation for its annual appropriated budget for the budget year ended June 30, 2006. In order to qualify for the Distinguished Budget Presentation Award, the District's budget document was judged to be proficient in several categories including policy documentation, financial planning and organization. This was the 18th year the District received the award.

Acknowledgments

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, the managers, employees and citizens of the District whose continuing support is vital to the financial and community affairs of the District.

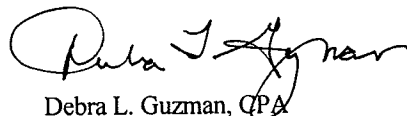
Respectfully submitted,

Tualatin Valley Fire and Rescue



Jeffrey D. Johnson

Fire Chief/Administrator



Debra L. Guzman, CPA

Chief Financial Officer