



Town of Oro Valley, Arizona

POPULAR ANNUAL FINANCIAL REPORT

Fiscal Year ending June 30, 2014

OVERVIEW

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

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

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WELCOME *from the* TOWN MANAGER



Greg Caton

We are pleased to present the Town of Oro Valley Popular Annual Financial Report (PAFR) for fiscal year 2013/14.

The PAFR provides an easy-to-understand, summarized overview of various financial aspects of the Town, including sources of revenues and expenditures, financial trends, assets and liabilities and debt obligations.

Continued economic progress and recovery have provided the Town with the opportunity and resources to reinvest in the community following the initiatives outlined in the Town's adopted Strategic Plan. In the General Fund, our main operating fund, revenues exceeded

expenditures by nearly \$1.5 million for fiscal year 2013/14.

A few significant and exciting projects were completed or approved during fiscal year 2013/14. The Town Council approved \$2.3 million for improvements at Naranja Park to include a dog park and two multi-sport fields. Investment in maintaining our top-notch roadways continued with \$1 million dedicated towards our pavement preservation program during fiscal year 2013/14. Our Town Council also approved \$200,000 to help launch a Children's Museum Tucson satellite location in Oro Valley.

In the coming year, work will continue towards adoption of the Town's General Plan update, also known as the *Your Voice, Our Future* project. Improvements will continue at the Town's Steam Pump Ranch, allowing for greater use of this beautiful, historic property. Efforts will continue to promote events at the Oro Valley Aquatic Center, which has proven to be an economic driver for the community and is fulfilling our pursuit of youth and amateur sporting events. Also, the Water Utility will continue with its replacement of aging water meters town-wide to improve water delivery efficiency.

We hope that our 2014 Popular Annual Financial Report fulfills its purpose as an understandable, informative means of providing assurance that every effort is being made to manage the community's resources wisely for the benefit of all.

Respectfully,
Greg Caton, Town Manager



ORO VALLEY COUNCIL



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

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

Mary Snider, Councilmember
Joe Hornat, Councilmember

ORO VALLEY FAST FACTS

INCORPORATED	1974
SERVICES	Police, Parks and Recreation, Water Utility, Stormwater Utility, Public Transit, Development and Infrastructure Services
FORM OF GOV'T	Council/Manager
GOVERNING BODY	Mayor elected at large to four-year term; 6 councilmembers elected at large to four-year terms
POPULATION	41,627 (2013 census)
# OF HOUSEHOLDS	16,973 (2012 census)
BACHELOR'S DEGREE OR HIGHER (AGE25+)	49.2%
MEDIAN INCOME	\$68,597 (2012 census)
# OF PARKS	6
PARK ACRES MAINTAINED	457
TRAILS AND PATHS	79 miles of bike facilities including bike lanes and shared paths & 55 miles of trails
2014 BUDGET	\$93.9 million

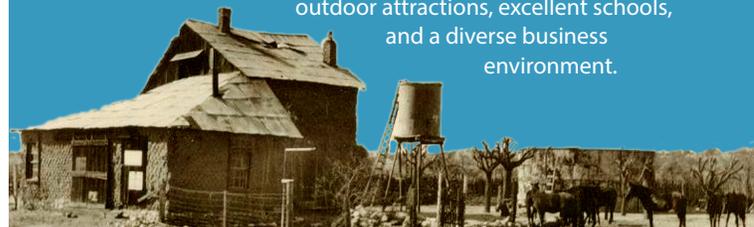


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HISTORY

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



FY 2014 ACCOMPLISHMENTS

Authorized \$2.3 million for development of Naranja Park improvements, including a dog park, two multi-sport fields, parking lot and critical infrastructure

Completed the construction of the Cañada del Oro (CDO) shared use path and pedestrian bridge

Completed Phase I of the Water Utility Energy Efficiency Study and purchased new high efficiency pumps and motors

162 active businesses supported through the Police Department's Adopt-A-Business program

Citizen Volunteer Assistants Program (CVAP) volunteers contributed an estimated 27,664 volunteer hours for police programs such as the residential darkhouse program

Aquatic Center received Arizona Parks & Recreation Association (APRA) Outstanding New Facility award

Successfully hosted eight (8) large scale aquatic meets/events to include National Synchronized Swimming

Received AZ Game & Fish grant for Naranja Park archery range

Replaced 2,454 aging water meters to improve efficiency and accuracy of Water Utility billing

Approved \$200,000 to help launch a Children's Museum satellite location in Oro Valley

Transit service ridership exceeded 40,000 passenger trips and increased 25% over prior year

Approved the adoption of the vision and guiding principles for the Your Voice, Our Future project, also known as the General Plan update

Celebrated the Town's 40th anniversary through a series of events, social media campaigns, branding and signage, and partnerships with local businesses

Developed and launched smart phone mobile application: OV APP

ACCOLADES

- ★ Oro Valley named one of "America's 10 Safest Suburbs" by Movoto Real Estate
- ★ Oro Valley named Playful City USA 2014 (fourth consecutive year)
- ★ Certificate of Achievement for Financial Reporting Excellence for FY 12/13 from the Government Finance Officers Association (GFOA) for the 20th consecutive year
- ★ Popular Annual Financial Report (PAFR) award for FY 12/13 from the GFOA for the second consecutive year
- ★ Distinguished Budget Presentation Award from the GFOA for the sixth consecutive year
- ★ Achievement of Excellence in Procurement Award from the National Procurement Institute (NPI) for the sixth consecutive year



The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the Town of Oro Valley for its Popular Annual Financial Report for the fiscal year ended June 30, 2013. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

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



Government Finance Officers Association

Award for Outstanding Achievement in Popular Annual Financial Reporting

Presented to

**Town of Oro Valley
Arizona**

For its Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Jeffrey R. Egan
Executive Director/CEO

STATEMENT OF NET POSITION

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

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

Statement of Net Position for the year ended June 30, 2014

	<u>2014 Total</u>	<u>2013 Total</u>
Assets		
Current assets and other assets	\$ 53,196,207	\$ 50,405,835
Capital assets, net	241,819,498	244,014,573
Total assets	\$ 295,015,705	\$ 294,420,408
Deferred outflows	\$ 2,288,731	
Liabilities		
Current and other liabilities	\$ 7,024,355	\$ 6,280,142
Long-term liabilities	59,263,213	62,692,805
Total liabilities	\$ 66,287,568	\$ 8,972,947
Net Position	\$ 231,016,868	\$ 225,447,461

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

What it means

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

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

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

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

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

- The addition of \$3.4 million in business-type activities capital assets through improvements to the existing water system
- The addition of \$6.1 million in governmental activities capital assets, mostly consisting of the completion of the Lambert Lane street improvement project for \$10 million and \$1.4 million in improvements to Naranja Park
- The decrease of \$1.8 million in business-type activities long-term debt, due mainly to the issuance of a \$1.1 million in Water Infrastructure Finance Authority (WIFA) loan and annual debt service payments of \$2.7 million
- The decrease of \$1.6 million in governmental activities long-term debt, due mainly to annual debt service payments of \$704,000, and the early payoff of \$1.1 million in special assessment bonds

STATEMENT OF ACTIVITIES

The Statement of Activities, often referred to as the Town's income statement, reflects all the financial activity for the Town during the fiscal year ended June 30, 2014. This statement presents information to show how the Town's net position changed during the year as a result of the financial activity (i.e., revenues and expenses). Over time, increases or decreases in net position may serve as a useful indicator of whether the Town's financial position is improving or deteriorating. Below is a summarized version of the detailed statement of activities found in the Town's Comprehensive Annual Financial Report.

Statement of Activities for the year ended June 30, 2014

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

	<u>2014</u>	<u>2013</u>
Revenues	\$ 58,781,129	\$ 54,941,406
Expenses	53,211,722	49,224,257
Transfer of library to Pima County	-	(2,606,804)
Change in net position	5,569,407	3,110,345
Net position, beginning of year	225,447,461	222,337,116
Net position, end of year	\$ 231,016,868	\$ 225,447,461

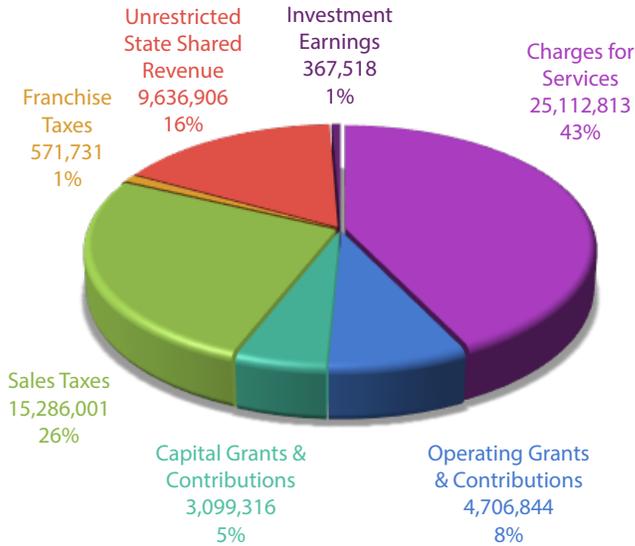
The Statement of Activities shows that the Town's total net position has improved over the prior year. Recent revenue trends reflect an increase of \$3.8 million, or 7%, primarily due to an increase in sales tax revenue and state shared revenues. Business-type activities reflect an increase in water sales of \$584,000 and \$1.8 million in collections from water connection fees and development impact fees. The cost of all governmental activities increased \$3.7 million from the prior year, due primarily to \$1.3 million of improvements to Naranja Park and the \$970,000 electric utility line undergrounding project. Personnel costs increased due to the reinstatement of step and merit increases for all Town employees. The cost of business-type activities increased by \$290,367, primarily because of increased personnel costs from the reinstatement of merit increases for all Town employees.

REVENUES

Where the money comes from

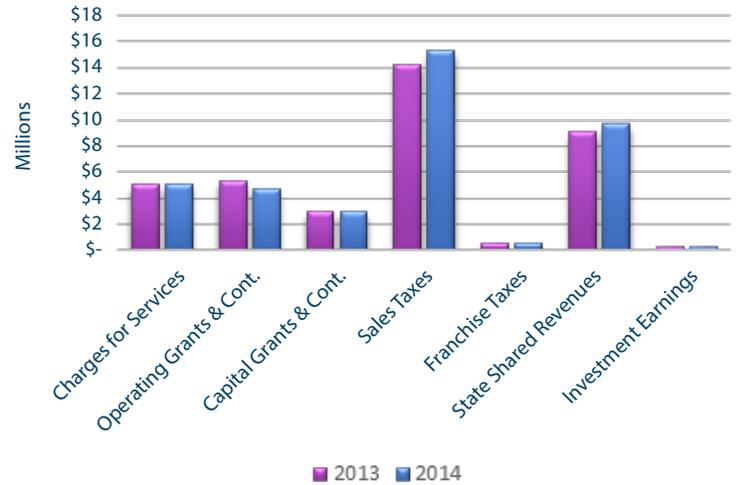
Revenues by Source

Includes Governmental & Business-Type Activities



Two-Year Historical Comparison

Revenues
Governmental funds only



This chart illustrates the sources and percentages of the Town's total revenue stream. The Town's primary revenue sources during 2014 include charges for services, sales taxes and state-shared revenues. Together these three categories represented 85% of all revenue collections in fiscal year 2014.

Five-Year Historical Comparison

Revenues & Expenses
Governmental funds only



What it means

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

Sales Taxes are levied on retail sales at 2%, utilities and construction activity at 4%, and lodging at 6%.

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

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

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

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

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

The Oro Valley Town Council has made financial decisions the last three years that have put the Town on a sustainable financial path. These decisions range from increasing revenues and efficiencies to using valuable intergovernmental partnerships to enhance and expand services while decreasing costs to the Town. Revenues are also increasing as the continued economic recovery results in increasing sales taxes and state-shared revenues.

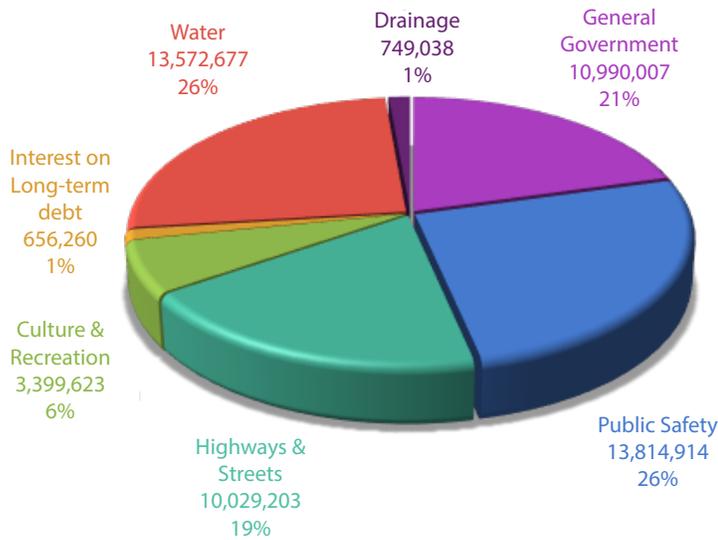
EXPENSES

Where the money goes

This chart illustrates the uses and percentages of the Town's expenses across all funds. The majority of expenses relate to Water Utility operations and Public Safety (Police). Over half of the Town's total expenses (52%) are from these two departments.

Expenses by Category

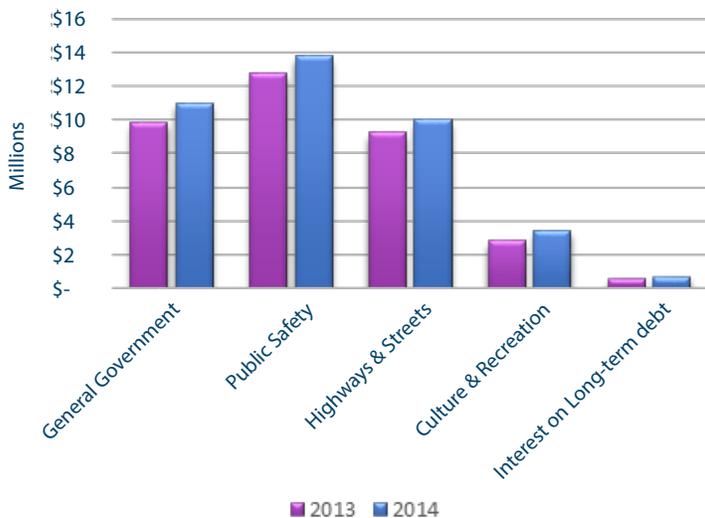
Includes Governmental & Business-Type Activities



Two-Year Historical Comparison

Expenses

Governmental funds only



What it means

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

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

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

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

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

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

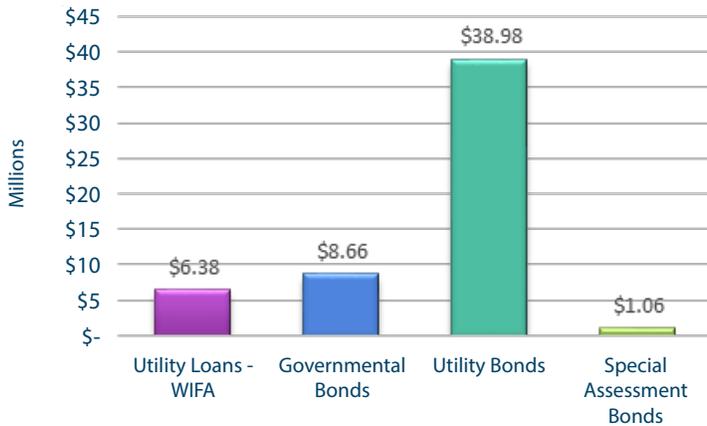
Interest on Long-Term Debt reflects the interest costs for long-term debt, such as bonds and loans. This does not include any interest costs on water-related debt.



DEBT & FINANCIAL RATINGS

As of June 30, 2014, the Town had \$55.1 million in long-term debt outstanding, with \$3.9 million due within one year. The majority of the outstanding debt relates to the Water Utility capital improvement revenue bonds. The chart below depicts the Town's outstanding debt for the fiscal year ended June 30, 2014.

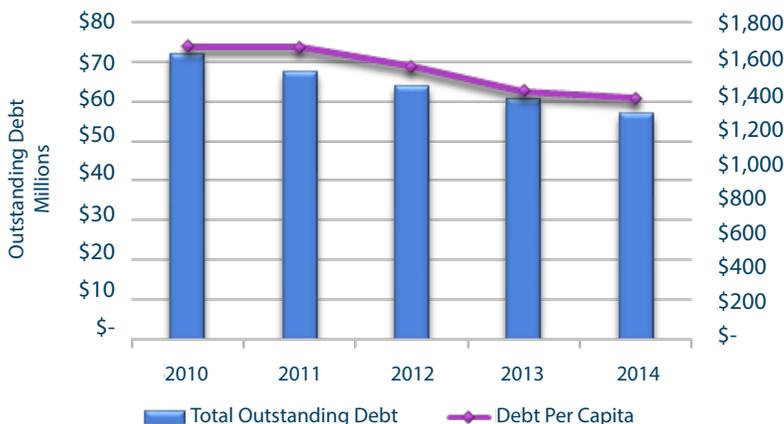
Outstanding Debt Obligations as of June 30, 2014



In 2014, the Town received a two-notch bond rating upgrade from Standard & Poor's (S&P) on the Series 2005 Oracle Road Improvement District Bonds, from A- to A+. The Town also continues to maintain strong investment grade ratings on its outstanding excise tax bonds, rated "AA-" by both S&P and Fitch Ratings. This is largely achieved by the Council's goal of diversifying the Town's revenue base and maintaining strong General Fund balance reserves. The Town also closed a loan through the Water Infrastructure Finance Authority (WIFA) for \$5 million at an annual interest rate of 2.65% for the Advanced Metering Infrastructure Project.

Five Year Historical Comparison

Total Outstanding Debt & Debt Per Capita



What it means

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

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

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

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

What they're saying...

Standard & Poor's (S&P) Ratings Services has raised the Town's long-term rating on the Oro Valley Oracle Road Improvement District's special assessment revenue bonds two notches, from A- to A+.

S&P states: "The stable outlook reflects our view of Oro Valley's very strong and stable economy and management."



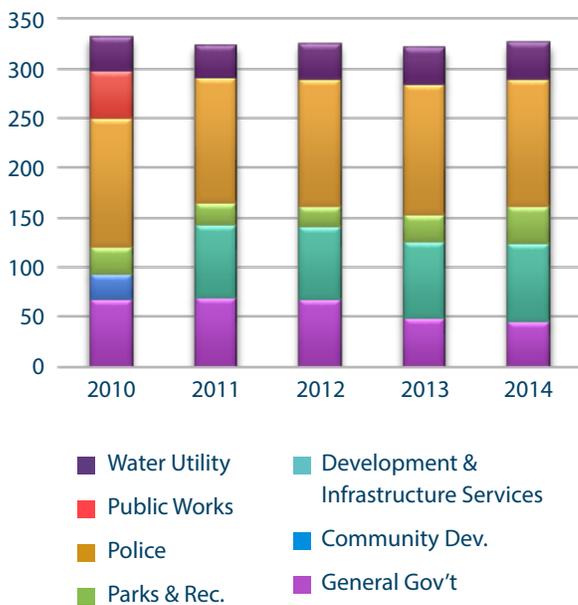
EMPLOYEE SALARIES & BENEFITS

Personnel service comprised 49% of the total operating budget for FY 2013/14. Town management continues to seek ways to minimize rising personnel costs. Many positions were left unfilled or eliminated as vacancies occurred. As a result, the FY 2013/14 personnel budget was \$1.1 million less than its peak in FY 2008/09. Health care premiums for FY 2013/14 remained flat to FY 2012/13, while dental premiums increased 7%. The Town absorbed the dental premium increase to employees. The contribution rates for the Town's two major retirement plans experienced .4-1.6% increases for FY 2013/14.

For the first time in five years, the Town's FY 2013/14 budget included funding for employee merit and step increases.

The number of Town employees per capita began to decline during the recent economic recession, and is expected to remain roughly flat, as the Town's population and development growth have slowed.

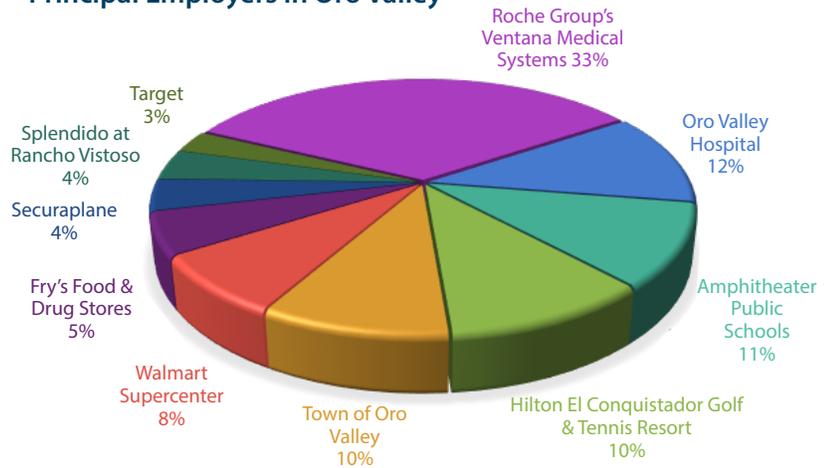
Number of Full-Time Equivalent Employees by Function



Note: Community Development and Public Works became Development and Infrastructure Services (DIS) in 2011.

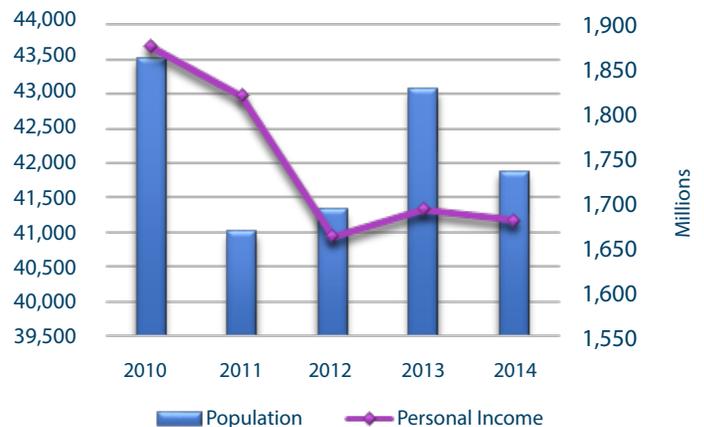
TOWN EMPLOYMENT STATISTICS

Principal Employers in Oro Valley



In 2014, the Town supported development projects that provide quality jobs and contribute to the community's diverse economic base. Highlights include Town Council approval of \$200,000 to help the popular Children's Museum Tucson launch a satellite location in Oro Valley. In August 2014, BASIS Oro Valley opened a new primary school to complement its established secondary school that accommodates more than 700 students and employs more than 50 teachers. BASIS recruits experienced faculty from diverse academic fields, providing Oro Valley's well-educated workforce an opportunity to prepare the next generation for success. Finally, the Villas at San Dorado opened in September 2014 as a combined residential community and neighborhood dining, shopping and community event location. The Town continues to develop its reputation as a great place for families to live and work.

Town Demographic & Economic Statistics



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