

**TOWN OF ORO VALLEY
ARIZONA**

Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2007



11000 North La Cañada Drive • Oro Valley, Arizona 85737

**TOWN OF ORO VALLEY, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Prepared by:

Finance Department

Stacey Lemos
Finance Director

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**TOWN OF ORO VALLEY, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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INTRODUCTORY SECTION

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TOWN OF ORO VALLEY
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Administrative Offices (520) 229-4700 Fax (520) 297-0428
www.townoforovalley.com

November 15, 2007

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

State law mandates that cities publish a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America and audited in accordance with auditing standards generally accepted in the United States of America by a certified public accounting firm licensed in the State of Arizona. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the Town of Oro Valley, Arizona (Town) for the fiscal year ended June 30, 2007.

This report consists of management's representations concerning the finances of the Town. 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 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's financial statements in conformity with accounting principles generally accepted in the United States of America. Because the cost of internal controls should not outweigh their benefits, the Town'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's financial statements have been audited by Heinfeld, Meech & Co., P.C., a certified public accounting firm. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town for the fiscal year ended June 30, 2007, 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's financial statements for the fiscal year ended June 30, 2007, are fairly presented in conformity with accounting principles generally accepted in the United States of America. The independent auditors' report is presented as the first component of the financial section of this report.

Accounting principles generally accepted in the United States of America require 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's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE TOWN

The Town of Oro Valley was incorporated in 1974. It is located in northeastern Pima County and has a land area of 34.85 square miles. The Town's current population is estimated at 42,917.

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 Attorney and Magistrate. The Chief of Police is appointed by the Town Council and Town Manager.

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 in the notes to the basic financial statements.

The annual operating budget serves as the foundation for the Town's financial planning and control. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual operating budget approved by the Town Council. The Town's proposed operating budget is presented to the Town Council for review throughout the budget cycle starting in January and tentatively approved in June. The Town Council is required to hold a public hearing on the proposed budget and to adopt the final budget by no later than the second Monday in August. 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.

A schedule of revenues, expenditures and changes in fund balances – budget and actual are provided in this report for the General and Highway User Funds. These schedules are presented as required supplementary information. For other Governmental Funds, this schedule is presented in the Combining and Individual Fund Statements and Schedules section of this report.

MAJOR INITIATIVES AND ACCOMPLISHMENTS FOR THE YEAR

During FY 2006/07, the Town continued to invest in programs and amenities that keep Oro Valley the Community of Excellence it strives to be. During this time, the Mayor and Town Council adopted a strategic plan which identified the following focus areas:

- Financial Sustainability
- Quality of Life
- Economic Development
- Protection of Environment and Cultural Assets
- Leadership and Communication

The following are some of the highlights and accomplishments of the Town during the fiscal year:

Town Council

- Directed the Town Manager to implement an Enterprise Resource Planning (ERP) system, program-based budgeting, a financial sustainability plan and program evaluations to provide financial sustainability and accountability within Town governance
- Explored annexation opportunities in the Southwest Area and conceptual planning with the Arizona State Land Department for State land north of Town
- Furthered the development of Steam Pump Ranch, Honey Bee Village and Naranja Town Site

Town Clerk

- Improved citizen access to public information by providing on-line full text search capability of the Oro Valley Town Code and unveiled live voice streaming capability of regular Town Council meetings and other board and commission meetings

Economic Development

- Launched the Oro Valley Business Navigator, an information database focusing on Oro Valley businesses
- Developed for Council adoption the Community Economic Development Strategy for Oro Valley

Finance

- Received an upgraded bond rating to 'AA-' from Standard & Poor's
- Began implementation of the Tyler MUNIS Enterprise Resource Planning (ERP) System
- Continued transition to a program and performance-based budgeting model
- Completed 10-year Financial Sustainability Plan for Oro Valley

Police

- Completed new 5-year Strategic Plan for department through 2012
- One of the first organizations in the area to implement Reverse 911 System
- Sponsored training by nationally recognized trainers, attended by police officers from the United States and Canada
- Applied for and received grant funding for new 2007 Police BMW RT1200 motorcycles
- Applied for and received grant funding from ATF for bomb detection canine

Planning and Zoning

- Completed Honey Bee Village Archaeological Preserve Implementation Plan

- Completed review of all plans for Oro Valley Marketplace, Steam Pump Village and Ventana Medical Systems expansion
- Initiated Steam Pump Ranch Master Plan process
- Coordinated successful Citizens Planning Institute classes resulting in 35 graduates

Building Safety

- Developed an implementation plan for improving the permitting, inspection and information processes
- Provided on-line access to information for all active and historical permits
- Provided pre-construction and construction assistance for large projects including: Oracle Crossings, Steam Pump Village, Ventana Medical Systems, Northwest Hospital expansion and Oro Valley Marketplace

Parks and Recreation

- Completed the Naranja Town Site Programming and Concept Design Process
- Completed the installation of 3-1/2 miles of natural trails through the Naranja Town Site
- Resurfaced basketball and tennis courts at Riverfront Park
- Completed the Town's Naming and Branding Policy

Public Works

- Began implementation of Pavement Preservation Program to assess the overall condition of Town streets
- Crack sealed 85 lane miles of the Town's paved streets
- Repaired bridge deck joints on Honey Bee bridge
- Installed a box culvert over Highlands Wash to prevent the flooding of Lambert Lane during major rainstorms
- Responded to 106 police emergency call-outs
- Began construction on the widening of First Avenue from Lambert Lane to Tangerine Road
- Completed the CDO Linear Park design

Transit Service

- Reached an all-time record for annual passenger trips totaling 17,507
- Purchased new dispatching and scheduling software to increase productivity and eliminate manual scheduling

Water Utility

- Took 943 water quality samples with all results meeting federal, state and local water quality regulations
- Delivered 488 million gallons of reclaimed water to area golf courses
- Completed design of Phase 2 of the reclaimed water system
- Performed 206 residential water use audits
- Analyzed and updated Alternative Water Resource Development Impact Fees to pay for future delivery of Central Arizona Project (CAP) water to Oro Valley

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 operates.

Local Economy. The local economic outlook for the Town of Oro Valley saw a continued slowdown in residential construction activity during FY 2006/07. This was offset, however, by a marked increase in commercial construction activity during the year. Sales tax collections from construction, retail trade and restaurants and bars and hotel/motel lodging are the major industries which accounted for 88% of all sales tax receipts for fiscal year 2006/07. 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. The Town currently does not have a property tax in place, therefore the budget is very dependent on sales taxes and state shared revenues to fund ongoing programs and services. 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.

Construction sales tax collections for fiscal year 2006/07 increased by \$2,007,187 or 41% as compared to fiscal year 2005/06. Demonstrating the decline in residential development, single family residential building permits issued during fiscal year 2006/07 totaled 335, down from 388 permits issued in fiscal year 2005/06.

Sales tax collections from retail trade totaled \$3,664,500 for this fiscal year. This is an increase of \$435,169, or 13%, over last fiscal year. Two new shopping centers, Oracle Crossings and Steam Pump Village, opened for business during FY 2006/07 and the construction of several other centers are scheduled to be completed over the next two to four years. When all of the expected commercial construction activity is completed, it is anticipated that there will be over two (2) million square feet of commercial retail and office space added to the Town over this time period. As such, the Town can expect to see one-time commercial building-related revenues sustained at higher levels over the next two to four years, as well as an increase in related retail sales taxes as those commercial centers open for business. Once this growth in commercial construction subsides, however, it is anticipated that those one-time construction-related revenues will significantly decrease as well.

In a further effort to replace and supplement the Town's declining construction-related revenues, the Town continues to expand its annexation planning and economic development efforts. The Town is currently assessing the annexation potential of 15 square miles of land north of the Town that is owned by the Arizona State Land Department.

Long-term financial planning. The Town's citizen-based 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 FY 2006/07, the Committee worked with Town staff on the preparation of the Town's first 10-Year Financial Sustainability Plan. This plan encompassed a 10-year projection of the costs of existing Town service levels, the incremental costs of increased service levels, identification of gaps in funding levels or expected revenue shortfalls, and recommended service level changes or additional revenue solutions to meet the Town's needs over the long term. The scope of this analysis focused primarily on the General Fund and the Highway User Revenue Fund. In summary, this plan forecasted that the Town could sustain its existing service and program levels into the future with current revenue sources, but should the Town or residents desire increases in programs or service levels requiring additional staff or resources, then additional, stable revenue sources would need to be implemented to pay for them.

The Town also continued its migration from a traditional line item budget to a performance and program-based budgeting approach during FY 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 is an integrated financial reporting system designed to more accurately capture costs by program area.

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. 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 2005/06 was 3.939% and 5.200% in fiscal year 2006/07. Investments held in the LGIP earned \$2,038,821 in interest revenue for the year ended June 30, 2007. The account at LGIP for the construction of the reclaimed water system improvement project and potable water system improvements and expansion earned \$188,544 in interest revenue.

Trust accounts are held with Wells Fargo Bank for annual debt service payments. 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 \$160,781 for fiscal year 2006/07.

A debt service reserve fund was established in 2005 for the construction of the Municipal Operations Center land and building construction. These funds are maintained in trust accounts with the Bank of New York Trust Co. N.A. 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 \$34,119 for fiscal year 2006/07.

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, 2007 for the Town's 311 full-time, 46 part-time and 67 seasonal employees. The Town did not make an unemployment contribution in fiscal year 2006/07.

AWARDS AND ACKNOWLEDGMENTS

Awards. 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, 2006. This report satisfied both accounting principles generally accepted in the United States of America and applicable legal requirements. This was the thirteenth year the Town received this prestigious award.

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.

Acknowledgments. The preparation of this Comprehensive Annual Financial Report could not have been accomplished without the efficient and dedicated services of the entire staff of the Finance Department who assisted and contributed in its preparation. We thank the Mayor and members of the Town Council for their interest and support in planning and conducting the financial affairs of the Town in a responsible and progressive manner.

Respectfully submitted,



David L. Andrews
Town Manager

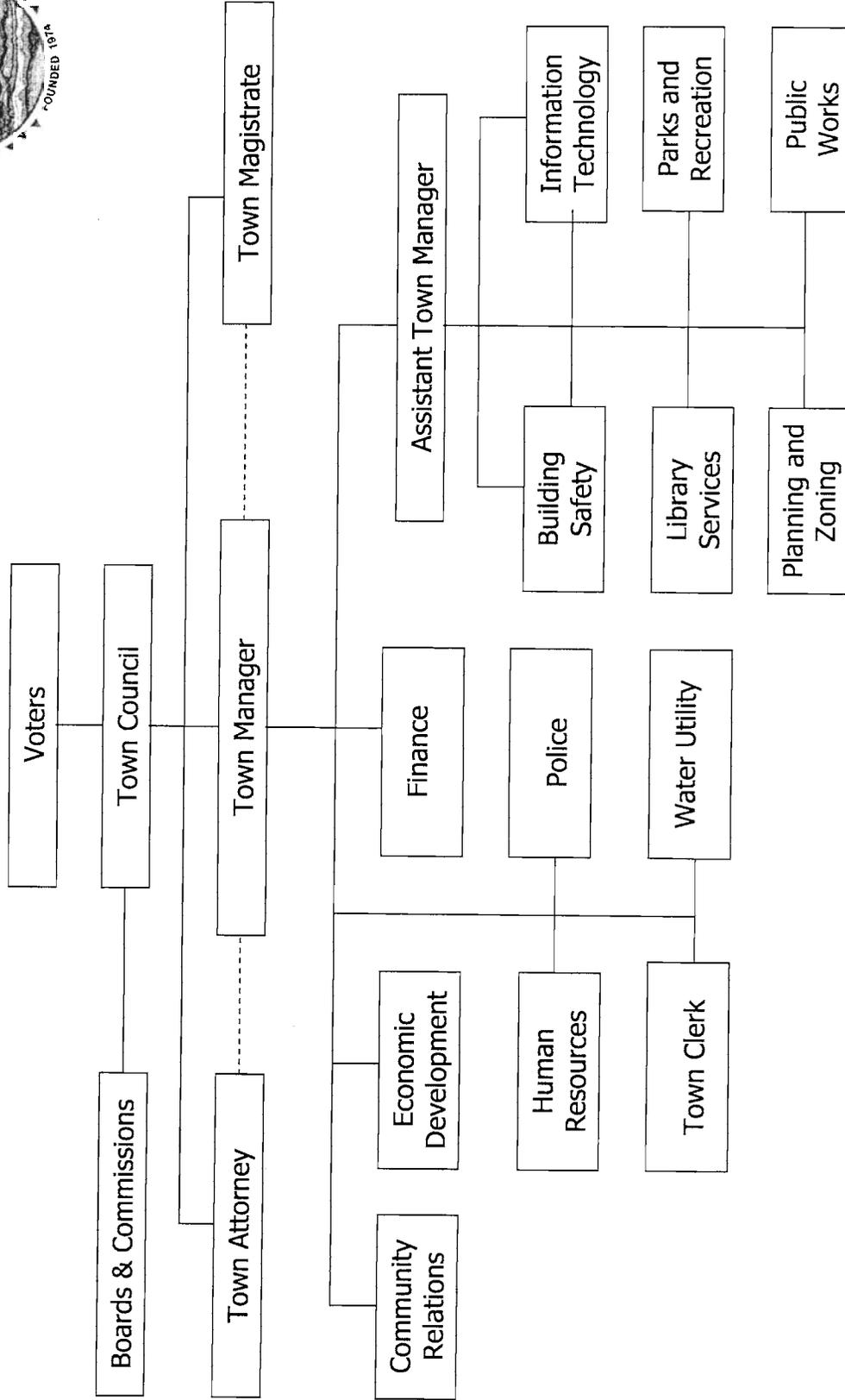


Stacey Lemos, CPA
Finance Director

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Town of Oro Valley Organization Chart

FY 2007 - 2008



**TOWN OF ORO VALLEY, ARIZONA
LIST OF TOWN OFFICIALS**

ELECTED OFFICIALS

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

DEPARTMENT HEADS

Town Manager	David L. Andrews
Assistant Town Manager	Jerene Watson
Finance Director	Stacey Lemos
Human Resources Director	Sandra Abbey
Town Engineer	Craig Civalier
Town Clerk	Kathryn E. Cuvelier
Magistrate	George Dunscomb
Interim Town Attorney	Tobin Sidles
Water Utility Director	Philip Saletta
Chief of Police	Daniel G. Sharp
Planning and Zoning Director	Sarah More
Building Safety Director	Suzanne Smith
Parks and Recreation Director	Ainsley A. Reeder
Information Technology Director	Kevin Verville

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, 2006

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.



President

Executive Director

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FINANCIAL SECTION

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HEINFELD, MEECH & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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Gary Heinfeld, CPA, CGFM
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Kera Badalamenti, CPA

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund (General, Highway User Revenue, Oracle Road Debt Service, and the Townwide Roadway Development Impact Fees Funds), and the aggregate remaining fund information of the Town of Oro Valley, Arizona (Town), as of and for the year ended June 30, 2007, 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 audits 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 basic 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 listed above, and the aggregate remaining fund information of the Town of Oro Valley, Arizona, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2007, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 5 through 15 and budgetary comparison information on pages 63 through 65 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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 an opinion on the financial statements that collectively comprise the Town's basic financial statements. The accompanying supplementary information such as 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 section and statistical section 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.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
Certified Public Accountants

November 15, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
(Required Supplementary Information)

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**TOWN OF ORO VALLEY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

As management of the Town of Oro Valley, Arizona (Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the introductory section of this report.

FINANCIAL HIGHLIGHTS

The financial statements which follow the Management's Discussion and Analysis provide those significant key financial highlights for 2006/07 as follows.

- The Town's total net assets of governmental activities increased \$14.8 million to \$138.5 million and business-type activities increased \$6.3 million to \$38.8 million representing 78 percent and 22 percent respectively, of the total net assets of \$177.3 million.
- General revenues from governmental activities accounted for \$29.8 million in revenue, or 64 percent of all revenues from governmental activities. Program specific revenues in the form of charges for services and grants and contributions accounted for \$17.0 million or 36 percent of total governmental activities revenues. The Town had \$16.7 million of program revenues and \$1.2 million in general revenues related to business-type activities.
- The Town had \$32.0 million in expenses related to governmental activities, an increase of 15 percent from the prior fiscal year. The Town had \$11.5 million in expenses related to business-type activities, an increase of 9 percent from the prior fiscal year.
- Among major funds, the General Fund had \$29.2 million in revenues, which primarily consisted of sales taxes and intergovernmental revenues. The total expenditures of the General Fund were \$23.2 million. The General Fund's fund balance increased from \$14.1 million to \$18.5 million, due to the growth in commercial construction activity during FY 06/07, resulting in a \$2 million increase in construction sales tax revenues over FY 2005/06 totals. Sales tax recoveries (\$1.2M) generated from sales tax audits also exceeded expectations. Finally, total actual expenditures were under budget by \$2 million, excluding contingencies.
- The Highway User Revenue Fund had \$5.9 million in revenues which primarily consisted of sales taxes and intergovernmental revenues. The total expenditures of the Highway User Revenue Fund were \$4.8 million.
- The Water Fund operating revenues of \$12.3 million exceeded operating expenses of \$8.1 million. The change in net assets of \$5.9 million was due primarily to operating income of \$4.2 million and \$2.7 million in capital contributions from line extension agreements.

**TOWN OF ORO VALLEY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise 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's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Town's assets and liabilities, with the difference between the two 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 is improving or deteriorating.

The statement of activities presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

In the government-wide financial statements the Town's activities are presented in the following categories:

- **Governmental activities** – Most of the Town's basic services are included here, such as general government, public safety, highways and streets, and culture and recreation. Sales taxes, intergovernmental, and charges for services finance most of these activities.
- **Business-type activities** – The services provided by the Town included here are water and stormwater utilities. The services are primarily financed through user fees and charges.

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 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

**TOWN OF ORO VALLEY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

OVERVIEW OF FINANCIAL STATEMENTS (Cont'd)

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 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 the Town'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 Town's near-term financing decision. 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.

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, Highway User Revenue, Oracle Road Debt Service, and the Townwide Roadway Development Impact Fees Funds, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements and schedules.

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.

Notes to the 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 immediately following the basic financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town's budget process. The Town adopts an annual expenditure budget for all governmental funds. A schedule of revenues, expenditures and changes in fund balances – budget and actual has been provided for the General Fund and major Special Revenue Funds as required supplementary information.

**TOWN OF ORO VALLEY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$177.3 million as of June 30, 2007.

The largest portion of the Town's net assets (69 percent) reflects its investment in capital assets (e.g., land, buildings and improvements, improvements other than buildings, infrastructure, vehicles, machinery and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that 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.

The Town's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

The following table presents a summary of the Town's net assets for the fiscal years ended June 30, 2007 and June 30, 2006.

	2007	2006	2007	2006		
	Governmental	Governmental	Business-type	Business-type	2007 Total	2006 Total
	Activities	Activities	Activities	Activities		
Current and other assets	\$ 36,399,408	\$ 32,846,248	\$ 28,631,927	\$27,964,323	\$ 65,031,335	\$ 60,810,571
Capital assets, net	125,795,995	123,405,883	77,102,895	71,677,799	202,898,890	195,083,682
Total assets, net	<u>162,195,403</u>	<u>156,252,131</u>	<u>105,734,822</u>	<u>99,642,122</u>	<u>267,930,225</u>	<u>255,894,253</u>
Current and other liabilities	7,778,755	3,997,485	6,170,121	2,595,737	13,948,876	6,593,222
Long-term liabilities	15,873,961	20,858,681	60,777,911	64,516,057	76,651,872	85,374,738
Total liabilities	<u>23,652,716</u>	<u>24,856,166</u>	<u>66,948,032</u>	<u>67,111,794</u>	<u>90,600,748</u>	<u>91,967,960</u>
Invested in capital assets, net						
of related debt	106,644,847	107,413,486	15,534,043	7,240,791	122,178,890	114,654,277
Restricted	8,326,731	8,919,398		2,331,001	8,326,731	11,250,399
Unrestricted	23,571,109	15,063,081	23,252,747	22,958,536	46,823,856	38,021,617
Total net assets	<u>\$138,542,687</u>	<u>\$131,395,965</u>	<u>\$ 38,786,790</u>	<u>\$32,530,328</u>	<u>\$177,329,477</u>	<u>\$163,926,293</u>

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

- The addition of \$4.5 million in business-type activities capital assets through improvements to the potable water system and expansion of the reclaimed water system.
- The addition of \$19.8 million in governmental activities capital assets, including \$1.8 million for vehicles and equipment, and \$18 for infrastructure. Infrastructure assets consisted of roadway widening projects, bridge construction and repair, and roadway overlay and surface treatments.

**TOWN OF ORO VALLEY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont'd)

Changes in net assets. The Town's total revenues for the fiscal year ended June 30, 2007, were \$64.6 million. The total cost of all programs and services was \$43.5 million. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2007 and June 30, 2006.

	2007 Governmental Activities	2006 Governmental Activities	2007 Business-type Activities	2006 Business- type Activities	2007 Total	2006 Total
Revenues:						
Program revenues:						
Charges for services	\$ 3,765,011	\$ 4,197,210	\$ 13,617,461	\$ 14,059,792	\$ 17,382,472	\$ 18,257,002
Operating grants and contributions	4,893,869	4,558,864			4,893,869	4,558,864
Capital grants and contributions	8,321,691	3,994,640	3,066,170	628,501	11,387,861	4,623,141
General revenues:						
Sales taxes	16,873,630	12,455,609			16,873,630	12,455,609
Franchise taxes	478,175	435,428			478,175	435,428
Impact fees	1,038,217	1,098,977			1,038,217	1,098,977
Unrestricted state shared revenues	4,473,305	3,343,471			9,944,318	3,343,471
Unrestricted state sales tax revenue sharing	3,744,864	3,432,007				3,432,007
Unrestricted auto lieu tax revenue sharing	1,726,149	1,541,560				1,541,560
Investment earnings	1,471,641	991,151	1,163,837	956,189	2,635,477	1,947,340
Total revenues	<u>46,786,552</u>	<u>36,048,917</u>	<u>17,847,468</u>	<u>15,644,482</u>	<u>64,634,019</u>	<u>51,693,399</u>
Expenses:						
General government	7,529,245	7,162,732			7,529,245	7,162,732
Public Safety	12,352,671	11,155,542			12,352,671	11,155,542
Highways and streets	7,757,276	5,732,026			7,757,276	5,732,026
Culture and recreation	3,375,314	3,014,341			3,375,314	3,014,341
Interest on long-term debt	996,336	805,123			996,336	805,123
Water			11,446,958	10,438,869	11,446,958	10,438,869
Stormwater drainage			74,235	111,695	74,235	111,695
Total expenses	<u>32,010,842</u>	<u>27,869,764</u>	<u>11,521,193</u>	<u>10,550,564</u>	<u>43,532,035</u>	<u>38,420,328</u>
Transfers	<u>69,813</u>	<u>(79,778)</u>	<u>(69,813)</u>	<u>79,778</u>		
Increase in net assets	<u>\$ 14,845,523</u>	<u>\$ 8,099,375</u>	<u>\$ 6,256,462</u>	<u>\$ 5,173,696</u>	<u>\$ 21,101,985</u>	<u>\$ 13,273,071</u>

Total revenues increased \$12.9 million, or 25 percent, primarily as a result of an increase in local sales tax revenues of \$4.4 million primarily related to the construction, retail and hotel/motel industries. The Town also received \$1.2 million in one-time revenues from sales tax audit recoveries during FY 2006/07. State/county shared revenues increased by \$1.6 million due to an increase in distributions based on the Town's population and an increase in the overall revenue base distributed by the State. In addition, a capital contribution of \$4.5 million was received from Pima County for the Steam Pump Ranch property, a 15-acre historical site acquired with Pima County bond funds located within the Town.

Expenses increased \$5.1 million primarily due to an increase in personnel costs related to salary market adjustments for all Town personnel and for increased expenditures relating to the widening of First Avenue from Lambert Lane to Tangerine Road.

**TOWN OF ORO VALLEY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont'd)

Governmental and Business-type activities. The following table presents the cost of the seven (7) major Town functional activities. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the Town's taxpayers by each of these functions.

	2007		2006	
	Total Expenses	Net (Expense)/ Revenue	Total Expenses	Net (Expense)/ Revenue
Governmental Activities				
General government	\$ 7,529,245	\$ 337,963	\$ 7,162,732	\$ (2,425,437)
Public Safety	12,352,671	(10,923,779)	11,155,542	(10,373,487)
Highways and streets	7,757,276	(816,932)	5,732,026	589,100
Culture and recreation	3,375,314	(2,631,187)	3,014,341	(2,104,103)
Interest on long-term debt	996,336	(996,336)	805,123	(805,123)
Total	<u>\$32,010,842</u>	<u>\$(15,030,271)</u>	<u>\$ 27,869,764</u>	<u>\$(15,119,050)</u>
Business-type Activities				
Water	\$11,446,958	\$ 4,873,510	\$ 10,438,869	\$ 4,228,023
Stormwater drainage	74,235	288,928	111,695	(90,294)
Total	<u>\$11,521,193</u>	<u>\$ 5,162,438</u>	<u>\$ 10,550,564</u>	<u>\$ 4,137,729</u>

- The cost of all governmental activities this year was \$32.0 million. The increase of \$4.1 million from the prior year was due primarily to additional personnel costs to fund a salary market adjustment for all Town employees and for the increased expenditures related to the widening of First Avenue from Lambert Lane to Tangerine Road.
- The cost of all business-type activities this year was \$11.5 million. The increase of \$970,629 from the prior year was primarily due to personnel salary market adjustments and increased depreciation expense resulting from the reclaimed water system.
- Federal and State governments and charges for services subsidized certain governmental programs and business-type programs with revenues of \$33.7 million.
- Net cost of governmental activities of \$15.0 million was financed by general revenues, which are made up of primarily sales taxes and state shared revenues of \$26.8 million.

**TOWN OF ORO VALLEY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Town'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's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the Town's net resources available for spending at the end of the fiscal year.

The financial performance of the Town as a whole is reflected in its governmental funds. As the Town completed the year, its governmental funds reported a combined fund balance of \$28.1 million, an increase of \$4.0 million due primarily to increases in the General Fund from construction sales tax collections resulting from the increased commercial construction activity seen during FY 2006/07. The Town also collected \$1.2 million in one-time revenues from sales tax audit recoveries during the year.

The General Fund is the principal operating fund of the Town. The increase in fund balance of \$4.4 million in the General Fund for the fiscal year to \$18.5 million was due primarily to construction taxes and sales tax audit recoveries. Town department spending also came in under budget due to staffing vacancies and operating efficiencies.

The fund balance of the Highway User Revenue Fund showed a decrease of \$186,759 primarily due to a transfer of \$1 million to subsidize the Townwide Roadway Impact Fee Fund. This was almost equally offset by an increase in construction sales tax revenues (\$700K), the distribution of which is split between the General Fund and the Highway User Revenue Fund, and increased Highway User Revenue Funds from the State (\$300K) over FY 2005/06 collections.

The Townwide Roadway Impact Fee Fund showed a decrease of \$404,512 due primarily to the completion of several street expansion and improvement projects during the year.

Proprietary funds. Net assets of the Enterprise Funds at the end of the year amounted to \$38.8 million. The increase of \$6.3 million from fiscal year 2005/06 was primarily due to improvements to the potable water system and expansion of the reclaimed water system.

BUDGETARY HIGHLIGHTS

There were no amendments to the Town of Oro Valley's Fiscal Year 2006/07 operating and capital budget. A schedule showing the original and final budget amounts compared to the Town's actual financial activity for the General Fund is provided in this report as required supplementary information. The significant variances are summarized as follows:

**TOWN OF ORO VALLEY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

- The favorable variance of \$3.2 million in General Fund revenues was mainly attributed to local sales tax collections and state/county shared revenues. Expenditures were below budget by \$2 million due to departmental savings resulting from personnel vacancies, operating efficiencies and the carry forward of several capital improvement projects into the subsequent fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2007, the Town had invested \$257.4 million in capital assets, including buildings, facilities, vehicles, computers, equipment, and infrastructure assets. This amount represents a net increase prior to depreciation of \$22.3 million from last year, primarily due to the completion of several roadway projects and the donation of land (Steam Pump Ranch) from Pima County. Total depreciation expense for the year was \$7.2 million.

The following schedule presents capital asset balances for the fiscal years ended June 30, 2007 and June 30, 2006.

	As of June 30, 2007	As of June 30, 2006 (Restated)
<u>Governmental Activities</u>		
Land	\$ 17,694,622	\$ 13,159,928
Infrastructure	110,082,926	92,120,969
Buildings and improvements	18,956,247	18,594,768
Vehicles, machinery and equipment	7,186,005	6,155,224
Construction in progress	9,708,610	18,969,487
Less: Accumulated depreciation	(37,832,415)	(33,293,294)
Total	<u>\$ 125,795,995</u>	<u>\$115,707,082</u>
	As of June 30, 2007	As of June 30, 2006
<u>Business-type Activities</u>		
Land	\$ 2,410,660	\$ 2,410,660
Water rights	6,172,361	6,172,361
Water system	79,048,639	75,787,086
Equipment and vehicles	2,539,885	1,259,787
Construction in progress	3,626,425	495,549
Less: Accumulated depreciation	(16,695,075)	(14,447,644)
Total	<u>\$ 77,102,895</u>	<u>\$ 71,677,799</u>

Additional information on the Town's capital assets can be found in Note 5.

**TOWN OF ORO VALLEY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

CAPITAL ASSETS AND DEBT ADMINISTRATION (Concl'd)

Debt Administration. At year-end, the Town had \$80.7 million in long-term debt outstanding, \$5.4 million due within one year. The following table presents a summary of the Town's outstanding long-term debt for the fiscal years ended June 30, 2007 and 2006.

	Governmental Activities	
	2007	2006
Revenue bonds	\$12,891,148	\$13,559,446
Special assessment bonds	3,760,000	3,945,000
Certificates of participation		215,000
Loan payable	2,500,000	2,604,143
Total	\$19,151,148	\$20,323,589
	Business-type Activities	
	2007	2006
Revenue bonds	\$61,568,852	\$65,015,554

State statutes currently limit the amount of general obligation debt a Town may issue to 20 percent of its total assessed valuation for water, sewer, lights, open space preserves, parks, playgrounds and recreational facilities. The current debt limitation for the Town in this 20% category is \$116.6 million.

The Town of Oro Valley received an upgraded bond rating during FY 2006/07 and now maintains a "AA-" rating from Standard & Poor's and an "A+" rating from Fitch on the outstanding revenue bonds.

DISCUSSION ON REFUNDING

During FY 2006/07, the Town refunded \$19.0 million in outstanding debt that carried an average interest rate of 5.3%. The Town issued \$17.8 million in excise tax revenue refunding bonds with an average interest rate of 4.3%. This refunding resulted in a net present value debt service savings of over \$1 million.

Additional information on the Town's long-term debt can be found in Notes 6 through 9.

**TOWN OF ORO VALLEY, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The unemployment rate for the Town of Oro Valley is currently 2.6%. Pima County's and the State of Arizona's unemployment rates are 3.7% and 3.8%, respectively.
- The Town's secondary assessed valuation for the current year is \$582,838,439, an increase of 25% over last fiscal year.
- Single family residential (SFR) building permits issued in this fiscal year totaled 335, which is down from 388 SFR building permits issued last year. Projections for SFR building permits are 320 for FY 2007/08 based on the slow down in the housing market and the limited amount of remaining developable land within the Town's incorporated boundaries.
- The development of major retail shopping centers is on the rise in the Town. The new Oracle Crossings development has been open for over a year and continues to grow in sales volume. Construction of Oro Valley Marketplace, a 1.1 million square feet retail center, will begin in FY 2007/08 and open in the fall of FY 2008/09.

The adopted combined operating and capital expenditure budget for fiscal year 2007-08 totals \$118.8 million, an increase of \$12.9 million or 12.2% more than fiscal year 2006-07. This increase is attributed to the following factors:

- \$10.3 million in Outside Funding sources in the form of reimbursements from the Pima Association of Governments (PAG), Pima County Bond proceeds and various federal grants primarily in the Townwide Roadway Development Impact Fee Fund.
- \$1.5 million in State Shared revenues in the General Fund, primarily from state income taxes and state sales tax collections
- \$1.5 million in local sales tax collections in the General Fund related to the addition of four new commercial centers and an increase in construction activity.
- \$1.4 million in the Water Enterprise Fund related to increases in water rates, impact fees and groundwater preservation fees
- \$473.5K in the Stormwater Utility Fund for the proposed implementation of a stormwater utility fee

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Finance Department, Town of Oro Valley, Arizona, 11000 North La Cañada Drive, Oro Valley, Arizona 85737.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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TOWN OF ORO VALLEY, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 26,354,023	\$ 22,699,080	\$ 49,053,103
Taxes receivable	1,317,291		1,317,291
Accounts receivable	3,000,548	2,193,022	5,193,570
Intergovernmental receivable	927,813		927,813
Special assessments	3,760,000		3,760,000
Interest receivable	135,161	96,529	231,690
Prepaid items	3,717		3,717
Total current assets	35,498,553	24,988,631	60,487,184
Noncurrent assets:			
Deferred bond charges	900,855	3,643,296	4,544,151
Capital assets, non-depreciable	27,403,232	12,209,446	39,612,678
Capital assets, depreciable (net)	98,392,763	64,893,449	163,286,212
Total noncurrent assets	126,696,850	80,746,191	207,443,041
Total assets	162,195,403	105,734,822	267,930,225
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	1,339,673	1,429,336	2,769,009
Accrued wages and benefits	426,791	38,059	464,850
Intergovernmental payable	56,599	575,539	632,138
Interest payable	28,875	1,907,507	1,936,382
Unearned revenue	552,447		552,447
Customer deposits payable	856,479	138,170	994,649
Compensated absences	1,114,789	99,612	1,214,401
Loans payable	2,500,000		2,500,000
Special assessment bonds	195,000		195,000
Revenue bonds	708,102	1,981,898	2,690,000
Total current liabilities	7,778,755	6,170,121	13,948,876
Noncurrent liabilities:			
Compensated absences	7,122	17,565	24,687
Special assessment bonds	3,565,000		3,565,000
Deferred bond premium	118,793	1,173,392	1,292,185
Revenue bonds	12,183,046	59,586,954	71,770,000
Total non-current liabilities	15,873,961	60,777,911	76,651,872
Total liabilities	23,652,716	66,948,032	90,600,748
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	106,644,847	15,534,043	122,178,890
Restricted for:			
Public safety	301,649		301,649
Highways and streets	3,669,301		3,669,301
Capital outlay	3,714,717		3,714,717
Debt service	245,208		245,208
Other	395,856		395,856
Unrestricted	23,571,109	23,252,747	46,823,856
Total net assets	\$ 138,542,687	\$ 38,786,790	\$ 177,329,477

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

**TOWN OF ORO VALLEY, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
<u>Primary Government</u>		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities:					
General government	\$ 7,529,245	\$ 3,291,983	\$ 40,531	\$ 4,534,694	\$ 337,963
Public safety	12,352,671	229,546	1,199,346		(10,923,779)
Highway and streets	7,757,276	122,124	3,031,223	3,786,997	(816,932)
Culture and recreation	3,375,314	121,358	622,769		(2,631,187)
Interest on long-term debt	996,336				(996,336)
Total governmental activities	<u>32,010,842</u>	<u>3,765,011</u>	<u>4,893,869</u>	<u>8,321,691</u>	<u>(15,030,271)</u>
Business-type activities:					
Water	11,446,958	13,617,336		2,703,132	
Stormwater drainage	74,235	125		363,038	
Total business-type activities	<u>11,521,193</u>	<u>13,617,461</u>		<u>3,066,170</u>	
Total primary government	<u>\$ 43,532,035</u>	<u>\$ 17,382,472</u>	<u>\$ 4,893,869</u>	<u>\$ 11,387,861</u>	<u>(15,030,271)</u>
General revenues:					
Taxes:					
Sales taxes					16,873,630
Franchise taxes					478,175
Impact fees					1,038,217
Unrestricted state shared revenues					9,944,318
Investment earnings					1,471,641
Transfers					69,813
Total general revenues and transfers					<u>29,875,794</u>
Changes in net assets					14,845,523
Net assets, beginning of year, as restated					<u>123,697,164</u>
Net assets, end of year					<u>\$138,542,687</u>

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

Net (Expense) Revenue
and Changes in Net Assets

Business-type Activities	Totals
\$	\$ 337,963
	(10,923,779)
	(816,932)
	(2,631,187)
	(996,336)
	(15,030,271)
4,873,510	4,873,510
288,928	288,928
5,162,438	5,162,438
5,162,438	(9,867,833)
	16,873,630
	478,175
	1,038,217
	9,944,318
1,163,837	2,635,478
(69,813)	
1,094,024	30,969,818
6,256,462	21,101,985
32,530,328	156,227,492
\$ 38,786,790	\$177,329,477

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FUND FINANCIAL STATEMENTS

TOWN OF ORO VALLEY, ARIZONA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	HURF	Oracle Road Debt Service
<u>ASSETS</u>			
Cash and cash equivalents	\$ 16,684,432	\$ 3,467,715	\$ 108,388
Taxes receivable	1,317,291		
Accounts receivable	694,764	215,429	
Intergovernmental receivable	548,745	282,085	
Special assessments			3,760,000
Interest receivable	94,256	20,724	
Due from other funds	814,567		
Prepaid items	3,717		
Total assets	<u>\$ 20,157,772</u>	<u>\$ 3,985,953</u>	<u>\$ 3,868,388</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 490,014	\$ 246,627	\$ 1,800
Accrued wages and benefits	383,729	35,807	
Intergovernmental payable	56,599		
Interest payable			
Due to other funds		56,303	
Deferred revenue	688,909		3,760,000
Customer deposits payable	60,815	202	
Total liabilities	<u>1,680,066</u>	<u>338,939</u>	<u>3,761,800</u>
Fund balances:			
Unreserved:			
Undesignated	18,477,706	3,647,014	106,588
Unreserved reported in:			
Special revenue funds			
Debt service funds			
Capital projects funds			
Total fund balances	<u>18,477,706</u>	<u>3,647,014</u>	<u>106,588</u>
Total liabilities and fund balances	<u>\$ 20,157,772</u>	<u>\$ 3,985,953</u>	<u>\$ 3,868,388</u>

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

Townwide Roadway Development Impact Fees	Non-Major Governmental Funds	Total Governmental Funds
\$ 2,181,430	\$ 3,912,058	\$ 26,354,023
		1,317,291
2,089,826	529	3,000,548
	96,983	927,813
		3,760,000
11,601	8,580	135,161
		814,567
		3,717
<u>\$ 4,282,857</u>	<u>\$ 4,018,150</u>	<u>\$ 36,313,120</u>

\$ 539,265	\$ 61,967	\$ 1,339,673
	7,255	426,791
		56,599
28,875		28,875
	758,264	814,567
	206,500	4,655,409
	795,462	856,479
<u>568,140</u>	<u>1,829,448</u>	<u>8,178,393</u>

3,714,717		25,946,025
	1,244,081	1,244,081
	138,620	138,620
	806,001	806,001
<u>3,714,717</u>	<u>2,188,702</u>	<u>28,134,727</u>
<u>\$ 4,282,857</u>	<u>\$ 4,018,150</u>	<u>\$ 36,313,120</u>

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**TOWN OF ORO VALLEY, ARIZONA
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007**

Total governmental fund balances **\$ 28,134,727**

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 funds.

Governmental capital assets	\$ 163,628,410	
Less accumulated depreciation	<u>(37,832,415)</u>	125,795,995

Some revenues are not available to pay for current period expenditures and therefore are not reported in the funds.

Special assessments receivable	3,760,000	
Court fines receivable	<u>342,962</u>	4,102,962

Deferred items related to the issuance of bonds are amortized over the life of the associated issuance in the government-wide statements but not reported in the funds.

Deferred bond charges	900,855	
Deferred bond premium	<u>(118,793)</u>	782,062

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

Special assessment bonds	(3,760,000)	
Revenue bonds	(12,891,148)	
Loans payable	(2,500,000)	
Compensated absences	<u>(1,121,911)</u>	<u>(20,273,059)</u>

Net assets of governmental activities **\$ 138,542,687**

TOWN OF ORO VALLEY, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General	HURF	Oracle Road Debt Service
Revenues:			
Sales taxes	\$ 13,072,197	\$ 2,585,667	\$
Franchise taxes	478,175		
Impact fees			
Special assessments			189,820
Intergovernmental	11,234,763	3,031,223	
Licenses, fees & permits	2,328,450	40,401	
Fines, forfeitures & penalties	215,500		
Charges for services	965,134	2,276	
Contributions and donations			
Investment earnings	791,301	192,681	190,020
Other	114,632	11,912	
Total revenues	<u>29,200,152</u>	<u>5,864,160</u>	<u>379,840</u>
Expenditures:			
Current -			
General government	6,416,623		
Public safety	11,737,901		
Highway and streets		3,173,450	
Culture and recreation	3,052,171		
Capital outlay	1,970,746	1,645,168	
Debt service -			
Bond issuance costs			
Principal retirement			185,000
Interest and fiscal charges			188,967
Total expenditures	<u>23,177,441</u>	<u>4,818,618</u>	<u>373,967</u>
Excess (deficiency) of revenues over expenditures	<u>6,022,711</u>	<u>1,045,542</u>	<u>5,873</u>
Other financing sources (uses):			
Issuance of refunding bonds			
Premium on bonds issued			
Payment to refunding bond escrow agent			
Transfers in			
Transfers out	(1,625,640)	(1,232,301)	
Total other financing sources (uses)	<u>(1,625,640)</u>	<u>(1,232,301)</u>	
Changes in fund balances	<u>4,397,071</u>	<u>(186,759)</u>	<u>5,873</u>
Fund balances, beginning of year	14,080,635	3,833,773	100,715
Fund balances, end of year	<u>\$ 18,477,706</u>	<u>\$ 3,647,014</u>	<u>\$ 106,588</u>

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

Townwide Roadway Development Impact Fees	Non-Major Governmental Funds	Total Governmental Funds
\$	\$ 1,215,766	\$ 16,873,630
		478,175
1,038,217		1,038,217
		189,820
3,781,484	358,243	18,405,713
		2,368,851
	213,958	429,458
	59,511	1,026,921
	19,171	19,171
162,162	135,477	1,471,641
693	8,024	135,261
<u>4,982,556</u>	<u>2,010,150</u>	<u>42,436,858</u>
	602,407	7,019,030
	70,898	11,808,799
99,831	495,570	3,768,851
	57,057	3,109,228
6,102,996	943,280	10,662,190
	28,868	28,868
104,143	788,670	1,077,813
80,098	652,140	921,205
<u>6,387,068</u>	<u>3,638,890</u>	<u>38,395,984</u>
<u>(1,404,512)</u>	<u>(1,628,740)</u>	<u>4,040,874</u>
	1,389,180	1,389,180
	25,719	25,719
	(1,540,438)	(1,540,438)
1,000,000	1,927,754	2,927,754
		(2,857,941)
<u>1,000,000</u>	<u>1,802,215</u>	<u>(55,726)</u>
<u>(404,512)</u>	<u>173,475</u>	<u>3,985,148</u>
4,119,229	2,015,227	24,149,579
<u>\$ 3,714,717</u>	<u>\$ 2,188,702</u>	<u>\$ 28,134,727</u>

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**TOWN OF ORO VALLEY, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007**

Net changes in fund balances - total governmental funds **\$ 3,985,148**

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 as depreciation expense.

Expenditures for capital assets	\$ 10,512,295	
Less current year depreciation	<u>(4,919,239)</u>	5,593,056

Capital assets contributed by developers to the Town are not recorded in the governmental funds as they do not provide current financial resources but are recognized in the Statement of Activities as program revenues. 4,534,694

Some revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Special assessments	(185,000)	
Premium on sale of bonds	<u>(25,719)</u>	(210,719)

The issuance of long-term debt provides current financial resources to governmental funds, but the issuance increases long-term liabilities in the Statement of Net Assets. (1,389,180)

Repayment of debt principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Loan principal retirement	104,143	
Bond principal retirement	<u>2,457,478</u>	2,561,621

Deferred items associated with the issuance bonds are revenues or expenditures in the governmental funds. However, in the Statement of Activities the net cost of these items is amortized over the life of the bonds. 85,498

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 governmental funds.

Amortization of deferred charges	(75,131)	
Compensated absences	(200,627)	
Loss on disposal of capital assets	<u>(38,837)</u>	<u>(314,595)</u>

Change in net assets in governmental activities **\$ 14,845,523**

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

TOWN OF ORO VALLEY, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007

	Enterprise Funds		
	Water	Non-Major Enterprise Fund	Total
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 22,694,359	\$ 4,721	\$ 22,699,080
Accounts receivable	1,829,984	363,038	2,193,022
Interest receivable	96,504	25	96,529
Total current assets	24,620,847	367,784	24,988,631
Noncurrent assets:			
Deferred bond charges	3,643,296		3,643,296
Capital assets, non-depreciable	11,846,098	363,348	12,209,446
Capital assets, depreciable (net)	64,893,449		64,893,449
Total noncurrent assets	80,382,843	363,348	80,746,191
Total assets	105,003,690	731,132	105,734,822
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	1,152,680	276,656	1,429,336
Accrued wages and benefits	37,146	913	38,059
Intergovernmental payable	575,539		575,539
Interest payable	1,907,507		1,907,507
Customer deposits payable	138,170		138,170
Compensated absences	97,848	1,764	99,612
Revenue bonds	1,981,898		1,981,898
Total current liabilities	5,890,788	279,333	6,170,121
Noncurrent liabilities:			
Compensated absences	17,254	311	17,565
Deferred bond premium	1,173,392		1,173,392
Revenue bonds	59,586,954		59,586,954
Total non-current liabilities	60,777,600	311	60,777,911
Total liabilities	66,668,388	279,644	66,948,032
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	15,170,695	363,348	15,534,043
Unrestricted	23,164,607	88,140	23,252,747
Total net assets	\$ 38,335,302	\$ 451,488	\$ 38,786,790

The notes to the 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 YEAR ENDED JUNE 30, 2007

	Enterprise Funds		
	Water	Non-Major Enterprise Fund	Total
Operating revenues:			
Charges for services	\$ 12,353,358	\$	\$ 12,353,358
Total operating revenues	<u>12,353,358</u>	<u></u>	<u>12,353,358</u>
Operating expenses:			
Costs of sales and services	5,717,610	74,235	5,791,845
Depreciation and amortization	2,401,332		2,401,332
Total operating expenses	<u>8,118,942</u>	<u>74,235</u>	<u>8,193,177</u>
Operating income (loss)	<u>4,234,416</u>	<u>(74,235)</u>	<u>4,160,181</u>
Nonoperating revenues (expenses):			
Impact fees	148,200		148,200
Intergovernmental	35,000	363,038	398,038
Connection fees	1,050,471		1,050,471
Investment earnings	1,157,837	6,000	1,163,837
Other	65,307	125	65,432
Interest expense	(3,328,016)		(3,328,016)
Total nonoperating revenues (expenses)	<u>(871,201)</u>	<u>369,163</u>	<u>(502,038)</u>
Income before capital contributions and transfers	<u>3,363,215</u>	<u>294,928</u>	<u>3,658,143</u>
Capital contributions	2,668,132		2,668,132
Transfers in		83,506	83,506
Transfers out	(153,319)		(153,319)
Changes in net assets	<u>5,878,028</u>	<u>378,434</u>	<u>6,256,462</u>
Total net assets, beginning of year	32,457,274	73,054	32,530,328
Total net assets, end of year	<u>\$ 38,335,302</u>	<u>\$ 451,488</u>	<u>\$ 38,786,790</u>

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

**TOWN OF ORO VALLEY, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007**

	Enterprise Funds		
	Water	Stormwater Drainage	Total
<u>Increase (Decrease) in Cash and Cash Equivalents</u>			
Cash flows from operating activities:			
Cash received from customers	\$ 12,332,267	\$	\$ 12,332,267
Cash payments to suppliers for goods and services	(2,841,198)	(129,161)	(2,970,359)
Cash payments to employees for services	(2,088,157)	(49,747)	(2,137,904)
Net cash provided by (used for) operating activities	7,402,912	(178,908)	7,224,004
Cash flows from noncapital and related financing activities:			
Grants received	35,000	363,038	398,038
Connection fees	1,050,471		1,050,471
Other revenue	65,307	125	65,432
Interfund borrowing	(153,319)	83,506	(69,813)
Net cash provided by noncapital financing activities	997,459	446,669	1,444,128
Cash flows from capital and related financing activities:			
Development impact fees	148,200		148,200
Acquisition of capital assets	(5,015,801)	(363,348)	(5,379,149)
Proceeds from sale of bonds	16,420,820		16,420,820
Principal paid on long-term debt	(19,867,522)		(19,867,522)
Interest on long-term debt	(3,252,885)		(3,252,885)
Net cash used for capital and related financing activities	(11,567,188)	(363,348)	(11,930,536)
Cash flows from investing activities:			
Investment income	1,155,756	6,347	1,162,103
Net cash provided by investing activities	1,155,756	6,347	1,162,103
Net (decrease) in cash and cash equivalents	(2,011,061)	(89,240)	(2,100,301)
Cash and cash equivalents, beginning of year	24,705,420	93,961	24,799,381
Cash and cash equivalents, end of year	\$ 22,694,359	\$ 4,721	\$ 22,699,080
<u>Reconciliation of Operating Income (Loss) to</u>			
<u>Net Cash Provided by (Used for) Operating Activities</u>			
Operating income (loss)	\$ 4,234,416	\$ (74,235)	\$ 4,160,181
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	2,401,332		2,401,332
Change in assets and liabilities:			
(Increase) in accounts receivable	(41,283)	(363,038)	(404,321)
(Increase) decrease in prepaid items	452	12	464
Increase (decrease) in accounts payable	745,964	258,087	1,004,051
Decrease in accrued payroll and employee benefits	3,878	99	3,977
Increase (decrease) in compensated absences payable	37,961	167	38,128
Increase in deposits held for others	20,192		20,192
Total adjustments	3,168,496	(104,673)	3,063,823
Net cash provided by (used for) operating activities	\$ 7,402,912	\$ (178,908)	\$ 7,224,004

TOWN OF ORO VALLEY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Oro Valley, Arizona have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the Town's accounting policies are described below.

A. Reporting Entity

The Town is a municipal entity governed by an elected mayor and council. As required by accounting principles generally accepted in the United States of America, these 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 and so data from these units are combined with data of the Town, the primary government. The blended component units presented have a June 30 year end.

The financial reporting entity consists of a primary government and its component units. A component unit is a legally separate entity that must be included in the reporting entity in conformity with generally accepted accounting principles. The Town is a primary government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. Furthermore, component units combined with the Town for financial statement presentation purposes, and the Town, are not included in any other governmental reporting entity. Consequently, the Town's financial statements include the funds of those organizational entities for which its elected governing body is financially accountable.

Blended Component Unit – The financial reporting entity presented in these financial statements consists of the Town and one blended component unit. This component unit, discussed below, is included in the Town's reporting entity because of the significance of its operational relationship or financial relationship with the Town. The component unit is governed by a board, substantially or wholly, comprised of the Town's elected council. Separate financial statements are not prepared for the component unit on a stand-alone basis.

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 a non-profit 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 Cañada 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 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 FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) present financial information about the Town as a whole. The reported information includes all of the nonfiduciary activities of the Town and its component units. For the most part, the effect of internal activity has been removed from these statements. These statements are to distinguish between the governmental and business-type activities of the Town. Governmental activities normally are supported by sales taxes and intergovernmental revenues, and are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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. Sales taxes, unrestricted state shared revenues, investment income and other items not included among program revenues are reported instead as general revenues.

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. As a general rule the effect of internal activity has been eliminated from the government-wide financial statements; however, the effect of interfund services provided and used between functions are reported as expenses and program revenues at amounts approximating their external exchange value.

TOWN OF ORO VALLEY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Fund Financial Statements – 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. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Sales taxes, franchise taxes, licenses and permits, charges for services, special assessments and investment income 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. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Miscellaneous revenue is not susceptible to accrual because generally they are not measurable until received in cash. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Deferred revenue also arise when resources are received by the Town before it has legal claim to them, as when grant monies are received prior to meeting all eligibility requirements imposed by the provider.

The Town reports the following major governmental funds.

General Fund – This fund accounts for all financial resources of the Town, except those required to be accounted for in other funds.

Highway User Revenue Fund – This fund is used to account for the Town's share of motor fuel tax revenues.

Oracle Road Debt Service Fund – This fund accounts for the special assessment collections and payment of the outstanding Oracle Road bond issue.

Townwide Roadway Development Impact Fees Fund – This fund accounts for the collection and capital expenditures of the Townwide Roadway Development Impact Fees.

The Town reports the following major proprietary fund.

Water Fund – This fund accounts for the costs to operate, construct and finance the Town's water system.

TOWN OF ORO VALLEY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

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. The principal operating revenues of the Town's enterprise fund are charges to customers for water and stormwater drainage services. Operating expenses for these funds include the cost of sales and services, depreciation, and amortization. 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, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

D. Investments

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest investment contracts with a remaining maturity of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

E. Investment Income

Investment income is composed of interest and net changes in the fair value of applicable investments.

TOWN OF ORO VALLEY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

F. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

All trade receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 180 days comprise the trade accounts receivable allowance for uncollectibles.

G. Prepaid Items

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

H. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of \$5,000 or more and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

TOWN OF ORO VALLEY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Certain capital assets of the Town are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Improvements other than buildings	20
Infrastructure	50
Vehicles	5
Machinery and equipment	5

I. Compensated Absences

The Town's employee annual and sick leave policies generally provide for granting annual and sick leave with pay. Full-time employees accrue annual leave based on the number of years employed. Employees who terminate employment shall be paid in a lump sum. Full-time employees accumulate sick leave at the rate of one work day per month. Part-time employees whose normal week is twenty hours or more receive sick leave at half the rate of full-time employees. Once an employee has exceeded 480 hours of accrued sick leave, one half of the sick leave balance in excess of the 480 hours shall be paid to the employee upon separation from employment. The current and long-term liabilities, including related benefits, for accumulated vacation and sick leave are reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations and retirements. Generally, resources from the General Fund are used to pay for compensated absences.

J. Long-term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable business-type activities and proprietary fund type statement of net assets.

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.

TOWN OF ORO VALLEY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concl'd)

K. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for expenditures or are legally restricted by outside parties for use for a specific purpose.

L. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund statements are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

M. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N. Statement of Cash Flows

For purposes of the Statement of Cash Flows, the Town considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents at June 30, 2007 were cash in bank and investments held by State Treasurer.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Excess Expenditures Over Budget – At June 30, 2007, the Town had expenditures in funds that exceeded the budget, however this does not constitute a violation of any legal provisions.

TOWN OF ORO VALLEY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 3 – CASH AND INVESTMENTS

A.R.S. authorize the Town to invest public monies in obligations of the U.S. Government and its agencies, obligations of the State and certain local government subdivisions, interest-bearing savings accounts and certificates of deposit, collateralized repurchase agreements, certain obligations of U.S. corporations, and certain other securities. The statutes do not include any requirements for credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk for the Town’s investments.

The State Treasurer’s pools are external investment pools, the Local Government Investment Pool (Pool 5) and Local Government Investment Pool-Government (Pool 7), with no regulatory oversight. The pools are not required to register (and are not registered) with the Securities and Exchange Commission. No comparable oversight is provided for the County Treasurer’s investment pool. The fair value of each participant’s position in the State Treasurer and County Treasurer investment pools approximates the value of the participant’s shares in the pool.

Custodial Credit Risk – Deposits. Custodial Credit risk is the risk that in the event of bank failure the Town’s deposits may not be returned to the Town. The Town does not have a deposit policy for custodial credit risk. As of June 30, 2007, Town deposits were collateralized with securities held by the pledging financial institution and consisted of the following.

Cash on hand	\$ 3,300
Cash in bank	<u>6,267,999</u>
Total	<u><u>\$6,271,299</u></u>

**TOWN OF ORO VALLEY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 3 – CASH AND INVESTMENTS (Concl'd)

At June 30, 2007, the Town's investments consisted of the following.

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>
County Treasurer's investment pool	252 days average	\$ 391,371
State Treasurer's investment pool 5	84 days average	38,876,070
State Treasurer's investment pool 7	50 days average	<u>3,514,363</u>
Total		<u><u>\$42,781,804</u></u>

Interest Rate Risk. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The Town has no investment policy that would further limit its investment choices. As of June 30, 2007, the Town's investment in the State and County Treasurers' investment pools did not receive a credit quality rating from a national rating agency.

Custodial Credit Risk – Investments. The Town's investment in the State and County Treasurer's investment pools represents a proportionate interest in the pool's portfolio; however, the Town's portion is not identified with specific investments and is not subject to custodial credit risk.

TOWN OF ORO VALLEY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 4 – RECEIVABLES

Receivable balances, net of allowance for uncollectibles, have been disaggregated by type and presented separately in the financial statements with the exception of due from governmental entities. Due from governmental entities, net of allowance for uncollectibles, as of year end for the Town's individual major funds and non-major governmental funds in the aggregate, are as follows.

	<u>General Fund</u>	<u>Highway User Revenue Fund</u>	<u>Non-Major Governmental Funds</u>
Due from governmental entities:			
Due from State government	\$548,745	\$282,085	\$ 96,983
Net due from governmental entities	<u>\$548,745</u>	<u>\$282,085</u>	<u>\$ 96,983</u>

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 reported in the governmental funds were as follows.

	<u>Unavailable</u>	<u>Unearned</u>
Prepaid developer fees (General Fund)	\$	\$ 345,947
Court fines (General Fund)	342,962	
Special assessments (Oracle Road Debt Service Fund)	3,760,000	
Gaming funds (Non-Major governmental funds)		206,500
Total deferred revenue for governmental funds	<u>\$ 4,102,962</u>	<u>\$ 552,447</u>

TOWN OF ORO VALLEY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 5 – CAPITAL ASSETS

A summary of capital asset activity for the fiscal year ended June 30, 2007 follows.

<u>Governmental Activities</u>	Beginning Balance (As Restated)	Increase	Decrease	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 13,159,928	\$ 4,534,694	\$	\$ 17,694,622
Construction in progress	18,969,487	7,031,126	16,292,003	9,708,610
Total capital assets, not being depreciated	<u>32,129,415</u>	<u>11,565,820</u>	<u>16,292,003</u>	<u>27,403,232</u>
Capital assets, being depreciated:				
Infrastructure	92,120,969	17,961,957		110,082,926
Buildings and improvements	18,594,768	361,479		18,956,247
Vehicles, machinery, and equipment	6,155,224	1,449,736	418,955	7,186,005
Total capital assets being depreciated	<u>116,870,961</u>	<u>19,773,172</u>	<u>418,955</u>	<u>136,225,178</u>
Less accumulated depreciation for:				
Infrastructure	(26,389,714)	(3,762,086)		(30,151,800)
Buildings and improvements	(2,786,588)	(435,087)		(3,221,675)
Vehicles, machinery, and equipment	(4,116,992)	(722,066)	(380,118)	(4,458,940)
Total accumulated depreciation	<u>(33,293,294)</u>	<u>(4,919,239)</u>	<u>(380,118)</u>	<u>(37,832,415)</u>
Total capital assets, being depreciated, net	<u>83,577,667</u>	<u>14,853,933</u>	<u>38,837</u>	<u>98,392,763</u>
Governmental activities capital assets, net	<u>\$ 115,707,082</u>	<u>\$ 26,419,753</u>	<u>\$ 16,330,840</u>	<u>\$ 125,795,995</u>
<u>Business-Type Activities</u>	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 2,410,660	\$	\$	\$ 2,410,660
Water rights	6,172,361			6,172,361
Construction in progress	495,549	3,161,716	30,840	3,626,425
Total	<u>9,078,570</u>	<u>3,161,716</u>	<u>30,840</u>	<u>12,209,446</u>
Capital assets, being depreciated:				
Water system	75,787,086	3,261,553		79,048,639
Equipment and vehicles	1,259,787	1,280,098		2,539,885
Total capital assets being depreciated	<u>77,046,873</u>	<u>4,541,651</u>		<u>81,588,524</u>
Less accumulated depreciation for:				
Water system	(13,681,567)	(1,718,517)		(15,400,084)
Equipment and vehicles	(766,077)	(528,914)		(1,294,991)
Total accumulated depreciation	<u>(14,447,644)</u>	<u>(2,247,431)</u>		<u>(16,695,075)</u>
Total capital assets, being depreciated, net	<u>62,599,229</u>	<u>2,294,220</u>		<u>64,893,449</u>
Business-type activities capital assets, net	<u>\$ 71,677,799</u>	<u>\$ 5,455,936</u>	<u>\$ 30,840</u>	<u>\$ 77,102,895</u>

TOWN OF ORO VALLEY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 5 – CAPITAL ASSETS (Concl'd)

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 414,972
Public Safety	387,129
Highways and streets	3,900,619
Culture and recreation	<u>216,519</u>
Total depreciation expense – governmental activities	<u>4,919,239</u>
Business-type activities:	
Water	<u>2,247,431</u>
Total depreciation expense – business-type activities	<u>\$2,247,431</u>

Construction Commitments – As of June 30, 2007, the Town was involved in several construction projects. The estimated cost to complete the construction projects is \$22.3 million.

TOWN OF ORO VALLEY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 6 – LOAN PAYABLE

In the prior year, the Town received a \$5,000,000 loan from the Arizona Department of Transportation (ADOT) for streets projects. The loan payable at June 30, 2007, is presented below.

<u>Governmental activities:</u>	<u>Interest Rate</u> <u>(Including Fees)</u>	<u>Maturity</u>	<u>Outstanding</u> <u>Principal</u> <u>June 30, 2007</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
ADOT HELP Loan	2.52%	1/15/08	\$2,500,000	\$2,500,000
Total			<u>\$2,500,000</u>	<u>\$2,500,000</u>

Principal and interest payments on the governmental activities loans payable at June 30, 2007 are summarized as follows.

Year ending June 30:	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 2,500,000	\$ 63,000
Total	<u>\$ 2,500,000</u>	<u>\$ 63,000</u>

NOTE 7 – BONDS PAYABLE

Bonds payable at June 30, 2007, consisted of the following outstanding revenue and refunding bonds. The bonds are both callable and noncallable with interest payable semiannually. Taxes and Impact Fees are used to pay bonded debt.

<u>Purpose</u>	<u>Original</u> <u>Amount</u> <u>Issued</u>	<u>Interest</u> <u>Rates</u>	<u>Maturity</u>	<u>Outstanding</u> <u>Principal</u> <u>June 30, 2007</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Governmental activities:					
Revenue Bonds, 1999	\$ 2,730,462	4.40-4.50%	7/1/07-09	\$ 495,000	\$ 190,000
Revenue Bonds, 2000	2,580,000	4.80-4.90%	7/1/07-11	545,000	100,000
Revenue Bonds, 2001	3,362,532	4.00-4.63%	7/1/07-13	1,069,218	134,352
Refunding Revenue Bonds, 2003	5,494,920	2.25-4.30%	7/1/07-19	5,339,250	133,000
Revenue Bonds, 2005	4,164,050	3.13-4.75%	7/1/07-25	4,053,500	150,750
Refunding Revenue Bonds, 2007	1,389,180	4.00-5.00%	7/1/09-26	1,389,180	
Total				<u>\$ 12,891,148</u>	<u>\$ 708,102</u>

TOWN OF ORO VALLEY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 7 – BONDS PAYABLE (Cont'd)

Annual debt service requirements to maturity on revenue and refunding bonds for governmental activities at June 30, 2007, are summarized as follows.

Year ending June 30:	Governmental Activities	
	Principal	Interest
2008	\$ 708,102	\$ 501,150
2009	733,900	492,749
2010	699,010	462,840
2011	642,750	436,805
2012	878,430	407,287
2013-17	4,254,976	1,478,348
2018-22	3,178,660	660,789
2023-27	1,795,320	170,901
Total	\$ 12,891,148	\$ 4,610,869

Purpose	Original Amount Issued	Interest Rates	Maturity	Outstanding Principal June 30, 2007	Due Within One Year
Business-type activities:					
Revenue Bonds, 1999	\$ 2,199,538	4.40-5.00%	7/1/07-19	\$ 2,235,000	\$ 185,000
Revenue Bonds, 2001	5,647,468	4.00-4.63%	7/1/07-13	1,795,782	225,648
Revenue Bonds, 2003	31,750,000	3.00-4.50%	7/1/07-28	29,205,000	1,250,000
Refunding Revenue Bonds, 2003	10,225,080	2.25-4.30%	7/1/07-19	9,915,750	247,000
Revenue Bonds, 2005	2,050,950	3.13-4.75%	7/1/07-25	1,996,500	74,250
Refunding Revenue Bonds, 2007	16,420,820	4.00-5.00%	7/1/09-26	16,420,820	
Total				\$ 61,568,852	\$1,981,898

TOWN OF ORO VALLEY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 7 – BONDS PAYABLE (Concl'd)

Annual debt service requirements to maturity revenue and refunding bonds for business-type activities at June 30, 2007, are summarized as follows.

Year ending June 30:	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 1,981,898	\$ 2,452,583
2009	2,011,100	2,612,750
2010	2,485,990	2,538,280
2011	2,947,250	2,441,361
2012	2,836,570	2,336,112
2013-17	14,220,024	9,882,189
2018-22	15,916,340	6,399,583
2023-27	15,924,680	2,662,386
2028-32	3,245,000	164,375
Total	<u>\$ 61,568,852</u>	<u>\$31,489,619</u>

During the year ended June 30, 2007, the Town issued \$17,810,000 in refunding bonds, with an effective interest rate of 4.32 percent, to advance refund \$19,015,000 of outstanding revenue bonds, with an average interest rate of 5.56 percent. The net proceeds of \$17,769,634, which includes \$329,734 of bond premium, (after payment of \$370,100 in underwriting fees, insurance, and other issuance costs) and a Town contribution of \$1,979,570 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent, to provide for all future debt service payments of the refunded revenue bonds. As a result, the refunded revenue bonds are considered to be defeased, and the liability for those bonds has been removed from the government-wide financial statements. The reacquisition price exceeded the net carrying amount of the old debt by \$1,294,178. This amount is reported as deferred charges and amortized over the new debt's life. This advance refunding was undertaken to reduce total debt service payments over the next 20 years by \$2,273,302 and resulted in an economic gain of \$1,090,401.

TOWN OF ORO VALLEY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 8 – SPECIAL ASSESSMENT BONDS

Special assessment bonds at June 30, 2007, consisted of the following outstanding bonds. The bonds are both callable and noncallable with interest payable semiannually. Special assessments from the Oracle Road Debt Service Fund are used to pay bonded debt.

Purpose	Original Amount Issued	Interest Rates	Maturity	Outstanding Principal June 30, 2007	Due Within One Year
Governmental activities:					
Special assessments debt	\$3,945,000	4.20-5.00%	1/1/08-22	\$ 3,760,000	\$ 195,000
Total				<u>\$ 3,760,000</u>	<u>\$ 195,000</u>

Annual debt service requirements to maturity on special assessment bonds at June 30, 2007, are summarized as follows.

Year ending June 30:	Governmental Activities	
	Principal	Interest
2008	\$ 195,000	\$ 177,577
2009	205,000	167,827
2010	215,000	157,577
2011	225,000	146,827
2012	235,000	135,577
2013-17	1,355,000	500,835
2018-22	1,330,000	158,883
Total	<u>\$ 3,760,000</u>	<u>\$ 1,445,103</u>

TOWN OF ORO VALLEY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 9 – CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2007 was as follows.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Revenue bonds payable	\$ 13,559,446	\$ 1,389,180	\$ 2,057,478	\$ 12,891,148	\$ 708,102
Special assessments payable	3,945,000		185,000	3,760,000	195,000
Loan payable	2,604,143		104,143	2,500,000	2,500,000
Certificates of participation payable	215,000		215,000		
Compensated absences payable	<u>921,284</u>	<u>1,246,872</u>	<u>1,046,245</u>	<u>1,121,911</u>	<u>1,114,789</u>
Governmental activity long-term liabilities	<u>\$ 21,244,873</u>	<u>\$ 2,636,052</u>	<u>\$ 3,607,866</u>	<u>\$ 20,273,059</u>	<u>\$ 4,517,891</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type activities:					
Revenue bonds payable	\$65,015,554	\$16,420,820	\$19,867,522	\$ 61,568,852	\$ 1,981,898
Compensated absences payable	<u>79,049</u>	<u>145,004</u>	<u>106,876</u>	<u>117,177</u>	<u>99,612</u>
Business-type activities long-term liabilities	<u>\$65,094,603</u>	<u>\$16,565,824</u>	<u>\$19,974,398</u>	<u>\$ 61,686,029</u>	<u>\$ 2,081,510</u>

TOWN OF ORO VALLEY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 10 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

At June 30, 2007, interfund balances were as follows.

Due to/from other funds:

	Due from		
Due to	Highway User Revenue Fund	Non-Major Governmental Funds	Total
General Fund	\$ 56,303	\$ 758,264	\$814,567
Total	\$ 56,303	\$ 758,264	\$814,567

At June 30, 2007, several funds had negative cash balance in the pooled cash accounts. Negative cash on deposit was reduced by interfund borrowing with other funds. All interfund balances are expected to be paid within one year.

Interfund transfers:

	Transfers in			
Transfers out	Townwide Impact Development Fees Fund	Non-Major Governmental Funds	Non-Major Business-type Fund	Total
General Fund	\$	\$ 1,542,134	\$ 83,506	\$1,625,640
Highway User Revenue Fund	1,000,000	232,301		1,232,301
Water Fund		153,319		153,319
Total	\$ 1,000,000	\$ 1,927,754	\$ 83,506	\$3,011,260

Transfers were made from the General Fund to subsidize the Public Transportation Fund, Stormwater Drainage Fund and Steam Pump Ranch Acquisition Fund. Transfers were made from the General Fund, Highway User Revenue Fund and Water Utility Fund to the Municipal Debt Service Fund to make the required principal and interest payments on outstanding bonded indebtedness. A transfer was made from the Highway User Revenue Fund to subsidize the Townwide Roadway Development Impact Fee Fund.

**TOWN OF ORO VALLEY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 11 – CONTINGENT LIABILITIES

Compliance – Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures/expenses that may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

Lawsuits – The Town is a defendant in a number of lawsuits as of June 30, 2007. It is the opinion of management and Town counsel that the amount of losses resulting from these litigations at June 30, 2007, would not be material to the financial position of the Town.

NOTE 12 – PRIOR PERIOD ADJUSTMENT

The July 1, 2006, government-wide net assets for governmental activities do not agree to the prior year financial statements for capital assets not properly recorded in the prior year.

	Statement of Activities
Net Assets, June 30, 2006, as previously reported	\$131,395,965
Capital asset restatement	(7,698,801)
Net Assets, July 1, 2006, as restated	\$123,697,164

NOTE 13 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; 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.

**TOWN OF ORO VALLEY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 13 – RISK MANAGEMENT (Concl'd)

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.

The Town is insured by Arizona Municipal Workers Compensation Pool for potential worker related accidents.

NOTE 14 – RETIREMENT PLAN

Plan Descriptions – The Town contributes to the three plans described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits.

The *Arizona State Retirement System (ASRS)* administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the Town. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The *Public Safety Personnel Retirement System (PSPRS)* is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and 162 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The *Arizona Corrections Officer Retirement Plan (ACORP)* provides a uniform, consistent and equitable statewide program for those eligible corrections officers as defined by the Plan. Each member shall contribute 8.5% of salary to the Plan on a pre-tax basis by payroll deduction.

Each plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the applicable plan.

ASRS
3300 N. Central Ave.
Phoenix, AZ 85012-0250
(602) 240-2200 or (800) 621-3778

PSPRS/ACORP
3010 E. Camelback Road Suite 200
Phoenix, AZ 85016
(602) 255-5575

TOWN OF ORO VALLEY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 14 – RETIREMENT PLAN (Cont’d)

Funding policy - The Arizona State Legislature establishes and may amend active plan members’ and the Town’s contribution rates.

Cost-sharing plans - For the year ended June 30, 2007, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.10 percent (8.60 percent retirement and 0.50 percent long-term disability) of the members’ annual covered payroll. The Town’s contributions to ASRS for the years ended June 30, 2007, 2006, and 2005 were \$817,984 \$449,275, and \$467,741, respectively, which were equal to the required contributions for the year.

Agent plan - For the year ended June 30, 2007, active PSPRS members were required by statute to contribute 7.65 percent of the members’ annual covered payroll, and the Town was required to contribute at the actuarially determined rate of 9.45 percent.

Annual Pension Cost – The Town’s pension cost for the agent plan for the year ended June 30, 2006 and related information follows.

	PSPRS	ACORP
Contribution rates:		
Town	10.12%	6.94%
Plan members	7.65%	7.96%
Annual pension cost	\$434,478	\$40,089
Contributions made	\$434,478	\$40,089
Actuarial valuation date	June 30, 2006	June 30, 2006
Actuarial cost method	Projected unit credit	Projected unit credit
Actuarial assumptions:		
Investment rate of return	8.5%	8.5%
Projected salary increases	5.5%-8.5%	5.5%-8.5%
Includes inflation at	5.0%	5.0%
Amortization method	Level percent open	Level percent open
Remaining amortization	30 years for unfunded actuarial accrued liability, 20 years for excess	30 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	Smoothed market value	Smoothed market value

**TOWN OF ORO VALLEY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 14 – RETIREMENT PLAN (Concl'd)

Trend Information – Information for the agent plan as of most recent actuarial valuations follows.

Oro Valley Police Plan:

Year Ended <u>June 30,</u>	Annual Pension <u>Cost (APC)</u>	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
2004	\$378,010	100%	\$-0-
2005	367,387	100	-0-
2006	434,478	100	-0-

Oro Valley ACORP Dispatchers:

Year Ended <u>June 30,</u>	Annual Pension <u>Cost (APC)</u>	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
2004	\$18,116	100%	\$-0-
2005	42,661	100	-0-
2006	40,089	100	-0-

Funding Progress – An analysis of funding progress for each of the agent plans as of June 30, 2007 follows.

Oro Valley Police Plan:

Valuation Date <u>June 30,</u>	Actuarial Value of Plan Assets <u>(a)</u>	Actuarial Accrued Liability <u>(b)</u>	Funding Liability <u>(a-b)</u>	Funded Ratio <u>(a/b)</u>	Annual Covered Payroll <u>(c)</u>	Unfunded Liability as Percentage of Covered Payroll <u>[(a-b)/c]</u>
2004	\$ 9,072,514	\$ 8,871,479	\$ 201,035	102.3%	\$3,665,787	- 0 - %
2005	10,351,579	11,338,052	(986,473)	91.3	4,354,983	22.7
2006	11,345,626	12,654,350	(1,308,724)	89.7	4,614,186	28.4

Oro Valley ACORP Dispatchers:

Valuation Date <u>June 30,</u>	Actuarial Value of Plan Assets <u>(a)</u>	Actuarial Accrued Liability <u>(b)</u>	Funding Liability <u>(a-b)</u>	Funded Ratio <u>(a/b)</u>	Annual Covered Payroll <u>(c)</u>	Unfunded Liability as Percentage of Covered Payroll <u>[a-b]/c]</u>
2004	\$ 568,823	\$ 785,950	\$ (217,127)	72.4%	\$ 418,377	51.9%
2005	788,467	1,000,086	(211,619)	78.8	518,393	40.8
2006	889,875	1,140,381	(250,506)	78.0	515,269	48.6

**TOWN OF ORO VALLEY, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 15 – SUBSEQUENT EVENTS

On August 17, 2007, the Town issued \$6.0 million in WIFA loans.

On October 2, 2007, the Town issued \$8.0 million in HELP loans.

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**SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
(REQUIRED SUPPLEMENTARY INFORMATION)**

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TOWN OF ORO VALLEY, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Sales taxes	\$ 10,599,815	\$ 13,072,197	\$ 2,472,382
Franchise taxes	420,000	478,175	58,175
Intergovernmental	10,744,875	11,234,763	489,888
Licenses, fees & permits	2,629,000	2,328,450	(300,550)
Fines, forfeitures & penalties	200,000	215,500	15,500
Charges for services	826,900	965,134	138,234
Investment earnings	320,000	791,301	471,301
Other	185,900	114,632	(71,268)
Total revenues	<u>25,926,490</u>	<u>29,200,152</u>	<u>3,273,662</u>
Expenditures:			
Current -			
General government	18,601,170	6,416,623	12,184,547
Public safety	13,560,349	11,737,901	1,822,448
Culture and recreation	3,798,119	3,052,171	745,948
Capital outlay		1,970,746	(1,970,746)
Total expenditures	<u>35,959,638</u>	<u>23,177,441</u>	<u>12,782,197</u>
Excess (deficiency) of revenues over expenditures	<u>(10,033,148)</u>	<u>6,022,711</u>	<u>16,055,859</u>
Other financing sources (uses):			
Transfers out	(1,505,640)	(1,625,640)	(120,000)
Total other financing sources (uses)	<u>(1,505,640)</u>	<u>(1,625,640)</u>	<u>(120,000)</u>
Change in fund balances	<u>(11,538,788)</u>	<u>4,397,071</u>	<u>15,935,859</u>
Fund balances, July 1, 2006	11,538,788	14,080,635	2,541,847
Fund balances, June 30, 2007	<u>\$</u>	<u>\$ 18,477,706</u>	<u>\$ 18,477,706</u>

See accompanying notes to this schedule.

**TOWN OF ORO VALLEY, ARIZONA
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - HURF
 YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Sales taxes	\$ 1,859,000	\$ 2,585,667	\$ 726,667
Intergovernmental	3,638,500	3,031,223	(607,277)
Licenses, fees & permits		40,401	40,401
Charges for services		2,276	2,276
Investment earnings		192,681	192,681
Other	195,000	11,912	(183,088)
Total revenues	<u>5,692,500</u>	<u>5,864,160</u>	<u>171,660</u>
Expenditures:			
Current -			
Highway and streets	7,723,643	3,173,450	4,550,193
Capital outlay		1,645,168	(1,645,168)
Total expenditures	<u>7,723,643</u>	<u>4,818,618</u>	<u>2,905,025</u>
Excess (deficiency) of revenues over expenditures	<u>(2,031,143)</u>	<u>1,045,542</u>	<u>3,076,685</u>
Other financing sources (uses):			
Transfers out	(1,232,301)	(1,232,301)	
Total other financing sources (uses)	<u>(1,232,301)</u>	<u>(1,232,301)</u>	
Change in fund balances	<u>(3,263,444)</u>	<u>(186,759)</u>	<u>3,076,685</u>
Fund balances, July 1, 2006	3,263,444	3,833,773	570,329
Fund balances, June 30, 2007	<u>\$</u>	<u>\$ 3,647,014</u>	<u>\$ 3,647,014</u>

See accompanying notes to this schedule.

TOWN OF ORO VALLEY, ARIZONA
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2007

NOTE 1 – BUDGETARY BASIS OF ACCOUNTING

The adopted budget of the Town is prepared on the modified accrual basis of accounting.

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**COMBINING AND INDIVIDUAL
FUND FINANCIAL STATEMENTS
AND SCHEDULES**

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**OTHER MAJOR GOVERNMENTAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL**

**TOWN OF ORO VALLEY, ARIZONA
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - ORACLE ROAD DEBT SERVICE
 YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Special assesments	\$ 367,203	\$ 189,820	\$ (177,383)
Investment earnings		190,020	190,020
Total revenues	<u>367,203</u>	<u>379,840</u>	<u>12,637</u>
Expenditures:			
Debt service -			
Principal retirement	283,415	185,000	98,415
Interest and fiscal charges	191,827	188,967	2,860
Total expenditures	<u>475,242</u>	<u>373,967</u>	<u>101,275</u>
Change in fund balances	<u>(108,039)</u>	<u>5,873</u>	<u>113,912</u>
Fund balances, July 1, 2006	108,039	100,715	(7,324)
Fund balances, June 30, 2007	<u>\$</u>	<u>\$ 106,588</u>	<u>\$ 106,588</u>

TOWN OF ORO VALLEY, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - TOWNWIDE ROADWAY DEVELOPMENT IMPACT FEES
YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Impact fees	\$ 1,489,200	\$ 1,038,217	\$ (450,983)
Intergovernmental	6,103,870	3,781,484	(2,322,386)
Investment earnings		162,162	162,162
Other	5,000	693	(4,307)
Total revenues	<u>7,598,070</u>	<u>4,982,556</u>	<u>(2,615,514)</u>
Expenditures:			
Current -			
Highway and streets	12,097,960	99,831	11,998,129
Capital outlay		6,102,996	(6,102,996)
Debt service -			
Principal retirement		104,143	(104,143)
Interest and fiscal charges		80,098	(80,098)
Total expenditures	<u>12,097,960</u>	<u>6,387,068</u>	<u>5,710,892</u>
Excess (deficiency) of revenues over expenditures	<u>(4,499,890)</u>	<u>(1,404,512)</u>	<u>3,095,378</u>
Other financing sources (uses):			
Transfers in	1,000,000	1,000,000	
Total other financing sources (uses)	<u>1,000,000</u>	<u>1,000,000</u>	
Change in fund balances	<u>(3,499,890)</u>	<u>(404,512)</u>	<u>3,095,378</u>
Fund balances, July 1, 2006	3,499,890	4,119,229	619,339
Fund balances, June 30, 2007	<u>\$</u>	<u>\$ 3,714,717</u>	<u>\$ 3,714,717</u>

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NON-MAJOR GOVERNMENTAL FUNDS

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TOWN OF ORO VALLEY, ARIZONA
COMBINING BALANCE SHEET - ALL NON-MAJOR GOVERNMENTAL FUNDS - BY FUND TYPE
JUNE 30, 2007

	Special Revenue	Municipal Debt Service	Capital Projects	Total Non-Major Governmental Funds
<u>ASSETS</u>				
Cash and cash equivalents	\$ 2,384,817	\$ 371,372	\$ 1,155,869	\$ 3,912,058
Accounts receivable			529	529
Intergovernmental receivable	96,983			96,983
Interest receivable	8,580			8,580
Total assets	\$ 2,490,380	\$ 371,372	\$ 1,156,398	\$ 4,018,150
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 50,654	\$ 1,990	\$ 9,323	\$ 61,967
Accrued wages and benefits	7,255			7,255
Due to other funds	392,928	230,762	134,574	758,264
Deferred revenue			206,500	206,500
Customer deposits payable	795,462			795,462
Total liabilities	1,246,299	232,752	350,397	1,829,448
Fund balances:				
Unreserved:				
Undesignated	1,244,081	138,620	806,001	2,188,702
Total fund balances	1,244,081	138,620	806,001	2,188,702
Total liabilities and fund balances	\$ 2,490,380	\$ 371,372	\$ 1,156,398	\$ 4,018,150

TOWN OF ORO VALLEY, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
ALL NON-MAJOR GOVERNMENTAL FUNDS - BY FUND TYPE
YEAR ENDED JUNE 30, 2007

	<u>Special Revenue</u>	<u>Municipal Debt Service</u>	<u>Capital Projects</u>
Revenues:			
Sales taxes	\$ 1,215,766	\$	\$
Intergovernmental	358,243		
Fines, forfeitures & penalties	213,958		
Charges for services	59,511		
Contributions and donations			19,171
Investment earnings	93,421	7,938	34,118
Other	8,024		
Total revenues	<u>1,948,923</u>	<u>7,938</u>	<u>53,289</u>
Expenditures:			
Current -			
General government	602,407		
Public safety	70,898		
Highway and streets	495,570		
Culture and recreation	57,057		
Capital outlay	709,302		233,978
Debt service -			
Bond issuance costs		28,868	
Principal retirement		788,670	
Interest and fiscal charges		652,140	
Total expenditures	<u>1,935,234</u>	<u>1,469,678</u>	<u>233,978</u>
Excess (deficiency) of revenues over expenditures	<u>13,689</u>	<u>(1,461,740)</u>	<u>(180,689)</u>
Other financing sources (uses):			
Issuance of refunding bonds		1,389,180	
Premium on bonds issued		25,719	
Payment to refunding bond escrow agent		(1,540,438)	
Transfers in	261,195	1,546,559	120,000
Total other financing sources (uses)	<u>261,195</u>	<u>1,421,020</u>	<u>120,000</u>
Change in fund balances	<u>274,884</u>	<u>(40,720)</u>	<u>(60,689)</u>
Fund balances, beginning of year	969,197	179,340	866,690
Fund balances, end of year	<u>\$ 1,244,081</u>	<u>\$ 138,620</u>	<u>\$ 806,001</u>

Total
Non-Major
Governmental
Funds

\$ 1,215,766
358,243
213,958
59,511
19,171
135,477
8,024

2,010,150

602,407
70,898
495,570
57,057
943,280

28,868
788,670
652,140

3,638,890

(1,628,740)

1,389,180
25,719
(1,540,438)

1,927,754

1,802,215

173,475

2,015,227

\$ 2,188,702

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NON-MAJOR SPECIAL REVENUE FUNDS

The Special Revenue Funds account for the proceeds of specific revenue sources, other than major capital projects, that are legally restricted to expenditures for specified purposes.

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.

Bed Tax – accounts for the collection of the 6 percent bed tax revenues which funds projects for parks and recreation, economic development and Naranja Town Site developments.

Public Transportation – accounts for the operation of the Town’s public transportation system.

TOWN OF ORO VALLEY, ARIZONA
COMBINING BALANCE SHEET - NON-MAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2007

	Revegetation Assurances	State Seizures and Forfeitures	Federal Seizures and Forfeitures	Bed Tax
<u>ASSETS</u>				
Cash and cash equivalents	\$ 1,185,016	\$ 141,392	\$ 250,128	\$ 528,264
Intergovernmental receivable				
Interest receivable	6,302			2,278
Total assets	\$ 1,191,318	\$ 141,392	\$ 250,128	\$ 530,542
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$	\$ 33,436	\$ 3,365	\$ 6,253
Accrued wages and benefits				
Due to other funds		9,736	43,334	
Customer deposits payable	795,462			
Total liabilities	795,462	43,172	46,699	6,253
Fund balances:				
Unreserved:				
Undesignated	395,856	98,220	203,429	524,289
Total fund balances	395,856	98,220	203,429	524,289
 Total liabilities and fund balances	 \$ 1,191,318	 \$ 141,392	 \$ 250,128	 \$ 530,542

Public Transportation	Totals
\$ 280,017	\$ 2,384,817
96,983	96,983
	8,580
<u>\$ 377,000</u>	<u>\$ 2,490,380</u>

\$ 7,600	\$ 50,654
7,255	7,255
339,858	392,928
	795,462
<u>354,713</u>	<u>1,246,299</u>

<u>22,287</u>	<u>1,244,081</u>
<u>22,287</u>	<u>1,244,081</u>

<u>\$ 377,000</u>	<u>\$ 2,490,380</u>
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TOWN OF ORO VALLEY, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NON-MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2007

	Revegetation Assurances	State Seizures and Forfeitures	Federal Seizures and Forfeitures
Revenues:			
Sales taxes	\$	\$	\$
Intergovernmental			
Fines, forfeitures & penalties		75,133	138,825
Charges for services			
Investment earnings	46,211	10,045	13,147
Other			
Total revenues	46,211	85,178	151,972
Expenditures:			
Current -			
General government			
Public safety		16,672	54,226
Highway and streets			
Culture and recreation			
Capital outlay		29,853	118,021
Total expenditures		46,525	172,247
Excess (deficiency) of revenues over expenditures	46,211	38,653	(20,275)
Other financing sources (uses):			
Transfers in			
Total other financing sources (uses)			
Change in fund balances	46,211	38,653	(20,275)
Fund balances, beginning of year	349,645	59,567	223,704
Fund balances, end of year	\$ 395,856	\$ 98,220	\$ 203,429

<u>Bed Tax</u>	<u>Public Transportation</u>	<u>Totals</u>
\$ 1,215,766	\$	\$ 1,215,766
	358,243	358,243
		213,958
	59,511	59,511
14,851	9,167	93,421
	8,024	8,024
<u>1,230,617</u>	<u>434,945</u>	<u>1,948,923</u>
602,407		602,407
		70,898
	495,570	495,570
57,057		57,057
329,898	231,530	709,302
<u>989,362</u>	<u>727,100</u>	<u>1,935,234</u>
<u>241,255</u>	<u>(292,155)</u>	<u>13,689</u>
	261,195	261,195
	<u>261,195</u>	<u>261,195</u>
<u>241,255</u>	<u>(30,960)</u>	<u>274,884</u>
283,034	53,247	969,197
<u>\$ 524,289</u>	<u>\$ 22,287</u>	<u>\$ 1,244,081</u>

**TOWN OF ORO VALLEY, ARIZONA
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR SPECIAL REVENUE FUNDS
 YEAR ENDED JUNE 30, 2007**

	Revegetation Assurances		Variance - Positive (Negative)
	Budget*	Actual	
Revenues:			
Sales taxes	\$	\$	\$
Intergovernmental			
Fines, forfeitures & penalties			
Charges for services			
Investment earnings		46,211	46,211
Other			
Total revenues		<u>46,211</u>	<u>46,211</u>
Expenditures:			
Current -			
General government			
Public safety			
Highway and streets			
Culture and recreation			
Capital outlay			
Total expenditures			
Excess (deficiency) of revenues over expenditures		<u>46,211</u>	<u>46,211</u>
Other financing sources (uses):			
Transfers in			
Total other financing sources (uses)			
Change in fund balances		<u>46,211</u>	<u>46,211</u>
Fund balances, July 1, 2006		349,645	349,645
Fund balances, June 30, 2007	<u>\$</u>	<u>\$ 395,856</u>	<u>\$ 395,856</u>

*The Revegetation Assurances Fund was included in the Town's budget, however, the budget was -0-

State Seizures and Forfeitures			Federal Seizures and Forfeitures		
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$	\$	\$	\$	\$	\$
10,000	75,133	65,133	100,000	138,825	38,825
	10,045	10,045		13,147	13,147
<u>10,000</u>	<u>85,178</u>	<u>75,178</u>	<u>100,000</u>	<u>151,972</u>	<u>51,972</u>
92,089	16,672	75,417	279,764	54,226	225,538
	29,853	(29,853)		118,021	(118,021)
<u>92,089</u>	<u>46,525</u>	<u>45,564</u>	<u>279,764</u>	<u>172,247</u>	<u>107,517</u>
<u>(82,089)</u>	<u>38,653</u>	<u>120,742</u>	<u>(179,764)</u>	<u>(20,275)</u>	<u>159,489</u>
<u>(82,089)</u>	<u>38,653</u>	<u>120,742</u>	<u>(179,764)</u>	<u>(20,275)</u>	<u>159,489</u>
82,089	59,567	(22,522)	179,764	223,704	43,940
<u>\$</u>	<u>\$ 98,220</u>	<u>\$ 98,220</u>	<u>\$</u>	<u>\$ 203,429</u>	<u>\$ 203,429</u>

(Continued)

TOWN OF ORO VALLEY, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2007
(Concluded)

	Bed Tax		Variance - Positive (Negative)
	Budget	Actual	
Revenues:			
Sales taxes	\$ 1,194,251	\$ 1,215,766	\$ 21,515
Intergovernmental			
Fines, forfeitures & penalties			
Charges for services			
Investment earnings		14,851	14,851
Other			
Total revenues	<u>1,194,251</u>	<u>1,230,617</u>	<u>36,366</u>
Expenditures:			
Current -			
General government	1,710,039	602,407	1,107,632
Public safety			
Highway and streets			
Culture and recreation		57,057	(57,057)
Capital outlay		329,898	(329,898)
Total expenditures	<u>1,710,039</u>	<u>989,362</u>	<u>720,677</u>
Excess (deficiency) of revenues over expenditures	<u>(515,788)</u>	<u>241,255</u>	<u>757,043</u>
Other financing sources (uses):			
Transfers in			
Total other financing sources (uses)			
Change in fund balances	<u>(515,788)</u>	<u>241,255</u>	<u>757,043</u>
Fund balances, July 1, 2006	515,788	283,034	(232,754)
Fund balances, June 30, 2007	<u>\$</u>	<u>\$ 524,289</u>	<u>\$ 524,289</u>

Public Transportation			Totals		
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$ 232,800	\$ 358,243	\$ 125,443	\$ 1,194,251	\$ 1,215,766	\$ 21,515
			232,800	358,243	125,443
			110,000	213,958	103,958
	59,511	59,511		59,511	59,511
	9,167	9,167		93,421	93,421
127,683	8,024	(119,659)	127,683	8,024	(119,659)
360,483	434,945	74,462	1,664,734	1,948,923	284,189
			1,710,039	602,407	1,107,632
			371,853	70,898	300,955
697,213	495,570	201,643	697,213	495,570	201,643
				57,057	(57,057)
	231,530	(231,530)		709,302	(709,302)
697,213	727,100	(29,887)	2,779,105	1,935,234	843,871
(336,730)	(292,155)	44,575	(1,114,371)	13,689	1,128,060
261,195	261,195		261,195	261,195	
261,195	261,195		261,195	261,195	
(75,535)	(30,960)	44,575	(853,176)	274,884	1,128,060
75,535	53,247	(22,288)	853,176	969,197	116,021
\$	\$ 22,287	\$ 22,287	\$	\$ 1,244,081	\$ 1,244,081

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NON-MAJOR DEBT SERVICE FUNDS

Debt Service Funds are created to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

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.

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TOWN OF ORO VALLEY, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2007

	Municipal Debt Service		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Investment earnings	\$ 3,000	\$ 7,938	\$ 4,938
Total revenues	<u>3,000</u>	<u>7,938</u>	<u>4,938</u>
Expenditures:			
Debt service -			
Bond issuance costs		28,868	(28,868)
Principal retirement	1,009,720	788,670	221,050
Interest and fiscal charges	712,741	652,140	60,601
Total expenditures	<u>1,722,461</u>	<u>1,469,678</u>	<u>252,783</u>
Excess (deficiency) of revenues over expenditures	<u>(1,719,461)</u>	<u>(1,461,740)</u>	<u>257,721</u>
Other financing sources (uses):			
Issuance of refunding bonds		1,389,180	1,389,180
Premium on bonds issued		25,719	25,719
Payment to refunding bond escrow agent		(1,540,438)	(1,540,438)
Transfers in	1,546,559	1,546,559	
Total other financing sources (uses)	<u>1,546,559</u>	<u>1,421,020</u>	<u>(125,539)</u>
Change in fund balances	<u>(172,902)</u>	<u>(40,720)</u>	<u>132,182</u>
Fund balances, July 1, 2006	172,902	179,340	6,438
Fund balances, June 30, 2007	<u>\$</u>	<u>\$ 138,620</u>	<u>\$ 138,620</u>

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NON-MAJOR CAPITAL PROJECTS FUNDS

Capital Projects Funds are created to account for the purchase or construction of major capital facilities which are not financed by the general, enterprise, or special revenue funds.

Pima County Bond Projects – accounts for the revenues and expenditures for historic preservation capital improvements funded by grants and from Pima County bond funds.

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

Regional Transportation Authority Improvement – accounts for street improvement projects funded by the Regional Transportation Authority.

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TOWN OF ORO VALLEY, ARIZONA
COMBINING BALANCE SHEET - NON-MAJOR CAPITAL PROJECTS FUNDS
JUNE 30, 2007

	Pima County Bond Projects	Municipal Building	Totals
<u>ASSETS</u>			
Cash and cash equivalents	\$ 225,671	\$ 930,198	\$ 1,155,869
Accounts receivable		529	529
Total assets	\$ 225,671	\$ 930,727	\$ 1,156,398
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$	\$ 9,323	\$ 9,323
Due to other funds		134,574	134,574
Deferred revenue	206,500		206,500
Total liabilities	206,500	143,897	350,397
Fund balances:			
Unreserved:			
Undesignated	19,171	786,830	806,001
Total fund balances	19,171	786,830	806,001
Total liabilities and fund balances	\$ 225,671	\$ 930,727	\$ 1,156,398

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TOWN OF ORO VALLEY, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NON-MAJOR CAPITAL PROJECTS FUNDS
YEAR ENDED JUNE 30, 2007

	<u>Pima County Bond Projects</u>	<u>Municipal Building</u>	<u>Totals</u>
Revenues:			
Contributions and donations	\$ 19,171	\$	\$ 19,171
Investment earnings		34,118	34,118
Total revenues	<u>19,171</u>	<u>34,118</u>	<u>53,289</u>
Expenditures:			
Capital outlay	120,000	113,978	233,978
Total expenditures	<u>120,000</u>	<u>113,978</u>	<u>233,978</u>
Excess (deficiency) of revenues over expenditures	<u>(100,829)</u>	<u>(79,860)</u>	<u>(180,689)</u>
Other financing sources (uses):			
Transfers in	120,000		120,000
Total other financing sources (uses)	<u>120,000</u>		<u>120,000</u>
Change in fund balances	<u>19,171</u>	<u>(79,860)</u>	<u>(60,689)</u>
Fund balances, beginning of year		866,690	866,690
Fund balances, end of year	<u>\$ 19,171</u>	<u>\$ 786,830</u>	<u>\$ 806,001</u>

TOWN OF ORO VALLEY, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR CAPITAL PROJECTS FUNDS
YEAR ENDED JUNE 30, 2007

	Pima County Bond Projects		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Intergovernmental	\$ 5,600,000	\$	\$ (5,600,000)
Contributions and donations		19,171	19,171
Investment earnings			
Total revenues	5,600,000	19,171	(5,580,829)
Expenditures:			
Capital outlay	5,806,500	120,000	5,686,500
Total expenditures	5,806,500	120,000	5,686,500
Excess (deficiency) of revenues over expenditures	(206,500)	(100,829)	105,671
Other financing sources (uses):			
Transfers in		120,000	120,000
Total other financing sources (uses)		120,000	120,000
Change in fund balances	(206,500)	19,171	225,671
Fund balances, July 1, 2006	206,500		(206,500)
Fund balances, June 30, 2007	\$	\$ 19,171	\$ 19,171

Municipal Building		
Budget	Actual	Variance - Positive (Negative)
\$	\$	\$
20,300	34,118	13,818
20,300	34,118	13,818
1,320,292	113,978	1,206,314
1,320,292	113,978	1,206,314
(1,299,992)	(79,860)	1,220,132
(1,299,992)	(79,860)	1,220,132
1,299,992	866,690	(433,302)
\$	\$ 786,830	\$ 786,830

Regional Transportation Authority Improvement		
Budget	Actual	Variance - Positive (Negative)
\$ 600,000	\$	\$ (600,000)
600,000		(600,000)
600,000		600,000
600,000		600,000
\$	\$	\$

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TOWN OF ORO VALLEY, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR CAPITAL PROJECTS FUNDS
YEAR ENDED JUNE 30, 2007
(Concluded)

	Totals		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Intergovernmental	\$ 6,200,000	\$	\$ (6,200,000)
Contributions and donations		19,171	19,171
Investment earnings	20,300	34,118	13,818
Total revenues	6,220,300	53,289	(6,167,011)
Expenditures:			
Capital outlay	7,726,792	233,978	7,492,814
Total expenditures	7,726,792	233,978	7,492,814
Excess (deficiency) of revenues over expenditures	(1,506,492)	(180,689)	1,325,803
Other financing sources (uses):			
Transfers in		120,000	120,000
Total other financing sources (uses)		120,000	120,000
Change in fund balances	(1,506,492)	(60,689)	1,445,803
Fund balances, July 1, 2006	1,506,492	866,690	(639,802)
Fund balances, June 30, 2007	\$	\$ 806,001	\$ 806,001

STATISTICAL SECTION

The statistical section presents financial statement trends as well as detailed financial and operational information not available elsewhere in the report. The statistical section is intended to enhance the reader's understanding of the information presented in the financial statements, notes to the financial statements, and other supplementary information presented in this report. The statistical section is comprised of the five categories of statistical information presented below.

Financial Trends

These schedules contain information on financial trends to help the reader understand how the Town's financial position and financial activities have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the factors affecting the Town's ability to generate property taxes.

Debt Capacity

These schedules present information to help the reader evaluate the Town's current levels of outstanding debt as well as assess the Town's ability to make debt payments and/or issue additional debt in the future.

Demographic and Economic Information

These schedules present various demographic and economic indicators to help the reader understand the environment in which the Town's financial activities take place and to help make comparisons with other school districts.

Operating Information

These schedules contain information about the Town's operations and various resources to help the reader draw conclusions as to how the Town's financial information relates to the services provided by the Town.

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

	Fiscal Year				
	2003	2004	2005	2006	2007
Governmental activities					
Invested in capital assets, net of related debt	\$ 21,188,015	\$ 30,546,282	\$ 92,541,223	\$ 107,413,486	\$ 106,644,847
Restricted	2,303,550	3,958,033	15,360,660	8,919,398	8,326,731
Unrestricted	13,828,711	19,248,712	15,394,707	15,063,081	23,571,109
Total governmental activities net assets	\$ 37,320,276	\$ 53,753,027	\$ 123,296,590	\$ 131,395,965	\$ 138,542,687
Business-type activities					
Invested in capital assets, net of related debt	\$ 3,745,153	\$ (14,913,572)	\$ 546,602	\$ 7,240,791	\$ 15,534,043
Restricted	3,575,789	3,492,488	2,310,980	2,331,001	-
Unrestricted	10,262,534	33,107,781	24,499,050	22,958,536	23,252,747
Total business-type activities net assets	\$ 17,583,476	\$ 21,686,697	\$ 27,356,632	\$ 32,530,328	\$ 38,786,790
Primary government					
Invested in capital assets, net of related debt	\$ 24,933,168	\$ 15,632,710	\$ 93,087,825	\$ 114,654,277	\$ 122,178,890
Restricted	5,879,339	7,450,521	17,671,640	11,250,399	8,326,731
Unrestricted	24,091,245	52,356,493	39,893,757	38,021,617	46,823,856
Total primary government net assets	\$ 54,903,752	\$ 75,439,724	\$ 150,653,222	\$ 163,926,293	\$ 177,329,477

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	2007
Expenses					
Governmental activities:					
General government	\$ 5,592,498	\$ 5,971,319	\$ 5,997,864	\$ 7,162,732	\$ 7,529,245
Public Safety	9,013,391	9,520,219	10,309,453	11,155,542	12,352,671
Highways and streets	2,613,170	2,850,172	4,789,234	5,732,026	7,757,276
Culture and recreation	2,352,445	2,566,173	2,631,306	3,014,341	3,375,314
Interest on long-term debt	564,798	456,107	653,331	805,123	996,336
Total governmental activities/expenses	<u>20,136,302</u>	<u>21,363,990</u>	<u>24,381,188</u>	<u>27,869,764</u>	<u>32,010,842</u>
Business-type activities:					
Water	9,025,235	8,957,988	9,642,592	10,438,869	11,446,958
Stormwater drainage	104,948	45,551	271,469	111,695	74,235
Total business-type activities expenses	<u>9,130,183</u>	<u>9,003,539</u>	<u>9,914,061</u>	<u>10,550,564</u>	<u>11,521,193</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>	<u>\$ 43,532,035</u>
Program Revenues					
Governmental activities:					
Fees, Fines and Charges for Services:					
General government	\$ 2,991,105	\$ 3,902,024	\$ 3,784,049	\$ 4,013,368	\$ 3,642,887
Highways and streets	121,484	170,543	396,602	183,842	122,124
Operating grants and contributions	3,512,097	3,675,674	4,216,642	4,558,864	4,893,869
Capital grants and contributions	1,520,898	13,437,638	13,834,121	3,994,640	8,321,691
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>	<u>16,980,571</u>
Business-type activities:					
Charges for services:					
Water	10,380,720	11,917,546	11,951,413	14,038,391	13,617,336
Stormwater Utility	75	-	14,710	21,401	125
Operating grants and contributions	297,500	-	-	-	-
Capital grants and contributions	1,856,151	840,096	2,934,747	628,501	3,066,170
Total business-type activities program revenues	<u>12,534,446</u>	<u>12,757,642</u>	<u>14,900,870</u>	<u>14,668,293</u>	<u>16,683,631</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>	<u>\$ 33,664,202</u>

	Fiscal Year				
	2003	2004	2005	2006	2007
Net (Expense)/Revenues					
Governmental activities	\$ (11,990,718)	\$ (178,111)	\$ (2,149,774)	\$ (15,119,050)	\$ (15,030,271)
Business-type activities	3,404,263	3,754,103	4,986,809	4,137,729	5,162,438
Total primary government net expenses	<u>\$ (8,586,455)</u>	<u>\$ 3,575,992</u>	<u>\$ 2,837,035</u>	<u>\$ (10,981,321)</u>	<u>\$ (9,867,833)</u>
General Revenues and Other Changes in Net Assets					
Governmental activities:					
Taxes:					
Sales taxes	\$ 5,876,309	\$ 7,924,855	\$ 9,536,791	\$ 12,455,609	\$ 16,873,630
Franchise taxes	341,489	371,697	402,482	435,428	478,175
Impact fees	885,371	1,189,848	1,547,819	1,098,977	1,038,217
Unrestricted state revenue sharing	3,161,005	2,845,866	2,935,615	3,343,471	4,473,305
Unrestricted state sales tax revenue sharing	2,322,772	2,688,614	2,958,376	3,432,007	3,744,864
Unrestricted auto lieu tax revenue sharing	1,307,305	1,374,464	1,395,094	1,541,560	1,726,149
Special assessments	-	-	5,433,301	-	-
Investment earnings (loss)	(244,770)	281,518	557,238	991,151	1,471,641
Special item - Loss on sale of fixed assets	(30,525)	-	(91,194)	(79,778)	-
Transfers	-	(64,000)	(91,194)	(79,778)	69,813
Total governmental activities	<u>13,618,956</u>	<u>16,610,862</u>	<u>24,675,522</u>	<u>23,218,425</u>	<u>29,875,794</u>
Business-type activities:					
Investment earnings (loss)	(50,977)	285,118	591,932	956,189	1,163,837
Transfers	-	64,000	91,194	79,778	(69,813)
Total business-type activities	<u>(50,977)</u>	<u>349,118</u>	<u>683,126</u>	<u>1,035,967</u>	<u>1,094,024</u>
Total primary government	<u>\$ 13,567,979</u>	<u>\$16,959,980</u>	<u>\$25,358,648</u>	<u>\$ 24,254,392</u>	<u>\$ 30,969,818</u>
Change in Net Assets					
Governmental activities	\$ 1,628,238	\$16,432,751	\$22,525,748	\$ 8,099,375	\$ 14,845,523
Business-type activities	3,353,286	4,103,221	5,669,935	5,173,696	6,256,462
Total primary government	<u>\$ 4,981,524</u>	<u>\$20,535,972</u>	<u>\$28,195,683</u>	<u>\$ 13,273,071</u>	<u>\$ 21,101,985</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									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General Fund										
Reserved	\$ 642,910	\$ 515,916	\$ 480,971	\$ 349,243	\$ 333,285	\$ 354,091	\$ 7,172	\$ 112	\$ 7,267	\$ -
Unreserved	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	18,477,706
Total general fund	<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>	<u>\$ 18,477,706</u>
All Other Governmental Funds										
Reserved	\$ 149,930	\$ -	\$ -	\$ -	\$ -	\$ 5,079	\$ 17,912	\$ 36,076	\$ 80,624	\$ -
Unreserved, reported in:										
Special revenue funds	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	4,891,095
Capital projects funds	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	4,520,718
Debt service funds	227,083	363,767	200,836	929,802	793,433	176,514	314,301	403,332	280,955	245,208
Total all other governmental funds	<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>	<u>\$ 9,657,021</u>

Source: Town of Oro Valley Finance Department

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

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Revenues										
Taxes	\$ 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	\$ 17,351,805
Intergovernmental	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	18,405,713
Fines and forfeitures	395,474	331,032	344,627	333,755	316,339	307,570	463,150	326,427	462,246	429,458
Licenses and permits	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	2,368,851
Charges for services	280,782	239,945	296,801	387,657	549,440	633,406	823,287	880,582	942,676	1,026,921
Contributions and donations	37,278	2,001	9,247	3,785	-	37,331	30,251	-	97,327	19,171
Special assessments	2,055,984	2,472,834	3,089,814	3,089,032	2,412,888	885,371	1,189,848	1,547,819	-	189,820
Impact fees	-	-	-	-	-	-	1,189,848	1,488,301	1,098,977	1,038,217
Investment earnings	644,689	980,231	1,332,605	1,757,232	875,361	(244,770)	281,518	557,238	991,151	1,471,641
Other revenues	62,853	50,902	69,036	172,726	150,444	178,376	229,411	458,034	325,428	135,261
Total revenues	\$ 14,667,418	\$ 16,767,900	\$ 22,062,786	\$ 22,278,517	\$ 25,400,808	\$ 21,586,396	\$ 37,840,598	\$ 43,062,006	\$ 36,015,321	\$ 42,436,858
Expenditures										
General government	2,880,570	3,317,668	4,128,050	7,256,772	6,055,062	6,698,052	5,800,477	5,676,217	9,888,956	7,019,030
Public safety	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	11,808,799
Highways and streets	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	3,768,851
Culture and recreation	647,146	636,302	637,084	1,193,846	1,474,667	2,394,212	2,540,949	2,640,777	3,868,249	3,109,228
Claims and judgements	-	-	600,000	-	-	-	-	-	-	-
Capital Outlay	837,944	878,843	5,537,058	3,628,630	8,094,782	-	-	-	-	10,662,190
Debt Service	-	-	-	-	-	-	-	-	-	-
Principal retirement	410,000	400,000	480,000	1,120,000	1,596,456	516,960	541,290	2,559,190	2,856,595	1,077,813
Interest and fiscal charges	330,170	341,086	355,782	616,880	932,124	564,798	426,472	589,725	731,358	921,205
Bond issuance costs	-	52,126	-	800,879	-	-	93,415	251,327	107,897	28,868
Total expenditures	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	38,395,984
Excess of revenues over (under) expenditures	\$ 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)	\$ 4,040,874

	Fiscal Year										
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	
Other Financing Sources (Uses)											
Premium on bonds issued	-	-	-	-	-	-	-	-	-	-	25,719
Proceeds from certificates of participation	126,080	34,781	-	-	-	-	-	-	-	-	-
Proceeds from capital lease agreements	-	1,690,349	-	12,671,460	-	-	-	-	-	-	-
Proceeds from sale of bonds	-	-	-	-	-	1,716,000	-	-	-	-	-
Proceeds from loan	-	-	-	-	-	-	5,000,000	4,030,033	-	-	-
Issuance of long-term loan payable	-	-	-	-	-	-	5,572,700	-	-	-	1,389,180
Issuance of refunding debt	-	-	-	-	-	-	(5,478,016)	-	-	-	(1,540,438)
Payment to refunded debt escrow agent	-	-	-	-	-	-	-	-	-	-	-
Issuance of long-term debt	-	-	-	-	-	-	-	-	-	-	4,164,050
Transfers in	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	2,927,754	-
Transfers out	(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)	(2,857,941)	-
Total other financing sources (uses)	126,080	1,725,130	-	12,671,460	-	1,716,000	5,030,684	3,938,839	4,064,272	(55,726)	-
Net change in fund balances	\$ 4,229,000	\$ 6,477,316	\$ 2,253,276	\$ 10,061,109	\$ (4,483,593)	\$ (4,560,299)	\$ 6,849,142	\$ 3,467,258	\$ (2,863,938)	\$ 3,985,148	-
Debt service as a percentage of noncapital expenditures	7.61%	7.12%	5.86%	11.94%	11.60%	3.88%	2.95%	7.81%	8.60%	7.31%	-

Source: Town of Oro Valley Finance Department

TOWN OF ORO VALLEY, ARIZONA
 PRINCIPAL EMPLOYERS
 JUNE 30, 2007
 (UNAUDITED)

<u>Employer</u>	2007			1998		
	Employees	Rank	Percentage of Total Town Employment	Employees	Rank	Percentage of Total Town Employment
Ventana Medical Systems	765	1	5.12%			0.00%
Amphitheater Public Schools	634	2	4.25%	232	2	5.89%
Hilton El Conquistador Resort	575	3	3.85%	600	1	15.24%
Northwest Medical Center Oro Valley	497	4	3.33%			0.00%
Town of Oro Valley	432	5	2.89%	160	4	4.06%
Fry's Food Stores	220	6	1.47%	166	3	4.22%
Home Depot	150	7	1.00%			0.00%
Target	130	8	0.87%			0.00%
Stone Canyon Golf/Golf Club at Vistoso	130	8	0.87%			0.00%
Hilton El Conquistador Country Club	125	9	0.84%	150	5	3.81%
Vanguard Automation				140	6	3.56%
Smith's Food Stores				85	7	2.16%
Oro Valley Country Club				85	7	2.16%
ABCO Food Stores				63	8	1.60%
Selectide				57	9	1.45%
Pizza Hut				54	10	1.37%
Total	3,658		24.51%	1,792		45.51%

Source: Principal Employers Arizona Workforce Informer

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

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Construction	\$ 1,898	\$ 2,398	\$ 3,023	\$ 2,913	\$ 2,779	\$ 1,978	\$ 3,014	\$ 3,594	\$ 5,602	\$ 6,895
Manufacturing	4	3	3	2	6	4	29	137	165	181
Transportation, Warehousing, Communications & Utilities	4	17	28	32	55	101	50	116	91	226
Wholesale Trade	18	13	13	13	61	31	46	54	56	58
Retail Trade	515	674	1,497	1,763	1,877	2,086	2,722	2,942	3,229	3,665
Restaurants, Bars & Lodging	896	916	1,053	1,082	1,250	1,354	1,556	1,888	2,392	2,720
Finance, Insurance & Real Estate	123	15	25	73	45	62	101	142	155	859
Services	202	256	221	257	258	285	393	379	262	313
All Other	2	2	51	(3)	42	50	(13)	68	197	167
Cable Franchise	183	207	225	263	302	342	372	402	435	478
Total	\$ 3,845	\$ 4,501	\$ 6,139	\$ 6,395	\$ 6,675	\$ 6,293	\$ 8,270	\$ 9,722	\$ 12,584	\$ 15,562
Town 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% Construction Sales Tax Effective May 1, 2004
- 6% Additional Bed Tax Effective January 1, 2006
- 2% Utility Sales Tax Effective April 1, 2007

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

Fiscal Year	Town of Oro Valley Sales Tax	Town of Oro Valley Bed Tax	Town of Oro Valley Construction Sales Tax	Town of Oro Valley Utility Sales Tax	Pima County
1998	2.00%	1.00%	0.00%	0.00%	5.60%
1999	2.00%	1.00%	0.00%	0.00%	5.60%
2000	2.00%	1.00%	0.00%	0.00%	5.60%
2001	2.00%	3.00%	0.00%	0.00%	5.60%
2002	2.00%	3.00%	0.00%	0.00%	5.60%
2003	2.00%	3.00%	0.00%	0.00%	5.60%
2004	2.00%	3.00%	4.00%	0.00%	5.60%
2005	2.00%	3.00%	4.00%	0.00%	5.60%
2006	2.00%	6.00%	4.00%	0.00%	6.10%
2007	2.00%	6.00%	4.00%	2.00%	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	Revenue Bonds				
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	-	90,000	30,792,862	-	23,172	-	-	37,647,927	4.75%	1,479	
2000	17,781	4,655,000	-	-	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	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	5.48%	2,098	
2007	-	-	2,500,000	12,891,148	3,760,000	61,568,852	-	-	-	80,720,000	4.77%	1,881	

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, 2007
 (UNAUDITED)

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Pima County	\$ 290,150,000	7.08%	\$ 20,531,852
Pima County Community College District	57,650,000	7.08%	4,079,481
Pima County Flood Control District	1,470,000	7.08%	104,021
Amphitheater Unified School District No. 10	57,280,000	39.03%	22,354,386
Town of Oro Valley	None	100.00%	None
Total direct and overlapping debt			<u><u>47,069,740</u></u>

Source: Pima County, Pima County Community College 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 2006-07.

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

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Debt Limit	\$ 46,479,389	\$ 51,128,360	\$ 57,378,681	\$ 66,881,032	\$ 76,608,850	\$ 84,941,970	\$ 93,101,081	\$ 108,807,180	\$ 120,435,053	\$ 151,537,994
Total net debt applicable to limit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Legal debt margin	\$ 46,479,389	\$ 51,128,360	\$ 57,378,681	\$ 66,881,032	\$ 76,608,850	\$ 84,941,970	\$ 93,101,081	\$ 108,807,180	\$ 120,435,053	\$ 151,537,994
Total net debt applicable to the limit as a percentage of debt limit	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Source: Town of Oro Valley Finance Department

TOWN OF ORO VALLEY
CALCULATION OF LEGAL DEBT MARGIN
JUNE 30, 2007
(UNAUDITED)

Net secondary assessed valuation		\$ 582,838,439
<u>Water, Sewer, Light, Parks, Open Space and Recreational Facility Bonds</u>		
Debt limit - 20% of secondary net assessed valuation		\$ 116,567,688
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		\$ 116,567,688
<u>All other general obligation bonds</u>		
Debt Limit - 6% of secondary net assessed valuation		34,970,306
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		34,970,306
Total legal debt margin		\$ 151,537,994

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	Gross Revenues	Debt Service			Coverage
		Principal	Interest	Total	
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
2007	14,810,173	1,676,880	1,910,173	3,587,053	4.13

Governmental Revenue Bonds

Fiscal Year	Gross Revenues	Debt Service			Coverage
		Principal	Interest	Total	
1998	\$ -	\$ -	\$ -	\$ -	0.00
1999	-	-	-	-	0.00
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
2007	29,200,152	843,120	702,740	1,545,860	18.89

Certificates of Participation

Fiscal Year	Gross Revenues	Debt Service			Coverage
		Principal	Interest	Total	
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	14,300,536	390,000	271,756	661,756	21.61
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
2007	29,200,152	-	-	-	0.00

Special Assessment

Fiscal Year	Gross Revenues	Debt Service			Coverage
		Principal	Interest	Total	
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
2001	-	-	-	-	0.00
2002	-	-	-	-	0.00
2003	-	-	-	-	0.00
2004	-	-	-	-	0.00
2005	-	-	-	-	0.00
2006	-	-	176,967	176,967	0.00
2007	379,840	185,000	186,828	371,828	1.02

Source: Town of Oro Valley Finance Department

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

Year	Population	Personal Income (thousands of dollars)	Per Capita Personal Income	Unemployment Rate
1998	25,236	Not Available	Not Available	2.2%
1999	25,455	\$ 792,515,970	\$ 31,134	2.3%
2000	29,700	952,420,194	32,068	1.9%
2001	29,700	980,992,800	33,030	2.0%
2002	34,050	1,158,413,770	34,021	2.0%
2003	37,260	1,305,649,691	35,042	2.9%
2004	37,700	1,360,700,031	36,093	2.6%
2005	39,310	1,461,373,787	37,176	2.5%
2006	40,215	1,539,868,259	38,291	3.0%
2007	42,917	1,692,630,159	39,440	2.6%

Source: US Census Bureau and Arizona Employment statistics

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

Function/Program	Full-time Equivalent Employees as of June 30									
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Administration										
Town Clerk	4.63	4.50	4.50	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Town Manager	8.00	6.00	5.00	4.00	4.00	3.00	3.00	3.00	3.00	3.00
Human Resources	4.00	3.00	3.00	3.00	3.00	2.50	3.00	2.50	2.00	2.00
Economic Development	2.25	2.00	2.00	2.00	2.00	2.00	1.00	1.25	1.00	1.00
Finance	8.00	7.50	7.50	7.50	7.50	7.50	6.00	6.25	6.00	6.00
Information Systems	5.00	4.00	4.00	2.00	2.00	2.00	2.50	2.00	2.00	2.00
Legal	10.25	10.25	6.25	8.00	9.00	9.00	7.00	6.00	4.75	2.50
Community Development										
Building Safety	18.00	16.00	16.00	17.00	17.00	17.00	17.00	14.00	10.00	7.00
Community Development Admin.	0.00	4.00	4.00	4.00	4.00	4.00	4.00	3.00	3.00	2.00
Planning & Zoning	16.00	13.50	13.50	13.50	14.00	14.50	16.50	15.50	12.00	8.00
Parks and Recreation										
Library	27.00	20.80	20.80	20.30	20.30	20.30	15.50	13.50	9.00	9.00
Police	19.30	19.43	14.00	14.00	14.00	14.00	3.00	1.00	0.00	0.00
Police										
Civilians	34.00	29.00	28.00	29.00	29.00	26.00	32.00	24.00	22.25	21.00
Officers	105.00	96.00	92.00	88.00	74.00	74.00	68.00	69.50	64.00	56.00
Magistrate Court										
Magistrate Court	8.5	8.50	8.50	7.50	7.50	7.50	7.50	6.50	7.00	6.00
Public Works										
Public Works	53.13	54.00	51.50	28.50	33.00	33.00	32.50	15.00	14.00	16.00
Water Utility										
Water Utility	35.5	34.00	34.00	33.00	33.00	32.00	28.00	26.00	19.00	15.50
Total	358.56	332.48	314.55	285.30	277.30	272.30	250.50	213.00	183.00	161.00

Source: Town of Oro Valley Finance Department

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

Fiscal Year	Residential	Commerical	Irrigation	Irrigation Reclaimed	Construction	Turf	Turf Reclaimed	Wholesale/Unmetered	Total
1998	\$ 2,698,448	\$ 272,320	\$ 308,808	\$ -	\$ 127,513	\$ 874,978	\$ -	\$ 14,199	\$ 4,296,265
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
2007	7,187,885	614,404	978,556	1,555	542,879	680,833	1,015,709	-	11,021,820

Source: Town of Oro Valley Water Utility Department

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

Function/Program	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Police										
Burglaries	19	31	46	38	52	69	94	124	97	112
Citations (traffic)	6,739	7,371	8,317	5,636	5,237	8,195	9,413	8,660	8,203	8,183
Investigations	6,473	6,902	6,317	7,751	6,350	4,719	3,788	4,216	5,106	6,656
Total Arrests	2,367	2,833	2,350	2,314	2,011	2,156	2,184	2,076	2,053	2,236
Thefts	288	281	344	368	432	448	572	580	568	575
Public Works										
Street resurfacing (miles)	2.7	2.8	3.6	3.0	16.4	14.0	8.0	17.3	5.4	7.7
Parks and Recreation										
Recreation Programs Held Annually	1	1	3	5	16	21	23	30	38	42
Months of Public Pool Operations	4	4	0	10	10	10	10	10	10	10
Parks Maintenance Man-Hours Worked	6,240	6,240	13,520	13,520	13,520	13,520	13,520	13,520	13,520	15,600
Library										
Collection volume	N/A	N/A	N/A	N/A	65,000	70,000	75,000	80,000	86,000	90,000
Water										
New connections	807	984	1,006	787	507	470	533	377	508	367
Total connections	12,291	13,275	14,281	15,068	15,575	16,045	16,578	16,955	17,463	17,830
Transit										
Total route miles	75,046	95,735	122,405	154,167	180,087	167,313	177,283	190,609	165,202	165,202
Passengers	4,567	6,515	8,143	11,000	13,524	12,486	13,991	15,937	14,387	14,858

Source: Town of Oro Valley Finance Department

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

<u>Year</u>	<u>Base Rate monthly</u>	<u>Tier 1 per 1,000</u>	<u>Tier 2 per 1,000</u>	<u>Tier 3 per 1,000</u>	<u>GPF per 1,000</u>
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/Program	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Substations	0	1	2	2	2	2	3	3	3	2
Patrol units	37	45	58	66	78	83	93	103	105	105
Public works										
Streets (miles)	136.9	144.0	152.4	156.9	167.5	175.7	182.7	188.0	191.3	201.9
Streetlights	123	131	139	147	163	163	171	187	187	193
Traffic signals	2	3	4	5	7	7	8	10	10	15
Parks and recreation										
Acreage	17	17	47	47	87	87	87	87	300	300
Playgrounds	1	1	2	2	2	2	2	2	2	2
Baseball/softball diamonds	5	5	7	7	7	7	7	7	7	7
Water										
Wells	21	22	22	24	25	25	21	22	22	22
Storage capacity (MG)	10	10	10	11	13	14	16	17	17	17.5
Booster capacity	21	21	21	23	24	26	29	28	28	28

*4 Wells taken out of service in 2004

Transit										
Transit vans	2	4	7	8	8	8	8	9	9	9

Source: Town of Oro Valley Finance Department

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