



Town of Oro Valley, Arizona

POPULAR ANNUAL FINANCIAL REPORT

Fiscal Year ending June 30, 2015

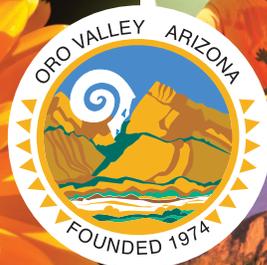
OVERVIEW

We are proud to present the fourth annual Popular Annual Financial Report (PAFR) for the Town of Oro Valley. The purpose of the PAFR is to provide a user-friendly summary of the financial position of the Town of Oro Valley and other interesting information for citizens who want a better understanding of the Town's finances. The financial information in the PAFR is taken from the Town's Comprehensive Annual Financial Report (CAFR). The CAFR outlines the Town's financial position and operating activities each fiscal year presented in conformity with generally accepted accounting principles (GAAP) and includes financial statements audited by Heinfeld Meech & Co., P.C., Certified Public Accountants. The Town received an unqualified (or clean) audit opinion, which is the best audit opinion that the financial statements could receive.

While the numbers in the PAFR come from an audited source, they are presented in a summarized, unaudited non-GAAP format that is more accessible to the public. Additionally, some of the information in the PAFR is from the Town's Annual Budget. Citizens who wish to review the audited, GAAP-based, full disclosure financial statements can refer to the Town's CAFR available on the Town's website: www.orovalleyaz.gov, or contact the Finance Department at 11000 N. La Cañada Drive, Oro Valley, AZ 85737, phone (520) 229-4700.

INSIDE

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WELCOME *from the* TOWN MANAGER



Greg Caton

We are pleased to present the Town of Oro Valley Popular Annual Financial Report (PAFR) for fiscal year 2014/15.

The PAFR provides an easy to understand, summarized overview of various financial aspects of the Town, including sources of revenues and expenditures, financial trends, assets and liabilities and debt obligations. The publication of this document represents the Town's ongoing commitment to transparency, accountability and communicating the financial position of the Town.

Continued economic progress and recovery have provided the Town with the opportunity and resources to reinvest in the community following the initiatives outlined in the Town's Strategic Plan, which was recently updated in 2015. In the General Fund, our main operating fund, revenues exceeded expenditures by over \$2.4 million for fiscal year 2014/15.

Fiscal year 2014/15 was an exciting and successful year for our community. Extensive progress was made toward enhancing the community amenities and services that we offer. A significant achievement this year was the Town's purchase of the former El Conquistador Country Club for \$1 million, which has been converted into the Town of Oro Valley Community and Recreation Center. A community center has been a long-desired need in our town, and we were fortunate to be able to acquire this facility without taking on any debt burden. Additionally, construction was completed on the multi-use fields and new dog park at Naranja Park, which have been extremely popular with the local sports teams and users in the community. Finally, the Town continues to follow sound budget practices and approved a balanced budget for FY 2015/16, with a projected General Fund surplus of more than \$500,000.

In the coming year, work will continue towards adoption of the Town's General Plan update, also known as the Your Voice, Our Future project. Improvements will continue at the Town's Steam Pump Ranch, allowing for greater use of this beautiful, historic property and preservation of the structures on site. Also, the Water Utility will continue with its replacement of aging water meters town-wide to improve water delivery efficiency.

We hope that our 2015 Popular Annual Financial Report fulfills its purpose as an understandable, informative means of providing assurance that every effort is made to manage the community's resources wisely for the benefit of all.

Respectfully,
Greg Caton, Town Manager

ORO VALLEY COUNCIL



Bill Garner, Councilmember
Mike Zinkin, Councilmember
Brendan Burns, Councilmember

Dr. Satish I. Hiremath, Mayor
Lou Waters, Vice Mayor

Mary Snider, Councilmember
Joe Hornat, Councilmember

ORO VALLEY FAST FACTS

INCORPORATED	1974
SERVICES	Police, Parks and Recreation, Water Utility, Stormwater Utility, Public Transit, Development and Infrastructure Services
FORM OF GOV'T	Council/Manager
GOVERNING BODY	Mayor elected at large to four-year term; 6 councilmembers elected at large to four-year terms
POPULATION (2014 census estimate)	42,259
# OF HOUSEHOLDS (2013 census data)	17,117
BACHELOR'S DEGREE OR HIGHER (AGE25+)	50.9%
MEDIAN INCOME (2013 census data)	\$71,950
# OF PARKS	8
PARK ACRES MAINTAINED	448
TRAILS AND PATHS	79 miles of bike facilities including bike lanes and shared paths & 55 miles of trails
2015 BUDGET	\$107.1 million



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HISTORY

After World War II, the Tucson area experienced dramatic population growth. In the early 1950s, the Oro Valley Country Club opened at the base of Pusch Ridge, and land owners began building residential homes. As the community continued to grow, area residents increasingly desired local control of the land in the area. In the late 1960s, a petition to incorporate began to circulate in Oro Valley, and Oro Valley was successfully incorporated in 1974. What began as a Town with only 2.4 square miles and 1200 residents has grown into a vibrant community and tourist destination featuring world-class amenities and outdoor attractions,

excellent schools, and a diverse business environment.



FY 14/15 ACCOMPLISHMENTS

Completed the construction on two new multi-sport fields, dog park, parking lot and critical infrastructure at Naranja Park

Converted the former El Conquistador Country Club into a municipal community and recreation center that opened on May 1, 2015

Citizen Volunteer Assistants Program (CVAP) volunteers contributed an estimated 14,878 volunteer hours for police programs such as the residential darkhouse program

Hosted the first-ever Oro Valley Meet Yourself folk-life festival

Partnered with the Children's Museum to open the first-ever satellite location in Oro Valley

Sun-Shuttle Dial-a-Ride offered over 31,000 hours of service and operated over 464,000 miles

Hosted state-level synchronized swimming and USA Masters championships at the Oro Valley Aquatic Center and introduced the "community aquatic games"

Updated the Town's constituent portal and refreshed the Oro Valley Vista newsletter to be more aesthetically pleasing and user-friendly

Worked with the Historic Preservation Commission to establish the first "historic writing contest" for 4th graders in Oro Valley

The Legal Department chaired the Best Practices Committee for Arizona prosecutors

Adopted the 2015 Town of Oro Valley Strategic Plan

44% of the 3 billion gallons of water delivered were renewable water supplies, including 596 million gallons of Central Arizona Project (CAP) water and 719 million gallons of reclaimed water

ACCOLADES

- ★ Oro Valley named Playful City USA 2015 (fifth consecutive year)
- ★ "Your Voice, Our Future" public participation plan (General Plan update project) received 2014 "Silver Circle" Award in citizen participation from 3CMA and the state award for Best Public Outreach from the American Planning Association
- ★ Certificate of Achievement for Financial Reporting Excellence for FY 2013/14 from the Government Finance Officers Association (GFOA) for the 21st consecutive year
- ★ Popular Annual Financial Report (PAFR) award for FY 2013/14 from the GFOA for the third consecutive year
- ★ Distinguished Budget Presentation Award from the GFOA for the seventh consecutive year
- ★ Achievement of Excellence in Procurement Award from the National Procurement Institute (NPI) for the seventh consecutive year
- ★ "Silver Level" Bicycle Friendly Business (BFB) designation by the League of American Bicyclists



The Government Finance Officers Association (GFOA) of the United States and Canada has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the Town of Oro Valley for its Popular Annual Financial Report for the fiscal year ended June 30, 2014. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive this award, a government unit must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability and reader appeal.

The award is valid for a period of one year only. We believe our current report continues to conform to program requirements, and we are submitting it to GFOA to determine eligibility for another award.



Government Finance Officers Association

Award for Outstanding Achievement in Popular Annual Financial Reporting

Presented to

**Town of Oro Valley
Arizona**

For its Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

Jeffrey R. Emer
Executive Director/CEO

STATEMENT OF NET POSITION

This Statement of Net Position is presented in much more detail in the Town's Comprehensive Annual Financial Report. This is a very high-level summary that captures total assets and liabilities and compares them to prior years. This may serve as a useful overall indicator of the Town's financial position and trends over the last two years.

The Town's activities are presented in two categories. Governmental activities include most of the Town's core services, such as public safety, parks and recreation, and street maintenance. Sales taxes, state shared revenues and grants finance most of these activities. Business-type activities are the Water and Stormwater utilities, which are primarily financed through user fees and charges.

Statement of Net Position for the year ended June 30, 2015

	<u>2015</u>	<u>2014</u>
Assets		
Current assets and other assets	\$ 53,162,840	\$ 53,196,207
Capital assets, net	244,900,365	241,819,498
Total assets	\$ 298,063,205	\$ 295,015,705
Deferred outflows	\$ 8,192,594	\$ 2,288,731
Liabilities		
Current and other liabilities	\$ 9,521,516	\$ 7,024,355
Long-term liabilities	89,136,980	59,263,213
Total liabilities	\$ 98,658,496	\$ 66,287,568
Deferred inflows	\$ 4,739,885	
Net Position	\$ 202,857,418	\$ 231,016,868

The largest portion of the Town's net position reflects its investment in capital assets such as land, buildings and improvements, vehicles, machinery and equipment, and construction, less any outstanding debt used to acquire those assets. The Town uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending.

What it means

Current Assets and Other Assets - Assets that one can reasonably expect to convert to cash, sell, or consume within one year.

Capital Assets, Net - The Town's land, buildings, equipment, improvements, infrastructure, and construction in progress, net of accumulated depreciation.

Liabilities - Payments due to vendors and employees, lease payments due, and other long term debt of the Town.

Net Position - The difference between assets and liabilities, of which may or may not be available for future spending.

The following are significant transactions that have had an impact on the Statement of Net Position:

- The addition of \$5.8 million in business-type activities capital assets through improvements to the existing water system
- The addition of \$9.0 million in governmental activities capital assets, mostly consisting of the replacement of police vehicles, Naranja Park improvements, purchase of the El Conquistador Country Club for use as a community and recreation center, and pavement preservation upgrades
- The increase of \$2.8 million in business-type activities long-term debt was due mainly to the issuance of a \$2.4 million Water Infrastructure Finance Authority (WIFA) loan and annual debt service payments of \$3.6 million
- The increase of \$2.7 million in governmental activities long-term debt was due mainly to the issuance of a \$1.0 million note payable for the purchase of the El Conquistador Country Club for use as a community and recreation center. This note payable will be paid off over the next three fiscal years, with the first payment occurring in FY 2015/16.
- The implementation of new pension reporting standards required the reporting of net pension liability, which increased total long-term liabilities by \$30.6 million. See page 8 for an explanation of the new pension reporting standard.

STATEMENT OF ACTIVITIES

Statement of Activities, often referred to as the Town's income statement, reflects all of the financial activity for the Town during the fiscal year ended June 30, 2015. This statement presents information to show how the Town's net position changed during the year as a result of the financial activity (i.e., revenues and expenses). Over time, increases or decreases in net position may serve as a useful indicator of whether the Town's financial position is improving or deteriorating. Below is a summarized version of the detailed statement of activities found in the Town's Comprehensive Annual Financial Report.

Statement of Activities for the year ended June 30, 2015

Note: The totals below reflect both the governmental and business-type activities of the Town

	<u>2015</u>	<u>2014</u>
Revenues	\$ 59,058,255	\$ 58,781,129
Expenses	58,400,614	53,211,722
Change in net position	657,641	5,569,407
Net position, beginning of year (restated)	202,199,778	225,447,461
Net position, end of year	\$ 202,857,418	\$ 231,016,868

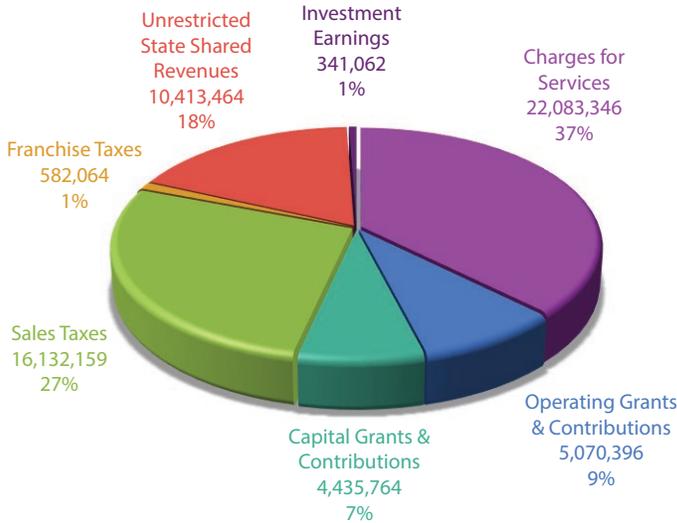
The beginning net position for FY 2014/15 was restated to include net pension liability of \$28.8 million in order to incorporate the new pension reporting standard. The Statement of Activities shows that the Town's total net position has improved over the restated beginning net position. See page 8 for an explanation of the new pension reporting standard. Recent revenue trends reflect an increase of \$1.6 million in total revenues, largely due to an increase in the local sales tax rate from 2 percent to 2.5 percent that became effective March 1, 2015 (\$850,000), as well as an increase in year-over-year collections in state shared revenues (\$777,000). The revenues from the sales tax increase are dedicated to funding the Town's new community and recreation center acquired on May 1, 2015. Total expenses increased \$5.2 million, or 10 percent, primarily due to the completion of various capital projects such as the on-site health clinic, Aquatic Center parking lot, purchase of a permitting computer system module, replacement of the Town's phone system, funding for the Children's Museum Oro Valley, electric utility line undergrounding project, and completion of Naranja Park. In addition, expenses include \$1.2 million in operations and maintenance costs for the newly-acquired community and recreation center. Business-type activities charges for services decreased by \$3.2 million due to a decrease of \$1.2 million in water sales and a decrease of \$2.0 million in development impact fees year-over-year due to the completion of several multi-family housing complex construction projects.

REVENUES

Where the money comes from

Revenues by Source

Includes Governmental & Business-Type Activities



This chart illustrates the sources and percentages of the Town's revenues totaling \$59.1 million for FY 2014/15. The Town's primary revenue sources during 2015 include charges for services, sales taxes and state-shared revenues. Together these three categories represented 82% of all revenue collections in FY 2014/15.

What it means

Charges for Services are revenues collected for services rendered to the public. Water sales make up the majority of these revenues.

Sales Taxes are levied on retail sales at 2.5% (effective 3/1/2015), utilities and construction activity at 4%, and lodging at 6%.

Franchise Taxes are negotiated fee revenues from a local cable provider.

Unrestricted State Shared Revenues consist of the Town's portion of Arizona state income tax, sales tax, and vehicle license tax revenue shared with incorporated cities, towns, and counties.

Capital Grants and Contributions are dedicated towards specific capital expenditures and purposes, such as highways and streets.

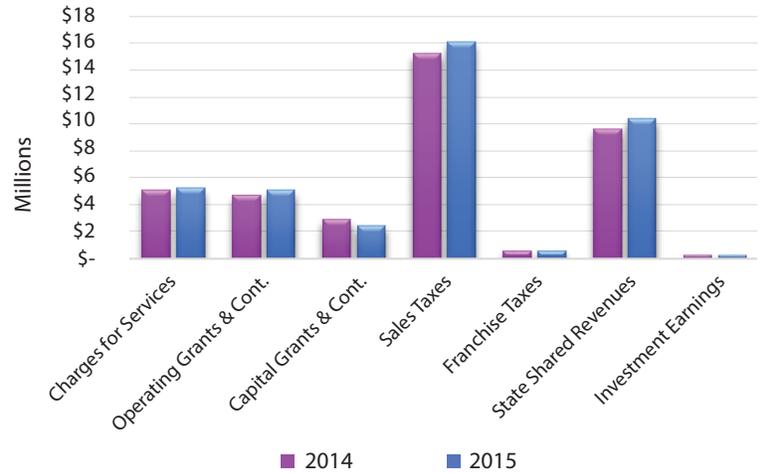
Operating Grants and Contributions are dedicated towards specific operating expenditures and purposes, such as employee salaries and ongoing maintenance costs for roadways, public safety, and culture and recreation.

Investment Earnings consist of interest income earned on the Town's invested funds.

Two-Year Historical Comparison

Revenues

Governmental funds only



Five-Year Historical Comparison

Revenues & Expenses

Governmental funds only



The Town Council and management are focused on efforts to maintain long-term financial health through diversified revenue sources while strategically investing in community initiatives. These decisions range from increasing efficiencies to using valuable intergovernmental partnerships to enhance and expand services. Revenues are also increasing as the continued economic recovery results in increasing sales taxes and state-shared revenues.

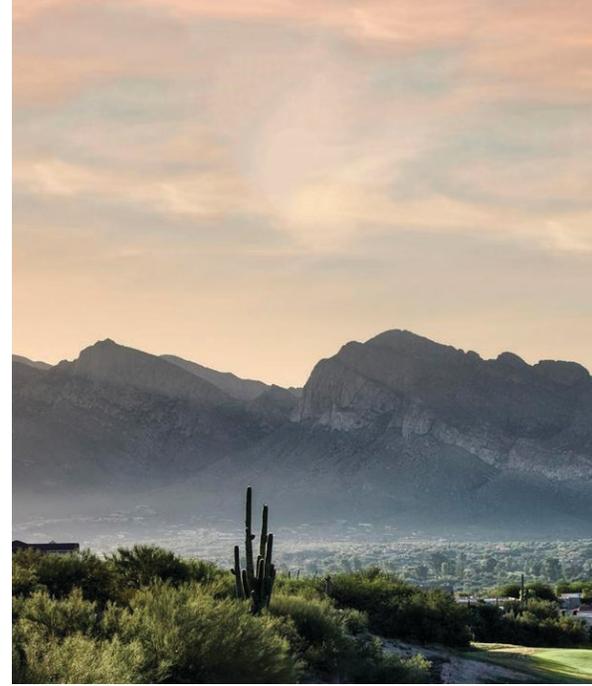
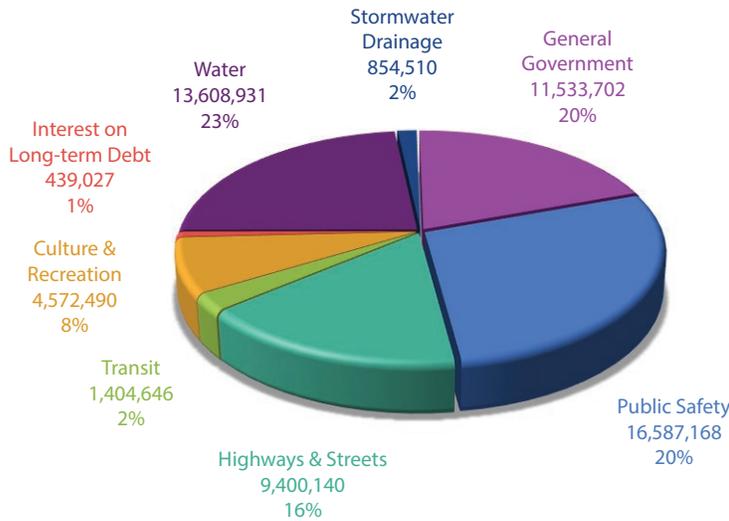
EXPENSES

Where the money goes

This chart illustrates the uses and percentages of the Town's expenses across all funds totaling \$58.4 million for FY 2014/15. The majority of expenses relate to Water Utility operations and Public Safety (Police). Over half of the Town's total expenses (51%) are from these two departments.

Expenses by Category

Includes Governmental & Business-Type Activities



What it means

General Government expenses are incurred by the Town's administrative departments, including Mayor and Town Council, Town Manager, Town Attorney, Finance, Town Clerk, Human Resources, Magistrate Court, and include other non-departmental costs.

Highways and Streets expenses are related to the design, construction, maintenance and operation of all roadways, sidewalks and related infrastructure within the Town.

Culture and Recreation expenses are those incurred by the Town to enrich the quality of life in Oro Valley through parks, recreational and cultural activities.

Public Safety expenses are those incurred by the Town to provide police services to the public.

Water expenses are those incurred by the Town to provide water to the public.

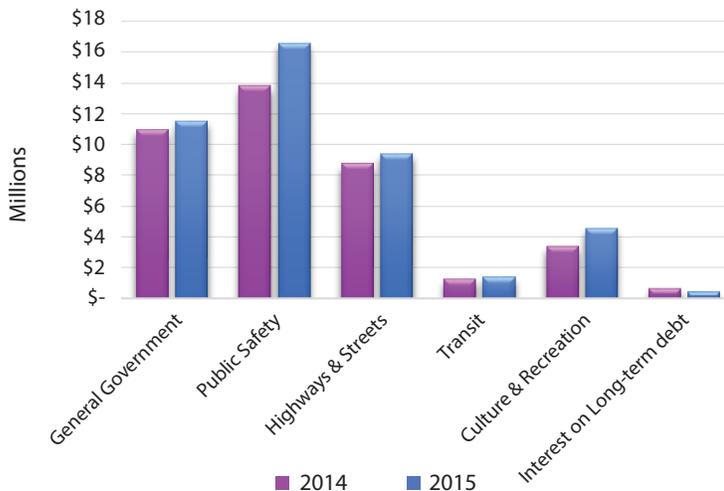
Transit expenses are those related to the operation of the Sun Shuttle Dial-a-Ride service funded through a partnership with the Regional Transportation Authority (RTA).

Stormwater Drainage expenses are those related to the design, construction, maintenance and operation of all stormwater drainage ways within the Town.

Interest on Long-Term Debt reflects the interest costs for long-term debt, such as bonds and loans. This does not include any interest costs on water-related debt.

Two-Year Historical Comparison

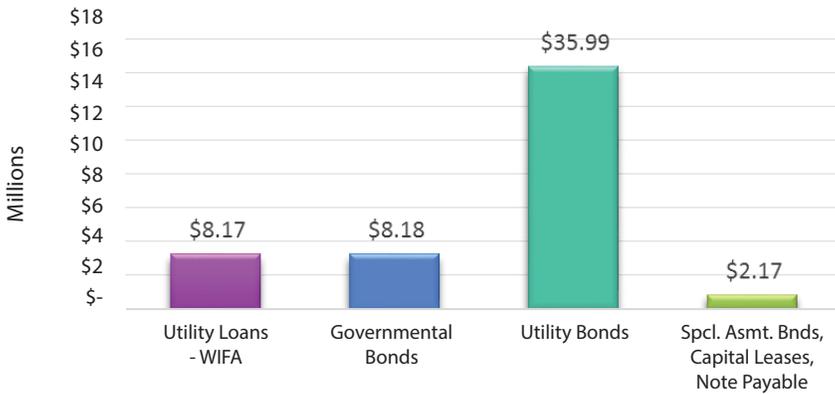
Expenses
Governmental funds only



DEBT & FINANCIAL RATINGS

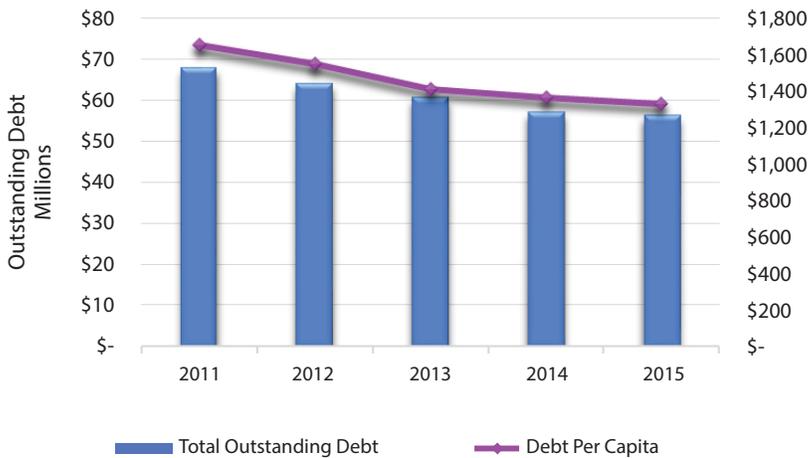
As of June 30, 2015, the Town had \$54.5 million in long-term debt outstanding with \$4.7 million due within one year. The majority of the outstanding debt relates to the Water Utility capital improvement revenue bonds. The chart below depicts the Town's outstanding debt for the fiscal year ended June 30, 2015.

Outstanding Debt Obligations as of June 30, 2015



The Town continues to maintain strong investment grade ratings on its outstanding excise tax bonds, rated "AA-" by both Standard & Poor's and Fitch Ratings, and on its water revenue bonds, rated "AA" by Standard & Poor's. This is largely achieved by the Council's goal of continuing to diversify the Town's revenue base and maintaining strong fund balance reserves in the General Fund, currently at \$10.2 million, or 32% of FY 2015/16 adopted expenditures of \$31.6 million.

Five Year Historical Comparison
Total Outstanding Debt & Debt Per Capita



What it means

WIFA Utility Loans are low-interest loans from the Water Infrastructure Finance Authority of Arizona (WIFA). They finance the construction and improvement of drinking water, wastewater, wastewater reclamation, and other water quality projects.

Governmental Bonds are used to finance long-lived capital improvements, including land acquisition and construction or improvement of Town facilities. The Town's excise taxes are pledged as repayment of the debt.

Utility Bonds are issued to finance long-lived utility capital improvements for the Town's Water Utility. This debt is repaid with Water Utility revenues.

Special Assessment Bonds are used to finance specific infrastructure or improvement projects. A district is formed and the debt is repaid with assessments on properties within the district. The Town currently has one outstanding special assessment bond issue, which was used for roadway improvements.

What they're saying...

Standard & Poor's (S&P) and Fitch Ratings Services have reaffirmed Oro Valley's bond rating at "AA-".

Fitch states: "The stable outlook reflects Fitch's expectation that the town will adequately manage its growth-related needs, maintaining reserves and coverage levels consistent with the current rating."



EMPLOYEE SALARIES & BENEFITS

Personnel services comprised 50% of the total operating budget for FY 2014/15. The FY 2014/15 budget included a \$1.1 million increase to implement recommendations from a salary market study conducted in FY 2013/14, as well as funding for employee merit and step increases. Revenues will be re-analyzed each year to determine the affordable and feasible level of continued pay increases.

The Town participates in three pension plans as part of its employee benefits package. Pension benefits are considered deferred compensation because they are not paid out until the employee's tenure with the Town has concluded; nevertheless, the Town has a present obligation to pay these benefits in the future. New guidance by the Governmental Accounting Standards Board (GASB) requires governments to report future net pension liability on its financial statement for the first time starting in June 2015. This change increases the transparency, consistency and comparability of reported pension information across governments. Therefore, the Town's FY 2014/15 Comprehensive Annual Financial report shows an increase of \$30.6 million in net pension liability, which includes pension liability that was not reported in prior years and a FY 2014/15 increase of \$1.8 million. Town management is actively managing its pension liability by looking for opportunities to reduce the outstanding balance and save on interest. For example, the Mayor and Council authorized a one-time, lump sum payment of \$300,000 toward reducing the Town's pension liability during FY 2015. In addition, the Town will prepay its budgeted FY 2015/16 Public Safety Retirement contributions in a lump sum early in FY 2016 instead of making bi-weekly contributions.

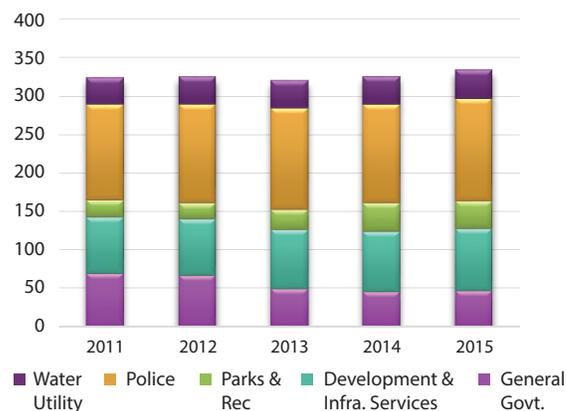
TOWN EMPLOYMENT STATISTICS

Principal Employers in Oro Valley

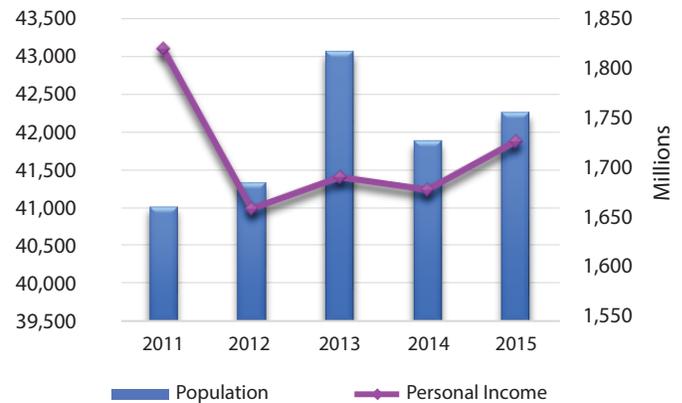
	Employees	% of Total Town Employment
Roche Group's Ventana Medical Systems	1200	7.03%
Oro Valley Hospital	672	3.94%
Town of Oro Valley	478	2.80%
Amphitheater Public Schools	449	1.97%
Hilton El Conquistador Golf & Tennis Resort	337	2.63%
Fry's Food & Drug Store	272	1.59%
Walmart Supercenter	226	1.32%
Splendido at Rancho Vistoso	185	1.08%
Securaplane	174	1.02%
Home Depot	143	0.84%

The Town Council and management are focused on attracting and retaining globally-competitive high technology and bioscience employers, while also maximizing destination opportunities for visitors. FY 2014/15 highlights include Oro Valley's partnership with the Children's Museum to open the first-ever satellite museum in Oro Valley, numerous regional and state events hosted at the Oro Valley Aquatic Center and the expansion of LCMS Laboratories into Oro Valley. Additionally, Oro Valley reached 150 active businesses through its adopt-a-business program and provided a wide range of construction assistance for residential and commercial projects, including Copper Health, Panera Bread, La Hacienda restaurant, Breadsmith bakery, San Dorado, El Corredor and the opening of three new residential subdivisions.

Number of Full-Time Equivalent Employees by Function



Town Demographic & Economic Statistics



Note: Population figures and income for 2011 are based on 2010 Census data. Other years reflect estimates provided by the Pima Association of Governments (PAG). Population figures for 2013 have been revised by PAG to 41,539. The chart reflects the original estimate to maintain consistency with the 2013 Comprehensive Annual Financial Report.