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Town of **ORO VALLEY, ARIZONA**
POPULAR ANNUAL FINANCIAL REPORT
 Fiscal Year ending June 30, 2016





OVERVIEW

We are proud to present the fifth 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 unmodified (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 at www.orovalleyaz.gov, or contact the Finance Department by phone at 520-229-4700 or in person at 11000 N. La Cañada Drive, Oro Valley, AZ 85737.

Connect with us! Visit www.orovalleyaz.gov or download the OV App on iTunes or Google Play.



ORO VALLEY COUNCIL

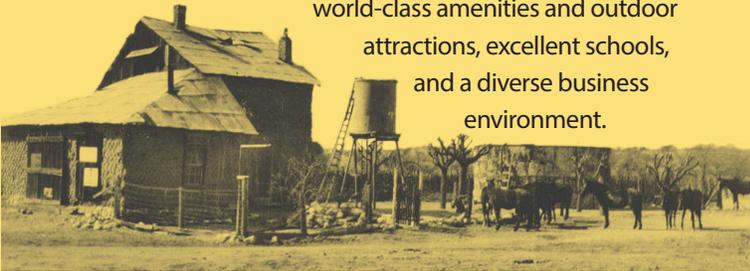


Left to right:
Bill Garner*
Councilmember
Mike Zinkin*
Councilmember
Brendan Burns*
Councilmember
Dr. Satish I. Hiremath
Mayor
Lou Waters
Vice Mayor
Mary Snider
Councilmember
Joe Hornat
Councilmember

The above photo represents the Council that was in office as of June 30, 2016. Councilmembers marked with an asterisk were subsequently replaced by Rhonda Piña, Bill Rodman and Steve Solomon in the November 8, 2016 election.

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.



ORO VALLEY FAST FACTS

INCORPORATED	1974
SERVICES	Police, Parks and Recreation, Water Utility, Stormwater Utility, Public Transit, Development and Infrastructure Services
FORM OF GOVERNING BODY	Council/Manager Mayor elected at large to four-year term; 6 councilmembers elected at large to four-year terms
POPULATION (2015 census estimate)	43,565
# OF HOUSEHOLDS (2014 census data)	17,364
BACHELOR'S DEGREE OR HIGHER (AGE25+)	50.8%
MEDIAN INCOME (2014 census data)	\$74,480
# 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
PARKS PROGRAMS HELD ANNUALLY	52
2016 BUDGET	\$119.7 million



MESSAGE *from the* TOWN MANAGER



Daniel G. Sharp
Interim Town Manager

We are pleased to present the Town of Oro Valley Popular Annual Financial Report (PAFR) for fiscal year 2015/16.

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.

The Town performed well financially during fiscal year 2015/16. We are pleased to report that in the General Fund, our main operating fund, revenues exceeded expenditures by over \$1.4 million. We also achieved great progress toward enhancing the community amenities and services that we offer.

During FY 2014/15, the Town purchased the former El Conquistador Country Club for \$1 million, which was converted into the Oro Valley Community Center. Significant investment in this facility was made during FY 2015/16 in the form of new golf carts and fitness equipment, resurfaced tennis courts, fitness lobby renovations and a renovated and rebranded restaurant, The Overlook. This has resulted in a successful first year of operation offering a perfect location for expanded special events drawing the community together.

We also initiated the design process for several major roadway widening projects to ease traffic flow within our community utilizing funds received through our regional partnerships with the Pima Association of Governments and the Regional Transportation Authority. Finally, the Town continues to follow sound budget practices and approved a balanced budget for FY 2016/17, with a projected General Fund surplus of \$35,000.

In the coming year, we look forward to aligning the Town's adopted Strategic Plan and annual budget to the goals and objectives outlined in the new, voter-approved *Your Voice, Our Future* General Plan. Improvements will continue at Naranja Park with the planned addition of two new multi-use fields, and work will continue on the Police Evidence and Substation facility purchased during FY 2015/16.

We hope that our 2016 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,
Daniel G. Sharp, Interim Town Manager

FY 15/16 ACCOMPLISHMENTS

Completed refunding of Series 2005 Excise Tax Revenue Obligations resulting in overall net interest savings of nearly \$340,000

Reduced transit cost per mile by improving efficiency by nearly 10% and reduced the cost per hour by 9%, from \$45.67 to \$41.46

Completed the *Your Voice, Our Future* General Plan update in preparation for the successful public ballot initiative in November 2016

Continued the online budget questionnaire, "5 Questions in 5 Minutes," to solicit public input during preparation of the FY 2016-17 Town Budget, resulting in 254 responses

Developed the 2015 BizTucson Oro Valley Special Report to market at local, regional, state, national and international trade shows

Hosted 35 swim competitions, two national tennis meets and two national golf competitions, and brought two major league soccer teams to practice at Naranja Park

Facilitated the first annual I Heart Radio Oro Valley Music Festival featuring local and national musical talent

Partnered with the Southern Arizona Arts and Cultural Alliance to host 37 public concerts

Spearheaded the grassroots community music group, "Oh, for the Love of Music"

Increased the number of recreation programs from 38 to 52, with the addition of the Oro Valley Community Center

Hosted more than 1,300 summer camp participants through 67 camp and 99 swim activities

Acquired property for a new police substation and much-needed evidence facility

Delivered record transit service ridership of 45,202, a 16% increase over the prior fiscal year

Citizen Volunteer Assistants Program (CVAP) members contributed 14,933 volunteer hours for police programs such as the residential Dark House program

Water Utility completed the advanced metering infrastructure project

ACCOLADES

- ☆ Oro Valley was named Playful City USA 2016 for the sixth consecutive year
- ☆ 2016 Silver Circle Award from the City-County Communications and Marketing Association (3CMA) for excellence in communication and marketing for the 2015 Aquatic Center summer marketing campaign
- ☆ 2016 Silver Circle Award from 3CMA for excellence in communication and marketing for the 2015 BizTucson Report
- ☆ Certificate of Achievement for Financial Reporting Excellence for FY14/15 from the Government Finance Officers Association (GFOA) for the 22nd consecutive year
- ☆ Popular Annual Financial Report (PAFR) award for FY2014/15 from the GFOA for the fourth consecutive year
- ☆ Distinguished Budget Presentation Award from the GFOA for the eighth consecutive year
- ☆ Achievement of Excellence in Procurement Award from the National Procurement Institute (NPI) for the eighth consecutive year
- ☆ OVPD High Visibility Enforcement (HIVE) program received the Mayor's Challenge "Educate and Enforce" award for traffic safety from the US department of Transportation

The Government Finance Officers Association of the United States and Canada (GFOA) 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, 2015. 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, 2015

Jeffrey R. Egan
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 Statement of Net Position 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, 2016

	<u>2016</u>	<u>2015</u>
Assets		
Current assets and other assets	\$ 52,459,795	\$ 53,162,840
Capital assets, net	246,642,663	244,900,365
Total assets	299,102,458	298,063,205
Deferred outflows	9,377,491	8,192,594
Liabilities		
Current and other liabilities	9,047,392	9,521,516
Long-term liabilities	90,332,151	89,136,979
Total liabilities	99,379,543	98,658,495
Deferred inflows	2,143,862	4,739,885
Net Position	\$ 206,956,544	\$ 202,857,419

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.

The following are significant transactions that impacted the Statement of Net Position:

- The addition of \$5.7 million in business-type activities capital assets through improvements to the existing water system.
- The addition of \$8.5 million in governmental activities capital assets, mostly consisting of multiple road improvements and pavement preservation upgrades.
- The decrease of \$2.4 million in business-type activities long-term debt was primarily due to the issuance of \$1.2 million of refunding bonds, the issuance of \$1.3 million of loans, and annual debt service payments of \$5.0 million.
- The increase of \$97,622 in governmental activities long-term debt was primarily due to the addition of \$1.0 million of capital lease obligations, and net refunding of \$500,000.

i WHAT IT MEANS

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

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

Deferred Outflows are outflows of resources that have already occurred but are applicable to future periods.

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

Deferred Inflows are inflows of resources that have already occurred but are applicable to future periods.

Net Position is the difference between assets plus deferred outflows and liabilities plus deferred inflows, of which may or may not be available for future spending.



STATEMENT OF ACTIVITIES

The 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, 2016. This statement presents information to show how the Town's net position changed during the year as a result of the financial activity (e.g., 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.

The Statement of Activities shows that the Town's total net position has improved over the beginning net position. Recent revenue trends reflect an increase of \$9.1 million in total revenues, due primarily to increased capital contributions from developers and a \$4.9 million increase in community center charges for services due to a full year of operations. Business-type activities, capital grants and contributions increased by \$1.4 million due to the execution of several line extension agreements with developers for several new home construction projects. Total expenses increased \$5.6 million, or 10 percent, primarily due to the Town's community center being in operation for a full year.

Statement of Activities for the year ended June 30, 2016

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

	<u>2016</u>	<u>2015</u>
Revenues	\$ 68,147,990	\$ 59,058,255
Expenses	64,048,865	58,400,614
Change in net position	4,099,125	657,641
Net position, beginning of year (restated)	202,857,419	202,199,778
Net position, end of year	\$ 206,956,544	\$ 202,857,419

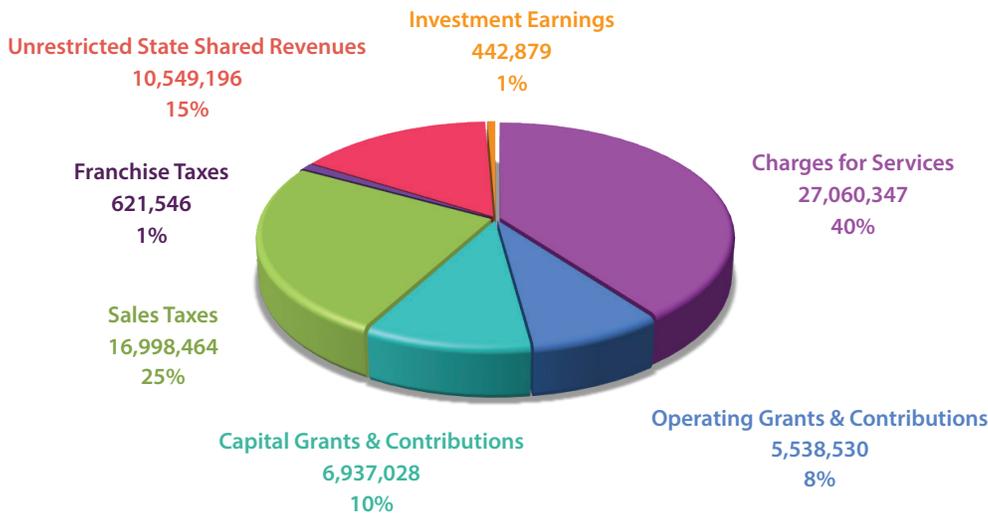


REVENUES

Where the money comes from

Revenues by Source

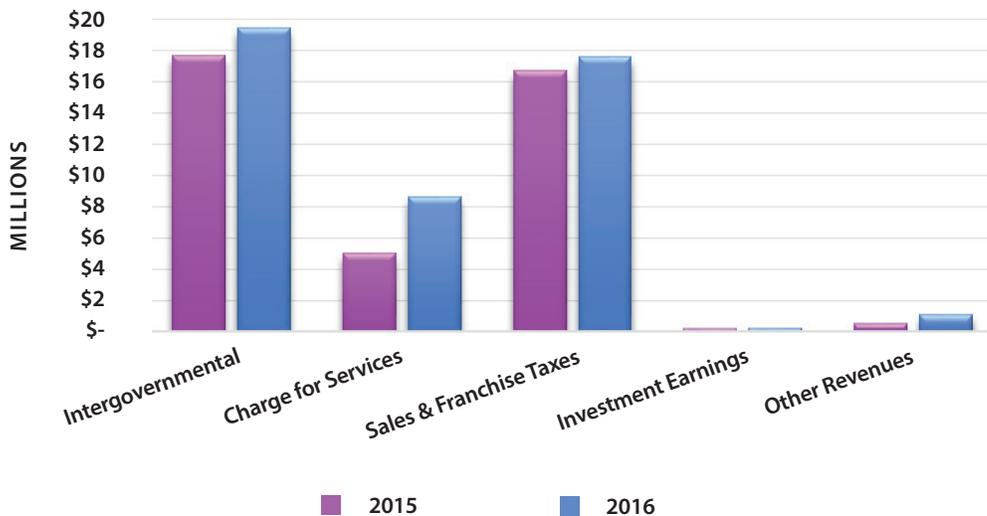
Includes Governmental & Business-Type Activities



This chart illustrates the sources and percentages of the Town's revenues totaling \$68.1 million for FY 2015/16. The Town's primary revenue sources during 2016 include charges for services, sales taxes and state-shared revenues. Together, these three categories represented 80% of all revenue collections in FY 2015/16.

Two-Year Historical Comparison - Revenues

Governmental funds only



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%, 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.

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.





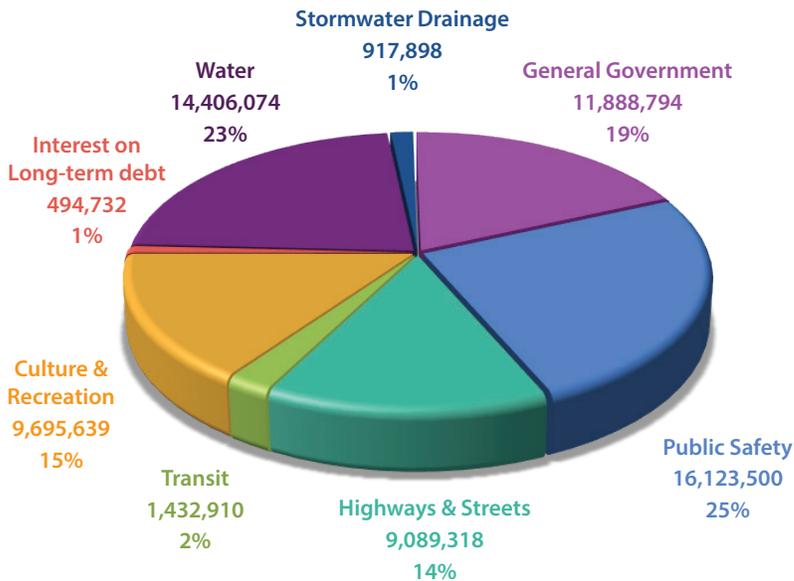
EXPENSES

Where the money goes

This chart illustrates the uses and percentages of the Town's expenses across all funds totaling \$64 million for FY 2015/16. The majority of expenses relate to Water Utility operations, general government operations and Public Safety (police). Over half of the Town's total expenses (66%) are from these three areas.

Expenses by Category

Includes Governmental & Business-Type Activities



i WHAT IT MEANS

General Government expenses are incurred by the Town's administrative departments, including Mayor and Town Council, Town Manager, Legal Services, 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).

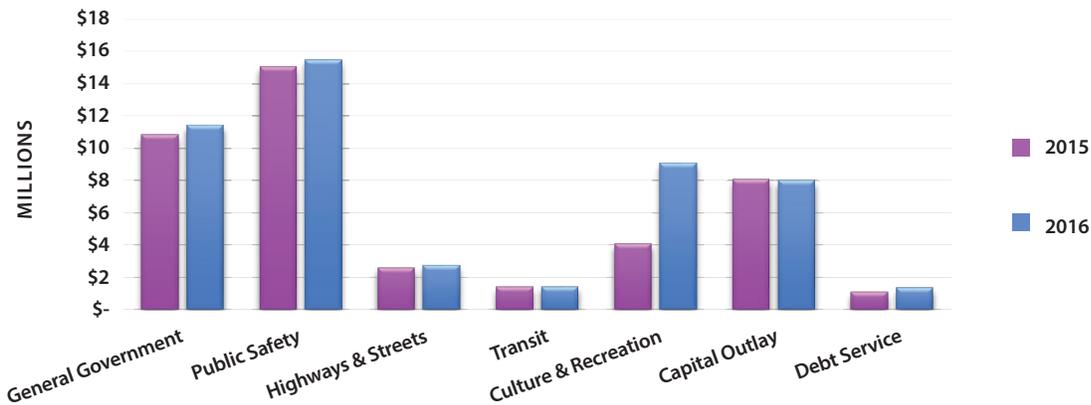
Stormwater Drainage expenses are those related to the design, construction, maintenance and operation of all stormwater drainageways within the town.

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.



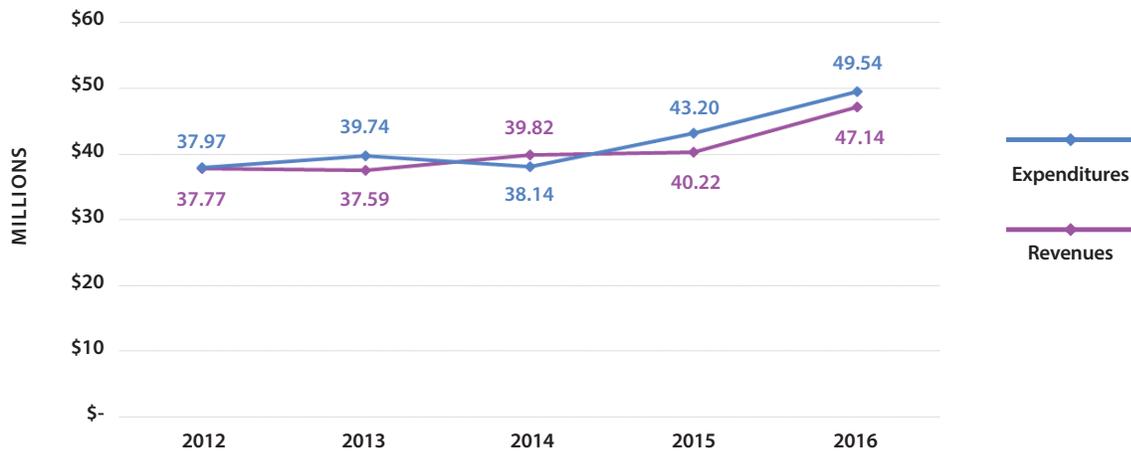
Two-Year Historical Comparison - Expenditures

Governmental funds only



Five-Year Historical Comparison - Revenues & Expenditures

Governmental funds only

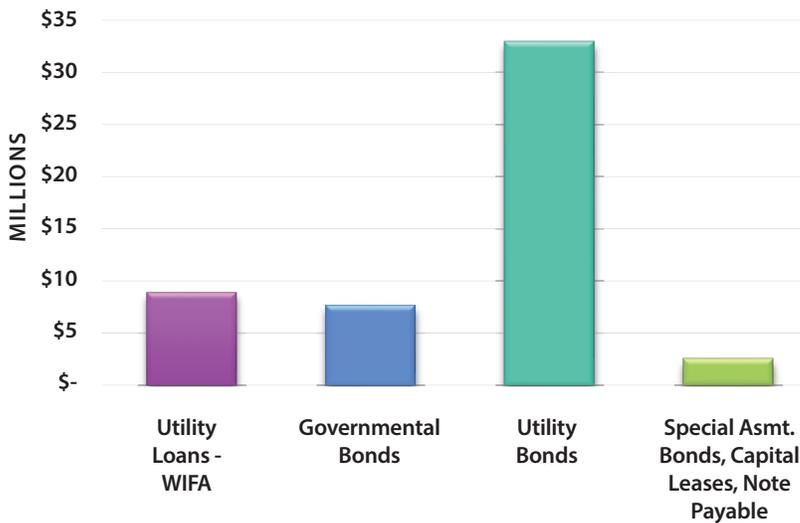


As displayed in the Five-Year Historical Comparison chart above, the Town's revenue and expenditure growth remained steady from FY 2011/12 through FY 2014/15. This is reflective of the Town's fiscal stability during the years following the Great Recession as economic growth slowly returned. Each year's Town budget took a measured approach to carefully plan where every new dollar generated from growth was allocated to ensure structural balance was achieved between the Town's revenues and expenditures. The revenue and expenditure increase shown for FY 2015/16 mainly represents the full-year operations of the newly-acquired Oro Valley Community Center within the Parks and Recreation budget. These operations are supported by membership dues, golf, tennis and fitness fees, food and beverage revenues and a dedicated half cent sales tax adopted by the Town Council in 2015.

DEBT & FINANCIAL RATINGS

As of June 30, 2016, the Town had \$52 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, 2016.

Outstanding Debt Obligations as of June 30, 2016



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 \$10.5 million, or 32% of FY 2016/17 adopted expenditures of \$33.1 million.

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.

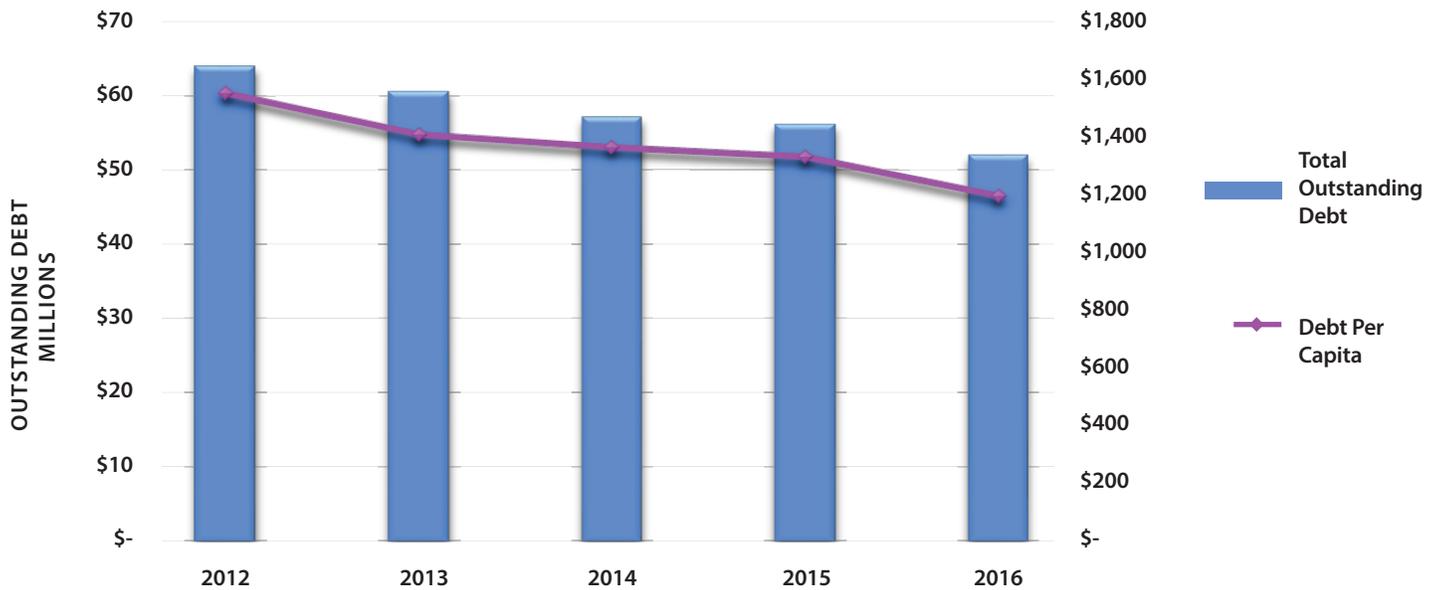
What they're saying...

FITCH AFFIRMS ORO VALLEY, AZ'S WATER REVS AT AA-, OUTLOOK STABLE

Fitch has reaffirmed Oro Valley's 2012 Senior Lien Water Project revenues as AA- based on factors such as robust liquidity, ample water supply, a manageable capital plan and strong economic base.



Five Year Historical Comparison Total Outstanding Debt & Debt Per Capita



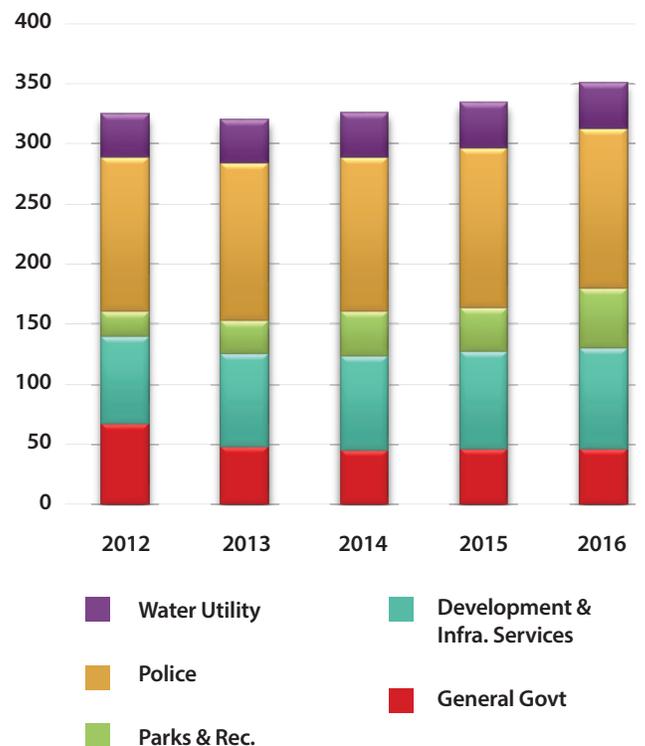
EMPLOYEE SALARIES & BENEFITS

Personnel services comprised 46% of the total operating budget for FY 2015/16. The FY 2015/16 budget included funding for employee merit and step increases and benefits costs 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. Therefore, the Town's FY 2015/16 Comprehensive Annual Financial report shows \$34.6 million in net pension liability. Town management is actively managing its pension liability by looking for opportunities to reduce the outstanding balance and save on interest. For example, the Town prepaid its budgeted FY 2015/16 Public Safety Retirement contributions as a lump sum early in FY 2016 instead of making bi-weekly contributions.

Parks and Recreation increased by 13 full-time equivalents (FTEs) in FY15/16 to staff the Oro Valley Community Center in its first full year of operations. With the addition of the Community Center, the Parks and Recreation Department was able to grow its program offerings from 38 to 52, and expand summer camp capacity to more than 1,300 children.

Number of Full-Time Equivalent Employees by Function





ECONOMIC DEVELOPMENT

Town Employment Statistics

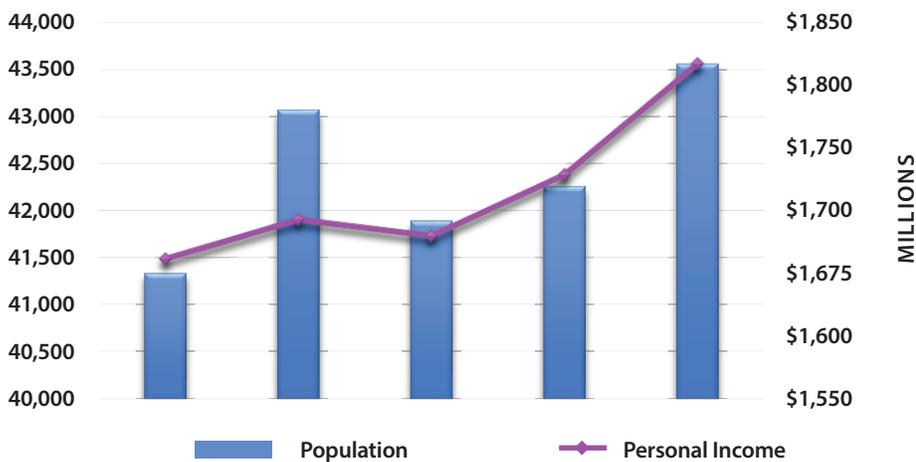
Principal Employers in Oro Valley

	<u>Employees</u>	<u>% of Total Town Employment</u>
Roche Group's Ventana Medical Systems	1400	8.00%
Oro Valley Hospital	602	3.44%
Amphitheater Public Schools	549	3.14%
Town of Oro Valley	529	3.02%
Hilton El Conquistador Golf & Tennis Resort	345	1.97%
Fry's Food & Drug Store	235	1.34%
Walmart Supercenter	229	1.31%
Splendido at Rancho Vistoso	188	1.07%
Securaplane	167	0.95%
Target	150	0.86%

The Town Council and management are focused on attracting and retaining globally competitive, high-tech and bioscience employers while maximizing destination opportunities for visitors. FY 2015/16 highlights include Oro Valley's partnership with the Children's Museum, which attracted more than 33,000 visitors in its first year. Also notable was the Icagen, Inc. purchase of Sanofi's drug research center on Innovation Drive. The purchase will allow the research center to grow and operate at full capacity, serving Sanofi and other bio-tech firms. Other highlights include numerous cultural events throughout the year such as the Halloween Spooktacular, Holiday Tree Lighting Celebration and the Harvest Heritage Festival at Steam Pump Ranch, as well as a number of regional and state sporting events hosted at the Oro Valley Aquatic Center. Additionally, Oro Valley provided a wide range of construction assistance for residential and commercial projects, including: a 45,000-square-foot expansion at Splendido, Stone Canyon Clubhouse, MOD Pizza, Smashburger, Kneader's Restaurant, Gaslight Music Hall, a large modular expansion at Ventana Medical Systems, and projects currently under construction, which include Pima Federal Credit Union and the apartments at El Corredor.



Town Demographic & Economic Statistics



Note: Demographic statistics 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.

