

Town of Oro Valley, AZ Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2006



TOWN OF ORO VALLEY, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Mr. Paul Loomis
Mayor

Mr. Terry Parish
Vice Mayor

Council Members

Ms. Paula Abbott Mr. Kenneth "K.C." Carter

Ms. Helen Dankwerth Mr. Barry Gillaspie

Mr. Alfred Kunisch

David L. Andrews
Town Manager

Stacey Lemos
Finance Director

Prepared by:
Finance Department

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INTRODUCTORY SECTION

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TOWN OF ORO VALLEY
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September 20, 2006

To the Honorable Mayor Loomis, Members of the Town Council, and Citizens of the Town of Oro Valley:

State law requires that all general-purpose local governments, publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report of the Town of Oro Valley (Town) for the fiscal year ended June 30, 2006.

This report consists of management's representations concerning the finances of the Town of Oro Valley. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the Town of Oro Valley has established a comprehensive internal control framework that is designed both to protect the Town's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Town of Oro Valley's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Town of Oro Valley'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.

The Town of Oro Valley's financial statements have been audited by Cronstrom, Osuch and Company, P.C. a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Oro Valley for the fiscal year ended June 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Town of Oro Valley's financial statements for the fiscal year ended June 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Town of Oro Valley's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The Town of Oro Valley was incorporated in 1974. It is located in northeastern Pima County and has a land area of 34.68 square miles. The Town's current population is estimated at 44,000.

The Town of Oro Valley operates under the Council-Manager form of government. Policymaking and legislative authority is vested in the Town Council, which consists of a Mayor and six Council Members. Council Members are elected to four-year staggered terms. The citizens of Oro Valley elect the Mayor. The Council, from among its members, selects the Vice-Mayor. The Town Council is responsible, among other things, for the adoption of local ordinances, budget adoption, the development of citizen advisory committees and the hiring of the Town Manager. The Town Manager is responsible for implementation of the policies of the Town Council. The Town Manager appoints all department heads except the Town Clerk, Chief of Police, Town Engineer, Town Attorney and Magistrate.

The Town of Oro Valley provides a full range of services including police protection; the construction and maintenance of streets and related infrastructure; the provision of water services; public transportation services; recreational activities, a public library and cultural events. In addition to general government activities, the governing body is financially accountable for the Municipal Property Corporation; therefore, this activity is included in the reporting entity. Additional information in regards to the Municipal Property Corporation can be found in Note 1.A. in the notes to the basic financial statements.

The annual budget serves as the foundation for the Town of Oro Valley's financial planning and control. All departments of the Town are required to submit requests for appropriations to the Town Manager in March of each year. The Town Manager uses these requests as the starting point for developing a proposed budget. The Town Manager then presents this proposed budget to the Council for review each year. The Council is required to hold public hearings on the proposed budget and to adopt a tentative budget by no later than the third Monday in July of each year. The appropriated budget is prepared by fund and department. The Town Manager, subject to Town Council approval, may at any time transfer various unencumbered appropriation balances or portions thereof between a department or activity. The adopted budget cannot be amended in any way without Town Council approval.

The Town of Oro Valley maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Town Council.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the Town of Oro Valley operates.

Local Economy

The local economic outlook for the Town of Oro Valley remained stable in fiscal year 2005/06. Sales tax collections from construction, retail trade and restaurants and bars and hotel/motel lodging are the major industries which accounted for 86.5% of all sales tax receipts for fiscal year 2005/06. As indicated in prior years, the Town of Oro Valley relies heavily on one-time construction-related revenues to provide funding for delivering services and programs to its residents. As the Town faces expected declines in residential construction over the next 5-10 years, efforts continue to be made to diversify our revenues, explore the feasibility of additional revenue sources and cost control efforts.

To this end, the Town increased the bed tax rate from 3% to 6%, which became effective January 1, 2006. The Town has allocated this bed tax revenue to fund parks and recreation facilities and services and economic development efforts.

Construction sales tax collections for fiscal year 2005/06 increased by \$1,293,952 or 36% as compared to fiscal year 2004/05. Demonstrating the decline in residential development, single family residential building permits issued during fiscal year 2005/06 totaled 388, down from 422 permits issued in fiscal year 2004/05.

Sales tax collections from retail trade totaled \$3,229,331 for this fiscal year. This is an increase of \$287,072 over last fiscal year. Several new shopping centers are scheduled to be completed or begin construction over the next three to five years. As such, the Town can expect to see commercial building-related revenues increase slightly, as well as an increase in related retail sales taxes as those commercial centers open for business.

In a further effort to replace and supplement the Town's declining construction-related revenues, the Town continues to expand its annexation and economic development efforts. Several potential annexation areas are currently being evaluated. The Southwest Planning Area is a 2.2 square mile area southwest of the Town's boundaries that includes about 4,100 residents and significant commercial properties, including a shopping mall, restaurants, movie theaters, and a resort hotel. The Town is also assessing the annexation potential of 45 square miles of land north of the Town that is owned by the Arizona State Land Department.

Long-term Financial Planning

The Town's Finance and Bond Committee continues to serve as a source for the Town Council in analyzing and providing recommendations for the Town's financial future.

During fiscal year 2005/06, Town staff worked with a consultant to develop an Economic Vitality Model for the Town. This model is an interactive, land-use based fiscal impact model that is designed to project the Town's future revenues and expenditures over the next twenty years based on projections of land use development throughout the Town. The model can be utilized to forecast Town-wide level or specific, project-level results, such as the budgetary impact of an annexation area on the Town.

The Town is also migrating to a performance and program-based budgeting approach beginning in fiscal year 2006/07. By doing so, the Town will be able to measure the specific costs of providing programs and services to its residents, as well as measure the efficiency with which those programs are provided. To facilitate this change in approach, the Town is implementing a new enterprise resource planning (ERP) system to be completed in fiscal year 2007/08. This system will be designed to more accurately capture costs by program. By utilizing the Economic Vitality model in conjunction with the new ERP system, the Town will be able to perform long-range forecasts at a program-based level and determine any revenue shortfalls that may need to be addressed in the near-term.

The Town Council continues to analyze and study all available revenue sources available to the Town in an effort to further diversify its revenue base and provide financial sustainability into the future.

Cash Management Policies and Practices

The Town uses a system of consolidated cash management. Cash from all funds is pooled in a central disbursement fund. Cash to be used for payment of current expenditures is maintained in a checking account; the balance of cash is maintained on deposit with the Arizona State Treasurer's Local Government Investment Pool. Cash in the Local Government Investment Pool (LGIP) is available upon 24 hours notice. The LGIP invests in U.S. Treasury Notes, U.S. Treasury Bills and federally guaranteed insurance contracts. The average interest rate for the fiscal year 2004/05 was 2.237% and 3.939% in fiscal year 2005/06. Investments held in the LGIP earned \$1,473,865 in interest revenue for the year ended June 30, 2006. The account at LGIP for the construction of the reclaimed water system improvement project and potable water system improvements and expansion earned \$297,884 in interest revenue.

A debt service reserve fund was established in 1996 for the Municipal Property Corporation (MPC) municipal water system acquisition bonds. In 1999, MPC revenue bonds were issued for the construction of the community development building and for water system improvements and a reserve fund was also established. These reserve funds are maintained in trust accounts with Wells Fargo Bank. Funds on deposit in the trust accounts are invested solely in obligations that are issued or guaranteed by the U.S. Treasury, such as U.S. Treasury bills, bonds and notes ("U.S. Treasury Securities"). Interest on investments held with the trustee earned \$169,968 for fiscal year 2005/2006.

Risk Management

The Town of Oro Valley participates in the Arizona Municipal Risk Retention Pool. Risk coverage includes general liability, errors and omissions, property and automobile insurance. The policy insures up to \$2,000,000 per incident occurrence plus any excess liability of up to a \$10,000,000 limit per occurrence per year. Coverage is provided on a claims-made basis.

The Town participates in the Arizona Municipal Workers Compensation Pool for workers compensation insurance coverage.

The Town of Oro Valley is self-insured for unemployment compensation. Unemployment reserves totaled \$228,593 as of June 30, 2006 for the Town's 286 full-time, 65 part-time and 46 seasonal employees. The Town did not make an unemployment contribution in fiscal year 2005/2006.

Pension Benefits

The Town of Oro Valley contributes to the Public Safety Personnel Retirement System (PSPRS), agent multiple-employer, public employee retirement system that acts as a common investment and administrative agent to provide retirement and death and disability benefits for all eligible commissioned police department personnel. All benefit provisions and other requirements are established by the state statutes. Employees were required to contribute 7.65 percent of their annual salary to PSPRS in FY 2005/06. The Town is required to contribute the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The rate for FY 2005/06 was 9.78 percent of the annual covered payroll for PSPRS.

The Town of Oro Valley police dispatchers contribute to the Arizona Correction Officers Retirement Plan (ACORP). The Correction Officers Retirement Plan is an agent multiple-employer which is administered in the same manner as the Public Safety Personnel Retirement System. Employees were required to contribute 8.50 percent while the Town contributed 8.15 percent of their annual salary in FY 2005/06.

All non-police and certain part-time employees contribute to the Arizona State Retirement System (ASRS). The Arizona State Retirement System is a cost sharing, multi-employer, public employee, tax-qualified, defined benefit plan (with the exception of the defined contribution portion). The ASRS Board is the governing body of the ASRS and is responsible for the administration and management of the ASRS and its trust fund. Employees were required to contribute 6.9 percent for retirement and .5 percent for long-term disability. The Town is required to contribute 6.9 percent for retirement and .5 percent for long-term disability.

Additional information on the Town of Oro Valley's retirement plans can be found in Note 4.C. on pages 57 - 59.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town for its Comprehensive Annual Financial Report for the year ended June 30, 2005. In order to be awarded a Certificate of Achievement, the Town published an easily readable and efficiently organized comprehensive annual financial report. The report satisfied both accounting principals generally accepted in the United States of America 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.

We would also like to extend our appreciation to the Mayor and Council for their leadership and support. The preparation of this Comprehensive Annual Financial Report was made possible by the dedicated work of the Finance Department staff.

Respectfully submitted,



David L. Andrews
Town Manager



Stacey Lemos
Finance Director

TOWN OF ORO VALLEY, ARIZONA

LIST OF PRINCIPAL OFFICIALS

ELECTED OFFICIALS

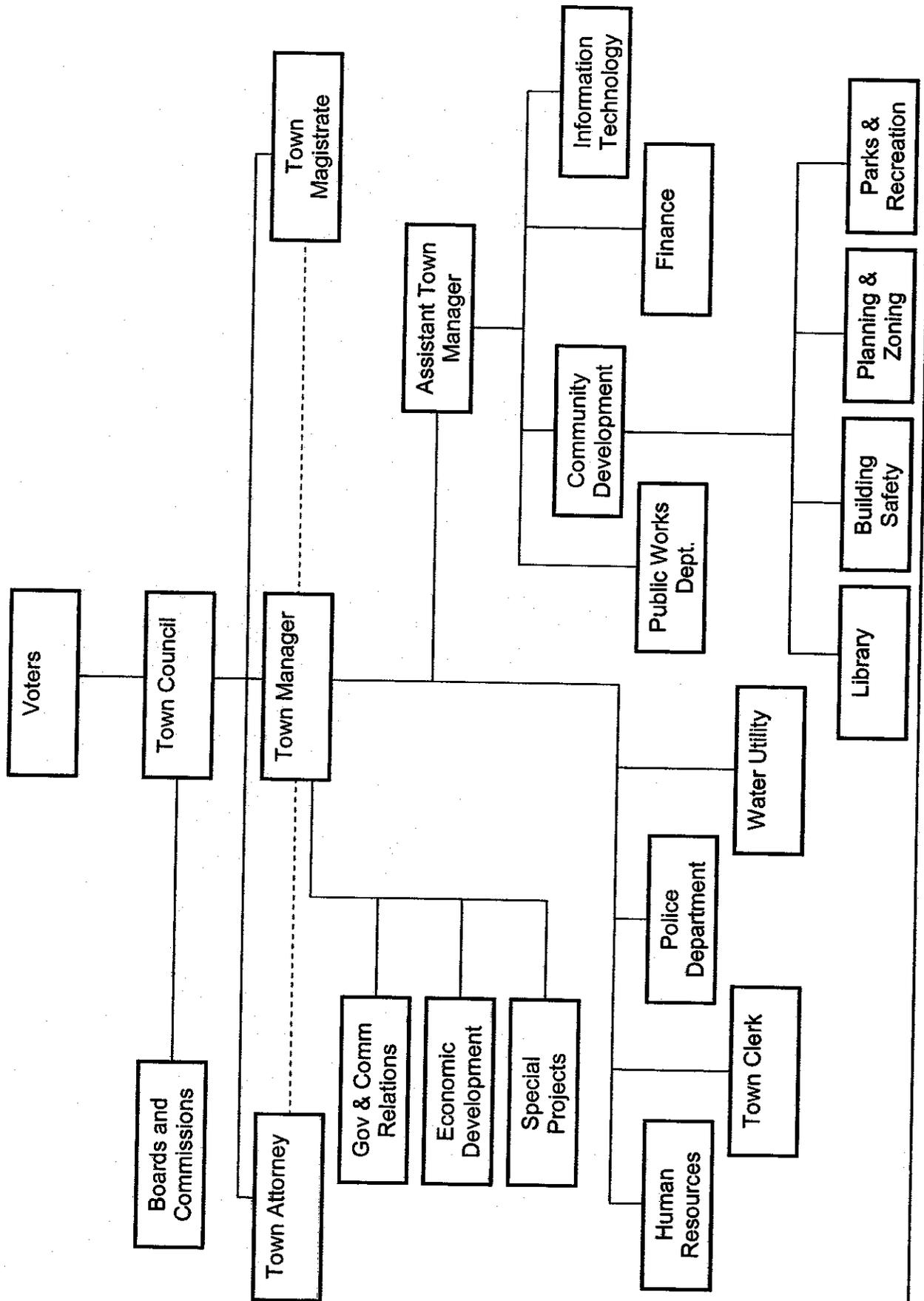
Mayor	Mr. Paul Loomis
Vice-Mayor	Mr. Terry Parish
Council Member	Ms. Paula Abbott
Council Member	Mr. Kenneth "K.C." Carter
Council Member	Ms. Helen Dankwerth
Council Member	Mr. Barry Gillaspie
Council Member	Mr. Alfred Kunisch

DEPARTMENT HEADS

Town Manager	David L. Andrews
Acting Assistant Town Manager	Philip Saletta
Finance Director	Stacey Lemos
Human Resources Director	Sandra Abbey
Town Engineer	Craig Civalier
Town Clerk	Kathryn E. Cuvelier
Magistrate	George Dunscomb
Town Attorney	Melinda Garrahan
Water Utility Director	Philip Saletta
Chief of Police	Daniel G. Sharp
Community Development Director	H. Brent Sinclair

TOWN MANAGER ORGANIZATION CHART

FY 2005-2006



Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Oro Valley,
Arizona

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Carla E. Perry

President

Jeffrey R. Emswiler

Executive Director

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and the Town Council of the
Town of Oro Valley, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Oro Valley, Arizona (Town), as of and for the year ended June 30, 2006, which collectively comprise the Town's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial reports contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Oro Valley, Arizona, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund, HURF Fund and Public Transportation Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 15 - 25 and the Public Safety Personnel Retirement System Schedule of Funding Progress on page 62 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The introductory section, combining and individual fund financial statements and schedules and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Cronstrom, Osuch & Company, P.C.

Cronstrom, Osuch & Company, P.C.

September 20, 2006

Management's Discussion and Analysis

As management of the Town of Oro Valley, Arizona (Town), we offer readers of the Town of Oro Valley's financial statements this narrative overview and analysis of the financial activities of the Town of Oro Valley for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

Financial Highlights

- ◆ The assets of the Town of Oro Valley as of June 30, 2006 exceeded its liabilities by \$163,926,293 (net assets). Of this amount, \$38,021,617 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- ◆ The government's total net assets increased by \$13,273,071.
- ◆ As of June 30, 2006, the Town of Oro Valley's governmental funds reported combined ending fund balances of \$24,149,579 which is a decrease of \$2,863,938 or 11% in comparison to last fiscal year.
- ◆ At the end of the current fiscal year, unreserved fund balance for the General Fund was \$14,356,224 or 68% of total General Fund expenditures. The unreserved fund balance included \$872,361 designated for compensated absences and \$195,312 designated for unemployment. The remaining \$13,288,551 was undesignated.
- ◆ Total debt (other than compensated absences) for the Town of Oro Valley at June 30, 2006 was \$84,374,405. Compared to last fiscal year this was a net increase of \$1,570,036 or a 1.9% increase. Total debt service payments, including the amortization of discounts, premiums and deferred amounts on the refundings were \$4,644,964. Bonds in the amount of \$6,215,000 were issued for the purchase of land to construct new municipal facilities for Town employees.

Overview of the Financial Statements.

This discussion and analysis is intended to serve as an introduction to the Town of Oro Valley's basic financial statements. The Town of Oro Valley's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary 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 Town of Oro Valley's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Town of Oro Valley's assets and liabilities, with the difference between assets and liabilities reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town of Oro Valley is improving or declining.

The statement of activities presents information about how the government's net assets changed during the most recent fiscal year. Changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, certain revenues and expenses reported in this statement will result in cash flows in future fiscal periods (e.g., uncollected court fines and earned but unused vacation leave).

The government-wide financial statements distinguish functions of the Town of Oro Valley that are principally supported by local taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town of Oro Valley include general government, public safety, highways and streets and culture and recreation. The business-type activities of the Town of Oro Valley include the Oro Valley Water Utility and Stormwater Utility.

The government-wide financial statements include not only the Town of Oro Valley itself (known as the primary government), but also a legally separate Town of Oro Valley Municipal Property Corporation (MPC). The Town has a contractual obligation for the repayment of the Municipal Property Corporation's Municipal Facilities Revenue Bonds, Series 1996, 1999, 2001 and 2003. These activities are accounted for in the Oro Valley Water Utility enterprise fund.

The government-wide financial statements can be found on pages 28-29 of this report.

Fund financial statements. 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 Town of Oro Valley, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Oro Valley can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is 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 the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town of Oro Valley maintains fourteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Highway User Revenue Fund (HURF), Public Transportation Fund, Oracle Road Debt Service Fund and the Townwide Roadway Development Impact Fees Fund which are considered to be major funds. Data from the other nine governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The Town of Oro Valley adopts an annual appropriated budget for its General Fund, certain Special Revenue Funds, Debt Service Funds and Capital Project Funds. The level of budgetary control (i.e., the level at which expenditures cannot legally exceed the appropriated amount) is the departmental level for the General Fund and in total by fund for the other funds. The Town also maintains an encumbrance accounting system as one method of maintaining budgetary control. Encumbered amounts lapse at year end. However, outstanding encumbrances generally are reappropriated as part of the subsequent year's budget. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund and Special Revenue Funds reported as major funds (HURF and the Public Transportation Funds), this comparison is presented on pages 34-36 as part of the basic financial statements for the governmental funds. Budgetary comparisons for all Nonmajor Governmental Funds with appropriated annual budgets are presented in the Combining and Individual Fund Statements and Schedules of this report on pages 66-78.

As demonstrated by the statements and schedules included in the financial section of this report, the Town of Oro Valley continues to meet its responsibility for sound financial management.

The basic governmental fund financial statements can be found on pages 30-33 of this report.

Proprietary funds. The Town of Oro Valley maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Oro Valley uses enterprise funds to account for its Oro Valley Water Utility and Stormwater Utility.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Oro Valley Water Utility and the Stormwater Utility.

The basic proprietary fund financial statements can be found on pages 37-39 of this report.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 41-59 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 Town of Oro Valley's progress in funding the Arizona Public Safety Retirement System available to commissioned police officers and the Correction Officers Retirement Plan for police dispatchers. Required supplementary information can be found on page 62 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 66-78 of this report.

Government-wide Financial Analysis

As noted earlier, over time net assets may serve as useful indicators of a government's financial position. In the case of the Town of Oro Valley, assets exceeded liabilities by \$163,926,293 at June 30, 2006.

Net assets consist of three components. The largest portion of net assets (\$114,654,277 or 70%) reflects its investments in capital assets (e.g., land, buildings, machinery and equipment), less any related outstanding debt used to acquire those assets. The Town of Oro Valley uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Oro Valley's investment in capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Town of Oro Valley's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 32,846,248	\$ 35,660,512	\$ 27,964,323	\$ 29,316,237	\$ 60,810,571	\$ 64,976,749
Capital assets	<u>123,405,883</u>	<u>111,123,232</u>	<u>71,677,799</u>	<u>64,768,962</u>	<u>195,083,682</u>	<u>175,892,194</u>
Total assets	<u>156,252,131</u>	<u>146,783,744</u>	<u>99,642,122</u>	<u>94,085,199</u>	<u>255,894,253</u>	<u>240,868,943</u>
Long-term liabilities outstanding	20,858,681	19,423,682	64,516,057	64,283,747	85,374,738	83,707,429
Other liabilities	<u>3,997,485</u>	<u>4,063,472</u>	<u>2,595,737</u>	<u>2,444,820</u>	<u>6,593,222</u>	<u>6,508,292</u>
Total liabilities	<u>24,856,166</u>	<u>23,487,154</u>	<u>67,111,794</u>	<u>66,728,567</u>	<u>91,967,960</u>	<u>90,215,721</u>
Net assets:						
Invested in capital assets, net of related debt	107,413,486	92,541,223	7,240,791	546,602	114,654,277	93,087,825
Restricted	8,919,398	15,360,660	2,331,001	2,310,980	11,250,399	17,671,640
Unrestricted	<u>15,063,081</u>	<u>15,394,707</u>	<u>22,958,536</u>	<u>24,499,050</u>	<u>38,021,617</u>	<u>39,893,757</u>
Total net assets	<u>\$131,395,965</u>	<u>\$123,296,590</u>	<u>\$ 32,530,328</u>	<u>\$ 27,356,632</u>	<u>\$163,926,293</u>	<u>\$150,653,222</u>

The second portion of the Town of Oro Valley's net assets (\$11,250,399 or 7%) represents resources that are subject to external restrictions. The third portion of net assets is the unrestricted portion (\$38,021,617 or 23%). These net assets may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town of Oro Valley had positive net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

During the current fiscal year, the Town's net assets increased by \$8,099,375 in governmental activities and \$5,173,696 in business-type activities for a total of \$13,273,071.

The \$8 million increase in governmental activities was mainly attributed to the category of capital assets. Several street and road improvement projects were completed in this fiscal year including the Tangerine Road Widening Project (\$10M) and Lambert Lane Safety Improvements (\$388K) and miscellaneous street and road projects (\$2M).

Business-type activities in the Oro Valley Water Utility fund increase by \$5.2M. This increase is primarily related to the category of capital assets which increased by \$6.9M. Phase I of the reclaimed water delivery system was completed in this fiscal year.

Governmental and Business-type Activities. Governmental activities increased the Town of Oro Valley's net assets by \$8,099,375 which accounts for 61% of the total growth in the net assets of the Town of Oro Valley. Key elements of this increase are as follows:

- ◆ Local sales tax collections totaled \$12.9 million which is an increase in collections of \$3.0 million as compared to last fiscal year. Construction sales tax (\$2M), retail trade (\$287K) and restaurants and bars and hotel/motel (\$504K) were the industries that accounted for the increase.
- ◆ \$2.9 million in state grant funds was received for street and road improvement projects.
- ◆ State shared revenues increased by \$1 million as compared to last fiscal year.
- ◆ Investment earnings increased by \$433,913 over last fiscal year due to higher interest rate yields.

Business-type activities increased the Town of Oro Valley's net assets by \$5,173,696 which accounted for 39% of the total growth in the Town's net assets. Key elements of this increase are as follows.

- ◆ Total revenues for the Oro Valley Water Utility totaled \$15,618,123. Revenues collected were water sales (\$10.7M), charges for services (\$1.2M), water connection fees (\$1.8M), capital contributions (\$629K) and investments earnings (\$951K).
- ◆ Total expenses for the Oro Valley Water Utility were \$10,438,869. This is an increase of 8.3% from the previous fiscal year.

Town of Oro Valley's Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program Revenues						
Fees, fines and charges for services	\$ 4,197,210	\$ 4,180,651	\$14,059,792	\$11,966,123	\$ 18,257,002	\$ 16,146,774
Operating grants and contributions	4,558,864	4,216,642	-	-	4,558,864	4,216,642
Capital grants and contributions	3,994,640	19,267,422	628,501	2,934,747	4,623,141	22,202,169
General Revenues						
Taxes						
Sales taxes	12,455,609	9,536,791	-	-	12,455,609	9,536,791
Franchise taxes	435,428	402,482	-	-	435,428	402,482
Impact Fees	1,098,977	1,547,819	-	-	1,098,977	1,547,819
State revenue sharing	3,343,471	2,935,615	-	-	3,343,471	2,935,615
State sales tax revenue sharing	3,432,007	2,958,376	-	-	3,432,007	2,958,376
Auto lieu tax revenue sharing	1,541,560	1,395,094	-	-	1,541,560	1,395,094
Investment earnings	991,151	557,238	-	-	991,151	557,238
Total Revenues	<u>36,048,917</u>	<u>46,998,130</u>	<u>15,644,482</u>	<u>15,492,802</u>	<u>51,693,399</u>	<u>62,490,932</u>
Expenses:						
General government	7,162,732	5,997,864	-	-	7,162,732	5,997,864
Public safety	11,155,542	10,309,453	-	-	11,155,542	10,309,453
Highways and streets	5,732,026	4,789,234	-	-	5,732,026	4,789,234
Culture and recreation	3,014,341	2,631,306	-	-	3,014,341	2,631,306
Interest on long-term debt	805,123	653,331	-	-	805,123	653,331
Water	-	-	10,438,869	9,642,592	10,438,869	9,642,592
Stormwater drainage	-	-	111,695	271,469	111,695	271,469
Total Expenses	<u>27,869,764</u>	<u>24,381,188</u>	<u>10,550,564</u>	<u>9,914,061</u>	<u>38,420,328</u>	<u>34,295,249</u>
Increase in net assets before transfers	8,179,153	22,616,942	5,093,918	5,578,741	13,273,071	28,195,683
Transfers	<u>(79,778)</u>	<u>(91,194)</u>	<u>79,778</u>	<u>91,194</u>	<u>-</u>	<u>-</u>
Change in net assets	8,099,375	22,525,748	5,173,696	5,669,935	13,273,071	28,195,683
Net assets, beginning of year						
Net assets, end of year	<u>123,296,590</u>	<u>100,770,842</u>	<u>27,356,632</u>	<u>21,686,697</u>	<u>150,653,222</u>	<u>122,457,539</u>
	<u>\$ 131,395,965</u>	<u>\$ 123,296,590</u>	<u>\$ 32,530,328</u>	<u>\$ 27,356,632</u>	<u>\$ 163,926,293</u>	<u>\$ 150,653,222</u>

Financial Analysis of the Government's Funds

The Town of Oro Valley uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Town of Oro Valley's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town of Oro Valley's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town of Oro Valley's governmental funds reported combined ending unreserved fund balances of \$24,061,688 a decrease of \$2,915,641 in comparison with the prior year. The unreserved fund balance includes funds designated for compensated absences (\$921,284) and unemployment reserves (\$220,447).

The general fund is the chief operating fund of the Town of Oro Valley. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$14,356,224, and the total fund balance was \$14,363,491. As a measure of the general fund's liquidity, it is useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 68% of total general fund expenditures, while total fund balance represents 68% of that same amount.

The unreserved fund balance of the Town of Oro Valley's General Fund increased by \$2,612,064 during the current fiscal year. Key factors in this increase are as follows:

- ◆ Total revenues of \$25,018,727 exceeded expenditures by \$3,947,566.
- ◆ Revenue sources which exceeded budget included the following: local sales tax collections (\$2.5M), state/county shared revenues (\$397K), investment earnings (\$296K)
- ◆ Sales tax recoveries (\$307K) generated from sales tax audits also exceeded expectations.
- ◆ Expenditures were under budget by \$867K, excluding contingencies. This was mainly attributed to capital improvement projects carried forward to fiscal year 2006/07 and cost savings in various departments due to staffing vacancies during the year.

	Unreserved Fund Balance <u>Fiscal Year 2005/06</u>	Unreserved Fund Balance <u>Fiscal Year 2004/05</u>	Increase/(Decrease) <u>From 2004/05</u>
General Fund	\$ 14,356,224	\$ 11,744,160	\$ 2,612,064
Highway User Revenue Fund	3,753,310	3,308,622	444,688
Public Transportation Fund	53,169	88,230	(35,061)
Oracle Road Debt Service Fund	100,715	216,592	(115,877)
Townwide Roadway Development Impact Fees Fund	4,119,146	7,301,641	(3,182,495)
Nonmajor Governmental Funds	<u>1,679,124</u>	<u>4,318,084</u>	<u>(2,638,960)</u>
Total Governmental Funds	<u>\$ 24,061,688</u>	<u>\$ 26,977,329</u>	<u>\$ (2,915,641)</u>

The Highway User Revenue Fund's unreserved fund balance increased by \$444,688 which was primarily due to higher than anticipated construction sales tax collections.

Townwide Roadway Development Impact Fee fund's fund balance decreased by \$3.2 million. This decrease was due to the completion of several major road and street improvement projects.

The decrease of \$2.6M in the nonmajor governmental funds is mainly attributed to the expenditures relating to the completion of the Oracle Road Improvement District.

Proprietary funds. The Town of Oro Valley's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Oro Valley Water Utility at the end of the year amounted to \$22,885,482, and those for the Stormwater Utility amounted to \$73,054. The total growth in net assets for the Water Utility was \$5,179,253. The Stormwater Utility unrestricted net assets decreased by \$5,557. Key factors attributing to these changes are the following:

Oro Valley Water Utility

- ◆ Water sales totaled \$10,745,087, which is an increase of 11% compared to last fiscal year.
- ◆ Water connection fees collected total \$1,838,526, an increase of 108% over last fiscal year.
- ◆ Net income for the fiscal year was \$4.6 million, a \$1.7 million increase over last fiscal year.
- ◆ Operating costs were slightly below budgeted amounts.
- ◆ Capital assets increased by \$16 million due to the completion of the reclaimed water delivery system.

Stormwater Utility

- ◆ Expenses exceeded revenues by \$5,557 (net of transfers) due to the completion of several stormwater and drainage study projects.

General Fund Budgetary Highlights

The Town of Oro Valley amended the General Fund's budget in fiscal year 2005/06 by reducing the general government's contingency/reserve budgeted expenditures by \$20,000. An increase of \$20,000 was made to the Parks and Recreation budget. The net change in the General Fund was zero.

There were no significant variances between the final amended budget and actual results, with the exception of local sales tax (\$2.4M), state/county shared revenue (\$397K) and investment earnings (\$295K). General administration expenditures included budgeted contingencies of \$8.6 million that were unspent at the end of the fiscal year.

Capital Asset and Debt Administration

Capital assets. The Town of Oro Valley's investment in capital assets for its Governmental and Business-type Activities as of June 30, 2006 was \$195,083,682 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, equipment and vehicles, park facilities, streets, water systems and water rights. The net increase in the Town of Oro Valley's investment in capital assets for the current fiscal year was \$19,191,488 or 11%.

**Town of Oro Valley Arizona's Capital Assets
(net of depreciation)**

	Governmental Activities	
	2006	2005
	Land	\$ 13,159,928
Infrastructure	73,430,056	63,019,956
Buildings and improvements	15,808,180	14,610,058
Machinery, equipment and vehicles	2,038,232	1,736,683
Construction in progress	18,969,487	21,734,770
Total	\$ 123,405,883	\$ 111,123,232

The increase of \$12.2 in capital assets for governmental activities is mainly attributed to the purchase of land for municipal facilities, the completion of several street and road improvement projects and the completion of the Oro Valley Public Library building expansion.

	Business-type Activities	
	2006	2005
	Land	\$ 2,410,660
Water rights	6,172,361	6,172,361
Water system	62,105,519	45,988,055
Equipment and vehicles	493,710	522,827
Construction in progress	495,549	11,261,896
Total	\$ 71,677,799	\$ 64,768,962

The increase in the business-type activities of \$6.9 was largely due to the completion of Phase I of the reclaimed water delivery system.

Additional information on the Town of Oro Valley's capital assets can be found in note 3.A.4 on pages 51 and 52 of this report.

Long-term debt. At the end of the current fiscal year, the Town of Oro Valley had total bonded debt, special assessments, certificates of deposits and loans outstanding of \$84,374,405, including \$964,738 for deferred amounts on refundings, premiums and discounts.

This amount is comprised of debt backed by the full faith and credit of the government. Governmental activities debt of \$19,937,397 includes \$17,333,254 which is paid with General Fund revenue sources and \$2,604,143 paid with Townwide Roadway Development Impact Fees. Business-type activities are paid with water related revenue sources such as water sales and water connection fees.

**Town of Oro Valley
Outstanding Debt**

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Revenue bonds	\$ 13,173,254	\$ 9,413,909
Special assessment debt	3,945,000	3,945,000
Certificates of participation	215,000	420,000
Loan payable	<u>2,604,143</u>	<u>4,803,100</u>
Total	<u>\$ 19,937,397</u>	<u>\$ 18,582,009</u>
	<u>Business-type Activities</u>	
	<u>2006</u>	<u>2005</u>
Revenue bonds	<u>\$ 64,437,008</u>	<u>\$ 64,222,360</u>

During the fiscal year, the Town of Oro Valley issued \$6,215,000 in Excise Tax Revenue bonds. 67% will be repaid by governmental activity funds and 33% from business type activity funds. Proceeds from this bond issue were used to purchase land and, at a future date, will be used for the construction of Town facilities.

The Town of Oro Valley maintains an "A" rating from Standard & Poor's and a "A+" rating from Fitch on the revenue bonds outstanding.

Additional information on the Town of Oro Valley's long-term debt can be found on page 53-54 of this report.

Economic Factors and Next Year's Budgets and Rates

- ◆ The unemployment rate for the Town of Oro Valley is currently 3%. Pima County's and the State of Arizona's unemployment rates are 4.3% and 4.4%, respectively.
- ◆ The Town's secondary assessed valuation for the current year is \$463,211,743, an increase of 11% over last fiscal year.
- ◆ Single family residential building permits issued in this fiscal year totaled 388, which is down 34 permits from last fiscal year.

The Town of Oro Valley's budget for fiscal year 2006/07 totaled \$105,869,650 an increase of \$6,875,390 or 7% compared to last fiscal year. This increase is attributed to the following factors:

- ◆ \$5.6 million increase in the General Fund related to the possible adoption of a utility sales tax (\$1.2M), state/county shared revenues (\$1.5M), an increase in the fund balance (\$1.6M), and local sales tax collections (\$989k) due to two new commercial centers coming on-line and an increase in the overall level of sales activity from Town residents.
- ◆ \$1.7 million in the newly created Bed Tax Fund, the result of increasing the bed tax rate from 3% to 6%.
- ◆ \$1.6 million in the Highway Fund related to increased construction sales tax (\$468k), highway user revenue tax collections (\$378k), and an increase in the fund balance (\$630k).
- ◆ \$1.3 million in the Roadway Development Impact Fee Fund from state and federal grants to assist in major road projects.
- ◆ \$2.6M in the Water Utility Fund related to a 5% water rate increase planned for FY 2006/07 and increased water sales (\$1.4M), a \$.04 increase in Groundwater Preservation fees (\$174k), and an increase in the fund balance (\$700k).

Requests for Information

This financial report is designed to provide a general overview of the Town of Oro Valley's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report of requests for additional financial information should be addressed to the following:

Stacey Lemos, Finance Director or
Mary Rallis, Accounting Supervisor
Town of Oro Valley, Arizona
11,000 N. La Canada Drive
Oro Valley, Arizona 85737

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Basic Financial Statements

TOWN OF ORO VALLEY, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Totals
Assets			
Cash and cash equivalents	\$ 23,761,444	\$ 18,198,719	\$ 41,960,163
Receivables, net of allowance for doubtful accounts			
Accounts receivable	1,879,941	1,788,701	3,668,642
Taxes receivable	1,088,902	-	1,088,902
Intergovernmental receivable	1,572,340	-	1,572,340
Special assessments receivable	3,945,000	-	3,945,000
Interest receivable	99,508	94,795	194,303
Inventories	80,074	-	80,074
Prepaid items	7,817	464	8,281
Deferred charges	411,222	1,280,982	1,692,204
Restricted assets	-	6,600,662	6,600,662
Capital assets			
Non-depreciable	32,129,415	9,078,570	41,207,985
Depreciable (net)	<u>91,276,468</u>	<u>62,599,229</u>	<u>153,875,697</u>
Total assets	<u>156,252,131</u>	<u>99,642,122</u>	<u>255,894,253</u>
Liabilities			
Accounts payable	1,158,155	559,243	1,717,398
Accrued wages and benefits	367,077	34,082	401,159
Interest payable	-	1,442,853	1,442,853
Intergovernmental payable	568,409	441,581	1,009,990
Unearned revenue	572,438	-	572,438
Customer deposits payable	1,331,406	117,978	1,449,384
Noncurrent liabilities			
Due within one year	1,778,049	2,332,381	4,110,430
Due in more than one year	<u>19,080,632</u>	<u>62,183,676</u>	<u>81,264,308</u>
Total liabilities	<u>24,856,166</u>	<u>67,111,794</u>	<u>91,967,960</u>
Net assets			
Invested in capital assets, net of related debt	107,413,486	7,240,791	114,654,277
Restricted for			
Public safety	283,271	-	283,271
Highways and streets	3,887,020	-	3,887,020
Debt service	280,055	2,331,001	2,611,056
Capital outlay	4,119,229	-	4,119,229
Other	349,823	-	349,823
Unrestricted	<u>15,063,081</u>	<u>22,958,536</u>	<u>38,021,617</u>
Total net assets	<u>\$ 131,395,965</u>	<u>\$ 32,530,328</u>	<u>\$ 163,926,293</u>

The notes to the basic financial statements are an integral part of this statement.

TOWN OF ORO VALLEY, ARIZONA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets			
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Functions/Programs							
Governmental activities							
General government	\$ 7,162,732	\$ 4,013,368	\$ 712,927	\$ 11,000	\$ (2,425,437)	\$ (2,425,437)	\$ (2,425,437)
Public safety	11,155,542	-	782,055	-	(10,373,487)	(10,373,487)	(10,373,487)
Highways and streets	5,732,026	183,842	3,063,882	3,073,402	589,100	589,100	589,100
Culture and recreation	3,014,341	-	-	910,238	(2,104,103)	(2,104,103)	(2,104,103)
Interest on long-term debt	805,123	-	-	-	(805,123)	(805,123)	(805,123)
Total governmental activities	<u>27,869,764</u>	<u>4,197,210</u>	<u>4,558,864</u>	<u>3,994,640</u>	<u>(15,119,050)</u>	<u>(15,119,050)</u>	<u>(15,119,050)</u>
Business-type activities							
Water	10,438,869	14,038,391	-	628,501	\$ 4,228,023	4,228,023	4,228,023
Stormwater drainage	111,695	21,401	-	-	(90,294)	(90,294)	(90,294)
Total business-type activities	<u>10,550,564</u>	<u>14,059,792</u>	<u>-</u>	<u>628,501</u>	<u>4,137,729</u>	<u>4,137,729</u>	<u>4,137,729</u>
Totals	<u>\$ 38,420,328</u>	<u>\$ 18,257,002</u>	<u>\$ 4,558,864</u>	<u>\$ 4,623,141</u>	<u>(15,119,050)</u>	<u>4,137,729</u>	<u>(10,981,321)</u>
General revenues							
Taxes							
Sales taxes					12,455,609	-	12,455,609
Franchise taxes					435,428	-	435,428
Impact fees					1,098,977	-	1,098,977
Unrestricted state revenue sharing					3,343,471	-	3,343,471
Unrestricted state sales tax revenue sharing					3,432,007	-	3,432,007
Unrestricted auto lieu tax revenue sharing					1,541,560	-	1,541,560
Investment earnings					991,151	956,189	1,947,340
Transfers					(79,778)	79,778	-
Total general revenues and transfers					<u>23,218,425</u>	<u>1,035,967</u>	<u>24,254,392</u>
Change in net assets					8,099,375	5,173,696	13,273,071
Net assets, beginning of year					<u>123,296,590</u>	<u>27,356,632</u>	<u>150,653,222</u>
Net assets, end of year					<u>\$ 131,395,965</u>	<u>\$ 32,530,328</u>	<u>\$ 163,926,293</u>

The notes to the basic financial statements are an integral part of this statement.

TOWN OF ORO VALLEY, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	HURF	Public Transportation	Oracle Road Debt Service	Townwide Roadway Development Impact Fees	Nonmajor Governmental Funds	Totals
Assets							
Cash and cash equivalents	\$ 10,998,905	\$ 3,650,143	\$ 368,708	\$ 100,715	\$ 4,271,547	\$ 4,371,426	\$ 23,761,444
Receivables, net							
Accounts receivable	677,640	-	-	-	998,588	203,713	1,879,941
Taxes receivable	1,088,902	-	-	-	-	-	1,088,902
Intergovernmental receivable	808,327	264,013	-	-	500,000	-	1,572,340
Special assessments receivable	-	-	-	3,945,000	-	-	3,945,000
Interest receivable	54,022	17,308	196	-	16,612	11,370	99,508
Due from other funds	3,260,770	-	-	-	-	-	3,260,770
Inventories	-	80,074	-	-	-	-	80,074
Prepaid items	7,267	389	78	-	83	-	7,817
Total assets	<u>\$ 16,895,833</u>	<u>\$ 4,011,927</u>	<u>\$ 368,982</u>	<u>\$ 4,045,715</u>	<u>\$ 5,786,830</u>	<u>\$ 4,586,509</u>	<u>\$ 35,695,796</u>
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 869,498	\$ 151,511	\$ 3,688	\$ -	\$ 55,361	\$ 78,097	\$ 1,158,155
Accrued wages and benefits	329,546	26,402	5,447	-	5,682	-	367,077
Intergovernmental payable	568,023	39	-	-	-	347	568,409
Due to other funds	-	-	306,600	-	1,606,558	1,347,612	3,260,770
Deferred revenue	702,221	-	-	3,945,000	-	213,179	4,860,400
Customer deposits payable	63,054	202	-	-	-	1,268,150	1,331,406
Total liabilities	<u>2,532,342</u>	<u>178,154</u>	<u>315,735</u>	<u>3,945,000</u>	<u>1,667,601</u>	<u>2,907,385</u>	<u>11,546,217</u>
Fund balances							
Reserved for:							
Inventories	-	80,074	-	-	-	-	80,074
Prepaid items	7,267	389	78	-	83	-	7,817
Unreserved:							
Undesignated	13,288,551	3,696,081	43,330	100,715	4,112,156	-	21,240,833
Designated for compensated absences	872,361	34,173	7,760	-	6,990	-	921,284
Designated for unemployment	195,312	23,056	2,079	-	-	-	220,447
Unreserved, reported in nonmajor:							
Special revenue funds	-	-	-	-	-	633,094	633,094
Debt service funds	-	-	-	-	-	179,340	179,340
Capital projects funds	-	-	-	-	-	866,690	866,690
Total fund balances	<u>14,363,491</u>	<u>3,833,773</u>	<u>53,247</u>	<u>100,715</u>	<u>4,119,229</u>	<u>1,679,124</u>	<u>24,149,579</u>
Total liabilities and fund balances	<u>\$ 16,895,833</u>	<u>\$ 4,011,927</u>	<u>\$ 368,982</u>	<u>\$ 4,045,715</u>	<u>\$ 5,786,830</u>	<u>\$ 4,586,509</u>	<u>\$ 35,695,796</u>

The notes to the basic financial statements are an integral part of this statement.

TOWN OF ORO VALLEY, ARIZONA
 RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2006

Fund balances - total governmental funds \$ 24,149,579

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

Governmental capital assets	155,407,171
Less accumulated depreciation	<u>(32,001,288)</u>
Capital assets used in governmental activities	<u>123,405,883</u>

Other long-term assets are not available to pay for current-period expenditures and are not susceptible to accrual.

Special assessments receivable	3,945,000
Court receivable	342,962

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.

Revenue bonds	(13,559,446)
Special assessment debt	(3,945,000)
Certificates of participation	(215,000)
Loans payable	(2,604,143)
Deferred amounts on the refunding	514,184
Deferred amount on the premium	(127,992)
Compensated absences	(921,284)
Deferred bond issuance costs	<u>411,222</u>

Net assets of governmental activities \$ 131,395,965

The notes to the basic financial statements are an integral part of this statement.

TOWN OF ORO VALLEY, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General	HURF	Public Transportation	Oracle Road Debt Service	Townwide Roadway Development Impact Fees	Nonmajor Governmental Funds	Totals
Revenues							
Taxes							
Sales taxes	\$ 10,622,636	\$ 1,832,973	\$ -	\$ -	\$ -	\$ -	\$ 12,455,609
Franchise taxes	435,428	-	-	-	-	-	435,428
Intergovernmental	9,800,799	2,793,322	270,560	-	2,987,296	921,238	16,773,215
Fines and forfeitures	213,750	-	-	-	-	248,496	462,246
Licenses and permits	2,385,102	48,162	-	-	-	-	2,433,264
Charges for services	901,983	2,222	38,471	-	-	-	942,676
Contributions and donations	11,221	-	-	86,106	-	-	97,327
Impact fees	-	-	-	-	1,098,977	-	1,098,977
Investment earnings	495,252	158,335	7,905	-	170,844	158,815	991,151
Other	152,556	71,862	10,100	-	13,025	77,885	325,428
Total Revenues	<u>25,018,727</u>	<u>4,906,876</u>	<u>327,036</u>	<u>86,106</u>	<u>4,270,142</u>	<u>1,406,434</u>	<u>36,015,321</u>
Expenditures							
Current							
General government	6,731,169	-	-	25,016	-	3,232,771	9,988,956
Public safety	11,491,434	-	-	-	-	145,481	11,636,915
Highways and streets	-	4,417,801	527,581	-	5,145,164	3,683,015	13,773,561
Culture and recreation	2,848,558	-	-	-	-	1,019,691	3,868,249
Debt Service							
Principal retirement	-	-	-	-	2,198,957	657,638	2,856,595
Interest on long-term debt	-	-	-	176,967	108,433	445,958	731,358
Issuance costs	-	-	-	-	-	107,897	107,897
Total Expenditures	<u>21,071,161</u>	<u>4,417,801</u>	<u>527,581</u>	<u>201,983</u>	<u>7,452,554</u>	<u>9,292,451</u>	<u>42,963,531</u>
Excess (deficiency) of revenues over expenditures	<u>3,947,566</u>	<u>489,075</u>	<u>(200,545)</u>	<u>(115,877)</u>	<u>(3,182,412)</u>	<u>(7,886,017)</u>	<u>(6,948,210)</u>
Other financing sources (uses)							
Transfers in	-	-	165,562	-	-	1,083,007	1,248,569
Transfers out	(1,328,347)	-	-	-	-	-	(1,328,347)
Issuance of long-term debt	-	-	-	-	-	4,164,050	4,164,050
Total other financing sources (uses)	<u>(1,328,347)</u>	<u>-</u>	<u>165,562</u>	<u>-</u>	<u>-</u>	<u>5,247,057</u>	<u>4,084,272</u>
Net change in fund balances	2,619,219	489,075	(34,983)	(115,877)	(3,182,412)	(2,638,960)	(2,863,938)
Fund balances, beginning of year	<u>11,744,272</u>	<u>3,344,698</u>	<u>88,230</u>	<u>216,592</u>	<u>7,301,641</u>	<u>4,318,084</u>	<u>27,013,517</u>
Fund balances, end of year	<u>\$ 14,363,491</u>	<u>\$ 3,833,773</u>	<u>\$ 53,247</u>	<u>\$ 100,715</u>	<u>\$ 4,119,229</u>	<u>\$ 1,679,124</u>	<u>\$ 24,149,579</u>

The notes to the basic financial statements are an integral part of this statement.

TOWN OF ORO VALLEY, ARIZONA
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds \$ (2,863,938)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets	15,404,934
Less current year depreciation	<u>(3,122,283)</u>
Excess capital expenditures over depreciation	<u>12,282,651</u>

Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in governmental funds.

Court fines	33,596
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The issuance of long-term debt increases long-term liabilities on the statement of net assets and the repayment of principal on long-term debt reduces long-term debt on the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when the debt is first issued, whereas these items are deferred and amortized over the term of the long-term debt in the statement of activities.

Principal payments on long-term debt	2,856,595
Issuance costs	107,897
Proceeds of revenue bonds	(4,164,050)
Amortization of the deferred amount on the refunding	(57,132)
Amortization of the deferred amount on the premium	9,199
Amortization of issuance costs	(25,832)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Net increase in compensated absences	<u>(79,611)</u>
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Change in net assets of governmental activities	<u>\$ 8,099,375</u>
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The notes to the basic financial statements are an integral part of this statement.

**TOWN OF ORO VALLEY, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes				
Sales taxes	\$ 8,176,000	\$ 8,176,000	\$ 10,622,636	\$ 2,446,636
Franchise taxes	402,000	402,000	435,428	33,428
Intergovernmental	9,333,106	9,333,106	9,800,799	467,693
Fines and forfeitures	187,000	187,000	213,750	26,750
Licenses and permits	2,705,000	2,705,000	2,385,102	(319,898)
Charges for services	703,400	703,400	901,983	198,583
Contributions and donations	-	-	11,221	11,221
Investment earnings	200,000	200,000	495,252	295,252
Other	135,000	135,000	152,556	17,556
Total Revenues	<u>21,841,506</u>	<u>21,841,506</u>	<u>25,018,727</u>	<u>3,177,221</u>
Expenditures				
Current				
General government				
Town council	216,509	216,509	183,720	32,789
Town clerk	414,743	414,743	457,641	(42,898)
Magistrate court	613,886	613,886	593,645	20,241
Town manager	586,011	586,011	575,596	10,415
Finance	960,255	960,255	535,996	424,259
Legal	839,615	839,615	904,355	(64,740)
Planning and zoning	831,498	831,498	712,962	118,536
General administration	9,080,127	9,060,127	286,084	8,774,043
Custodial facility maintenance	164,077	164,077	155,111	8,966
Economic development	689,956	689,956	709,808	(19,852)
Community development administration	451,971	451,971	452,056	(85)
Human resources	267,364	267,364	287,013	(19,649)
Information systems	602,383	602,383	561,708	40,675
Public works	345,247	345,247	315,474	29,773
Total general government	<u>16,063,642</u>	<u>16,043,642</u>	<u>6,731,169</u>	<u>9,312,473</u>
Public safety				
Police	10,302,509	10,302,509	10,108,807	193,702
Building safety	1,275,274	1,275,274	1,382,627	(107,353)
Total public safety	<u>11,577,783</u>	<u>11,577,783</u>	<u>11,491,434</u>	<u>86,349</u>
Culture and recreation				
Parks and recreation	1,638,102	1,658,102	1,812,702	(154,600)
Library	1,210,679	1,210,679	1,035,856	174,823
Total culture and recreation	<u>2,848,781</u>	<u>2,868,781</u>	<u>2,848,558</u>	<u>20,223</u>
Total Expenditures	<u>30,490,206</u>	<u>30,490,206</u>	<u>21,071,161</u>	<u>9,419,045</u>
Excess (deficiency) of revenues over expenditures	<u>(8,648,700)</u>	<u>(8,648,700)</u>	<u>3,947,566</u>	<u>12,596,266</u>
Other financing sources (uses)				
Transfers out	(1,328,347)	(1,328,347)	(1,328,347)	-
Total other financing sources (uses)	<u>(1,328,347)</u>	<u>(1,328,347)</u>	<u>(1,328,347)</u>	<u>-</u>
Net change in fund balances	<u>(9,977,047)</u>	<u>(9,977,047)</u>	<u>2,619,219</u>	<u>12,596,266</u>
Fund balances, beginning of year	<u>9,977,047</u>	<u>9,977,047</u>	<u>11,744,272</u>	<u>1,767,225</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,363,491</u>	<u>\$ 14,363,491</u>

The notes to the basic financial statements are an integral part of this statement.

TOWN OF ORO VALLEY, ARIZONA
HURF FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Taxes	\$ 1,391,000	\$ 1,832,973	\$ 441,973
Intergovernmental	3,326,000	2,793,322	(532,678)
Licenses and permits	21,000	48,162	27,162
Charges for services	2,000	2,222	222
Investment earnings	20,000	158,335	138,335
Other	1,000	71,862	70,862
Total Revenues	<u>4,761,000</u>	<u>4,906,876</u>	<u>145,876</u>
Expenditures			
Current			
Highways and streets	<u>7,394,643</u>	<u>4,417,801</u>	<u>2,976,842</u>
Total Expenditures	<u>7,394,643</u>	<u>4,417,801</u>	<u>2,976,842</u>
Excess (deficiency) of revenues over expenditures	(2,633,643)	489,075	3,122,718
Fund balances, beginning of year	<u>2,633,643</u>	<u>3,344,698</u>	<u>711,055</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 3,833,773</u>	<u>\$ 3,833,773</u>

The notes to the basic financial statements are an integral part of this statement.

TOWN OF ORO VALLEY, ARIZONA
PUBLIC TRANSPORTATION FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Intergovernmental	\$ 318,160	\$ 270,560	\$ (47,600)
Charges for services	33,500	38,471	4,971
Investment earnings	2,000	7,905	5,905
Other	-	10,100	10,100
Total Revenues	<u>353,660</u>	<u>327,036</u>	<u>(26,624)</u>
Expenditures			
Current			
Highways and streets	580,880	527,581	53,299
Total Expenditures	<u>580,880</u>	<u>527,581</u>	<u>53,299</u>
Excess (deficiency) of revenues over expenditures	<u>(227,220)</u>	<u>(200,545)</u>	<u>26,675</u>
Other financing sources			
Transfers in	165,562	165,562	-
Total other financing sources	<u>165,562</u>	<u>165,562</u>	<u>-</u>
Net change in fund balances	(61,658)	(34,983)	26,675
Fund balances, beginning of year	61,658	88,230	26,572
Fund balances, end of year	<u>\$ -</u>	<u>\$ 53,247</u>	<u>\$ 53,247</u>

The notes to the basic financial statements are an integral part of this statement.

TOWN OF ORO VALLEY, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	Water	Stormwater Drainage	Totals
Assets			
Current assets			
Cash and cash equivalents	\$ 18,104,758	\$ 93,961	\$ 18,198,719
Receivables, net			
Accounts receivable	1,788,701	-	1,788,701
Interest receivable	94,423	372	94,795
Prepaid items	452	12	464
Deferred charges	1,280,982	-	1,280,982
Restricted assets	<u>6,600,662</u>	-	<u>6,600,662</u>
Total current assets	27,869,978	94,345	27,964,323
Noncurrent assets			
Capital assets			
Non-depreciable	9,078,570	-	9,078,570
Depreciable (net)	<u>62,599,229</u>	-	<u>62,599,229</u>
Total Assets	<u>99,547,777</u>	<u>94,345</u>	<u>99,642,122</u>
Liabilities			
Current liabilities			
Accounts payable	540,674	18,569	559,243
Accrued wages and benefits	33,268	814	34,082
Interest payable	1,442,853	-	1,442,853
Intergovernmental payable	441,581	-	441,581
Customer deposits payable	117,978	-	117,978
Compensated absences	65,204	1,908	67,112
Bonds, notes and loans payable	<u>2,265,269</u>	-	<u>2,265,269</u>
Total current liabilities	4,906,827	21,291	4,928,118
Noncurrent liabilities			
Compensated absences	11,937	-	11,937
Bonds, notes and loans payable	<u>62,171,739</u>	-	<u>62,171,739</u>
Total liabilities	<u>67,090,503</u>	<u>21,291</u>	<u>67,111,794</u>
Net assets			
Invested in capital assets, net of related debt	7,240,791	-	7,240,791
Restricted for			
Debt service	2,331,001	-	2,331,001
Unrestricted	<u>22,885,482</u>	<u>73,054</u>	<u>22,958,536</u>
Total net assets	<u>\$ 32,457,274</u>	<u>\$ 73,054</u>	<u>\$ 32,530,328</u>

The notes to the basic financial statements are an integral part of this statement.

TOWN OF ORO VALLEY, ARIZONA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Water	Stormwater Drainage	Totals
Operating revenues			
Charges for services	\$ 11,933,089	\$ -	\$ 11,933,089
Total operating revenues	<u>11,933,089</u>	<u>-</u>	<u>11,933,089</u>
Operating expenses			
Costs of sales and services	5,311,796	111,695	5,423,491
Depreciation and amortization	<u>2,238,847</u>	<u>-</u>	<u>2,238,847</u>
Total operating expenses	<u>7,550,643</u>	<u>111,695</u>	<u>7,662,338</u>
Operating income (loss)	<u>4,382,446</u>	<u>(111,695)</u>	<u>4,270,751</u>
Nonoperating revenues (expenses)			
Connection fees	1,838,526	-	1,838,526
Impact fees	246,737	-	246,737
Investment earnings	951,230	4,959	956,189
Interest expense	(2,888,226)	-	(2,888,226)
Miscellaneous nonoperating revenues	<u>20,039</u>	<u>21,401</u>	<u>41,440</u>
Total nonoperating revenues (expenses)	<u>168,306</u>	<u>26,360</u>	<u>194,666</u>
Income (loss) before contributions and transfers	4,550,752	(85,335)	4,465,417
Capital contributions	628,501	-	628,501
Transfers in	<u>-</u>	<u>79,778</u>	<u>79,778</u>
Change in net assets	5,179,253	(5,557)	5,173,696
Total net assets, beginning of year	<u>27,278,021</u>	<u>78,611</u>	<u>27,356,632</u>
Total net assets, end of year	<u>\$ 32,457,274</u>	<u>\$ 73,054</u>	<u>\$ 32,530,328</u>

The notes to the basic financial statements are an integral part of this statement.

TOWN OF ORO VALLEY, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Water	Stormwater Drainage	Totals
Cash flows from operating activities			
Receipts from customers	\$ 11,804,466	\$ -	\$ 11,804,466
Payments to suppliers	(3,294,638)	(58,137)	(3,352,775)
Payments to employees	(1,905,644)	(45,877)	(1,951,521)
Connection fees	1,838,526	-	1,838,526
Impact fees	246,737	-	246,737
Other revenue	20,039	21,401	41,440
Customer deposits	(2,389)	-	(2,389)
Net cash flows from operating activities	<u>8,707,097</u>	<u>(82,613)</u>	<u>8,624,484</u>
Cash flows from noncapital financing activities			
Transfers in	-	79,778	79,778
Net cash flows from noncapital financing activities	<u>-</u>	<u>79,778</u>	<u>79,778</u>
Cash flows from capital and financing activities			
Purchase of capital assets	(7,097,864)	-	(7,097,864)
Proceeds of revenue bonds	2,050,950	-	2,050,950
Issuance costs	(53,142)	-	(53,142)
Principal payment on capital debt	(1,907,362)	-	(1,907,362)
Interest payment on capital debt	(2,919,027)	-	(2,919,027)
Net cash flows from capital and financing activities	<u>(9,926,445)</u>	<u>-</u>	<u>(9,926,445)</u>
Cash flows from investing activities			
Investment earnings	925,965	4,783	930,748
Net cash flows from investing activities	<u>925,965</u>	<u>4,783</u>	<u>930,748</u>
Net change in cash and cash equivalents	(293,383)	1,948	(291,435)
Cash and cash equivalents, beginning of year	<u>24,998,803</u>	<u>92,013</u>	<u>25,090,816</u>
Cash and cash equivalents, end of year (including \$6,600,662 of restricted assets in the Water Fund)	<u>\$ 24,705,420</u>	<u>\$ 93,961</u>	<u>\$ 24,799,381</u>
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	\$ 4,382,446	\$ (111,695)	\$ 4,270,751
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	2,238,847	-	2,238,847
Connection fees	1,838,526	-	1,838,526
Impact fees	246,737	-	246,737
Nonoperating receipts	20,039	21,401	41,440
Change in assets/liabilities:			
Receivables, net	(210,733)	-	(210,733)
Prepaid items	(452)	(12)	(464)
Accounts payable	153,771	8,232	162,003
Intergovernmental payable	82,110	-	82,110
Accrued payroll and related benefits	(58,578)	(1,428)	(60,006)
Compensated absences	16,773	889	17,662
Customer deposits	(2,389)	-	(2,389)
Net cash provided (used) by operating activities	<u>\$ 8,707,097</u>	<u>\$ (82,613)</u>	<u>\$ 8,624,484</u>

Non-cash and investing activities

Bond issuance costs of \$84,859 were amortized during the year. In addition, the Town received \$628,501 of assets contributed by developers recorded as capital contributions in the Statement of Revenues, Expenses and Changes in Fund Net Assets.

The notes to the basic financial statements are an integral part of this statement.

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TOWN OF ORO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Town of Oro Valley, Arizona (Town) have been prepared in conformity with U.S. generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the Town's more significant accounting policies follows.

During the year ended June 30, 2006, the Town implemented the provisions of the Governmental Accounting Standards Board Statement No. 44, *Economic Conditions Reporting: the Statistical Section*. The implementation of GASB Statement No. 44 only requires additional disclosures, and has no effect on reported amounts for deposits, investments, net assets, or changes in net assets.

A. Reporting entity

The Town is a municipal government that is governed by a separately elected governing body. It is legally separate from and fiscally independent of other state and local governments. The accompanying financial statements present the Town and its component units, entities for which the Town is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the Town's operations.

Included within the reporting entity:

The Town of Oro Valley Municipal Property Corporation - The Town of Oro Valley Municipal Property Corporation's (MPC) board of directors consists of the three members which are appointed by the Town of Oro Valley Town Council. The MPC, which is a nonprofit corporation incorporated under the laws of the State of Arizona, was originally formed for the purpose of assisting the Town in obtaining financing for acquiring the Canada Hills and Rancho Vistoso water companies. The Town has a contractual obligation for the repayment of the Municipal Property Corporation's Municipal Facilities Revenue Bonds, Series 1996, 1999, 2001 and 2003. The activity of the 1996 MPC is reported in the applicable water enterprise fund and the activity of the the Series 1999, 2001 and 2003 MPC is reported in the applicable water enterprise and governmental funds. All related receivables and payables between the Town and the MPC have been eliminated.

TOWN OF ORO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements; however, interfund services provided and used are not eliminated in the process of consolidation. *Governmental activities* are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except expenditures related to compensated absences and claims and judgments, which are recorded only when payment is due. However, since debt service resources are provided during the current year for payment of general long-term principal and interest due early in the following year, the expenditures and related liabilities have been recognized in the Debt Service Funds.

TOWN OF ORO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Taxes, intergovernmental grants and aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Town reports the following major governmental funds:

The *General Fund* is the Town's primary operating fund. It accounts for all financial resources of the Town, except those required to be accounted for in another fund.

The *Highway Users Revenue Fund (HURF)* accounts for the operations of the street maintenance department. Financing is provided by the Town's share of state gasoline taxes and local sales tax from construction. State law requires these gasoline taxes be used to maintain streets.

The *Public Transportation Fund* accounts for the operation of the Town's public transportation system.

The *Oracle Road Debt Service Fund* accounts for the special assessment collections and payment of the outstanding Oracle road bond issue.

The *Townwide Roadway Development Impact Fees Fund* accounts for the collection and capital expenditures of the Townwide Roadway Development Impact Fees.

The Town reports the following major proprietary funds:

The *Water Fund* accounts for the costs to operate, construct and finance the Town's water system.

The *Stormwater Drainage Fund* accounts for the costs to operate, construct and finance the Town's storm drainage. In addition, it accounts for the cost to educate the public relating to storm drainage water as required by the E.P.A.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements with the exception of interfund services provided and used during the fiscal year.

TOWN OF ORO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Amounts reported as program revenues include 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, for governmental activities it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the State Treasurer, and highly liquid investments with maturities of three months or less from the date of acquisition.

Cash and investments are pooled except for funds required to be held by fiscal agents or restricted under provisions of bond indentures. Interest earned from investments purchased with such pooled monies is allocated to each of the funds based on the average daily cash balances. State statutes authorize the Town to invest in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit in eligible depositories, repurchase agreements, obligations of the State of Arizona or any of its counties or incorporated cities, towns or duly organized school districts, improvement districts in this state and the State Treasurer's Local Government Investment Pool.

2. Receivables

All trade accounts receivables are recorded net of allowance for doubtful accounts.

3. Short-term interfund receivables/payables

During the course of operations, individual funds within the Town's pooled cash accounts may borrow money from the other funds within the pool on a short-term basis. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet of the fund financial statements and are eliminated in the preparation of the government-wide financial statements.

TOWN OF ORO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

4. Inventories and prepaid items

Inventories consist of expendable supplies held for consumption. Inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Restricted assets

Certain proceeds of the Town's bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants.

6. Capital assets

Capital assets, which include property, plant, and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

General infrastructure assets acquired prior to July 1, 2002 are not reported in the basic financial statements. Those assets will be transitioned in over the next three fiscal years in accordance with GASB Statement No. 34.

Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

Buildings	50 years
Improvements other than buildings	20 years
Infrastructure	50 years
Machinery and equipment	5 years
Vehicles	5 years

TOWN OF ORO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
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7. Compensated absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

8. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Net assets

In the government-wide financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt is separately reported because the Town reports all Town assets which make up a significant portion of total net assets. Restricted net assets account for the portion of net assets restricted by parties outside the Town. Unrestricted net assets are the remaining net assets not included in the previous two categories.

10. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

TOWN OF ORO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

The Town Council follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with Arizona Revised Statutes, the Town Manager submits a proposed budget for the fiscal year commencing the following July 1 to the Town Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to the third Monday in July, a tentative budget must be legally adopted and there is no statutory requirement for adopting the final budget. To ensure compliance with the State imposed expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total Town expenditures from the audited financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).
4. Expenditures may not legally exceed the expenditure limitation of all fund types as a whole. For management and legal purposes, the Town Council adopts a budget in accordance with Generally Accepted Accounting Principles by department for the General Fund and in total by fund for all funds for which a budget is adopted (the Town did not adopt a budget for the Industrial Development Authority or Revegetation Assurance Nonmajor Funds). The Town Manager, subject to Town Council approval, may at any time transfer various unencumbered appropriation balances or portions thereof between departments. The adopted budget cannot be amended in any way without Town Council approval.
5. Formal budgetary integration is employed as a management control device during the year on the same modified accrual basis of accounting used to record actual revenues and expenditures.

The Town is subject to the State of Arizona's Spending Limitation Law for Towns and Cities. This law does not permit the Town to spend more than budgeted revenues plus the carryover unrestricted cash balance from the prior fiscal year. The limitation is applied to the total of the combined funds. The Town complied with this law during the year.

TOWN OF ORO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

No supplementary budgetary appropriations were necessary during the year.

B. Excess of expenditures over appropriations

Expenditures exceeded appropriations in the following funds:

	<u>Amount of Overexpenditure</u>
General Fund:	
Town clerk	\$ 42,898
Legal	64,740
Economic development	19,852
Community development administration	85
Human resources	19,649
Building safety	107,353
Parks and recreation	154,600
Oracle Road Debt Service Fund	68,569
Nonmajor Governmental Funds:	
Library Construction	286,691
Oracle Road Construction	1,209,063

The overexpenditures listed in the General Fund were the result of recording the short-term compensated absence liability, a non-cash transaction. Cash was available to meet all the overexpenditures listed above.

TOWN OF ORO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and investments

Deposits and investments at June 30, 2006 consist of the following:

Deposits	
Cash on hand	\$ 3,300
Cash in bank	9,325,924
Cash with the County Treasurer	343,764
Investments	
State Treasurer's Investment Pool	<u>38,887,837</u>
Total cash and investments	48,560,825
Restricted assets	<u>(6,600,662)</u>
Total cash and equivalents	<u>\$ 41,960,163</u>

Deposits - The Town's deposits at June 30, 2006, were entirely covered by federal depository insurance or by collateral held by the Town's custodial bank in the Town's name.

Investments - The State Board of Deposit provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. The shares are not identified with specific investments and are not subject to custodial credit risk. In addition, the money market mutual fund is not subject to custodial credit risk. All other investments of the Town are uninsured and unregistered with the securities held by the counterparty's trust department or agent in the Town's name.

Interest rate risk. In accordance with the investment policy, the Town manages its exposure to declines in fair values by limiting its investments to maturities of six months or less.

Credit risk. All of the Town's deposits and investments are either insured, collateralized or invested in U.S. government securities. The Town's investment in the State Treasurer's investment pool did not receive a credit quality rating from a national rating agency.

TOWN OF ORO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

2. Restricted assets

Restricted assets in the Enterprise Fund at June 30, 2006 consisted of the following:

Future debt service	\$ 2,331,001
Current debt service	3,740,713
Bond proceeds	410,970
Customer deposits	<u>117,978</u>
	<u>\$ 6,600,662</u>

3. Receivables

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
General Fund		
Prepaid developer fees	\$ -	\$ 358,098
JCEF court enhancement funds	-	1,161
Court fines	342,962	-
Oracle Road Debt Service Fund		
Special assessments	3,945,000	-
Nonmajor Governmental Funds		
Gaming funds	-	206,500
Seizure funds	<u>-</u>	<u>6,679</u>
	<u>\$ 4,287,962</u>	<u>\$ 572,438</u>

TOWN OF ORO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

4. Capital assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 10,021,765	\$ 3,138,163	\$ -	\$ 13,159,928
Construction in progress	<u>21,734,770</u>	<u>9,260,791</u>	<u>(12,026,074)</u>	<u>18,969,487</u>
Total capital assets, not being depreciated	<u>31,756,535</u>	<u>12,398,954</u>	<u>(12,026,074)</u>	<u>32,129,415</u>
Capital assets being depreciated:				
Infrastructure	86,062,348	12,465,416	-	98,527,764
Buildings and improvements	16,971,118	1,623,650	-	18,594,768
Machinery, equipment and vehicles	<u>5,464,850</u>	<u>942,988</u>	<u>(252,614)</u>	<u>6,155,224</u>
Total capital assets being depreciated	<u>108,498,316</u>	<u>15,032,054</u>	<u>(252,614)</u>	<u>123,277,756</u>
Less accumulated depreciation for:				
Infrastructure	(23,042,392)	(2,055,316)	-	(25,097,708)
Buildings and improvements	(2,361,060)	(425,528)	-	(2,786,588)
Machinery, equipment and vehicles	<u>(3,728,167)</u>	<u>(641,439)</u>	<u>252,614</u>	<u>(4,116,992)</u>
Total accumulated depreciation	<u>(29,131,619)</u>	<u>(3,122,283)</u>	<u>252,614</u>	<u>(32,001,288)</u>
Total capital assets, being depreciated, net	<u>79,366,697</u>	<u>11,909,771</u>	<u>-</u>	<u>91,276,468</u>
Governmental activities capital assets, net	<u>\$ 111,123,232</u>	<u>\$ 24,308,725</u>	<u>\$ (12,026,074)</u>	<u>\$ 123,405,883</u>

TOWN OF ORO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type Activities:				
Capital assets not being depreciated:				
Land	\$ 823,823	\$ 1,586,837	\$ -	\$ 2,410,660
Water rights	6,172,361	-	-	6,172,361
Construction in progress	<u>11,261,896</u>	<u>4,339,865</u>	<u>(15,106,212)</u>	<u>495,549</u>
Total capital assets, not being depreciated	<u>18,258,080</u>	<u>5,926,702</u>	<u>(15,106,212)</u>	<u>9,078,570</u>
Capital assets being depreciated:				
Water system	57,696,207	18,090,879	-	75,787,086
Equipment and vehicles	<u>1,179,391</u>	<u>80,396</u>	<u>-</u>	<u>1,259,787</u>
Total capital assets being depreciated	<u>58,875,598</u>	<u>18,171,275</u>	<u>-</u>	<u>77,046,873</u>
Less accumulated depreciation for:				
Water system	(11,708,152)	(1,973,415)	-	(13,681,567)
Equipment and vehicles	<u>(656,564)</u>	<u>(109,513)</u>	<u>-</u>	<u>(766,077)</u>
Total accumulated depreciation	<u>(12,364,716)</u>	<u>(2,082,928)</u>	<u>-</u>	<u>(14,447,644)</u>
Total capital assets, being depreciated, net	<u>46,510,882</u>	<u>16,088,347</u>	<u>-</u>	<u>62,599,229</u>
Business-type activities capital assets, net	<u>\$ 64,768,962</u>	<u>\$ 22,015,049</u>	<u>\$ (15,106,212)</u>	<u>\$ 71,677,799</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 319,831
Public safety	319,543
Highways and streets	2,277,468
Culture and recreation	<u>205,441</u>
Total depreciation expense governmental activities	<u>\$ 3,122,283</u>
Business-type activities:	
Water	\$ 2,082,928
Storm water drainage	-
Total depreciation expense business-type activities	<u>\$ 2,082,928</u>

TOWN OF ORO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

5. Construction commitments

The Town has active construction projects as of June 30, 2006. The governmental fund projects include road improvements and widening and Phase I of the reclaimed water project and potable water infrastructure projects. At year-end the government's commitments with contractors are as follows:

<u>Governmental</u>		
<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
First Avenue (Bridge)	\$ 3,546,215	\$ 35,000
Pusch View Bridge	9,383,437	231,000
First Avenue (Road)	<u>812,359</u>	<u>7,041,326</u>
	<u>\$ 13,742,011</u>	<u>\$ 7,307,326</u>

<u>Business-type</u>		
<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Phase I Reclaimed Water Mains	\$ 67,622	\$ 373,628
Potable - Mains	28,988	28,988
Potable - Boosters	103,301	47,199
Potable - Wells	200,419	3,853
Potable - Reservoirs	<u>95,219</u>	<u>64,481</u>
	<u>\$ 495,549</u>	<u>\$ 518,149</u>

TOWN OF ORO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

B. Interfund receivables, payables and transfers

As of June 30, 2006 interfund receivable and payables were as follows:

	Due From			
Due To	Public Transportation Fund	Townwide Roadway Fund	Nonmajor Governmental Fund	Total
General Fund	\$ <u>306,600</u>	\$ <u>1,606,558</u>	\$ <u>1,347,612</u>	\$ <u>3,260,770</u>

The above interfund receivables and payables were recorded to cover a deficit cash balance at June 30, 2006 in the Municipal Debt Service Fund. Funds were received subsequent to June 30, 2006 to cover the deficit cash balance.

Interfund transfers for the year ended June 30, 2006 consisted of the following:

Transfers To	Transfer Out General Fund
Public Transportation Fund	\$ 165,562
Nonmajor Governmental Funds	1,083,007
Stormwater Drainage Fund	<u>79,778</u>
	<u>\$ 1,328,347</u>

Transfers were made from the General Fund to subsidize the Public Transportation Fund and the Stormwater Drainage Fund and to transfer funds to the Municipal Debt Service Fund to make the required principal and interest payments on outstanding bonded indebtedness.

TOWN OF ORO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

C. Long-term obligations

The Town has long-term bonds and loans payable issued to provide funds for the acquisition and construction of major capital facilities. The Town has also issued debt to refund earlier obligations with higher interest rates. The debt is being repaid by various debt service funds. Compensated absences are paid by the applicable fund where each employee is regularly paid, primarily the General Fund.

During the fiscal year ended June 30, 2006, the Town issued \$6,215,000 in Excise Revenue Bonds (67% for governmental and 33% for business-type). The proceeds will be used to fund the acquisition and construction of a Town facility.

Changes in long-term obligations for the year ended June 30, 2006 are as follows:

	<u>July 1, 2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2006</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds and loans payable:					
Revenue bonds	\$ 9,848,034	\$ 4,164,050	\$ (452,638)	\$ 13,559,446	\$ 573,670
Special assessment debt	3,945,000	-	-	3,945,000	185,000
Certificates of participation	420,000	-	(205,000)	215,000	215,000
Loan payable	<u>4,803,100</u>	<u>-</u>	<u>(2,198,957)</u>	<u>2,604,143</u>	<u>104,143</u>
	19,016,134	4,164,050	(2,856,595)	20,323,589	1,077,813
Less deferred amounts on:					
Refunding	(571,316)	-	57,132	(514,184)	(57,132)
Premium	<u>137,191</u>	<u>-</u>	<u>(9,199)</u>	<u>127,992</u>	<u>9,199</u>
Total bonds and loans payable	<u>18,582,009</u>	<u>4,164,050</u>	<u>(2,808,662)</u>	<u>19,937,397</u>	<u>1,029,880</u>
Other liabilities:					
Compensated absences	<u>841,673</u>	<u>1,013,871</u>	<u>(934,260)</u>	<u>921,284</u>	<u>748,169</u>
Governmental activities long-term liabilities	<u>\$ 19,423,682</u>	<u>\$ 5,177,921</u>	<u>\$ (3,742,922)</u>	<u>\$ 20,858,681</u>	<u>\$ 1,778,049</u>
Business-type Activities:					
Bonds and notes payable:					
Revenue bonds	\$ 64,871,966	\$ 2,050,950	\$ (1,907,362)	\$ 65,015,554	\$ 2,336,330
Less deferred amount on:					
Refunding	(1,368,620)	-	97,758	(1,270,862)	(97,759)
Discount	(239,402)	-	17,795	(221,607)	(17,795)
Premium	<u>958,416</u>	<u>-</u>	<u>(44,493)</u>	<u>913,923</u>	<u>44,493</u>
Total bonds and notes payable	<u>64,222,360</u>	<u>2,050,950</u>	<u>(1,836,302)</u>	<u>64,437,008</u>	<u>2,265,269</u>
Other liabilities:					
Compensated absences	<u>61,387</u>	<u>102,705</u>	<u>(85,043)</u>	<u>79,049</u>	<u>67,112</u>
Business-type activities long-term liabilities	<u>\$ 64,283,747</u>	<u>\$ 2,153,655</u>	<u>\$ (1,921,345)</u>	<u>\$ 64,516,057</u>	<u>\$ 2,332,381</u>

TOWN OF ORO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Debt service requirements on long-term debt at June 30, 2006 are as follows:

Year Ending June 30,	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 1,077,813	\$ 824,530	\$ 2,336,330	\$ 2,932,023
2008	3,403,102	737,016	2,631,898	2,847,826
2009	938,900	668,462	2,686,100	2,749,747
2010	880,080	640,168	2,784,920	2,646,842
2011	800,280	598,808	2,899,720	2,535,931
2012-16	5,694,772	2,275,348	13,245,228	10,817,077
2017-21	6,161,842	957,935	14,438,158	7,758,545
2022-26	1,366,800	147,013	15,443,200	4,244,917
2027-30	-	-	8,550,000	449,750
	<u>\$ 20,323,589</u>	<u>\$ 6,849,280</u>	<u>\$ 65,015,554</u>	<u>\$ 36,982,658</u>

NOTE 4 - OTHER INFORMATION

A. Risk management

The Town of Oro Valley, Arizona, is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Town's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the Town is a participating member. The limit for basic coverage is for \$2,000,000 per occurrence on a claims made basis. Excess coverage is for an additional \$10,000,000 per occurrence on a follow form, claims made basis. The aggregate limit is also \$10,000,000. No significant reduction in insurance coverage occurred during the year and no settlements exceeded insurance coverage during any of the past three fiscal years.

The Arizona Municipal Risk Retention Pool is structured such that member premiums are based on an actuarial review that will provide adequate reserves to allow the Pool to meet its expected financial obligations. The Pool has the authority to assess its members additional premiums should reserves and annual premiums be insufficient to meet the Pool's obligations.

TOWN OF ORO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The Town is insured by Arizona Municipal Workers Compensation Pool for potential worker related accidents. The Town is self-insured for unemployment insurance. Changes in the balances of claims liabilities during the past two years are as follows:

	2006	2005
Unpaid claims, beginning of year	\$ -	\$ -
Incurred claims (including IBNRs)	-	8,627
Claim payments	-	(8,627)
Unpaid claims, end of year	\$ -	\$ -

B. Contingent liabilities

Accumulated sick leave - Sick leave benefits provide for ordinary sick pay and are cumulative but do not vest with employees unless an employee has exceeded 60 days of accrued sick leave, then one-half of the sick leave balance in excess of 60 days is paid upon termination. Unvested accumulated sick leave of Town employees at June 30, 2006, totaled \$221,500.

Lawsuits - The Town is a defendant in various lawsuits. In the opinion of the Town's attorney the outcome of these lawsuits is not presently determinable.

C. Retirement plans

Arizona State Retirement System

Plan Description - The Town contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The system is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

TOWN OF ORO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rate. For the year ended June 30, 2006, active plan members and the Town were each required by statute to contribute at the actuarially determined rate of 7.4 percent (6.9 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The Town's contributions to the System for the years ended June 30, 2006, 2005, and 2004 were \$449,275, \$467,741, and \$341,135, respectively, which is equal to the required contributions for the year.

Public Safety Personnel Retirement System (PSPRS) and Arizona Corrections Officer Retirement Plan (ACORP)

Plan Description - The Town contributes to the Public Safety Personnel Retirement System (PSPRS) and the Arizona Corrections Officer Retirement Plan (ACORP), agent multiple-employer, public employee retirement systems. These plans act as common investments and administrative agents to provide retirement and death and disability benefits for public safety and corrections personnel who are regularly assigned hazardous duty in the employment of the State of Arizona or a political subdivision thereof. All benefit provisions and other requirements are established by State statute. The PSPRS and ACORP issue publicly available financial reports that include financial statements and required supplementary information for PSPRS and ACORP. The reports may be obtained by writing to Public Safety Personnel, 1020 E. Missouri Ave., Phoenix, AZ 85014 or by calling (602) 255-5575.

Funding Policy - Covered employees are required to contribute 7.65 and 8.50 percent of their annual salary to the PSPRS and ACORP, respectively. The Town is required to contribute the remaining amounts necessary to fund the PSPRS and ACORP, as determined by the actuarial basis specified by statute. The current rate is 11.86 and 10.18 percent of annual covered payroll for PSPRS and ACORP, respectively.

Annual Pension Cost - During the year ended June 30, 2005 (the date of the last available information), the Town of Oro Valley's annual pension cost of \$367,387 and \$42,661 for the PSPRS for police and the Oro Valley ACORP Dispatchers, respectively, was equal to the Town of Oro Valley's required and actual contributions.

The required contribution was determined as part of the June 30, 2005 actuarial valuation using an entry age actuarial funding method. Significant actuarial assumptions used in determining the entry age actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.5% per year compounded annually, (b) projected salary increases of 6.0% per year compounded annually, and (c) additional projected salary increases and inflation of 0.0% to 3.0% per year attributable to seniority/merit.

TOWN OF ORO VALLEY, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The actuarial value of the Town of Oro Valley's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The Town of Oro Valley's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2005, was 20 years.

The preceding methods comply with the financial reporting standards established by the Governmental Accounting Standards Board.

Three-Year Trend Information

PSPRS Police

<u>Fiscal Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 311,931	100.0 %	\$ -
2004	378,010	100.0	-
2005	367,387	100.0	-

Oro Valley ACORP Dispatchers

<u>Fiscal Year Ending June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 21,643	100.0 %	-
2004	18,116	100.0	-
2005	42,661	100.0	-

Additional historical trend information for the Town's PSPRS and ACORP is disclosed on page 62. Historical trend information is presented in order for the reader to assess the progress made in accumulating sufficient assets to pay pension benefits as they become payable.

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Required Supplementary Information

**TOWN OF ORO VALLEY, ARIZONA
 REQUIRED SUPPLEMENTARY INFORMATION
 PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM AND
 ARIZONA CORRECTIONS OFFICER RETIREMENT PLAN
 SCHEDULE OF FUNDING PROGRESS**

Oro Valley PSPRS Police

<u>Valuation Date June 30,</u>	<u>Actuarial Value of Assets</u>	<u>Entry Age Actuarial Accrued Liability (AAL)</u>	<u>Percent Funded</u>	<u>Over (Under) funded AAL</u>	<u>Annual Covered Payroll</u>	<u>Over (Under) funded AAL as a Percentage of Covered Payroll</u>
1997	\$ 2,239,319	\$ 2,614,221	85.7 %	\$ (374,902)	\$1,682,582	(22.3)%
1998	2,772,586	3,067,826	90.4	(295,240)	1,890,076	(15.6)
1999	3,623,182	3,956,207	91.6	(333,025)	2,143,829	(15.5)
2000	4,583,291	4,862,212	94.3	(278,921)	2,493,062	(11.2)
2001	5,766,661	5,168,557	111.6	598,104	2,948,683	20.3
2002	6,565,301	6,327,848	103.8	237,453	3,406,239	7.0
2003	7,939,646	7,226,436	109.9	713,210	3,660,509	19.5
2004	9,072,514	8,871,479	102.3	201,035	3,665,787	5.5
2005	10,351,579	11,901,526	87.0	(1,549,947)	4,354,983	(35.6)

Oro Valley ACORP Dispatchers

<u>Valuation Date June 30,</u>	<u>Actuarial Value of Assets</u>	<u>Entry Age Actuarial Accrued Liability (AAL)</u>	<u>Percent Funded</u>	<u>Over (Under) funded AAL</u>	<u>Annual Covered Payroll</u>	<u>Over (Under) funded AAL as a Percentage of Covered Payroll</u>
2002	\$ -	\$ 433,070	- %	\$ (433,070)	\$ 395,386	(109.5)%
2003	434,235	749,710	57.9	(315,475)	504,064	(62.6)
2004	568,823	785,950	72.4	(217,127)	418,377	(51.9)
2005	788,467	1,047,685	75.3	(259,218)	518,393	(50.0)

* Information prior to 2002 is not available.

**Combining and Individual Fund
Statements and Schedules**

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Industrial Development Authority - accounts for the industrial development activities of the Town.

Revegetation Assurances - accounts for monies received from developers to help ensure developments are properly revegetated to Town standards.

State Seizures and Forfeitures - accounts for state police seizures and forfeitures received by the Town.

Federal Seizures and Forfeitures - accounts for federal police seizures and forfeitures received by the Town.

DEBT SERVICE FUND

Municipal Debt Service - accounts for the payments of debt service on the 1996 Certificates of Participation and the 1999 Municipal Property Corporation Excise Tax Revenue Bonds.

CAPITAL PROJECTS FUNDS

Library Construction - accounts for the collection and capital expenditures of the Oro Valley Library.

Oracle Road Construction - accounts for the capital improvements to the Oracle road, funded by special assessment debt.

Pima County Bond Projects - accounts for the revenues and expenditures for capital improvements to roads funded by grants from Pima Count.

Municipal Building - accounts for the bond proceeds issued to acquire land and construct the public works facility.

TOWN OF ORO VALLEY, ARIZONA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2006

	<u>Special Revenue</u>				<u>Total</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
	<u>Industrial Development Authority</u>	<u>Revegetation Assurances</u>	<u>State Seizures and Forfeitures</u>	<u>Federal Seizures and Forfeitures</u>		<u>Municipal Debt Service</u>	<u>Library Construction</u>	<u>Oracle Road Construction</u>
Assets								
Cash and cash equivalents	\$ 177	\$ 1,611,597	\$ 81,642	\$ 262,195	\$ 1,955,611	\$ 1,314,825	\$ -	\$ 1,400
Receivables, net								
Accounts receivable	-	-	-	-	-	-	183,713	-
Interest receivable	<u>1</u>	<u>6,198</u>	<u>26</u>	<u>-</u>	<u>6,225</u>	<u>2,155</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 178</u>	<u>\$ 1,617,795</u>	<u>\$ 81,668</u>	<u>\$ 262,195</u>	<u>\$ 1,961,836</u>	<u>\$ 1,316,980</u>	<u>\$ 183,713</u>	<u>\$ 1,400</u>
Liabilities and Fund Balances								
Liabilities								
Accounts payable	\$ -	\$ -	\$ -	\$ 5,907	\$ 5,907	\$ -	\$ 42,199	\$ 1,400
Intergovernmental payable	-	-	-	347	347	-	-	-
Due to other funds	-	-	15,422	32,237	47,659	1,137,640	141,514	-
Deferred revenue	-	-	6,679	-	6,679	-	-	-
Customer deposits payable	-	<u>1,268,150</u>	-	-	<u>1,268,150</u>	-	-	-
Total liabilities	<u>-</u>	<u>1,268,150</u>	<u>22,101</u>	<u>38,491</u>	<u>1,328,742</u>	<u>1,137,640</u>	<u>183,713</u>	<u>1,400</u>
Fund balances								
Unreserved	<u>178</u>	<u>349,645</u>	<u>59,567</u>	<u>223,704</u>	<u>633,094</u>	<u>179,340</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>178</u>	<u>349,645</u>	<u>59,567</u>	<u>223,704</u>	<u>633,094</u>	<u>179,340</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 178</u>	<u>\$ 1,617,795</u>	<u>\$ 81,668</u>	<u>\$ 262,195</u>	<u>\$ 1,961,836</u>	<u>\$ 1,316,980</u>	<u>\$ 183,713</u>	<u>\$ 1,400</u>

Capital Projects

<u>Pima County Bond Projects</u>	<u>Municipal Building</u>	<u>Total</u>	<u>Total Nonmajor Governmental Fund</u>
\$ 206,500	\$ 893,090	\$ 1,100,990	\$ 4,371,426
20,000	-	203,713	203,713
<u>-</u>	<u>2,990</u>	<u>2,990</u>	<u>11,370</u>
\$ <u>226,500</u>	\$ <u>896,080</u>	\$ <u>1,307,693</u>	\$ <u>4,586,509</u>
\$ -	\$ 28,591	\$ 72,190	\$ 78,097
-	-	-	347
20,000	799	162,313	1,347,612
206,500	-	206,500	213,179
<u>-</u>	<u>-</u>	<u>-</u>	<u>1,268,150</u>
<u>226,500</u>	<u>29,390</u>	<u>441,003</u>	<u>2,907,385</u>
<u>-</u>	<u>866,690</u>	<u>866,690</u>	<u>1,679,124</u>
<u>-</u>	<u>866,690</u>	<u>866,690</u>	<u>1,679,124</u>
\$ <u>226,500</u>	\$ <u>896,080</u>	\$ <u>1,307,693</u>	\$ <u>4,586,509</u>

TOWN OF ORO VALLEY, ARIZONA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
 BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Special Revenue				Total	Debt Service	Capital Projects	
	Industrial Development Authority	Revegetation Assurances	State Seizures and Forfeitures	Federal Seizures and Forfeitures		Municipal Debt Service	Library Construction	Oracle Road Construction
Revenues								
Intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 910,238	\$ -
Fines and forfeitures	-	-	5,956	242,540	248,496	-	-	-
Investment earnings	8	61,225	3,664	5,119	70,016	13,189	1	43,311
Other	-	-	-	-	-	-	77,885	-
Total revenues	<u>8</u>	<u>61,225</u>	<u>9,620</u>	<u>247,659</u>	<u>318,512</u>	<u>13,189</u>	<u>988,124</u>	<u>43,311</u>
Expenditures								
Current								
General government	10	-	-	-	10	-	-	-
Public safety	-	-	66,336	79,145	145,481	-	-	-
Highways and streets	-	-	-	-	-	-	-	3,683,015
Culture and recreation	-	-	-	-	-	-	1,019,691	-
Debt Service								
Principal retirement	-	-	-	-	-	657,638	-	-
Interest on long-term debt	-	-	-	-	-	445,958	-	-
Issuance costs	-	-	-	-	-	-	-	-
Total expenditures	<u>10</u>	<u>-</u>	<u>66,336</u>	<u>79,145</u>	<u>145,491</u>	<u>1,103,596</u>	<u>1,019,691</u>	<u>3,683,015</u>
Excess (deficiency) of revenues over expenditures	<u>(2)</u>	<u>61,225</u>	<u>(56,716)</u>	<u>168,514</u>	<u>173,021</u>	<u>(1,090,407)</u>	<u>(31,567)</u>	<u>(3,639,704)</u>
Other financing sources (uses)								
Transfers in	-	-	-	-	-	1,083,007	-	-
Issuance of long-term debt	-	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,083,007</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(2)</u>	<u>61,225</u>	<u>(56,716)</u>	<u>168,514</u>	<u>173,021</u>	<u>(7,400)</u>	<u>(31,567)</u>	<u>(3,639,704)</u>
Fund balances, beginning of year	<u>180</u>	<u>288,420</u>	<u>116,283</u>	<u>55,190</u>	<u>460,073</u>	<u>186,740</u>	<u>31,567</u>	<u>3,639,704</u>
Fund balances, end of year	<u>\$ 178</u>	<u>\$ 349,645</u>	<u>\$ 59,567</u>	<u>\$ 223,704</u>	<u>\$ 633,094</u>	<u>\$ 179,340</u>	<u>\$ -</u>	<u>\$ -</u>

Capital Projects

<u>Pima County Bond Projects</u>	<u>Municipal Building</u>	<u>Total</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 11,000	\$ -	\$ 921,238	\$ 921,238
-	-	-	248,496
-	32,298	75,610	158,815
-	-	<u>77,885</u>	<u>77,885</u>
<u>11,000</u>	<u>32,298</u>	<u>1,074,733</u>	<u>1,406,434</u>
11,000	3,221,761	3,232,761	3,232,771
-	-	-	145,481
-	-	3,683,015	3,683,015
-	-	1,019,691	1,019,691
-	-	-	657,638
-	-	-	445,958
-	<u>107,897</u>	<u>107,897</u>	<u>107,897</u>
<u>11,000</u>	<u>3,329,658</u>	<u>8,043,364</u>	<u>9,292,451</u>
-	<u>(3,297,360)</u>	<u>(6,968,631)</u>	<u>(7,886,017)</u>
-	-	-	1,083,007
-	<u>4,164,050</u>	<u>4,164,050</u>	<u>4,164,050</u>
-	<u>4,164,050</u>	<u>4,164,050</u>	<u>5,247,057</u>
-	866,690	(2,804,581)	(2,638,960)
-	-	<u>3,671,271</u>	<u>4,318,084</u>
<u>\$ -</u>	<u>\$ 866,690</u>	<u>\$ 866,690</u>	<u>\$ 1,679,124</u>

TOWN OF ORO VALLEY, ARIZONA
 ORACLE ROAD DEBT SERVICE FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Contributions and donations	\$ 93,414	\$ 86,106	\$ (7,308)
Total Revenues	<u>93,414</u>	<u>86,106</u>	<u>(7,308)</u>
Expenditures			
Current			
General government	5,000	25,016	(20,016)
Debt Service			
Interest on long-term debt	<u>128,414</u>	<u>176,967</u>	<u>(48,553)</u>
Total Expenditures	<u>133,414</u>	<u>201,983</u>	<u>(68,569)</u>
Excess (deficiency) of revenues over expenditures	(40,000)	(115,877)	(75,877)
Fund balances, beginning of year	<u>40,000</u>	<u>216,592</u>	<u>176,592</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 100,715</u>	<u>\$ 100,715</u>

TOWN OF ORO VALLEY, ARIZONA
TOWNWIDE ROADWAY DEVELOPMENT IMPACT FEES FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Intergovernmental	\$ 4,510,000	\$ 2,987,296	\$ (1,522,704)
Impact fees	1,285,000	1,098,977	(186,023)
Investment earnings	-	170,844	170,844
Other	<u>5,000</u>	<u>13,025</u>	<u>8,025</u>
Total Revenues	<u>5,800,000</u>	<u>4,270,142</u>	<u>(1,529,858)</u>
Expenditures			
Current			
Highways and streets	8,920,777	5,145,164	3,775,613
Debt Service			
Principal retirement	780,000	2,198,957	(1,418,957)
Interest on long-term debt	<u>87,452</u>	<u>108,433</u>	<u>(20,981)</u>
Total Expenditures	<u>9,788,229</u>	<u>7,452,554</u>	<u>2,335,675</u>
Excess (deficiency) of revenues over expenditures	<u>(3,988,229)</u>	<u>(3,182,412)</u>	<u>805,817</u>
Other financing sources (uses)			
Transfers in	1,325,000	-	(1,325,000)
Transfers out	<u>(1,325,000)</u>	<u>-</u>	<u>1,325,000</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(3,988,229)	(3,182,412)	805,817
Fund balances, beginning of year	<u>3,988,229</u>	<u>7,301,641</u>	<u>3,313,412</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 4,119,229</u>	<u>\$ 4,119,229</u>

TOWN OF ORO VALLEY, ARIZONA
STATE SEIZURES AND FORFEITURES FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Fines and forfeitures	\$ 10,000	\$ 5,956	\$ (4,044)
Investment earnings	-	3,664	3,664
Total Revenues	<u>10,000</u>	<u>9,620</u>	<u>(380)</u>
Expenditures			
Current			
Public safety	<u>76,282</u>	<u>66,336</u>	<u>9,946</u>
Total Expenditures	<u>76,282</u>	<u>66,336</u>	<u>9,946</u>
Excess (deficiency) of revenues over expenditures	(66,282)	(56,716)	9,566
Fund balances, beginning of year	<u>66,282</u>	<u>116,283</u>	<u>50,001</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 59,567</u>	<u>\$ 59,567</u>

TOWN OF ORO VALLEY, ARIZONA
 FEDERAL SEIZURES AND FORFEITURES FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Fines and forfeitures	\$ 100,000	\$ 242,540	\$ 142,540
Investment earnings	-	5,119	5,119
Total Revenues	<u>100,000</u>	<u>247,659</u>	<u>147,659</u>
Expenditures			
Current			
Public safety	<u>104,808</u>	<u>79,145</u>	<u>25,663</u>
Total Expenditures	<u>104,808</u>	<u>79,145</u>	<u>25,663</u>
Excess (deficiency) of revenues over expenditures	(4,808)	168,514	173,322
Fund balances, beginning of year	<u>4,808</u>	<u>55,190</u>	<u>50,382</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 223,704</u>	<u>\$ 223,704</u>

TOWN OF ORO VALLEY, ARIZONA
MUNICIPAL DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Investment earnings	\$ 3,000	\$ 13,189	\$ 10,189
Total Revenues	<u>3,000</u>	<u>13,189</u>	<u>10,189</u>
Expenditures			
Debt Service			
Principal retirement	657,638	657,638	-
Interest on long-term debt	<u>608,807</u>	<u>445,958</u>	<u>162,849</u>
Total Expenditures	<u>1,266,445</u>	<u>1,103,596</u>	<u>162,849</u>
Excess (deficiency) of revenues over expenditures	<u>(1,263,445)</u>	<u>(1,090,407)</u>	<u>173,038</u>
Other financing sources (uses)			
Transfers in	<u>1,083,007</u>	<u>1,083,007</u>	<u>-</u>
Total other financing sources (uses)	<u>1,083,007</u>	<u>1,083,007</u>	<u>-</u>
Net change in fund balances	(180,438)	(7,400)	173,038
Fund balances, beginning of year	<u>180,438</u>	<u>186,740</u>	<u>6,302</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 179,340</u>	<u>\$ 179,340</u>

TOWN OF ORO VALLEY, ARIZONA
LIBRARY CONSTRUCTION FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Intergovernmental	\$ 733,000	\$ 910,238	\$ 177,238
Investment earnings	-	1	1
Other	-	77,885	77,885
Total Revenues	<u>733,000</u>	<u>988,124</u>	<u>255,124</u>
Expenditures			
Current			
Culture and recreation	733,000	1,019,691	(286,691)
Total Expenditures	<u>733,000</u>	<u>1,019,691</u>	<u>(286,691)</u>
Excess (deficiency) of revenues over expenditures	-	(31,567)	(31,567)
Fund balances, beginning of year	-	31,567	31,567
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

TOWN OF ORO VALLEY, ARIZONA
 ORACLE ROAD CONSTRUCTION FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Investment earnings	\$ -	\$ 43,311	\$ 43,311
Total Revenues	<u>-</u>	<u>43,311</u>	<u>43,311</u>
 Expenditures			
Current			
Highways and streets	<u>2,473,952</u>	<u>3,683,015</u>	<u>(1,209,063)</u>
Total Expenditures	<u>2,473,952</u>	<u>3,683,015</u>	<u>(1,209,063)</u>
Excess (deficiency) of revenues over expenditures	(2,473,952)	(3,639,704)	(1,165,752)
Fund balances, beginning of year	<u>2,473,952</u>	<u>3,639,704</u>	<u>1,165,752</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

TOWN OF ORO VALLEY, ARIZONA
PIMA COUNTY BOND PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Intergovernmental	\$ 5,000,000	\$ 11,000	\$ (4,989,000)
Total Revenues	<u>5,000,000</u>	<u>11,000</u>	<u>(4,989,000)</u>
Expenditures			
Current			
General government	6,000,000	11,000	5,989,000
Total Expenditures	<u>6,000,000</u>	<u>11,000</u>	<u>5,989,000</u>
Excess (deficiency) of revenues over expenditures	<u>(1,000,000)</u>	<u>-</u>	<u>1,000,000</u>
Other financing sources (uses)			
Issuance of long-term debt	1,000,000	-	(1,000,000)
Total other financing sources (uses)	<u>1,000,000</u>	<u>-</u>	<u>(1,000,000)</u>
Net change in fund balances	-	-	-
Fund balances, beginning of year	-	-	-
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

TOWN OF ORO VALLEY, ARIZONA
MUNICIPAL BUILDING FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Investment earnings	\$ -	\$ 32,298	\$ 32,298
Total Revenues	<u>-</u>	<u>32,298</u>	<u>32,298</u>
Expenditures			
Current			
General government	6,000,000	3,221,761	2,778,239
Debt Service			
Issuance costs	<u>-</u>	<u>107,897</u>	<u>(107,897)</u>
Total Expenditures	<u>6,000,000</u>	<u>3,329,658</u>	<u>2,670,342</u>
Excess (deficiency) of revenues over expenditures	<u>(6,000,000)</u>	<u>(3,297,360)</u>	<u>2,702,640</u>
Other financing sources (uses)			
Issuance of long-term debt	<u>6,000,000</u>	<u>4,164,050</u>	<u>(1,835,950)</u>
Total other financing sources (uses)	<u>6,000,000</u>	<u>4,164,050</u>	<u>(1,835,950)</u>
Net change in fund balances	-	866,690	866,690
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 866,690</u>	<u>\$ 866,690</u>

STATISTICAL SECTION

TOWN OF ORO VALLEY, ARIZONA
NET ASSETS BY COMPONENT
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)

	Fiscal Year			
	2003	2004	2005	2006
Governmental activities				
Invested in capital assets, net of related debt	\$ 21,188,015	\$ 30,546,282	\$ 92,541,223	\$ 107,413,486
Restricted	2,303,550	3,958,033	15,360,660	8,919,398
Unrestricted	<u>13,828,711</u>	<u>19,248,712</u>	<u>15,394,707</u>	<u>15,063,081</u>
Total governmental activities net assets	<u>\$ 37,320,276</u>	<u>\$ 53,753,027</u>	<u>\$ 123,296,590</u>	<u>\$ 131,395,965</u>
Business-type activities				
Invested in capital assets, net of related debt	\$ 3,745,153	\$ (14,913,572)	\$ 546,602	\$ 7,240,791
Restricted	3,575,789	3,492,488	2,310,980	2,331,001
Unrestricted	<u>10,262,534</u>	<u>33,107,781</u>	<u>24,499,050</u>	<u>22,958,536</u>
Total business-type activities net assets	<u>\$ 17,583,476</u>	<u>\$ 21,686,697</u>	<u>\$ 27,356,632</u>	<u>\$ 32,530,328</u>
Primary government				
Invested in capital assets, net of related debt	\$ 24,933,168	\$ 15,632,710	\$ 93,087,825	\$ 114,654,277
Restricted	5,879,339	7,450,521	17,671,640	11,250,399
Unrestricted	<u>24,091,245</u>	<u>52,356,493</u>	<u>39,893,757</u>	<u>38,021,617</u>
Total primary government net assets	<u>\$ 54,903,752</u>	<u>\$ 75,439,724</u>	<u>\$ 150,653,222</u>	<u>\$ 163,926,293</u>

Source: Town of Oro Valley Finance Department

Note: 2002-03 was the Town of Oro Valley, Arizona's first year to prepare government-wide financial statements.

TOWN OF ORO VALLEY, ARIZONA
CHANGES IN NET ASSETS
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)

	Fiscal Year			
	2003	2004	2005	2006
Expenses				
Governmental activities:				
General government	\$ 5,592,498	\$ 5,971,319	\$ 5,997,864	\$ 7,162,732
Public safety	9,013,391	9,520,219	10,309,453	11,155,542
Highways and streets	2,613,170	2,850,172	4,789,234	5,732,026
Culture and recreation	2,352,445	2,566,173	2,631,306	3,014,341
Interest on long-term debt	564,798	456,107	653,331	805,123
Total governmental activities	<u>20,136,302</u>	<u>21,363,990</u>	<u>24,381,188</u>	<u>27,869,764</u>
Business-type activities				
Water	9,025,235	8,957,988	9,642,592	10,438,869
Stormwater drainage	104,948	45,551	271,462	111,692
Total business-type activities	<u>9,130,183</u>	<u>9,003,539</u>	<u>9,914,061</u>	<u>10,550,564</u>
Total primary government expenses	<u>\$ 29,266,485</u>	<u>\$ 30,367,529</u>	<u>\$ 34,295,249</u>	<u>\$ 38,420,328</u>
Program Revenues				
Governmental activities:				
Fines, fees and charges for services:				
General government	\$ 2,991,105	\$ 3,902,024	\$ 3,784,049	\$ 4,013,368
Highways and streets	121,484	170,543	396,602	183,842
Operating grants and contributions	3,512,097	3,675,674	4,216,642	4,558,864
Capital grants and contributions	1,520,898	13,437,638	13,834,121	3,994,640
Total governmental activities program revenues	<u>8,145,584</u>	<u>21,185,879</u>	<u>22,231,414</u>	<u>12,750,714</u>
Business-type activities				
Charges for services:				
Water	10,380,720	11,917,546	11,951,413	14,038,391
Stormwater drainage	75	-	14,710	21,401
Operating grants and contributions	297,500	-	-	-
Capital grants and contributions	1,856,151	840,096	2,934,747	628,501
Total business-type activities program revenues	<u>12,534,446</u>	<u>12,757,642</u>	<u>14,900,870</u>	<u>14,688,293</u>
Total primary government program revenues	<u>\$ 20,680,030</u>	<u>\$ 33,943,521</u>	<u>\$ 37,132,284</u>	<u>\$ 27,439,007</u>

	Fiscal Year		
	2003	2004	2005
Net (expense)/revenue			
Governmental activities	\$ (11,990,718)	\$ (178,111)	\$ (2,149,774)
Business-type activities	3,404,263	3,754,103	4,986,809
Total primary government net expense	<u>\$ (8,586,455)</u>	<u>\$ 3,575,992</u>	<u>\$ 2,837,035</u>
General Revenues and Other Changes in Net Assets			
Governmental activities:			
Taxes:			
Sales taxes	\$ 5,876,309	\$ 7,924,855	\$ 9,536,791
Franchise taxes	341,489	371,697	402,482
Impact fees	885,371	1,189,848	1,547,819
Unrestricted state revenue sharing	3,161,005	2,845,866	2,935,615
Unrestricted state sales tax revenue sharing	2,322,772	2,686,614	2,958,376
Unrestricted auto lieu tax revenue sharing	1,307,305	1,374,464	1,395,094
Special assessments	-	-	5,433,301
Investment earnings	(244,770)	281,518	557,238
Special item - proceeds from sale of capital assets	(30,525)	-	-
Transfers	-	(64,000)	(91,194)
Total governmental activities	<u>13,618,956</u>	<u>16,610,862</u>	<u>24,675,522</u>
Business-type activities:			
Investment earnings	(50,977)	285,118	591,932
Transfers	-	64,000	91,194
Total business-type activities	<u>(50,977)</u>	<u>349,118</u>	<u>683,126</u>
Total primary government	<u>\$ 13,567,979</u>	<u>\$ 16,959,980</u>	<u>\$ 25,358,648</u>
Change in Net Assets			
Governmental activities	\$ 1,628,238	\$ 16,432,751	\$ 22,525,748
Business-type activities	3,353,286	4,103,221	5,669,935
Total primary government	<u>\$ 4,981,524</u>	<u>\$ 20,535,972</u>	<u>\$ 28,195,683</u>
			<u>\$ 13,273,071</u>

Source: Town of Oro Valley Finance Department.

Note: 2002-03 was the Town of Oro Valley, Arizona's first year to prepare government-wide financial statements.

TOWN OF ORO VALLEY, ARIZONA
 FUND BALANCES OF GOVERNMENTAL FUNDS
 LAST TEN FISCAL YEARS
 (MODIFIED ACCRUAL BASIS OF ACCOUNTING)
 (UNAUDITED)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Fund										
Reserved	\$ 19,473	\$ 642,910	\$ 515,916	\$ 480,971	\$ 349,243	\$ 333,285	\$ 354,091	\$ 7,172	\$ 112	\$ 7,267
Unreserved	4,544,104	5,795,880	8,348,089	10,185,130	10,877,620	10,063,909	8,087,246	9,377,367	11,744,160	14,356,224
Total General Fund	<u>\$ 4,563,577</u>	<u>\$ 6,438,790</u>	<u>\$ 8,864,005</u>	<u>\$ 10,666,101</u>	<u>\$ 11,226,863</u>	<u>\$ 10,397,194</u>	<u>\$ 8,441,337</u>	<u>\$ 9,384,539</u>	<u>\$ 11,744,272</u>	<u>\$ 14,363,491</u>
All other governmental funds										
Reserved	\$ -	\$ 149,930	\$ -	\$ -	\$ -	\$ -	\$ 5,079	\$ 17,912	\$ 36,076	\$ 80,624
Unreserved, reported in:										
Special revenue funds	1,187,635	1,761,764	2,393,703	2,868,278	2,340,508	2,251,914	2,100,204	2,720,472	3,856,925	4,439,573
Debt service funds	274,769	227,083	363,767	200,836	929,802	793,433	176,514	314,301	403,332	280,055
Capital projects funds	3,986,962	5,664,376	9,097,784	9,237,320	18,536,471	15,107,510	5,438,128	10,573,180	10,972,912	4,985,836
Total all other governmental funds	<u>\$ 5,449,366</u>	<u>\$ 7,803,153</u>	<u>\$ 11,855,254</u>	<u>\$ 12,306,434</u>	<u>\$ 21,806,781</u>	<u>\$ 18,152,857</u>	<u>\$ 7,719,925</u>	<u>\$ 13,625,865</u>	<u>\$ 15,269,245</u>	<u>\$ 9,786,088</u>

Source: Town of Oro Valley Finance Department.

TOWN OF ORO VALLEY, ARIZONA
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 LAST TEN FISCAL YEARS
 (MODIFIED ACCRUAL BASIS OF ACCOUNTING)
 (UNAUDITED)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Revenues										
Taxes	\$ 3,865,996	\$ 3,844,944	\$ 4,518,732	\$ 6,139,176	\$ 6,429,157	\$ 6,674,725	\$ 6,217,798	\$ 8,296,552	\$ 9,939,273	\$ 12,891,037
Intergovernmental	5,380,979	6,262,522	6,780,403	9,167,682	8,328,908	12,991,454	11,786,746	23,990,005	25,339,848	16,773,215
Fines and forfeitures	280,644	395,474	331,032	344,627	333,755	316,339	307,570	463,150	326,427	462,246
Licenses and permits	941,888	1,082,892	1,411,820	1,613,798	1,776,265	1,430,157	1,784,568	2,536,576	2,524,484	2,433,264
Charges for services	198,948	280,782	239,945	296,801	387,657	549,440	633,406	823,287	880,582	942,676
Contributions and donations	28,052	37,278	2,001	9,247	3,785	-	37,331	30,251	1,547,819	97,327
Special assessments	804,907	2,055,984	2,472,834	3,089,814	3,089,032	2,412,888	-	-	-	-
Impact fees	-	-	-	-	-	-	885,371	1,189,848	1,488,301	1,098,977
Investment earnings	498,158	644,689	960,231	1,332,605	1,757,232	875,361	(244,770)	281,518	557,238	991,151
Other	48,036	62,853	50,902	69,036	172,726	150,444	178,376	229,411	458,034	325,428
Total revenues	12,047,608	14,667,418	16,767,900	22,062,786	22,278,317	25,400,808	21,586,396	37,840,598	43,062,006	36,015,321
Expenditures										
General government	2,613,830	2,880,570	3,317,668	4,128,050	7,256,772	6,055,062	6,698,052	5,800,477	5,676,217	9,988,956
Public safety	4,240,676	4,251,231	5,240,616	6,216,390	7,347,742	8,586,634	8,796,643	9,426,215	10,089,128	11,636,915
Highways and streets	1,224,977	1,207,437	1,149,073	1,855,146	2,924,119	3,144,676	8,892,030	17,193,322	21,727,223	13,773,561
Culture and recreation	500,850	647,146	636,302	637,084	1,193,846	1,474,667	2,394,212	2,540,949	2,640,777	3,868,249
Claims and judgments	-	-	-	600,000	-	-	-	-	-	-
Capital outlay	4,951,011	837,944	878,843	5,537,058	3,628,630	8,094,782	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-	-
Principal retirement	1,055,052	410,000	400,000	480,000	1,120,000	1,596,456	516,960	541,290	2,559,190	2,856,595
Interest on long-term debt	179,932	330,170	341,086	355,782	616,880	932,124	564,798	426,472	589,725	731,358
Issuance costs	-	-	52,126	-	800,879	-	-	93,415	251,327	107,897
Total expenditures	14,766,328	10,564,498	12,015,714	19,809,510	24,888,868	29,884,401	27,862,695	36,022,140	43,533,587	42,963,531
Excess of revenues over (under) expenditures	(2,718,720)	4,102,920	4,752,186	2,253,276	(2,610,351)	(4,483,593)	(6,276,299)	1,818,458	(471,581)	(6,948,210)

Fiscal Year

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Other financing sources (uses)										
Transfers in	1,204,625	3,787,399	1,104,916	1,616,810	1,943,504	1,155,104	1,328,148	1,182,168	1,105,422	1,248,569
Transfers out	(1,204,625)	(3,787,399)	(1,104,916)	(1,616,810)	(1,943,504)	(1,155,104)	(1,328,148)	(1,246,168)	(1,196,616)	(1,328,347)
Issuance of refunding debt	-	-	-	-	-	-	-	5,572,700	-	-
Issuance of long-term debt	5,099,310	126,080	1,725,130	-	12,671,460	-	1,716,000	5,000,000	4,030,033	4,164,050
Payment to refunded debt escrow agent	-	-	-	-	-	-	-	(5,478,016)	-	-
Total other financing sources (uses)	<u>5,099,310</u>	<u>126,080</u>	<u>1,725,130</u>	<u>-</u>	<u>12,671,460</u>	<u>-</u>	<u>1,716,000</u>	<u>5,030,684</u>	<u>3,938,839</u>	<u>4,084,272</u>
Net change in fund balance	<u>\$ 2,380,590</u>	<u>\$ 4,229,000</u>	<u>\$ 6,477,316</u>	<u>\$ 2,253,276</u>	<u>\$ 10,061,109</u>	<u>\$ (4,483,593)</u>	<u>\$ (4,560,299)</u>	<u>\$ 6,849,142</u>	<u>\$ 3,467,258</u>	<u>\$ (2,863,938)</u>
Debt service as a percentage of noncapital expenditures	12.58 %	7.61 %	7.12 %	5.86 %	11.94 %	11.60 %	3.88 %	2.95 %	7.81 %	8.60 %

Source: Town of Oro Valley Finance Department.

TOWN OF ORO VALLEY, ARIZONA
 PRINCIPAL EMPLOYERS
 JUNE 30, 2006
 (UNAUDITED)

Employer	2006			1997		
	Employees	Rank	Percentage of Total Town Employment	Employees	Rank	Percentage of Total Town Employment
Amphitheater Public Schools	646	1	4.35 %	230	2	5.98 %
Ventana Medical Systems	566	2	3.81	-	-	-
Northwest Medical Center	450	3	3.03	-	-	-
Hilton El Conquistador Resort	440	4	2.96	600	1	15.60
Town of Oro Valley	333	5	2.24	160	4	4.16
Fry's Food Stores	270	6	1.82	200	3	5.20
Hilton El Conquistador Country Club	260	7	1.75	150	5	3.90
Home Depot	160	8	1.08	-	-	-
Northwest Medical Center Urgent Care	150	9	1.01	-	-	-
Stone Canyon Golf/Golf Club at Vistoso	130	10	0.88	-	-	-
Vanguard Automation	-	-	-	136	6	3.54
Oro Valley Country Club	-	-	-	75	7	1.95
Smitty's Food Stores	-	-	-	70	8	1.82
Selectide	-	-	-	60	9	1.56
ABC Food Stores	-	-	-	50	10	1.30
	<u>3,405</u>		<u>22.93 %</u>	<u>1,731</u>		<u>45.00 %</u>

Source: Principal Employers Arizona Workforce Informer.

**TOWN OF ORO VALLEY, ARIZONA
TAXABLE SALES BY CATEGORY
LAST TEN FISCAL YEARS
(UNAUDITED)**

Sales Category	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
\$	1,844	1,898	2,398	3,023	2,913	2,779	1,978	3,014	3,594	4,888
Construction	2	4	3	3	2	6	4	29	137	165
Manufacturing	1	4	17	28	32	55	101	50	116	91
Transportation, communications and utilities	19	18	13	13	13	61	31	46	54	56
Wholesale trade	486	515	674	1,497	1,763	1,877	2,086	2,722	2,942	3,229
Retail trade	888	896	916	1,053	1,082	1,250	1,354	1,556	1,888	2,392
Restaurants and bars	115	123	15	25	73	45	62	101	142	872
Fire, insurance and real estate	196	202	256	221	257	258	285	393	379	262
Services	39	2	2	51	(3)	42	50	(13)	68	194
Other	104	183	207	225	263	302	342	372	402	435
Cable Franchise	3,694	3,845	4,501	6,139	6,395	6,675	6,293	8,270	9,722	12,584
Total	\$ 3,694	\$ 3,845	\$ 4,501	\$ 6,139	\$ 6,395	\$ 6,675	\$ 6,293	\$ 8,270	\$ 9,722	\$ 12,584
City sales tax rate *	2.00 %	2.00 %	2.00 %	2.00 %	2.00 %	2.00 %	2.00 %	2.00 %	2.00 %	2.00 %

Source: Arizona Department of Revenue.

- *NOTE:
 1% Additional Bed tax Effective May 1, 1990
 3% Additional Bed tax Effective September 1, 2001
 4% Additional Bed tax Effective May 1, 2004
 6% Additional Bed tax Effective January 1, 2006

TOWN OF ORO VALLEY, ARIZONA
 DIRECT AND OVERLAPPING SALES TAX RATES
 LAST TEN FISCAL YEARS
 (UNAUDITED)

<u>Fiscal Year</u>	<u>Town of Oro Valley Sales Tax</u>	<u>Town of Oro Valley Bed Tax</u>	<u>Town of Oro Valley Construction Sales Tax</u>	<u>Pima County</u>
1997	2.00 %	1.00 %	- %	5.60 %
1998	2.00	1.00	-	5.60
1999	2.00	1.00	-	5.60
2000	2.00	1.00	-	5.60
2001	2.00	3.00	-	5.60
2002	2.00	3.00	-	5.60
2003	2.00	3.00	-	5.60
2004	2.00	3.00	4.00	5.60
2005	2.00	3.00	4.00	5.60
2006	2.00	6.00	4.00	6.10

Source: Arizona Department of Revenue.

TOWN OF ORO VALLEY, ARIZONA
 RATIO OF OUTSTANDING DEBT BY TYPE
 LAST TEN FISCAL YEARS
 (UNAUDITED)

Fiscal Year	Governmental Activities				Business-type Activities				Total Primary Government	Percentage of Personal Income	Per Capita
	Capital Leases	Certificates of Participation	Loan Payable	Revenue Bonds	Special Assessment Bonds	Revenue Bonds	Notes Payable	Capital Leases			
1997	\$ 21,571	\$ 5,605,000	\$ -	\$ -	\$ 270,000	\$ 28,004,226	\$ -	\$ -	\$ 33,900,797	Not Available	Not Available
1998	89,146	5,285,000	-	-	180,000	27,917,953	-	-	33,472,099	Not Available	Not Available
1999	71,893	4,975,000	-	1,695,000	90,000	30,792,862	-	23,172	37,647,927	4.75 %	\$ 1,479
2000	17,781	4,655,000	-	1,625,000	-	30,414,029	-	11,915	36,723,725	3.86	1,236
2001	-	4,500,000	-	13,372,532	-	35,571,738	-	-	53,444,270	5.45	1,799
2002	-	4,340,000	-	11,936,076	-	34,720,989	4,869,000	-	55,866,065	4.82	1,641
2003	-	4,170,000	1,716,000	6,594,116	-	38,155,744	4,328,100	-	54,963,960	4.21	1,475
2004	-	610,000	6,716,000	9,734,132	-	65,625,010	-	-	82,685,142	6.08	2,193
2005	-	420,000	4,803,100	9,413,909	3,945,000	64,222,360	-	-	82,804,369	5.67	2,106
2006	-	215,000	2,604,143	13,173,254	3,945,000	64,437,008	-	-	84,374,405	5.01	1,918

Source: Town of Oro Valley Finance Department and U.S. Census Bureau.

TOWN OF ORO VALLEY, ARIZONA
 DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
 JUNE 30, 2006
 (UNAUDITED)

<u>Governmental Unit</u>	<u>Outstanding Debt</u>	<u>Estimated Percentage Applicable (1)</u>	<u>Estimated Share of Overlapping Debt</u>
Pima County	\$ 584,227,000	6.73 %	\$ 39,289,854
Pima County Community College District	70,730,000	6.73 %	4,756,664
Pima County Flood Control District	3,010,000	6.77 %	203,777
Amphitheater Unified School District No. 10	70,860,000	36.93 %	26,166,968
Town of Oro Valley	None	100.00 %	None
Total direct and overlapping debt			<u>\$ 70,417,263</u>

Source: Pima County, Pima County Community Collage District and Amphitheater Unified School District No. 10.

(1) Proportion applicable to the Town of Oro Valley, Arizona, is computed on the ratio of secondary assessed valuation for 2005-06.

TOWN OF ORO VALLEY, ARIZONA
 LEGAL DEBT MARGIN INFORMATION
 LAST TEN FISCAL YEARS
 (UNAUDITED)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Debt limit	\$ 42,968,952	\$ 46,479,389	\$ 51,128,360	\$ 57,378,681	\$ 66,881,032	\$ 76,608,850	\$ 84,941,970	\$ 93,101,081	\$ 108,807,180	\$ 120,435,054
Total applicable to limit	-	-	-	-	-	-	-	-	-	-
Legal debt margin	\$ 42,968,952	\$ 46,479,389	\$ 51,128,360	\$ 57,378,681	\$ 66,881,032	\$ 76,608,850	\$ 84,941,970	\$ 93,101,081	\$ 108,807,180	\$ 120,435,054
Total net debt applicable to the limit as a percentage of the debt limit	-	-	-	-	-	-	-	-	-	-

Source: Town of Oro Valley Finance Department.

TOWN OF ORO VALLEY, ARIZONA
 CALCULATION OF LEGAL DEBT MARGIN
 JUNE 30, 2006
 (UNAUDITED)

Net secondary assessed valuation		\$ <u>463,211,743</u>
Water, Sewer, Light, Parks, Open Space and Recreational Facility Bonds		
Debt limit - 20% of secondary net assessed valuation		\$ 92,642,349
Debt applicable to limit		
General obligation bonds outstanding	\$ -	
Less amount set aside for repayment of debt	-	
Net debt applicable to limit		-
20% legal debt margin		<u>92,642,349</u>
All other general obligation bonds		
Debt limit - 6% of secondary net assessed valuation		27,792,705
Debt applicable to limit		
General obligation bonds outstanding	\$ -	
Less amount set aside for repayment of debt	-	
Net debt applicable to limit		-
All other general obligation bonds debt margin		<u>27,792,705</u>
Total legal debt margin		<u>\$ 120,435,054</u>

Source: Pima County Assessor's Office.

TOWN OF ORO VALLEY, ARIZONA
 PLEDGED-REVENUE COVERAGE
 LAST TEN FISCAL YEARS
 (UNAUDITED)

Water Utility Revenue Bonds

Fiscal Year	Debt Service					Coverage
	Gross Revenues	Principal	Interest	Total		
1997	\$ 5,008,354	\$ 100,000	\$ 1,497,475	\$ 1,597,475	3.14	
1998	5,589,270	325,000	1,493,775	1,818,775	3.07	
1999	6,173,325	350,000	1,481,921	1,831,921	3.37	
2000	8,706,515	425,000	1,627,675	2,052,675	4.24	
2001	8,330,951	1,683,544	1,926,914	3,610,458	2.31	
2002	9,435,130	1,768,040	2,173,192	3,941,232	2.39	
2003	10,380,720	1,578,040	2,395,359	3,973,399	2.61	
2004	12,202,664	1,478,710	2,650,195	4,128,905	2.96	
2005	12,544,928	1,473,710	2,949,409	4,423,119	2.84	
2006	14,989,621	1,907,362	2,888,226	4,795,588	3.13	

Governmental Revenue Bonds

Fiscal Year	Debt Service					Coverage
	Gross Revenues	Principal	Interest	Total		
2000	\$ 14,300,536	\$ -	\$ 40,606	\$ 40,606	352.18	
2001	15,220,985	140,000	65,935	205,935	73.91	
2002	16,268,695	486,456	320,846	807,302	20.15	
2003	16,435,018	346,960	320,599	667,559	24.62	
2004	19,837,894	361,290	386,228	747,518	26.54	
2005	21,011,720	456,290	433,108	889,398	23.62	
2006	25,018,727	452,638	415,640	868,278	28.81	

Source: Town of Oro Valley Finance Department.

TOWN OF ORO VALLEY, ARIZONA
 PLEDGED-REVENUE COVERAGE
 LAST TEN FISCAL YEARS
 (UNAUDITED)

Certificates of Participation

Fiscal Year	Debt Service					Coverage
	Gross Revenues	Principal	Interest	Total		
1997	\$ 9,104,686	\$ 140,000	\$ 150,707	\$ 290,707	31.32	
1998	10,215,814	320,000	305,441	625,441	16.33	
1999	11,840,398	310,000	289,039	599,039	19.77	
2000	143,000,536	390,000	271,756	661,756	216.09	
2001	15,220,985	155,000	253,322	408,322	37.28	
2002	16,268,695	160,000	245,938	405,938	40.08	
2003	16,435,018	170,000	237,994	407,994	40.28	
2004	19,837,894	180,000	15,768	195,768	101.33	
2005	21,011,720	190,000	26,690	216,690	96.97	
2006	25,018,727	205,000	16,566	221,566	112.92	

Special Assessment

Fiscal Year	Debt Service					Coverage
	Gross Revenues	Principal	Interest	Total		
1997	\$ 84,056	\$ 90,000	\$ 26,100	\$ 116,100	0.72	
1998	62,569	90,000	19,575	109,575	0.57	
1999	40,985	90,000	13,050	103,050	0.40	
2000	5,048	90,000	6,525	96,525	0.05	
2006	-	-	176,967	176,967	-	

Source: Town of Oro Valley Finance Department.

TOWN OF ORO VALLEY, ARIZONA
 DEMOGRAPHIC AND ECONOMIC STATISTICS
 LAST TEN FISCAL YEARS
 (UNAUDITED)

Fiscal Year	Population	Personal Income	Per Capita Personal Income	Unemployment Rate
1997	22,832	Not Available	Not Available	2.30 %
1998	25,236	Not Available	Not Available	2.20
1999	25,455	\$ 792,515,970	\$ 31,134	2.30
2000	29,700	952,420,194	32,068	1.90
2001	29,700	980,992,800	33,030	2.00
2002	34,050	1,158,413,770	34,021	2.00
2003	37,260	1,305,649,691	35,042	2.90
2004	37,700	1,360,700,031	36,093	2.60
2005	39,310	1,461,373,787	37,176	2.50
2006	44,000	1,684,799,289	38,291	3.00

Source: U.S. Census Bureau and Arizona Employment statistics.

TOWN OF ORO VALLEY, ARIZONA
FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION
 LAST TEN FISCAL YEARS
 (UNAUDITED)

Function	Full-Time Equivalent Employees									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Administration										
Town Clerk	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.50	4.50
Town Manager	3.00	3.00	3.00	3.00	3.00	3.00	4.00	4.00	5.00	6.00
Human Resources	1.00	2.00	2.00	2.50	3.00	2.50	3.00	3.00	3.00	3.00
Economic Development	1.00	1.00	1.00	1.25	1.00	2.00	2.00	2.00	2.00	2.00
Finance	6.00	6.00	6.00	6.25	6.00	7.50	7.50	7.50	7.50	7.50
Information Systems	1.00	2.00	2.00	2.00	2.50	2.00	2.00	2.00	4.00	4.00
Legal	3.00	2.50	4.75	6.00	7.00	9.00	9.00	8.00	6.25	10.25
Community Development										
Building and Safety	8.50	7.00	10.00	14.00	17.00	17.00	17.00	17.00	16.00	16.00
Community Development	-	2.00	3.00	3.00	4.00	4.00	4.00	4.00	4.00	4.00
Administration										
Planning and Zoning	11.00	8.00	12.00	15.50	16.50	14.50	14.00	13.50	13.50	13.50
Parks and Recreation	9.00	9.00	9.00	13.50	15.50	20.30	20.30	20.30	20.80	20.80
Library	-	-	-	1.00	3.00	14.00	14.00	14.00	14.00	19.43
Police										
Civilians	20.25	21.00	22.25	24.00	32.00	26.00	29.00	29.00	28.00	29.00
Officers	54.00	56.00	64.00	69.50	68.00	74.00	74.00	88.00	92.00	96.00
Magistrate Court	6.00	6.00	7.00	6.50	7.50	7.50	7.50	7.50	8.50	8.50
Public Works	16.00	16.00	14.00	15.00	32.50	33.00	33.00	28.50	51.50	54.00
Water Utilities	9.00	15.50	19.00	26.00	28.00	32.00	33.00	33.00	34.00	34.00
Total	<u>152.75</u>	<u>161.00</u>	<u>183.00</u>	<u>213.00</u>	<u>250.50</u>	<u>272.30</u>	<u>277.30</u>	<u>285.30</u>	<u>314.55</u>	<u>332.48</u>

Source: Town of Oro Valley Finance Department.

TOWN OF ORO VALLEY, ARIZONA
 WATER UTILITY REVENUES BY USER TYPE
 LAST TEN FISCAL YEARS

Fiscal Year	Residential	Commercial	Irrigation	Construction	Turf	Turf Reclaimed	Wholesale/		Total
							Unmetered		
1997	\$ 2,576,662	\$ 253,624	\$ 309,989	\$ 128,482	\$ 984,806	\$ -	\$ 4,065	\$ 4,257,628	
1998	2,698,448	272,320	308,808	127,513	874,978	-	14,199	4,296,266	
1999	3,026,494	228,806	337,004	215,130	848,744	-	57,455	4,713,633	
2000	4,017,640	366,779	492,441	229,414	967,720	-	45,884	6,119,878	
2001	4,513,444	402,707	537,148	285,503	933,629	-	47,235	6,719,666	
2002	5,529,185	494,372	682,995	245,267	1,168,697	-	-	8,120,516	
2003	6,004,443	500,836	686,857	199,075	1,156,792	-	51,296	8,599,299	
2004	6,396,018	499,034	751,420	253,128	1,140,124	-	53,346	9,093,070	
2005	6,758,806	515,989	833,179	401,095	1,200,402	-	-	9,709,471	
2006	7,227,509	614,474	921,364	368,784	940,753	670,968	1,235	10,745,087	

Source: Town of Oro Valley Water Utility Department.

**TOWN OF ORO VALLEY, ARIZONA
OPERATING INDICATORS BY FUNCTION
LAST TEN FISCAL YEARS
(UNAUDITED)**

Function	Fiscal Years									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Police										
Burglaries	10	19	31	46	38	52	69	94	124	62
Citation (traffic)	3,983	6,739	7,371	8,317	5,636	5,237	8,195	9,413	8,660	4,417
Investigations	3,073	6,473	6,902	6,317	7,751	6,350	4,719	3,788	4,216	2,575
Total Arrests	-	2,367	2,833	2,350	2,314	2,011	2,156	2,184	2,076	1,115
Thefts	143	288	281	344	368	432	448	572	580	333
Public Works										
Street resurfacing (miles)	4.10	2.70	2.80	3.60	3.00	16.40	14.00	8.00	17.30	5.00
Parks and Recreation										
Recreation Programs Held Annually	1	1	1	3	5	16	21	23	30	38
Months of Public Pool Operations	4	4	4	-	10	10	10	10	10	10
Parks Maintenance Man-Hour Worked	6,240	6,240	6,240	13,520	13,520	13,520	13,520	13,520	13,520	13,520
Library										
Collection volume	-	-	-	-	-	65,000	70,000	75,000	80,000	86,000
Water										
New connections	629	807	984	1,006	787	507	470	533	377	508
Total connections	11,484	12,291	13,275	14,281	15,068	15,575	16,045	16,578	16,955	17,463
Transit										
Total route miles	-	75,046	95,735	122,405	154,167	180,087	167,313	177,283	190,609	165,202
Passengers	-	4,567	6,515	8,143	1,100	13,524	12,486	13,991	15,937	14,387

Source: Town of Oro Valley Finance Department.

TOWN OF ORO VALLEY, ARIZONA
 WATER RATES
 LAST TEN FISCAL YEARS
 (UNAUDITED)

Year	Base Rate monthly	Tier 1 per 1,000	Tier 2 per 1,000	Tier 3 per 1,000	GPF per 1,000
1998	\$ 9.75	\$ 1.71	N/A	N/A	N/A
1999	9.85	1.73	N/A	N/A	N/A
2000	10.81	1.73	\$ 1.85	N/A	N/A
2001	11.25	1.78	2.08	\$ 2.31	N/A
2002	12.00	1.90	2.35	3.00	N/A
2003	12.00	1.90	2.35	3.00	N/A
2004	12.30	1.92	2.55	3.25	\$ 0.21
2005	12.65	1.98	2.68	3.58	0.21
2006	12.65	1.98	2.68	3.58	0.21
2007	13.25	2.08	2.81	3.76	0.25

Source: Town of Oro Valley Water Utility.

TOWN OF ORO VALLEY, ARIZONA
CAPITAL ASSETS STATISTICS BY FUNCTION
LAST TEN FISCAL YEARS
(UNAUDITED)

Function	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Public safety										
Police stations	1	1	1	1	1	1	1	1	1	1
Substations	-	-	1	2	2	2	2	3	3	3
Patrol units	30	37	45	58	66	78	83	93	103	105
Highways and streets										
Streets (miles)	130.6	136.9	144.0	152.4	156.9	167.5	175.7	182.7	188.0	191.3
Streethights	123	123	131	139	147	163	163	171	187	187
Traffic signals	2	2	3	4	5	7	7	8	10	10
Culture and recreation										
Parks acreage	17	17	17	47	47	87	87	87	87	300
Playgrounds	1	1	1	2	2	2	2	2	2	2
Baseball and softball diamonds	5	5	5	7	7	7	7	7	7	7
Water										
Wells	20	21	22	22	24	25	25	21	22	22
Storage capacity (MG)	9	10	10	10	11	13	14	16	17	17
Booster capacity	21	21	21	21	23	24	26	29	28	28
Transit										
Transit vans	2	2	4	7	8	8	8	8	9	9

Source: Town of Oro Valley Finance Department.