
MANAGEMENT'S DISCUSSION AND ANALYSIS



Management's Discussion and Analysis

June 30, 2013

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, 2013. 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 eleven of this report.

Financial Highlights

- In the government-wide financial statements, the assets of the District exceeded its liabilities at June 30, 2013 by \$90,542,229. Of this amount, \$30,971,036 represents the District's net investment in capital assets; \$1,606,709 is restricted for debt service; \$149,113 is restricted under grant awards, and the balance of \$57,815,371 will be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net position increased by \$3,755,417 for the year ended June 30, 2013. Unrestricted net position increased by \$3,323,583; net position of net investment in capital assets increased by \$352,056, and restricted net position for debt service increased by \$2,560.
- As of June 30, 2013, the District's governmental funds reported combined ending fund balances of \$77,383,409, a decrease of \$2,683,096 in comparison with the prior year. Planned expenditures on projects funded through Capital Projects Fund resulted in a \$6,660,877 reduction in ending fund balance offset by net increases of \$2,652,907 in the General Fund ending fund balance and of \$1,324,874 in nonmajor funds.
- At June 30, 2013, unassigned fund balance for the General Fund was \$40,637,548. A portion of the General Fund unassigned fund balance is identified for mitigation of future Oregon Public Employees Retirement System rate increases and totals \$6,490,633. The remaining unassigned fund balance of \$34,146,915 represents 46.5% of total General Fund expenditures and the continuing achievement of meeting District policy to maintain five months of budgetary basis General Fund 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 \$3,502,585 during the current fiscal year. This was due to principal and interest payments on the District's four outstanding bond issues.

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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 of the governmental funds, 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 Position* and the *Statement of Activities*.

The *Statement of Net Position* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 consist solely of public safety, and are supported by property taxes and charges for services.

The combined government-wide and governmental fund financial statements can be found on pages 34 through 36 of this report.

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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 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 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 Position* 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 the Capital Projects Fund and for each of the nonmajor governmental funds is provided as Other Supplementary Information. The District's implementation of Governmental Accounting Standards Board Statement No. 54 combines for reporting purposes as the General Fund, five separately budgeted funds.

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

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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 39 through 41 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. 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 42 and 43 of this report.

Notes to the 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 44 through 69 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 73 of this report.

Combining and individual fund statements and schedules are presented as other supplementary information and can be found on pages 78 through 97 of this report. The Schedule of Property Tax Transactions and Outstanding Balances can be found on page 98 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceed liabilities by \$90,542,229 at June 30, 2013. A significant portion of the District's net position (34 percent) reflects its net 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.

Assets consist mainly of cash and cash equivalents, investments, and property taxes receivable which are used

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to meet the District's ongoing obligations to its citizens. Remaining assets are comprised of capital assets used in operations. The District's largest liability (77 percent) is for the long-term portion of general obligation bonded debt. Current liabilities of the District consist largely of accounts payable, accrued salaries and benefits payable, and accrued compensated absences.

<u>Net Position</u>	Governmental Activities		Increase (Decrease) from Fiscal 2012
	2013	2012	
Current and other assets	\$ 90,991,605	\$ 92,248,106	\$ (1,256,501)
Capital assets	76,280,759	73,007,397	3,273,362
<i>Total assets</i>	<u>167,272,364</u>	<u>165,255,503</u>	<u>2,016,861</u>
Current liabilities	17,753,764	15,706,249	2,047,515
Long-term debt	58,976,371	62,762,442	(3,786,071)
<i>Total liabilities</i>	<u>76,730,135</u>	<u>78,468,691</u>	<u>(1,738,556)</u>
Net investment in capital assets	30,971,036	30,618,980	352,056
Restricted for debt service	1,606,709	1,604,149	2,560
Restricted for grants	149,113	71,895	77,218
Unrestricted	57,815,371	54,491,788	3,323,583
<i>Total net position</i>	<u>\$ 90,542,229</u>	<u>\$ 86,786,812</u>	<u>\$ 3,755,417</u>

During the current fiscal year, the District's net position increased by \$3,755,417 due to the District's efforts to build assets identified for future capital asset investments and support of future operations requirements. The District seeks to ensure the net position of the District is 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 2013-14 with a projected gradual recovery in future years. Because of recent low revenue growth due to lack of property development and lingering economic concerns, forecasted pension and health care costs and the District's desire to manage taxpayer resources prudently; we have continued to focus on planning for and implementing strategies in order to achieve our strategic goal of financial stability.

Governmental activities. Governmental activities increased the District's net position in the current year by \$3,755,417. Property tax revenue increased by .7 percent or \$549,355, reflecting a net increase in taxes levied. Earnings on investments decreased slightly during the year ended June 30, 2013. The District sold a closed fire station property for a net gain on sale of capital assets of over

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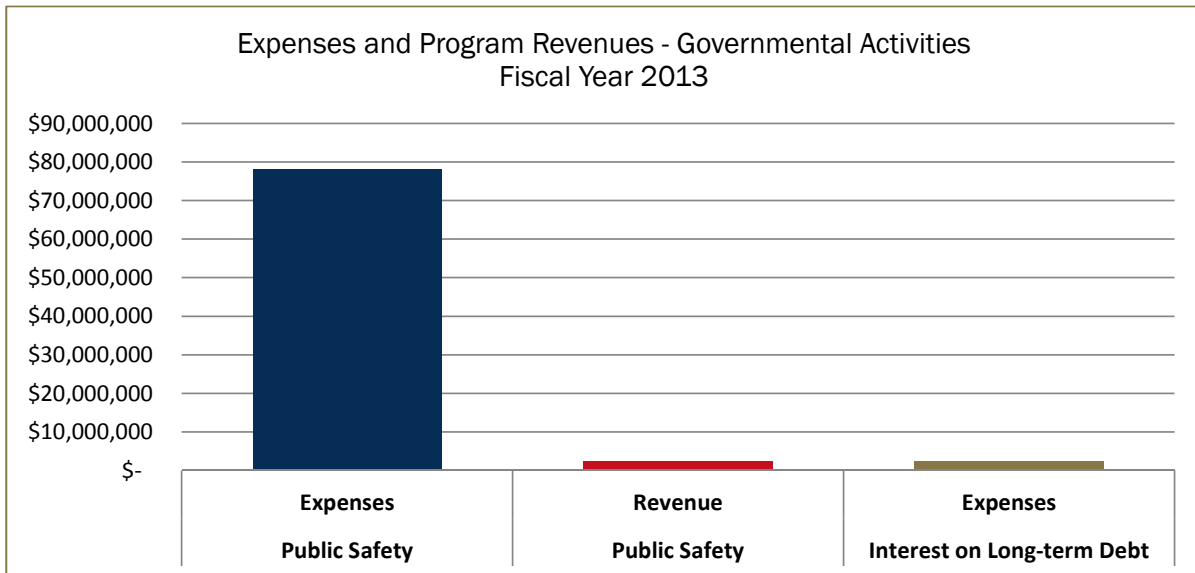
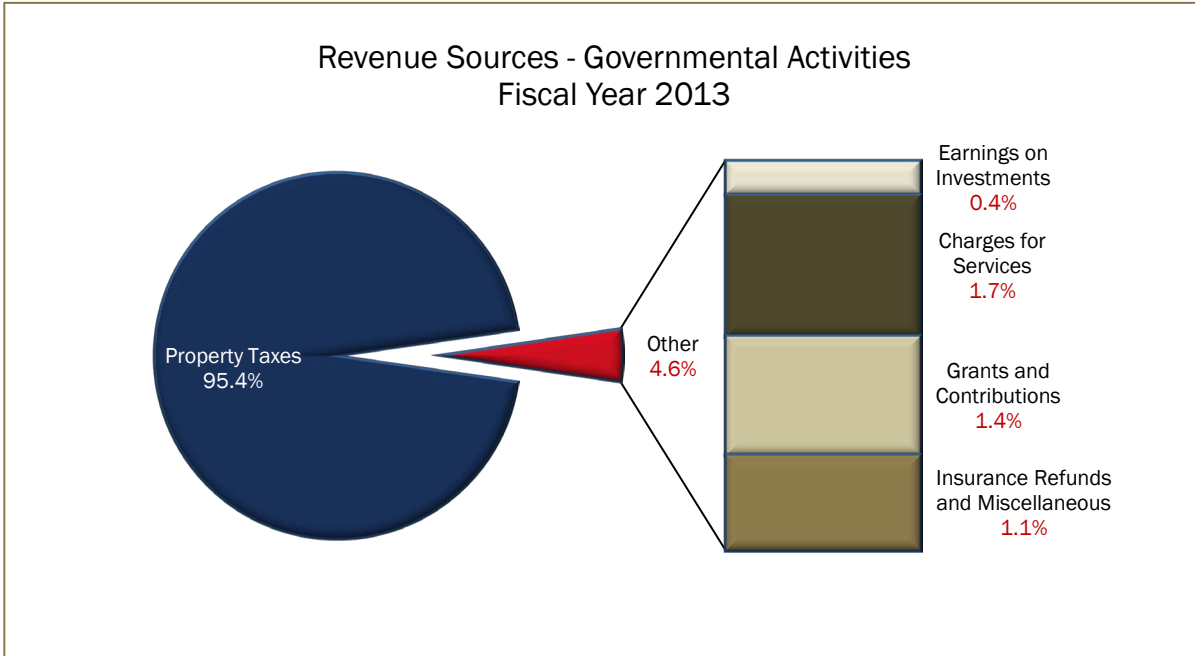
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\$551,000 that also increased the net position. Expenses for public safety increased by two percent, reflecting personnel cost increases in wages and benefits and additional depreciation. Expenses were managed to ensure that net position as of year-end increased proportionately to the cost of annual operations.

Changes in Net Position	Governmental Activities		Increase (Decrease) from Fiscal 2012
	2013	2012	
Revenues			
Program revenues			
Charges for services	\$ 1,383,399	\$ 1,322,635	\$ 60,764
Grants and contributions	1,161,457	1,086,330	75,127
Capital grants		48,450	(48,450)
General revenues:			
Property taxes	79,853,105	79,303,750	549,355
Earnings on investments	336,512	343,772	(7,260)
Insurance refunds	527,435	188,074	339,361
Gain on sale of capital assets	551,304		551,304
Miscellaneous	400,202	224,532	175,670
<i>Total revenues</i>	<u>84,213,414</u>	<u>82,517,543</u>	<u>1,695,871</u>
Expenditures/expenses			
Public safety-fire protection	78,142,770	76,438,386	1,704,384
Interest on long-term debt	2,315,227	2,417,200	(101,973)
<i>Total expenses</i>	<u>80,457,997</u>	<u>78,855,586</u>	<u>1,602,411</u>
<i>Change in net position</i>	3,755,417	3,661,957	93,460
Net position - July 1	86,786,812	83,124,855	3,661,957
Net position - June 30	<u>\$ 90,542,229</u>	<u>\$ 86,786,812</u>	<u>\$ 3,755,417</u>

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Financial Analysis of the Governmental 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, *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.

At June 30, 2013, the District's governmental funds reported combined ending fund balances of \$77,383,409, a decrease of \$2,683,096 in comparison with the prior year. This decrease is a result of purposeful spending in the Capital Projects Fund of \$6.6 million offset by budget savings in the General Fund and nonmajor funds where reserves are held for future capital use. A large portion of this total amount (52.5 percent) constitutes *unassigned fund balance*, which is a measure of the District's liquidity; it is available for spending at the District's discretion. The remainder of fund balance is either non-spendable (.4 percent), restricted by external parties (20.6 percent), committed by the Board (15.8 percent) or assigned to a specific purpose such as capital projects (10.7 percent).

General Fund. The General Fund is the chief operating fund of the District. As of June 30, 2013, unassigned fund balance of the General Fund was \$40,637,548, while total fund balance reached \$53,155,257. 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 55.3 percent of total General Fund expenditures and the total fund balance represents 72.3 percent of total General Fund expenditures.

The fund balance of the District's General Fund increased by \$2,652,907, or approximately 5.3 percent during the current fiscal year; most of this increase was due to receiving \$2,059,847 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, 2013, the ending fund balance of the Capital Projects Fund was \$14,211,991 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 were two budget transfer resolutions to the General Fund during the year which were the result of increasing expenditures that were higher than anticipated. Property tax collections exceeded budget due to stronger than expected collections during the economic slowdown, and historical ratios of expenditures to budget were maintained allowing a continued strong ending fund balance.

Capital Assets and Debt Administration

Capital assets. The District's investment in capital assets includes land and improvements, buildings and improvements, fire apparatus and other vehicles, furniture, fixtures and equipment, and construction in progress. As of June 30, 2013, the District had invested \$76,280,759 in capital assets, net of depreciation, as shown in the following table:

Capital Assets (net of depreciation)	Governmental Activities		Increase (Decrease) from Fiscal 2012
	2013	2012	
Land	\$ 12,580,668	\$ 12,877,726	\$ (297,058)
Buildings and improvements	34,724,149	36,482,252	(1,758,103)
Fire apparatus and other vehicles	13,028,504	13,104,312	(75,808)
Furniture, fixtures and equipment	3,067,152	3,423,075	(355,923)
Construction in progress	12,655,286	7,120,032	5,535,254
Other capital assets	225,000		225,000
Total	<u>\$ 76,280,759</u>	<u>\$ 73,007,397</u>	<u>\$ 3,273,362</u>

During the year, the District's investment in capital assets increased by \$3,273,362, reflecting assets of \$7,677,817 added during the year, offset by \$4,020,065 of depreciation and \$384,390 of disposals. The District's construction in progress includes six fire stations and related land improvements.

Additional information on the District's capital assets can be found in the notes to the basic financial statements on page 54 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 \$60,449,048, consisting of general obligation bonds and unamortized premiums. 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 approximately \$629 million. Additional information on the District's long-term debt can be found in note II.F.1 on page 55 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. The local economy experienced a continued lack of new construction, and market value declined an additional 1.4 percent under prior year values, for the majority of properties assessed value still remained below market value, with a District-wide assessed value ratio of 79.55% of market value for 2013. The District continued an intensive analysis of property tax trends and valuation issues in the fiscal year and has been sharing the information with District governments and statewide.

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. Significant planning efforts will occur in 2013-14 for the next levy vote to determine the levy rate to be requested.

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.