

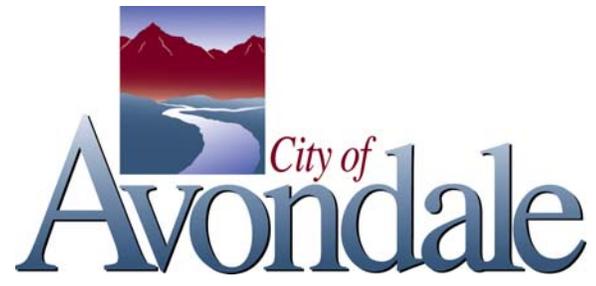


COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2006

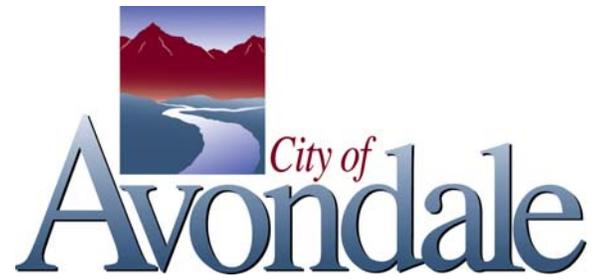


CITY of
AVONDALE, AZ

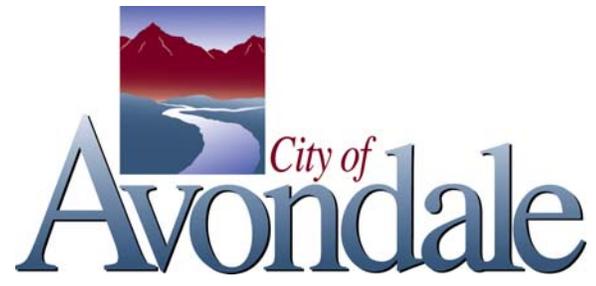


COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2006

City of Avondale
Avondale, Arizona



Prepared by:
Finance and Budget Department



**CITY OF AVONDALE, ARIZONA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED JUNE 30, 2006**

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
Letter of Transmittal	v
Principal Officials	xiii
Organizational Chart	xiv
Certificate of Achievement for Excellence in Financial Reporting	xv
FINANCIAL SECTION	
Independent Auditors' Report	1
Management's Discussion and Analysis (required supplementary information)	3-18
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	19
Statement of Activities	20-21
Fund Financial Statements	
Governmental Fund Financial Statements	
Balance Sheet	22-23
Reconciliation of the Balance Sheet to the Statement of Net Assets - Governmental Activities	24
Statement of Revenues, Expenditures and Changes in Fund Balances	26-27
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities - Governmental Activities	28
Statements of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund and Major Special Revenue Funds	
General Fund	29
Highway User Revenue Fund	30
Dedicated Sales Tax Revenue Fund	31
Public Safety Sales Tax Revenue Fund	32
Proprietary Fund Financial Statements	
Statement of Net Assets	33
Statement of Revenues, Expenses and Changes in Fund Net Assets	34
Statement Cash Flows	35
Fiduciary Fund Financial Statements	
Statement of Fiduciary Net Assets	36
Statement of Changes in Fiduciary Net Assets	37
Notes to the Financial Statements	39-64

**CITY OF AVONDALE, ARIZONA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED JUNE 30, 2006**

TABLE OF CONTENTS

	<u>Page</u>
SUPPLEMENTARY INFORMATION	
Combining Fund Financial Statements and Budgetary Comparison Schedule	
Major Governmental Fund	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual Development Fees Fund	67
Non-Major Governmental Funds	
Combining Statements	
Combining Balance Sheet	71-73
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	75-77
Schedules of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	
Local Transportation Assistance Fund	81
Senior Programs Fund	82
Judicial Collection Enhancement Fund	83
Grants-in-Aid Fund	84
Other Special Revenue Fund	85
Vehicle Replacement Fund	86
Equipment Replacement Fund	87
Other Capital Projects Fund	88
General Obligation Bonds Fund	89
Highway User Revenue Bonds Fund	90
Dedicated Sales Tax Bonds Fund	91
Other Debt Service Fund	92
Internal Service Funds	
Combining Statement of Net Assets	95
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets	96
Combining Statement of Cash Flows	97
Other Supplementary Information	
Capital Assets Used in the Operation of Governmental Activities	
Schedule by Source	101
Schedule by Function and Activity	102-103
Schedule of Changes by Function and Activity	104

**CITY OF AVONDALE, ARIZONA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED JUNE 30, 2006**

TABLE OF CONTENTS

Page

STATISTICAL SECTION

Financial Trends Information

Net Asset by Component - Last Four Fiscal Years	106-107
Changes in Net Assets - Last Four Fiscal Years	108-111
Fund Balances of Governmental Funds - Last Four Fiscal Years	112
Changes in Fund Balances of Governmental Funds - Last Four Fiscal Years	113

Revenue Capacity Information

Assessed Value, Estimated Actual Value and Assessment Ratios of Taxable Property - Last Ten Fiscal Years	116-117
Property Tax Rates - Direct and Overlapping Governments - Last Ten Fiscal Years	118-119
Principal Property Taxpayers - Current Year and Nine Years Ago	120-121
Property Tax Levies and Collections - Last Ten Fiscal Years	122-123

Debt Capacity Information

Ratios of Outstanding Debt by Type - Last Four Fiscal Years	126-127
Ratios of General Bonded Debt Outstanding - Last Ten Fiscal Years	128-129
Direct and Overlapping Governmental Activities Debt	131
Legal Debt Margin Information - Last Four Fiscal Years	132-133
Avondale Water and Sewer Systems - Pledged Revenue Coverage - Last Five Fiscal Years	134-135
Municipal Development Corporation Bonds - Debt Service Coverage	136
Highway User Revenue Fund Bonds - Debt Service Coverage - Last Four Fiscal Years	137
Street and Highway Revenue Receipts - Last Ten Fiscal Years	139
Actual Excise Tax Revenues – Last Five Fiscal Years	140-141

Demographic and Economic Information

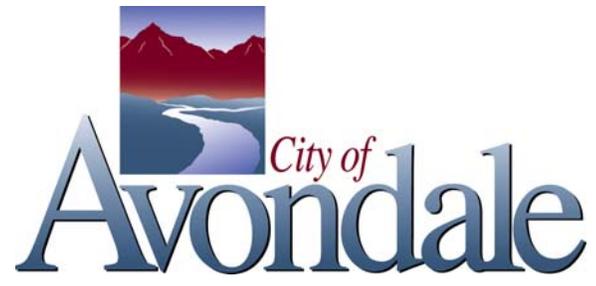
Demographic and Economic Statistics - Last Ten Calendar Years	144-145
Principal Employers - Current Year and Nine Years Ago	146-147

Operating Information

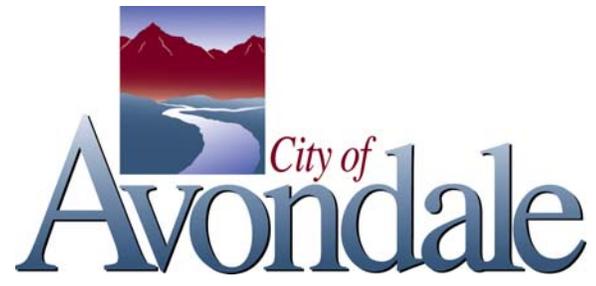
Full-time Equivalent City Government Employees by Function - Last Four Fiscal Years	150
Operating Indicators by Function - Last Four Fiscal Years	151
Capital Asset Statistics by Function - Last Four Fiscal Years	152

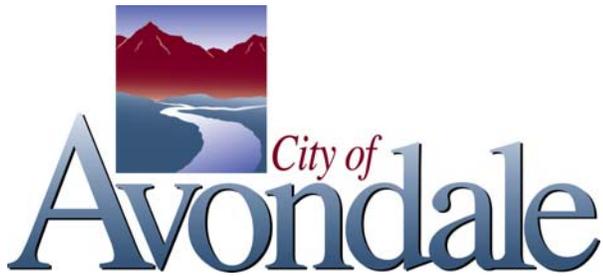
SINGLE AUDIT SECTION

Report on Internal Control over Financial Reporting and on Compliance and Other Matters on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	153
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	155
Schedule of Expenditures of Federal Awards	157
Notes to the Schedule of Expenditures of Federal Awards	158
Schedule of Findings and Questioned Costs	159



INTRODUCTORY SECTION





Finance and Budget Department
11465 W. Civic Center Drive
Avondale, AZ 85323
Phone: (623) 478-3200
Fax: (623) 478-3817
Website: www.avondale.org

November 3, 2006

Honorable Mayor and City Council, and Citizens of the City of Avondale:

In accordance with the requirements of the City of Avondale's (the City) Charter, we are pleased to submit the City's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006. This report has been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for local governments as prescribed in pronouncements of the Governmental Accounting Standards Board (GASB), and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants.

The report consists of management's representations concerning the City's finances. 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, City management has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, and misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City'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 City's financial statements have been audited by Henry & Horne, L.L.P.; a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor

agencies. The standards governing Single Audit engagements require the independent auditor to report not only the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. The Federal Single Audit Report is included within this report. GAAP require that management provide 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 compliment the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

CITY OF AVONDALE PROFILE

The City of Avondale, incorporated in 1946, is located in the western portion of the Phoenix metropolitan area, and is one of the fastest growing residential areas of Maricopa County, Arizona. The City's planning area currently occupies 94 square miles and serves a population of over 65,000. Unique to Avondale are the three rivers that traverse the City; the Gila, Salt and Agua Fria Rivers. The convergence of these rivers within Avondale presents a unique opportunity to build an open space system around these natural resources. Avondale also is home to Phoenix International Raceway; a world-class motor sports venue nestled in the foothills of the beautiful Estrella Mountains. Avondale is a popular NASCAR destination. Each year, racing enthusiasts and race teams converge in Avondale, spending millions of dollars.

Avondale operates under the Council-Manager form of government in accordance with its Charter. Legislative authority is vested in a seven-member City Council consisting of a Mayor and six Council members elected at large for a term of four years. The Mayor and Council appoint the City Manager and such other officers deemed necessary and proper for the orderly administration of the affairs of the City. The City of Avondale provides a full range of services for its citizens. Services include, police, fire, public transportation, library, social services, parks and recreation, street maintenance, and general administration. The City also operates a water, wastewater and sanitation utility.

This report includes financial statements on both a government-wide and fund basis for the primary government, as well as component units. Component units are legally separate entities that are included in the reporting entity due to the significance of their financial or operational relationship with the City. Blended component units, although legally separate entities, are in substance part of the City's operations and data from these units are combined with data of the City, the primary government. Accordingly, the financial reporting entity includes the Avondale Municipal Development Corporation (MDC) as discussed further in Note 1 of the notes to the financial statements on page 39.

The annual budget serves as the foundation for the City of Avondale's financial planning and control. The City Manager submits a proposed budget on or before June 1, to the City Council for review, for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. Various meetings are

held during the months leading up to the final budget adoption including a citizen appreciation/budget input meeting and Citizen Capital Improvement Plan meetings. The City Council holds public hearings prior to the budget's final adoption in order to obtain additional citizen comments. At a regular Council meeting in June, the City Council formally adopts a final budget and it is then legally enacted through passage of a resolution. The resolution sets the limit for expenditures during the fiscal year. The legal level of expenditure control is at the function level for the General Fund and at the fund level for all other funds. The City Council formally adopts the budget and legally allocates, or appropriates, available monies for the General Fund, Highway User Revenue Fund, Dedicated Sales Tax Revenue Fund, Public Safety Sales Tax Fund, Development Fees Fund, Local Transportation Assistance Fund, Senior Programs Fund, Juvenile Collection Enhancement Fund, Grants-in-Aid Fund, Other Special Revenue Fund, Vehicle Replacement Fund, Equipment Replacement Fund, Other Capital Projects Fund, General Obligation Bonds Fund, Highway User Revenue Bonds Fund, Dedicated Sales Tax Bonds Fund, and Other Debt Service Fund. Budgetary comparison statements and schedules, as appropriate, are provided in this report for each of these individual funds.

In addition to maintaining budgetary control through formal appropriation, the City maintains an encumbrance accounting system. Encumbrances are made against appropriations upon the issuance of a purchase order. Encumbered appropriations lapse at fiscal year-end.

Factors Affecting Economic Condition and Outlook

Avondale continues to be successful in attracting new shopping and employment opportunities for residents and visitors. Many new businesses including major retailers, restaurants, office buildings, and business parks broke ground, opened, or began the approval process. Avondale has made the successful transition from a bedroom community to a city that is able to attract and support employment in many forms, from office to light industrial.

The majority of the available lots at the Avondale Auto Mall have been developed, totaling 14 new car dealerships, and one new Honda Motorcycle dealership (two lots remain). On the east and west borders of the City, two new hospitals opened, leading the way for additional investment in offices dedicated to medical research and healthcare. Overall, more than 200,000 square feet of flex office space is under development in the City, and several new hotels are under construction or in the planning process.

Land was also a hot commodity. More than 200 acres of agricultural land was purchased by developers for business park projects in the employment area south of the Avondale Auto Mall. This area will rapidly evolve from agriculture to employment, representing hundreds of new jobs which in turn, will support new retail and office investment.

Retail

The City of Avondale worked closely with retail developers in the following ways: To define the quality and types of retail best suited to the community, to consistently provide the information necessary to the decision making process, and to actively market Avondale to retailers and developers, in order to establish the City as a key development location in the Phoenix metro area. Specific activities included:

Gateway Pavilions (99th Avenue and McDowell Road)

This highly successful center is anchored by Costco, Harkin Theatres, Circuit City, Borders, Bed Bath & Beyond, Borders, Sports Authority and Mor Furniture. In addition to the anchors, there are numerous restaurants and specialty shops in the 650,000 square-foot center.

Gateway Crossing (99th Avenue and McDowell Road)

This new power center is anchored by Best Buy, Hobby Lobby, and Old Navy. Numerous restaurants include Claim Jumper, Islands, Paradise Bakery, and Chipotle Grill.

Coldwater Plaza (Dysart Road south of Van Buren Street)

Ashley's Furniture and Lane Furniture were the latest to locate at Coldwater Plaza, joining Sam's Club, Home Depot, and others to create a 450,000 square-foot shopping destination.

Alameda Crossing (Northeast corner of Dysart and McDowell)

Joining Kohl's is Sprouts, JoAnne's, Big 5 Sporting Goods and numerous restaurants in this 313,000 square-foot retail center.

Fiesta Plaza (Southeast corner of Avondale Boulevard and MC 85)

Fry's Food and Drug anchors this 125,000 square-foot shopping plaza that also includes Checker Auto Parts, Bank of America, and many others. The plaza, opened in April 2004, has leased quickly, responding to the enormous growth in new housing in the immediate area.

Avondale Auto Mall (99th Avenue to 107th Avenue, south of I-10)

The Avondale Auto Mall now boasts 14 new car dealerships and one motor cycle dealership. New additions include Toyota, Hyundai, Saturn, and Mazda. Two undeveloped lots remain in the auto mall.

Hilton Hotels (Avondale Boulevard and I-10)

Construction is underway on a 43-acre business park, anchored by two Hilton Hotels with 246 rooms, conference facilities, restaurants and a lounge. The two hotels will be opened for business in January 2007.

Office and Employment Development

Avondale Civic Center (Coldwater Springs and Avondale Boulevard)

Adjacent to Avondale City Hall, Sundt Corp. completed a 32,000 square-foot, "Class A" office building. Phoenix International Raceway's corporate headquarters occupies 12,000 square feet. Maricopa County and Performance Real Estate occupy an additional 8,000 square feet. This is the first phase of a proposed three-phase development on approximately 8 acres at Coldwater and Avondale Boulevard.

Santa Fe Professional Center (McDowell Road, east of Dysart Road)

Seventeen tenants have located in both phases of this 80,000 square-foot medical office complex.

Gateway Office Park (Loop 101 and I-10, adjacent to Gateway Pavilions)

Construction was completed on 14 buildings with suites for sale or lease from 2,600 to over 8,000 square feet. Tenants include law, engineering, insurance, medical and real estate offices, and Northern Arizona University.

Universal Technical Institute (107th Avenue and Pierce Street)

Universal Technical Institute (UTI), a nationwide leader in automotive technical education training, opened a new 25-acre, \$21 million campus located at 107th Avenue and Pierce Street. The 275,000 square-foot facility houses 250 employees and maintains a rolling enrollment equivalent to 3,000 students annually.

Desert Lakes Professional Plaza (107th Avenue and McDowell)

Desert Lakes Professional Plaza, an office and medical/dental condominium development has been completed. Sales are brisk on this 7 building project, offering space from 1,800 to 7,500 square feet. Tenants include wine sales, restaurants, and professional and medical offices.

Indian School Crossing (East of Dysart on Indian School Road)

Office users at this 39,000 square-foot facility include the USDA, insurance and real estate firms, and retail clients including a frame shop, a dance studio, crafts, fitness facility, and others.

Residential Activity

Avondale's excellent freeway access, attractive suburban lifestyle, along with the new commercial development, has continued to attract new housing communities to the City. During fiscal year 2006, 1,205 residential building permits were issued and the City experienced a 19.9% increase in secondary assessed valuation going from \$322,603,799 to \$386,790,640 for fiscal year 2006.

The Estrella Mountain Community College located in northwest Avondale is an excellent post-secondary educational facility enhancing additional economic development opportunities in the surrounding area. The College is master planned for five building phases on its 105-acre site. The College is accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools and has an enrollment of more than 5,000 students. Approximately 200,000 people reside in Estrella Mountain's service area, which is expected to grow to a half-million people by 2020.

Major Accomplishments and Initiatives

During fiscal year 2006, the City continued or planned for several significant projects.

Regional Library at Avondale Civic Center – The City completed the design of a 31,000 square-foot regional library to be constructed at the Avondale Civic Center. The Library is scheduled to open in December 2006.

Youth Sports Complex at Friendship Park – Located along McDowell Road, this \$5 million, 55-acre facility offers nine multi-purpose fields, two little league baseball fields, a dog park, playgrounds, basketball courts, tennis courts, walking trails, and a Japanese Garden, surrounded by a small lake.

McDowell Road Improvements – Reconstruction of McDowell Road from Avondale Boulevard to 99th Avenue was completed in fiscal year 2006. The roadway was widened to its ultimate configuration (six lanes) with a landscaped median from 99th Avenue to 103rd Avenue.

CASH MANAGEMENT

Cash is invested on a pooled basis with the Arizona State Treasurer's Office in the Local Government Investment Pool. Investment income is allocated to the funds monthly on the basis of the cash provided for investment. The average yield on investments held with the State Treasurer was 3.84% for fiscal year 2006.

EXPENDITURE LIMITATION

On June 30, 1980, Arizona voters approved general propositions amending the Arizona Constitution to establish expenditure and revenue limitations for local governments. The purpose of the expenditure limitation is to control expenditures and to limit future

increases in spending to adjustments for inflation, deflation and population growth of the City.

On September 13, 2005, the voters of the City approved an alternative expenditure limitation, the effect of which is that the total budgeted expenditures of each yearly budget becomes the expenditure limitation for that year on a total budget basis. This alternative limitation is effective for four years.

SINGLE AUDIT

As a recipient of federal, state and county financial assistance, the City is responsible for ensuring that adequate internal control is in place to ensure compliance with applicable laws, regulations, contracts and grants related to those programs. Internal control is subject to periodic evaluation by management.

As part of the City's single audit described earlier, tests are made to determine the adequacy of the internal control, including that portion related to federal financial assistance programs, as well as to determine that the City has complied with applicable laws and regulations.

PENSION BENEFITS

Employees of the City of Avondale participate in one of four pension plans. The Arizona State Retirement System administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the City.

The Public Safety Personnel Retirement System administers an agent multiple-employer defined benefit pension plan that covers public safety personnel.

The Elected Officials' Retirement Plan administers a cost-sharing multiple-employer defined benefit pension plan for elected officials.

The City maintains the Volunteer Firefighters' Relief and Pension Trust Fund. Net assets of the fund totaled \$247,808 at June 30, 2006, a decrease of \$4,404 from the previous year.

RISK MANAGEMENT

The City is responsible for the supervision and protection of the City's assets by employing various risk management techniques and procedures, which will reduce, minimize or eliminate the potential for risk. The City carried insurance for general liability, property, automobile, and public officials' errors and omissions through the Arizona Municipal Risk Retention Pool (AMRRP). The City has been self-insured since fiscal year 2005. City Workers' compensation insurance is carried through the Arizona Municipal Workers' Compensation Pool.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Avondale for its Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2005. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a one-year period only. We believe our current report conforms to Certificate of Achievement program requirements, and we are submitting it to GFOA.

In addition, the City also received the GFOA's Distinguished Budget Presentation Award for its annual budget document for the fiscal year 2006 budget. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communication device.

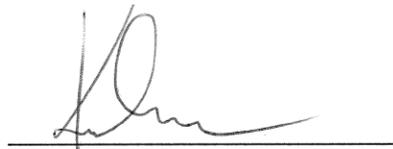
ACKNOWLEDGEMENTS

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance and Budget Department. We would like to express our appreciation to all members of the Department who assisted and contributed to the preparation of this report. Credit must also be given to the Mayor and Council for their support for maintaining the highest standards of professionalism in the management of the City of Avondale's finances.

Respectfully submitted,



Steven R. Montague, CPA, CGFM
Controller



Kevin H. Artz, CPA
Finance and Budget Director

**CITY OF AVONDALE, ARIZONA
PRINCIPAL OFFICIALS
FISCAL YEAR 2006**

MAYOR AND COUNCIL

Marie Lopez-Rogers, Mayor

Charles M. Wolf, Vice Mayor

Jim Buster, Councilmember

Jason Earp, Councilmember

Betty S. Lynch, Councilmember

Frank Scott, Councilmember

Ken Weise, Councilmember

MANAGEMENT STAFF

Charlie McClendon, City Manager

David Fitzhugh, Assistant City Manager

Rogene Hill, Assistant City Manager

DEPARTMENT HEADS

Cherlene Penilla, Human Resources Director

Pier Simeri, Community Relations Director

Claudia Whitehead, Economic Development Director

Kevin Hinderleider, Information Technology Director

Linda Farris, City Clerk

Paul Adams, Fire Chief

Carnell Thurman, City Engineer

Gina Montes, Neighborhood/Family Services Director

Dan Davis, Parks, Recreation & Libraries Director

Janet Stewart, Field Operations Director

Kevin Artz, Finance and Budget Director

Dean Svoboda, Planning & Building Director

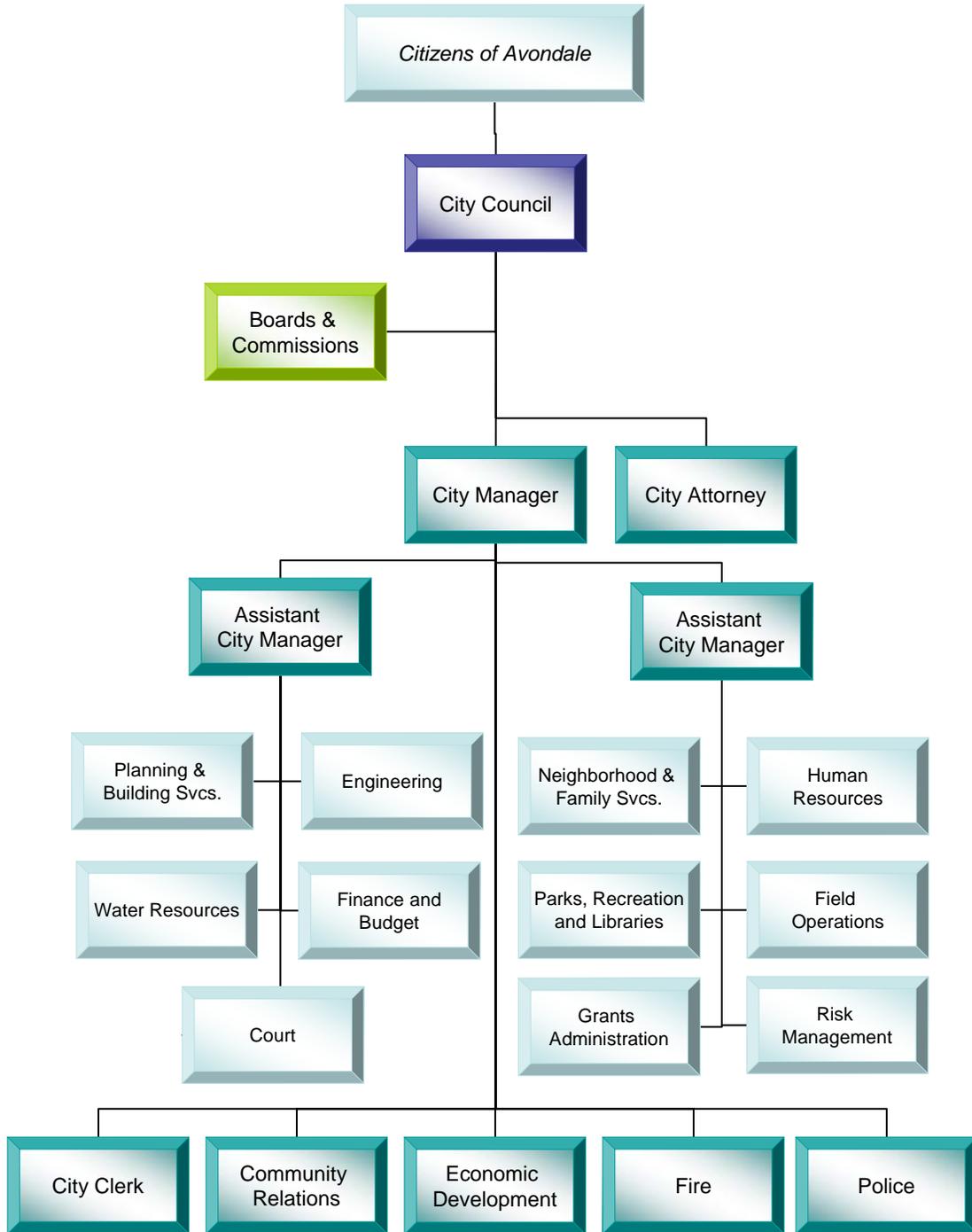
Richard Lynch, City Magistrate

Kevin Kotsur, Police Chief

Rob Emmett, Water Resources Director

Finance and Budget Division Staff: Kevin Artz, Finance and Budget Director; Dianne Johnson, Accounting Manager; Steven Montague, Controller; Pilar Aguilar, Budget Manager

City of Avondale Organizational Chart



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Avondale
Arizona

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

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

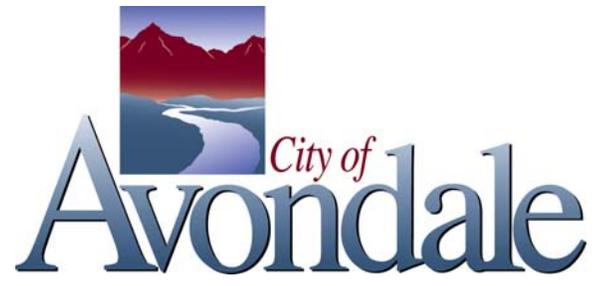


Carla E. Perry

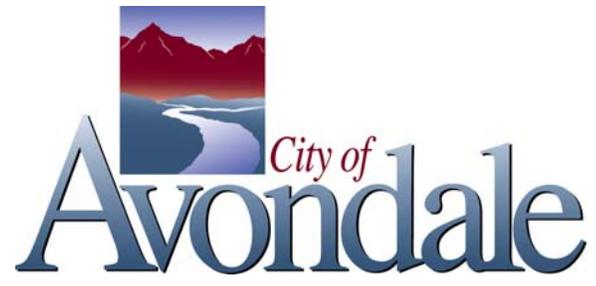
President

Jeffrey R. Emer

Executive Director



FINANCIAL SECTION





HENRY & HORNE, LLP
Advisors to Business

Independent Auditors' Report

The Honorable Mayor and Council
City of Avondale, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Avondale (the City), Arizona, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In connection with our audit, nothing came to our attention that caused us to believe that the City of Avondale, Arizona failed to use highway user revenue fund monies received by the City of Avondale, Arizona pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2 and any other dedicated state transportation revenues received by the City of Avondale, Arizona solely for the authorized transportation purposes. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

Tempe
2055 E. Warner Road
Suite 101
Tempe, AZ 85284-3487
(480) 839-4900
Fax (480) 839-3624

Scottsdale
7098 E. Cochise Road
Suite 100
Scottsdale, AZ 85253-4517
(480) 483-1170
Fax (480) 483-7126

Casa Grande
711 E. Cottonwood Lane
Suite C
Casa Grande, AZ 85222-2725
(520) 836-8201
Fax (520) 426-9432

Pinetop
Post Office Box 527
Pinetop, AZ 85935-0527
(928) 367-2591
Fax (928) 367-3501

The Honorable Mayor and Council
City of Avondale, Arizona

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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 City of Avondale, Arizona basic financial statements. The introductory section, the accompanying financial information listed as supplementary information in the financial section, and the statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The financial information listed as supplementary information in the financial section has 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 the 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. The accompanying schedule of expenditures of federal awards (required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Government, and Non-Profit Organizations) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



November 3, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Avondale, Arizona (the City), we offer this narrative overview and analysis of the financial activities of the City for fiscal year ended June 30, 2006. This discussion and analysis (MD&A) is designed to (1) assist the reader in focusing on significant financial issues, (2) provide an overview of the City's financial activity, (3) identify changes in the City's financial position, (4) identify any material deviations from the City's financial plan (i.e., the approved budget), and (5) identify individual fund issues and concerns. The information presented in this discussion and analysis is based on currently known facts, decisions and conditions.

The MD&A has a different focus and purpose than the transmittal letter presented on pages v-xii of this report and is designed to be read in conjunction with the transmittal letter as well as the basic financial statements on pages 19-37 and the accompanying notes to the financial statements on pages 39-64.

Financial Highlights

- The City's total net assets increased \$35.9 million (5.3%) in fiscal year 2006, \$23.5 million (a 10.1% increase) in governmental activities and \$12.4 million (a 2.8% increase) in business-type activities.
- Prior period adjustments of \$181.6 million and \$294.2 million (\$475.8 million combined) were posted to the City's governmental activities and business-type activities net assets, respectively, as a result of the retroactive capitalization of infrastructure assets acquired by the City prior to fiscal year 2003.
- Total net assets of the City are \$708.9 million, of which \$60.7 million is unrestricted (up \$15.5 million, or 34.2%, from last year's \$45.2 million) and may be used to meet the City's ongoing obligations to its citizens and creditors.
- Governmental activities program revenues increased by \$4.2 million (22%) and general revenues increased by \$6.9 million (13.6%) over the previous year whereas expenses increased by 12.7 million (29.3%) during the same period.
- Business-type activities program revenues decreased by \$.8 million (2.3%) and general revenues increased by \$1.6 million (142%) from the previous year while expenses increased by \$8.6 million (57.8%).
- City transfers from governmental activities to business-type activities decreased by \$12.3 million (93.9%) from the prior year.
- At June 30, 2006, total fund balance of the governmental funds was \$63.1 million, an increase of \$5.1 million (8.9%) from the previous year. Of this amount, \$51.7 million was unreserved and available for spending at the City's discretion.
- Total revenues for the governmental funds increased by \$11.5 million (16.6%) over the previous year. Expenditures for the same period increased by \$20.6 million (37.2%) over the same period.
- Unreserved fund balance for the General Fund was \$27.5 million at June 30, 2006, or 78.7% of General Fund expenditures for fiscal year 2006.

- General fund revenues (on a budgetary basis) exceeded budgeted revenues by \$8.9 million for fiscal year 2006, and budgetary basis expenditures were only 93.2% of the final budget in the General Fund (a \$2.6 million savings).
- During the year, the City issued about \$20.1 million in refunding bonds and defeased about \$18.9 million in outstanding general obligation bonds and revenue bonds, which reduced the City's future debt service payments and resulted in an economic gain of \$.5 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Comprehensive Annual Financial Report (CAFR) for the City of Avondale, Arizona, consists of:

- The Transmittal Letter and Independent Auditors' Report.
- This discussion and analysis.
- The City's basic financial statements that comprise three components: 1) government-wide financial statements, 2) fund financial statements, including budgetary comparison statements for the General Fund and major special revenues funds, and 3) notes to the financial statements.
- Additional non-required information including budgetary comparison schedules for other major and non-major funds, combining statements, schedules of capital assets used in the City's operation of governmental activities, statistical section, and single audit section.

Government-wide Financial Statements

Government-wide financial statements are designed to provide a broad overview of the City's finances in a manner similar to those used in private-sector businesses. All of the activities of the City, except those of a fiduciary nature, are included in these statements.

The City's activities are presented in two columns on these statements; governmental activities and business-type activities. A total column for these activities is also provided.

- The governmental activities include basic services of the City including general government (administration), public safety (police and fire), highways and streets, health and welfare, economic and community development, and culture and recreation. These activities are primarily supported by general taxes and revenues.
- The business-type activities include the private sector-type activities such as water, wastewater and sanitation utilities. These activities are supported primarily through user charges or fees.

The Statement of Net Assets presents information on all of the City's assets and liabilities, both current and long-term, with the difference between assets and liabilities reported as net assets. The focus on net assets is important because increases or decreases in net assets may serve as a useful indicator of how the financial position of the City may be changing. Increases in net assets may indicate an improved financial position. However, decreases in assets may not necessarily indicate the City's financial position is deteriorating. Instead, it may reflect a situation where the City used previously accumulated funds (e.g., cash funding of capital projects). Therefore, in order to effectively assess the City's overall financial health, other financial and non-financial indicators must be evaluated and considered.

The Statement of Activities presents information showing how the City's net assets changed over the most recent fiscal year. Since accrual accounting is used for the government-wide financial statements, all changes in net assets are reported at the time the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Therefore, certain revenues and expenses reported in this statement will result in cash flows in future fiscal periods (e.g., uncollected property taxes and long-term debt that has not matured). This statement also focuses on both the gross and net costs of various City functions, based only on direct functional revenues and expenses. This is designed to show the extent to which the various functions are dependent on general taxes and revenues for support.

The government-wide financial statements include not only the City itself (known as the primary government), but also the Avondale Municipal Development Corporation, a legally separate entity, for which the City is financially accountable and that has substantially the same governing board as the City and that provides services entirely to the City. Financial information for this component unit is blended into the City's financial statements. The City does not have any discretely presented component units.

The government-wide financial statements can be found on pages 19-21 of this report.

Fund Financial Statements

Also presented are the financial statements for governmental funds, proprietary funds, and fiduciary funds. The fund financial statements focus on major funds of the City. 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 City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements as well as for managerial control to demonstrate fiduciary responsibility over and to safeguard the City's assets.

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

Since the governmental fund financial statements focus on near-term spendable resources, while the governmental activities on the government-wide financial statements have a longer-term focus, it may be useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. To facilitate this comparison, reconciliations of the differences between the governmental fund balance sheet and statement of revenues, expenditures and changes in fund balances and government-wide statement of net assets and statement of activities are provided immediately following the respective governmental fund statements.

The City maintains several individual governmental funds organized according to their type (general, special revenue, capital projects and debt service). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, Highway User Revenue Fund, Dedicated Sales Tax Revenue Fund, Public Safety Sales Tax Revenue Fund, and the

Development Fees Fund, which are considered to be major funds of the City. Data from the remaining governmental funds are combined into a single, aggregated presentation (non-major governmental funds). Individual fund data for each of these non-major funds is provided in the form of combining statements on pages 71-77.

The City adopts an annual budget and legally allocates, or appropriates, available monies for the General Fund, Highway User Revenue Fund, Dedicated Sales Tax Revenue Fund, Public Safety Sales Tax Revenue Fund, Development Fees Fund, and other non-major funds. A budgetary comparison statement has been provided for the City's General Fund and major special revenue funds (pages 29-32) and budgetary comparisons schedules for the Development Fees Fund (page 67) and non-major funds (pages 81-92) to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 22-32 of this report.

Proprietary funds – Proprietary funds are used to account for services primarily supported by user charges and fees. The proprietary fund financial statements are prepared using the same long-term focus as the government-wide financial statements. The City maintains the following two types of proprietary funds.

- **Enterprise funds** are used to account for activities that primarily serve customers outside the governmental unit. The enterprise funds generally provide information similar to the business-type activities column of the government-wide financial statements, but provide more detailed information such as cash flows. Any reconciliation between the enterprise funds and the business-type activities of the government-wide financial statements is provided in the proprietary fund financial statements. The City's enterprise funds include the Water, Wastewater and Sanitation Utilities. All of the enterprise funds are considered to be major funds of the City. The basic proprietary fund financial statements can be found on pages 33-35.
- **Internal service funds** are used to account for activities where the primary customer is the City itself. Because the internal service funds primarily provide services for governmental activities, the assets and liabilities of those funds are included in the governmental activities column of the government-wide statement of net assets. The operating income/loss of internal service funds are allocated to the various user functions on the government-wide statement of activities. The internal service funds are combined into a single column on the proprietary fund statements. The internal service funds of the City include the Risk Management, Printing Services and Fleet Management Funds. Additional information on the internal service funds is provided in combining statements on pages 95-97.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not included in the government-wide financial statements because the resources of those funds are not available to support programs of the City. The fiduciary fund statements are prepared on the same basis as the government-wide and proprietary fund statements. The basic fiduciary fund financial statements can be found on pages 36-37 of this report.

Notes to the financial statements – The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements and should be read with these financial statements. The notes to the financial statements can be found on pages 39-64 of this report.

Required supplementary information other than MD&A – Governments have an option of including budgetary comparison statements for the General Fund and major special revenue funds as either part of the fund financial statements within the basic financial statements, or as required supplementary information after the notes to the financial statements. The City has elected to present these budgetary comparison statements as part of the basic financial statements. Additionally, governments are required to disclose certain information about employee pension funds. The City has disclosed this information in Note 8 to the financial statements rather than separately presenting the information as required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following tables, graphs and analyses discuss the financial position and changes in the financial position for the City as a whole as of and for the year ended June 30, 2006, with comparative information for the previous year.

Net Assets

Over time net assets may serve as a useful indicator of a government's financial position. The following table reflects the condensed statement of net assets of the City for June 30, 2006, compared to the prior year.

	Net Assets						Percent Change
	At June 30						
	Governmental Activities		Business-type Activities		Total (Primary Government)		
	2006	2005*	2006	2005*	2006	2005*	
Current and other assets	\$ 77,559,369	\$ 69,467,375	\$ 75,010,428	\$ 72,136,069	\$ 152,569,797	\$ 141,603,444	7.7 %
Capital assets	267,388,834	253,198,545	402,236,359	391,494,295	669,625,193	644,692,840	3.9
Total assets	<u>344,948,203</u>	<u>322,665,920</u>	<u>477,246,787</u>	<u>463,630,364</u>	<u>822,194,990</u>	<u>786,296,284</u>	4.6
Other liabilities	10,949,114	9,440,534	5,631,359	2,964,785	16,580,473	12,405,319	33.7
Long-term liabilities	76,741,736	79,493,284	19,925,193	21,363,675	96,666,929	100,856,959	(4.2)
Total liabilities	<u>87,690,850</u>	<u>88,933,818</u>	<u>25,556,552</u>	<u>24,328,460</u>	<u>113,247,402</u>	<u>113,262,278</u>	(0.0)
Net assets:							
Invested in capital assets, net of related debt	196,509,921	179,348,275	382,500,757	370,280,677	579,010,678	549,628,952	5.3
Restricted	28,808,290	33,627,735	40,439,483	44,558,842	69,247,773	78,186,577	(11.4)
Unrestricted	31,939,142	20,756,092	28,749,995	24,462,385	60,689,137	45,218,477	34.2
Total net assets	<u>\$ 257,257,353</u>	<u>\$ 233,732,102</u>	<u>\$ 451,690,235</u>	<u>\$ 439,301,904</u>	<u>\$ 708,947,588</u>	<u>\$ 673,034,006</u>	5.3

* Fiscal year 2005 balances after restatement (see Note 2 Beginning Balances on pages 46-47).

At the end of fiscal year 2006, the City is able to report positive net asset balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

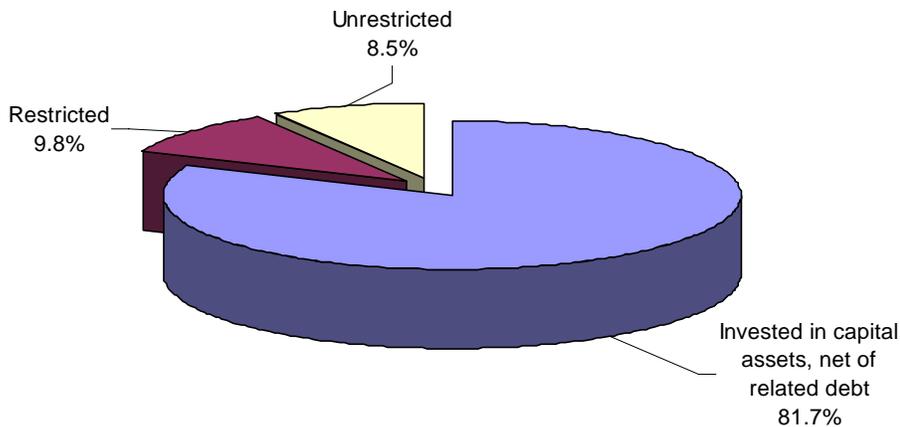
The net assets of the City increased \$35.9 million (5.3%) in fiscal year 2006. The largest portion of net assets (\$579.0 million or 81.7%) reflects the City's investment in capital assets, net of accumulated depreciation and any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens. Consequently, the City does not intend to sell these assets and, therefore, they are not available for future spending. Although the capital assets are 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 are not intended to be used to liquidate these liabilities. This category of net assets increased \$29.4 million (5.3%)

primarily as the result of the acquisition or construction of infrastructure assets and buildings and improvements.

The second portion of the City's net assets (\$69.2 million or 9.8%) represents resources that are subject to external restrictions on how they may be used. The decrease of \$8.9 million (11.4%) is due primarily to decreases of funds restricted for capital improvements (\$11.4 million or 17.3%) and an increase in funds restricted for debt service (\$2.1 million or 39.4%). Of the \$69.2 million in restricted net assets, \$21.7 million is restricted by enabling legislation.

The third portion consists of unrestricted net assets of \$60.7 million (8.5%). Unreserved net assets is the net assets balance remaining after calculating the other two categories discussed above. These net assets may be used to meet the City's ongoing obligations to citizens and creditors. This category increased \$15.5 million (34.2%) in fiscal year 2006. The increase in unreserved net assets resulted primarily from higher than expected revenues during the year.

**Government-wide
Net Assets
At June 30, 2006**



Changes in Net Assets

The following table presents a summary of the changes in net assets for fiscal year ended June 30, 2006.

Changes in Net Assets As of June 30

	Governmental Activities		Business-type Activities		Total (Primary Government)		Percent Change
	2006	2005	2006	2005	2006	2005	
Revenues:							
Program revenues							
Charges for services	\$ 7,486,166	\$ 6,694,841	\$ 19,675,872	\$ 18,283,449	\$ 27,162,038	\$ 24,978,290	8.7 %
Operating grants and contributions	5,085,797	4,462,062	-	-	5,085,797	4,462,062	14.0
Capital grants and contributions	10,699,397	7,924,999	12,531,009	14,686,667	23,230,406	22,611,666	2.7
General revenues							
Sales and use taxes	39,883,436	36,525,428	-	-	39,883,436	36,525,428	9.2
Property taxes	3,629,193	3,088,824	-	-	3,629,193	3,088,824	17.5
Franchise taxes	876,224	682,292	-	-	876,224	682,292	28.4
State shared revenues	10,022,750	8,218,495	-	-	10,022,750	8,218,495	22.0
Investment income	2,331,224	1,093,019	2,684,687	1,087,666	5,015,911	2,180,685	130.0
Gain on sale of assets	61,289	286,400	7,803	50,100	69,092	336,500	(79.5)
Miscellaneous	358,317	407,388	70,470	3,915	428,787	411,303	4.3
Total revenues	<u>80,433,793</u>	<u>69,383,748</u>	<u>34,969,841</u>	<u>34,111,797</u>	<u>115,403,634</u>	<u>103,495,545</u>	11.5
Expenses:							
General government	22,764,573	17,652,671	-	-	22,764,573	17,652,671	29.0 %
Public safety	14,935,013	14,797,695	-	-	14,935,013	14,797,695	0.9
Highways and streets	8,396,708	3,080,032	-	-	8,396,708	3,080,032	172.6
Health and welfare	939,572	806,332	-	-	939,572	806,332	16.5
Economic and community development	5,213,085	3,356,334	-	-	5,213,085	3,356,334	55.3
Culture and recreation	1,816,712	1,157,280	-	-	1,816,712	1,157,280	57.0
Interest on long-term debt	2,042,879	2,530,003	-	-	2,042,879	2,530,003	(19.3)
Water utility	-	-	11,818,914	6,939,975	11,818,914	6,939,975	70.3
Wastewater utility	-	-	8,296,298	4,733,439	8,296,298	4,733,439	75.3
Sanitation utility	-	-	3,266,298	3,145,714	3,266,298	3,145,714	3.8
Total expenses	<u>56,108,542</u>	<u>43,380,347</u>	<u>23,381,510</u>	<u>14,819,128</u>	<u>79,490,052</u>	<u>58,199,475</u>	36.6
Increase in net assets before transfers	<u>24,325,251</u>	<u>26,003,401</u>	<u>11,588,331</u>	<u>19,292,669</u>	<u>35,913,582</u>	<u>45,296,070</u>	(20.7)
Transfers	<u>(800,000)</u>	<u>(13,072,979)</u>	<u>800,000</u>	<u>13,072,979</u>	<u>-</u>	<u>-</u>	-
Increase in net assets	<u>\$ 23,525,251</u>	<u>\$ 12,930,422</u>	<u>\$ 12,388,331</u>	<u>\$ 32,365,648</u>	<u>\$ 35,913,582</u>	<u>\$ 45,296,070</u>	(20.7)

For fiscal year 2006, total governmental revenues increased by \$11 million (15.9%) and total business-type revenues increased by \$.9 million (2.5%) while expenses increased \$12.7 million (29.3%) and \$8.6 million (57.8%) for governmental and business-type activities, respectively.

Governmental Activities

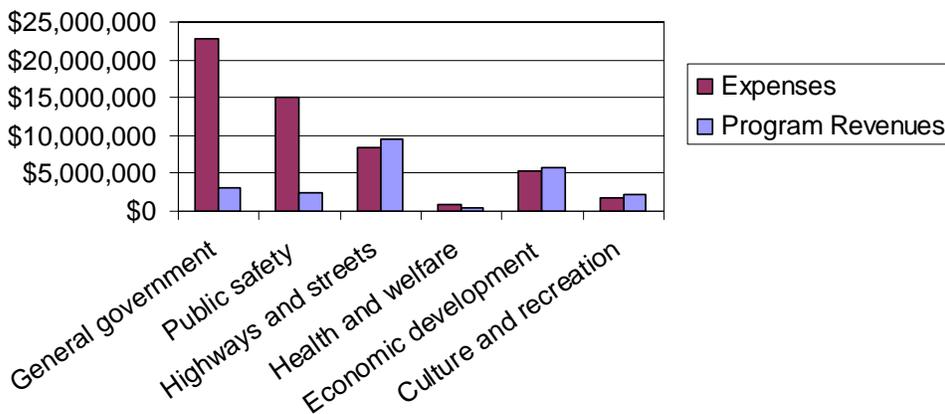
Governmental activities increased the City's net assets by \$23.5 million for fiscal year ended June 30, 2006, and accounted for 65.5% of the City's overall increase in net assets. The overall increase in net assets during the year is attributable, in part, to the degree to which increases in ongoing revenues have outpaced similar increases in related expenses as well as significant decreases in transfers to business-type activities from the prior year. In fiscal 2005, the City transferred \$13.1 million to its business-type activities, of which about \$10 million of Avondale Municipal Development Corporation bond proceeds were transferred to the enterprise funds to finance the construction of water utility facilities.

The general revenues of governmental activities of \$57.2 million increased \$6.9 million (13.6%) from the previous year. This increase is primarily from increased sales and use taxes, state shared revenues and investment income. The increase in sales and use taxes and state shared revenues resulted from increases in the City's growing sales and use tax base and local economy, as well as

increased state distributions to the City's of its share of state sales taxes and other shared revenues during the year. The increase in investment income was attributable to an overall increase in investments held with the State Treasurer during the year (9.2%) and a 94% increase in the average yield on these investments over the prior year. The program revenues of governmental activities increased \$4.2 million (22%) largely due to increases street development fees (capital grants and contributions); increases in planning and building application and service fees, engineering fees, and residential renewal fees (charges for services), and increases in highway user fees and state grants (operating grants and contributions). The increase in all of these activities was driven by the continued growth of the City and local economy.

The following graph shows the functional revenues and expenses of the governmental activities to demonstrate the extent to which the governmental functions produce direct revenues to offset the program costs. It should be noted that this graph is not intended to represent a full cost allocation to these functions. Expenses not covered by direct program revenues are covered by general revenues of the City, primarily taxes and state shared revenues. In governmental activities, the functional revenues of \$23.3 million are 41.5% of governmental expenses for fiscal year 2006, down from 43.9% in fiscal year 2005.

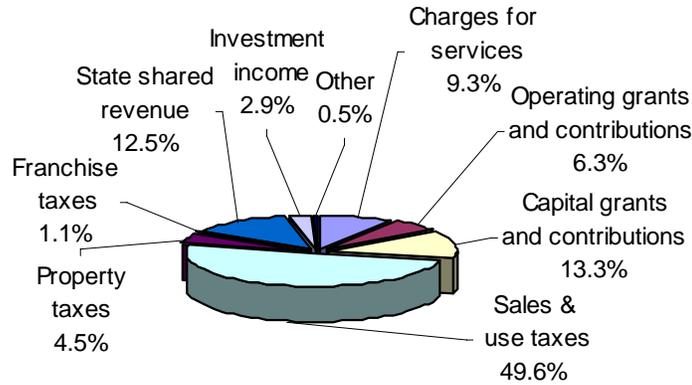
Governmental Activities Expenses and Program Revenues Fiscal Year 2006



The City's governmental activities accounted for 69.7% of the total revenues of the City and 70.6% of the total expenses in fiscal year 2006.

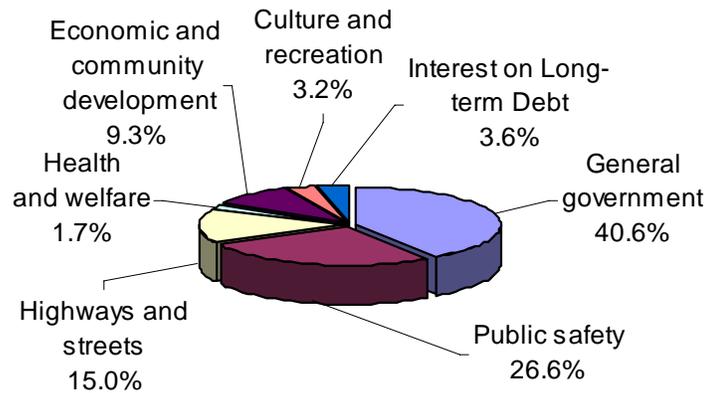
As seen in the following graphs, the largest revenue sources for the City's governmental activities are sales and use taxes at 49.6%, followed by capital grants and contributions and state shared revenues, which accounted for 13.3% and 12.5% of the City's total revenues, respectively.

Governmental Activities Revenues by Source Fiscal Year 2006



The City's largest expenses by function include general government at 40.6%, followed by public safety expenses at 26.6% and economic and community development at 9.3%.

Governmental Activities Expenses by Function Fiscal Year 2006



Business-type Activities

The following narrative and graphs describe the significant factors resulting in the overall increase in net assets for business-type activities.

Business-type activities increased the City's net assets by \$12.4 million for fiscal year ended June 30, 2006 accounting for 34.5% of the City's growth in net assets. The overall increase in net assets during the year is attributable, in part, to charges for services (e.g., water sales, sewer and refuse collection fees, etc.) having kept pace with the costs of providing these services and a significant increase in investment income from the prior year (146.8%). The increase in investment

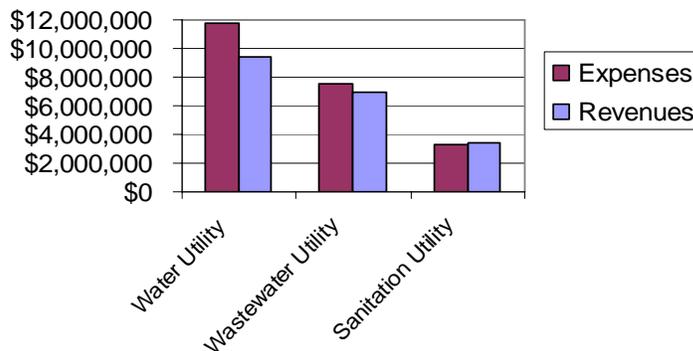
income resulted from an overall increase in investments with the State Treasurer during the year (9.2%) and a 94% increase in the average yield on these investments.

The increases in net assets during the year were offset by significant increases in water and wastewater utilities expenses of 70.3% and 75.3%, respectively, significant decreases in transfers from governmental activities to business-type activities from the prior year, and decreases in capital grants and contributions during the year. The increases in water and wastewater utilities expenses are largely due to significant increases in depreciation expenses, \$4 million (551.7%) and \$3.4 million (302.9%) in the Water and Wastewater Utility Funds, respectively, which resulted from the retroactive reporting of the City's infrastructure assets. The change in transfers between years was discussed previously in the governmental activities section. Capital grants and contributions, which consist primarily of water, sewer, and sanitation development fees, decreased by \$2.1 million (14.7%) during the year. This decrease is attributable to a slow down in residential and commercial building starts. For example, the City issued 1205 residential and 199 commercial building permits during the year, down 36.4% and 33.7%, respectively, from the prior year.

In business-type activities, program revenues are \$32.2 million and 137.7% of business-type expenses during the year, compared to \$33.0 million and 222.7% in fiscal year 2005. This significant decrease is primarily due to the increases in depreciation expenses discussed above.

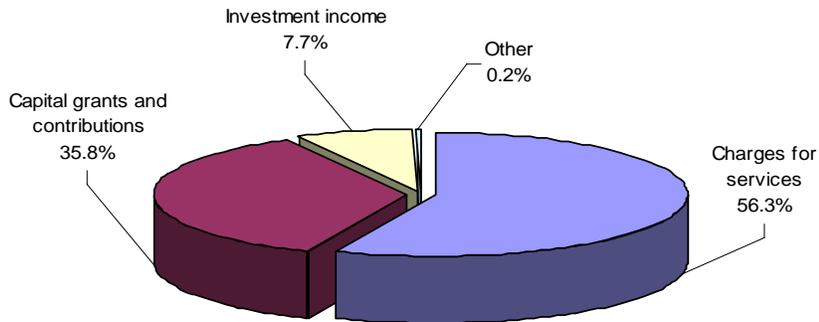
The City's business-type activities accounted for 30.3% of the total revenues of the City and 29.4% of the total expenses in fiscal year 2006.

Business-type Activities Expenses and Program Revenues Fiscal Year 2006



The City's largest business-type activity is the Water Utility with \$9.4 million and \$11.8 million in operating revenues and expenses, respectively, during the year, followed by Wastewater Utility with operating revenues of \$6.9 million and operating expenses of \$7.5 million.

Business-type Activities Revenues by Source Fiscal Year 2006



Charges for services provided the largest share of revenues at \$19.7 million or 56.3% for all of the business-type activities, followed by capital grants and contributions of \$12.5 million or 35.8%, which consist largely of development fees.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements as well as for managerial control to demonstrate fiduciary responsibility over and to safeguard the City's assets.

Governmental Funds

The focus of governmental fund financial statements is to provide information on near-term inflows, outflows, and balances of spendable resources. This information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. All major governmental funds are discreetly presented on these financial statements, while non-major funds are combined into a single column. Combining statements for the non-major funds can be found on pages 71-77.

The fund balance of the City's governmental funds is \$63.1 million, an increase of \$5.1 million (8.9%) from the prior year. Of this balance, \$51.7 million (81.9%) consists of unreserved fund balance that is available for spending at the City's discretion. The remainder of fund balance of \$11.4 million (18.1%) is classified as reserved because it is not appropriable for expenditures or is legally segregated for a specific future use such as to pay for capital improvements (\$0.5 million), debt service (\$8.5 million), and a variety of other restricted purposes (\$2.4 million). The increase in total fund balance is due to net increases in both unrestricted and reserved fund balances over the prior year. The increase in unreserved fund balance during the year is attributable primarily to the degree to which increases in ongoing revenues have outpaced similar increases in related expenses as well as a significant decrease in transfers to the enterprise funds to finance capital projects. The increase in reserved fund balance is attributable to increases in debt service reserves from the prior year.

The General Fund is the City's chief operating fund and accounts for many major functions of the City including general government (administration), public safety (police and fire), health and welfare, economic and community development, and culture and recreation. At June 30, 2006, unreserved fund balance of the General Fund was \$27.5 million, while total fund balance was \$27.7 million, compared to \$19.8 million and \$20.0 million in the prior year. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 78.7% of the total General Fund expenditures of \$34.9 million, while total fund balance represents 68.1% of that same amount in fiscal year 2005. During the fiscal year, fund balance of the City's General Fund increased by \$7.7 million. The overall increase in fund balance during the year is due primarily to the degree to which increases in ongoing revenues have outpaced similar increases in ongoing expenditures.

General Fund revenues increased by \$6.5 million (15.5%) over the previous year. The City's sales and tax revenues increased \$3.3 million (12.6%) while state shared sales taxes (intergovernmental revenue) and charges for services increased \$1.9 million (22.4%) and \$1 million (112.2%) as the City continued its moderate growth during fiscal year 2006. The increases in revenues were offset by decreases in licenses and permit fees of \$.5 million that was largely attributable to decreases in the residential and commercial building activity from the prior year. General fund expenditures increased \$5.9 million (20.2%) over the prior year. Approximately \$2.4 million (40.7%) of the increased expenditures were in personnel costs. These increases were largely attributable to increases in the number of employees over the prior year, and Council-approved increases in salaries and wages up to 5.5% for employees. In addition, employer retirement contributions, health insurance, and other employee benefits continued to rise in fiscal year 2006. Increases in contractual services costs of about \$2.9 million also contributed to the increases in expenditures.

The Highway User Revenue Fund is required by statute to account for the state allocation of motor fuel taxes and other state revenues shared with local governments that are required to be used for transportation purposes. Revenues increased about \$.3 million (13.2%) over the prior year. The increase is due to the State distributing more motor fuel taxes to the City than in the prior year. The increased expenditures are attributable primarily to increase in internal service fund risk management and equipment management charges and salaries and wages over the prior year. Unreserved fund balance decreased \$.5 million (30.2%) during the year.

The Dedicated Sales Tax Fund accounts for revenue from a half-cent sales tax that is restricted for Council-approved capital acquisition and construction. The tax was approved by the voters and became effective in July 2001. Revenues increased only slightly due to increases in sales taxes collected, up \$.2 million (3.5%) from the previous year, and increases in investment income, up \$.1 million (140.2%) over the prior year. The increase in investment income was due to a 94% increase in the average yield on State Treasurer investments over the previous year. Offsetting decreases in fund balance were due to a \$2.2 million increase (53%) in transfers to other funds to finance the development and construction of water and sewer facilities as well as street construction and improvements. Unreserved fund balance increased only slightly, up \$.1 million (1.5%) from fiscal year 2005.

The Public Safety Sales Tax Revenue Fund accounts for revenue from a half-cent sales tax that is restricted exclusively to fund police, fire, and court services to help ensure community safety. The tax was approved by the voters and became effective in January 2004. Revenues increased slightly due to increases in sales taxes collected, up \$.2 million (3.9%) from the prior year, and significant increases in investment income, up \$.1 million (229.2%) over the previous year. Increases in total expenditures of \$1.5 million, up 39% over the prior year, were largely due to increases in the number of public safety personnel and the acquisition of capital assets to support

the increases in personnel. Unreserved fund balance increased \$.8 million (26.3%) during the year.

The Development Fees Fund is used to account for development fees charged for all new construction based on the impact the development will have on the City. The fee is allowable under A.R.S. §9-463.05. Development fees are collected with each new building permit issued. The fund also accounts for other revenues received that are restricted to developing the City's infrastructure (e.g., federal, state and local intergovernmental revenues). Revenues in the fund are used for capital improvements related to growth such as expanding wastewater treatment plants, purchasing additional sanitation equipment, constructing new fire stations, and widening existing arterial streets. Revenues increased primarily due to increases in the collection of development fees (licenses and permits revenue) of \$1.2 million (17.7%) and increases in intergovernmental revenues received for development of \$1.8 million (575.2%) over the previous fiscal year. Streets development fees accounted for about 90% of the development fees collected. These increases in revenues were more than offset by capital outlay expenditures during the year. Capital expenditures increased by \$11.4 million, up 100.6% from the prior year. These expenditures were incurred to acquire land for future projects, make significant street improvements to Avondale Boulevard, construct the Regional Library at City of Avondale Civic Center, renovate the police and fire stations, and develop the City's Coldwater Park. Unreserved fund balance decreased \$6.9 million (43.8%) during the year.

Proprietary Funds – The proprietary funds are prepared on the same accounting basis and measurement focus as the government-wide financial statements, but they provide more detail since each major enterprise fund is presented discretely. Total unrestricted net assets of the enterprise funds were \$28.7 million and \$24.5 million for fiscal years 2006 and 2005, respectively. The growth in total net assets was \$12.3 million. The factors concerning the finances of these funds, as well as the changes in net assets, have been addressed previously in the discussion of the City's business-type activities.

Budgetary Highlights

The City's annual adopted budget establishes the legal level of expenditure control for the City. Budgetary comparison statements are required for the General Fund and all major special revenue funds. These statements compare the original adopted budget, the budget as amended throughout the year, and the actual expenditures. Budgetary schedules for the other governmental funds are also presented in this report. Budgetary comparison statements and schedules can be found on pages 29-32, 67, and 81-92, respectively.

Amendments to the adopted budget may occur throughout the year between departments within individual funds in a legally permissible manner. During the year, no amendments increasing the City's total budget of \$175.9 million occurred. Budget amendments between funds, departments, and from budgeted contingencies into operational expense/expenditure accounts did occur. However, none of the amendments or transfers was significant (see Note 1.D [pages 42-43] for more information on budget policies and amount of budget transfers during the year).

General fund inflows (revenues and other sources) of \$48.4 million, on a budgetary basis, exceeded budgeted inflows by \$8.9 million (22.5%) while budgetary outflows (expenditures and other uses) of \$40.8 million were only 96.9% of final budget outflows. The excess of General Fund inflows over budgeted amounts is due primarily to higher sales and use taxes and licenses and permit fees collections than were planned for in the budget. Sales and use tax collections in retail, construction contracting, and restaurant/bars continue to exceed expectations due to the growing economy.

Capital Assets

At June 30, 2006, the City had \$669.6 million invested in various capital assets, net of accumulated depreciation, up \$24.9 million (3.9%) from the previous year. Of the increase, \$14.2 million resulted from governmental activities and \$10.7 million resulted from business-type activities. The increase between years is largely attributable to significant Avondale Boulevard road improvements, construction of the Regional Library at City of Avondale Civic Center, renovations of police and fire stations, acquisition of land for future projects, and development of the Coldwater Park.

The City has adopted a five-year capital improvement plan budgeted at \$276.2 million, including \$121.5 million for fiscal year 2007. Anticipated funding for fiscal year 2007 is through a combination of existing fund balances (57.3%), impact fees (14.3%), bond proceeds (14.3%), operating revenues (8.7%), and outside funding sources such as grants and other intergovernmental cost-sharing agreements (5.4%). The capital improvement plan is updated annually as part of the City's budget process.

The following schedule provides a breakdown of the City's capital assets at June 30, 2006, and 2005. Additional information on the City's capital assets can be found in Note 6 on pages 50-51.

Capital Assets at June 30 (Net of depreciation)

	Governmental Activities		Business-type Activities		Total		Percent Change
	2006	2005*	2006	2005*	2006	2005*	
Land	\$ 11,799,141	\$ 9,720,314	\$ 16,252,303	\$ 15,596,661	\$ 28,051,444	\$ 25,316,975	10.8
Buildings and improvements	33,147,250	29,305,907	-	-	33,147,250	29,305,907	13.1
Vehicles, furniture and Equipment	6,341,005	5,497,386	2,369,199	1,460,669	8,710,204	6,958,055	25.2
Infrastructure	197,893,384	200,259,763	-	-	197,893,384	200,259,763	(1.2)
Water system	-	-	179,918,455	175,195,155	179,918,455	175,195,155	2.7
Sewer system	-	-	156,354,032	159,555,074	156,354,032	159,555,074	(2.0)
Wastewater treatment system	-	-	24,846,297	25,446,334	24,846,297	25,446,334	(2.4)
Construction in progress	18,208,054	8,415,175	22,496,073	14,240,402	40,704,127	22,655,577	79.7
	<u>\$ 267,388,834</u>	<u>\$ 253,198,545</u>	<u>\$ 402,236,359</u>	<u>\$ 391,494,295</u>	<u>\$ 669,625,193</u>	<u>\$ 644,692,840</u>	3.9

* Fiscal year 2005 balances after restatement (see Note 2 Beginning Balances on pages 46-47).

Long-term Debt

At June 30, 2006, the City had total long-term obligations outstanding of \$96.3 million, down \$4.2 million (4.2%) from the prior year. Of this total, \$76.4million (79.3%) was in governmental activities and \$19.9 (20.7%) was in business-type activities.

During the year, the City issued about \$20.1 million in refunding bonds (\$12.8 million of MDC Bonds, \$4.1 million of General Obligation Bonds, and \$3.2 million in Highway User Revenue Bonds) and defeased about \$18.9 million in outstanding bonds (\$11.9 million of MDC Bonds, \$4.0 million of General Obligation Bonds, and \$3.0 million in Highway User Revenue Bonds). The refunding reduced the City's future debt service payments and resulted in an economic gain of about \$.5 million.

Of the total outstanding bonds of \$81.3 million, \$17.7 million (21.8%) are general obligation bonds backed by the full faith and credit of the City. The remaining outstanding bonds of \$63.6 (78.2%) are revenue bonds secured by pledges of specific revenue sources of the City. The City's debt also includes \$9.6 million of water infrastructure financing loans secured by pledges of the City's water and sewer revenues.

The State constitution imposes certain debt limitation on the City of six percent (6%) and twenty percent (20%) of the outstanding assessed valuation of the City. The City's legal debt margin at June 30, 2006, and 2005 was \$14.4 million and \$10.2 million, respectively, in the 6% capacity and \$68.4 million and \$55.0 million, respectively, in the 20% capacity. Additional information on the debt limitations and capacities may be found in the statistical section of this report on pages 125-141.

The following schedule presents the outstanding debt of the City (both current on long-term) as of June 30, 2006 and 2005. Additional information on the City's outstanding debt can be found in Note 9 on pages 55-61.

	Governmental Activities		Business-type Activities		Total		Percent Change %
	2006	2005	2006	2005	2006	2005	
General obligation bonds	\$ 17,705,000	\$ 18,775,000	\$ -	\$ -	\$ 17,705,000	\$ 18,775,000	-5.7
Revenue bonds	3,920,000	4,065,000	1,500,000	1,585,000	5,420,000	5,650,000	-4.1
Municipal Development							
Corporation Bonds	49,568,641	51,743,638	8,631,357	9,296,360	58,199,998	61,039,998	-4.7
Waster infrastructure improvement loans	-	-	9,604,245	10,332,258	9,604,245	10,332,258	-7.0
Compensated absences	1,543,083	1,365,807	189,591	150,057	1,732,674	1,515,864	14.3
Claims payable	280,080	305,724	-	-	280,080	305,724	-8.4
Capital leases payable	3,061,370	2,507,621	-	-	3,061,370	2,507,621	22.1
Contractual obligation	321,000	428,000	-	-	321,000	428,000	-25.0
Total	\$ 76,399,174	\$ 79,190,790	\$ 19,925,193	\$ 21,363,675	\$ 96,324,367	\$ 100,554,465	-4.2

Economic Factors

Although the City of Avondale, like other Arizona cities, continues to remain dependent on sales taxes and other economically sensitive tax revenues, the City has made significant strides in diversifying its residential and commercial tax base. As a result, the City was poised to take advantage of the stable economic market in fiscal year 2006. Due to the ongoing favorable economic conditions in the valley, the City's sales and use tax revenues increased by about 8.4% over the prior year. With continued growth and diversification of its residential and commercial base, the City is poised to continue taking advantage of the future economic environment.

The City continues to attract new homeowners, retail businesses and restaurants. The increased growth in residential and commercial development has resulted in a significant increase in real property tax valuation over the prior year. The City's secondary valuation for real property increased from \$322.7 million in fiscal year 2005 to \$386.8 million in fiscal year 2006. This represents a valuation increase of \$64.1 million or 19.9%.

While the local economy remains stable with continued, but slowed, residential and building activity, strong population growth, and increased personal income, the City is cautiously optimistic for a strong economy in 2007. Consequently, the City's adopted fiscal year 2007 budget of \$224.6 million, an increase of 27.7% over 2006, included only modest overall increases in revenues of about 17.4 million (12.4%) over the prior year, with taxes (29%), intergovernmental revenues (19%), and charges for services (18%) comprising the majority of the anticipated revenues. These increases in revenues are likely to be largely offset by the rising costs of providing services to a

growing community. Much of the growth in the City's budget resulted from growth in the capital budget which includes numerous projects that will enable the City to maintain service levels and remain responsive to customers and citizenry.

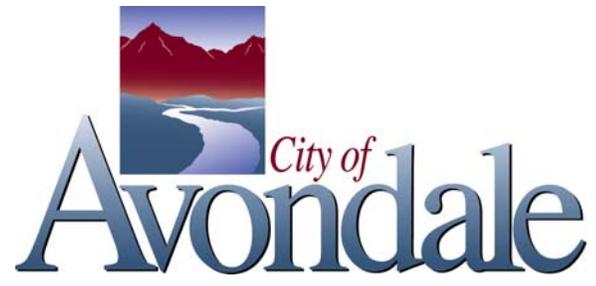
Request for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need financial information, please contact:

City of Avondale
Finance and Budget Department
11465 W. Civic Center Drive, Suite 250
Avondale, Arizona 85323
(623) 333-2000

Or visit our website at:
<http://www.avondale.org>

BASIC FINANCIAL STATEMENTS



CITY OF AVONDALE, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 4,629,869	\$ 1,651,926	\$ 6,281,795
Investments	54,143,500	55,942,366	110,085,866
Receivables (net where applicable of allowance for uncollectible)			
Taxes	4,062,400	159,048	4,221,448
Accounts	127,184	4,911,938	5,039,122
Interest	392,930	420,569	813,499
Due from other governments	2,229,252	-	2,229,252
Internal balances	(18,334)	18,334	-
Inventories	316,773	398,349	715,122
Prepaid assets	3,923,101	1,043,429	4,966,530
Restricted cash with fiscal agent	7,752,694	10,464,469	18,217,163
Capital assets, non-depreciable	30,007,195	38,748,376	68,755,571
Capital assets, depreciable (net)	237,381,639	363,487,983	600,869,622
Total assets	344,948,203	477,246,787	822,194,990
LIABILITIES			
Accounts payable	4,240,444	4,380,479	8,620,923
Accrued payroll	1,187,296	205,655	1,392,951
Accrued liabilities	4,013,447	224,883	4,238,330
Construction contracts payable	505,313	323,504	828,817
Sales tax payable	1,143	163,769	164,912
Deposits held for others	305,602	313,216	618,818
Unearned revenue	695,869	19,853	715,722
Non-current liabilities:			
Due within one year			
Claims payable	56,650	-	56,650
Compensated absences	941,926	110,500	1,052,426
Contractual obligations	107,000	-	107,000
Capital leases payable	467,186	-	467,186
Water infrastructure obligations	-	759,631	759,631
Bonds payable	5,251,404	928,596	6,180,000
Due in more than one year			
Claims payable	223,430	-	223,430
Compensated absences	601,157	79,091	680,248
Contractual obligations	214,000	-	214,000
Capital leases payable	2,594,184	-	2,594,184
Water infrastructure obligations	-	8,844,614	8,844,614
Bonds payable	65,942,237	9,202,761	75,144,998
Bond premium	342,562	-	342,562
Total liabilities	87,690,850	25,556,552	113,247,402
NET ASSETS			
Invested in capital assets, net of related debt	196,509,921	382,500,757	579,010,678
Restricted for:			
Highways and streets	2,052,107	-	2,052,107
Grants	604,299	-	604,299
Public safety	4,008,640	-	4,008,640
Debt service	7,557,937	-	7,557,937
Capital improvements	14,585,307	40,439,483	55,024,790
Unrestricted	31,939,142	28,749,995	60,689,137
Total net assets	\$ 257,257,353	\$ 451,690,235	\$ 708,947,588

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

**CITY OF AVONDALE, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government:				
Governmental activities:				
General government	\$ 22,764,573	\$ 1,267,440	\$ 81,734	\$ 1,686,425
Public safety	14,935,013	147,137	315,388	1,873,771
Highways and streets	8,396,708	-	4,193,402	5,324,107
Health and welfare	939,572	-	439,399	-
Economic and community development	5,213,085	5,817,266	-	-
Culture and recreation	1,816,712	254,323	55,874	1,815,094
Interest on long-term debt	2,042,879	-	-	-
Total governmental activities	<u>56,108,542</u>	<u>7,486,166</u>	<u>5,085,797</u>	<u>10,699,397</u>
Business-type activities:				
Water utility	11,818,914	9,336,905	-	6,380,835
Wastewater utility	8,296,298	6,946,157	-	5,830,032
Sanitation utility	3,266,298	3,392,810	-	320,142
Total business-type activities	<u>23,381,510</u>	<u>19,675,872</u>	<u>-</u>	<u>12,531,009</u>
Total primary government	<u>\$ 79,490,052</u>	<u>\$ 27,162,038</u>	<u>\$ 5,085,797</u>	<u>\$ 23,230,406</u>

General revenues:

Taxes:

Sales and use taxes

Property taxes, levied for general purposes

Property taxes, levied for debt service

Franchise taxes

State shared revenues, unrestricted

Investment income

Gain on sale of capital assets

Miscellaneous

Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning, as restated

Net assets - ending

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

**Net (Expense) Revenue and
Changes in Net Assets
Primary Government**

Governmental Activities	Business-type Activities	Totals
\$ (19,728,974)	\$ -	\$ (19,728,974)
(12,598,717)	-	(12,598,717)
1,120,801	-	1,120,801
(500,173)	-	(500,173)
604,181	-	604,181
308,579	-	308,579
(2,042,879)	-	(2,042,879)
<u>(32,837,182)</u>	<u>-</u>	<u>(32,837,182)</u>
-	3,898,826	3,898,826
-	4,479,891	4,479,891
-	446,654	446,654
-	<u>8,825,371</u>	<u>8,825,371</u>
<u>(32,837,182)</u>	<u>8,825,371</u>	<u>(24,011,811)</u>
39,883,436	-	39,883,436
1,310,133	-	1,310,133
2,319,060	-	2,319,060
876,224	-	876,224
10,022,750	-	10,022,750
2,331,224	2,684,687	5,015,911
61,289	7,803	69,092
358,317	70,470	428,787
(800,000)	800,000	-
<u>56,362,433</u>	<u>3,562,960</u>	<u>59,925,393</u>
<u>23,525,251</u>	<u>12,388,331</u>	<u>35,913,582</u>
<u>233,732,102</u>	<u>439,301,904</u>	<u>673,034,006</u>
<u>\$ 257,257,353</u>	<u>\$ 451,690,235</u>	<u>\$ 708,947,588</u>

**CITY OF AVONDALE, ARIZONA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2006**

	<u>General Fund</u>	<u>Highway User Revenue Fund</u>	<u>Dedicated Sales Tax Revenue Fund</u>
ASSETS			
Cash and cash equivalents	\$ 1,245,718	\$ 244,753	\$ 105,635
Investments	27,055,336	475,201	4,828,562
Receivables			
Taxes	2,761,829	-	595,681
Accounts	68,200	-	-
Interest	179,837	3,089	31,897
Due from other funds	105,727	-	-
Due from other governments	1,506,436	426,518	-
Inventories	-	23,706	-
Prepaid assets	154,179	-	-
Cash and cash equivalents with fiscal agent	-	-	-
Total assets	<u>\$ 33,077,262</u>	<u>\$ 1,173,267</u>	<u>\$ 5,561,775</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 982,157	\$ 45,027	\$ 51
Accrued payroll and employee benefits	1,100,813	43,916	-
Accrued liabilities	3,167,742	-	-
Construction contracts payable	-	-	-
Deposits held for others	90,134	-	-
Sales tax payable	90	-	-
Due to other funds	-	-	-
Deferred revenue	76,787	14,696	-
Total liabilities	<u>5,417,723</u>	<u>103,639</u>	<u>51</u>
Fund balances (deficit):			
Reserved for:			
Inventories	-	23,706	-
Prepaid assets	154,179	-	-
Debt service	-	-	-
Capital improvements	-	-	-
Cash with fiscal agent	-	-	-
Unreserved reported in:			
General Fund	27,505,360	-	-
Special Revenue Funds	-	1,045,922	5,561,724
Capital Projects Funds	-	-	-
Total fund balances	<u>27,659,539</u>	<u>1,069,628</u>	<u>5,561,724</u>
Total liabilities and fund balances	<u>\$ 33,077,262</u>	<u>\$ 1,173,267</u>	<u>\$ 5,561,775</u>

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

Public Safety Sales Tax Revenue Fund	Development Fees Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 51,533	\$ 1,066,913	\$ 1,486,216	\$ 4,200,768
3,723,186	11,618,720	5,704,683	53,405,688
595,423	-	109,467	4,062,400
-	-	58,984	127,184
25,088	96,636	48,266	384,813
-	-	-	105,727
-	-	296,298	2,229,252
-	-	-	23,706
-	-	1,895,000	2,049,179
-	3,256,443	4,496,251	7,752,694
<u>\$ 4,395,230</u>	<u>\$ 16,038,712</u>	<u>\$ 14,095,165</u>	<u>\$ 74,341,411</u>

\$ 123,527	\$ 2,961,037	\$ 111,866	\$ 4,223,665
224,319	-	28,837	1,397,885
-	-	1,004,793	4,172,535
-	500,059	5,254	505,313
-	180	-	90,314
861	-	192	1,143
-	-	20,230	20,230
-	455,086	269,916	816,485
<u>348,707</u>	<u>3,916,362</u>	<u>1,441,088</u>	<u>11,227,570</u>

-	-	-	23,706
-	-	1,895,000	2,049,179
-	-	1,552,728	1,552,728
-	-	511,187	511,187
-	3,256,443	4,031,891	7,288,334
-	-	-	27,505,360
4,046,523	-	1,605,889	12,260,058
-	8,865,907	3,057,382	11,923,289
<u>4,046,523</u>	<u>12,122,350</u>	<u>12,654,077</u>	<u>63,113,841</u>
<u>\$ 4,395,230</u>	<u>\$ 16,038,712</u>	<u>\$ 14,095,165</u>	<u>\$ 74,341,411</u>

**CITY OF AVONDALE, ARIZONA
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS-
GOVERNMENTAL ACTIVITIES
JUNE 30, 2006**

Fund balances - total governmental funds balance sheet \$ 63,113,841

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

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

Governmental capital assets	\$ 355,616,186	
Less accumulated depreciation	<u>(88,227,352)</u>	267,388,834

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

Governmental bonds payable	(71,193,641)	
Long-term leases payable	(3,061,370)	
Compensated absences	(1,256,596)	
Contractual obligations	<u>(321,000)</u>	(75,832,607)

Bond issuance costs and bond premiums are recognized at the time of issuance in the governmental funds, but are deferred and recognized over the life of the bonds for the government-wide statements.

Bond premium	(342,562)	
Bond discount	71,697	
Bond issue costs	1,065,210	
Deferred charges	<u>737,015</u>	1,531,360

Internal service funds are used by management to charge the costs of risk management, printing services, and fleet management to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities column on the statement of net assets.

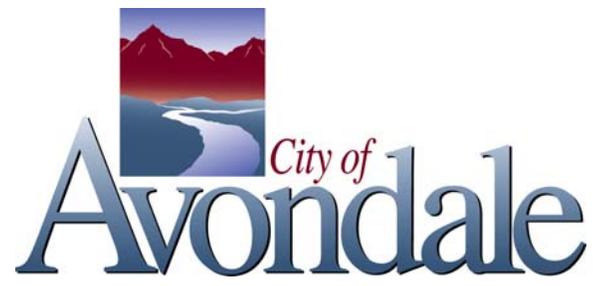
935,309

Certain revenues earned, but not received within 60 days of year-end, are deferred on the governmental financial statements, but are recognized as revenue on the government-wide statements.

Recognition of property tax revenue		<u>120,616</u>
-------------------------------------	--	----------------

Net assets of governmental activities - statement of net assets		<u><u>\$ 257,257,353</u></u>
---	--	------------------------------

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



CITY OF AVONDALE, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	<u>General Fund</u>	<u>Highway User Revenue Fund</u>	<u>Dedicated Sales Tax Revenue Fund</u>
Revenues			
Taxes	\$ 29,445,344	\$ -	\$ 6,323,613
Licenses and permits	4,577,643	-	-
Intergovernmental	10,248,836	2,952,118	-
Charges for services	1,872,995	-	-
Fines, forfeitures, and penalties	951,969	-	-
Interest	964,604	31,641	187,962
Contributions	260,255	-	-
Miscellaneous revenues	87,676	2	-
Total revenues	<u>48,409,322</u>	<u>2,983,761</u>	<u>6,511,575</u>
Expenditures			
Current:			
General government	16,566,139	-	4,000
Public safety	12,367,051	-	-
Highways and streets	-	2,205,035	-
Health and welfare	403,438	-	-
Economic and community development	3,647,570	328,793	-
Culture and recreation	1,230,236	-	-
Debt service:			
Principal	208,399	-	-
Interest and other charges	78,825	-	-
Capital outlay	443,171	18,418	-
Total expenditures	<u>34,944,829</u>	<u>2,552,246</u>	<u>4,000</u>
Excess (deficiency) of revenues over (under) expenditures	<u>13,464,493</u>	<u>431,515</u>	<u>6,507,575</u>
Other financing sources (uses)			
Issuance of refunding bonds	-	-	-
Capital leases			
Payments to refunded bonds escrow agent	-	-	-
Bond premium (discount)	-	-	-
Sale of capital assets	15,721	-	-
Transfers in	-	-	-
Transfers out	(5,814,800)	(885,790)	(6,427,190)
Total other financing sources (uses)	<u>(5,799,079)</u>	<u>(885,790)</u>	<u>(6,427,190)</u>
Net change in fund balances	7,665,414	(454,275)	80,385
Fund balances at beginning of year	<u>19,994,125</u>	<u>1,523,903</u>	<u>5,481,339</u>
Fund balances at end of year	<u>\$ 27,659,539</u>	<u>\$ 1,069,628</u>	<u>\$ 5,561,724</u>

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

Public Safety Sales Tax Revenue Fund	Development Fees Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 6,294,266	\$ -	\$ 2,304,660	\$ 44,367,883
-	8,105,962	-	12,683,605
-	2,165,000	1,449,352	16,815,306
-	-	82,533	1,955,528
-	-	-	951,969
133,267	708,951	304,798	2,331,223
-	-	474,769	735,024
2,103	657,526	4,560	751,867
<u>6,429,636</u>	<u>11,637,439</u>	<u>4,620,672</u>	<u>80,592,405</u>
239,705	-	10,571	16,820,415
4,485,327	-	402,098	17,254,476
-	-	615,055	2,820,090
-	-	511,368	914,806
-	-	-	3,976,363
-	-	2,096	1,232,332
-	164,873	4,541,451	4,914,723
-	20,181	2,810,509	2,909,515
476,736	22,753,426	1,488,295	25,180,046
<u>5,201,768</u>	<u>22,938,480</u>	<u>10,381,443</u>	<u>76,022,766</u>
<u>1,227,868</u>	<u>(11,301,041)</u>	<u>(5,760,771)</u>	<u>4,569,639</u>
-	-	18,690,685	18,690,685
-	927,040	-	927,040
-	-	(18,337,174)	(18,337,174)
-	-	38,724	38,724
-	-	70,003	85,724
-	4,643,490	9,590,730	14,234,220
(383,270)	(1,167,560)	(393,490)	(15,072,100)
<u>(383,270)</u>	<u>4,402,970</u>	<u>9,659,478</u>	<u>567,119</u>
844,598	(6,898,071)	3,898,707	5,136,758
<u>3,201,925</u>	<u>19,020,421</u>	<u>8,755,370</u>	<u>57,977,083</u>
<u>\$ 4,046,523</u>	<u>\$ 12,122,350</u>	<u>\$ 12,654,077</u>	<u>\$ 63,113,841</u>

**CITY OF AVONDALE, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
YEAR ENDED JUNE 30, 2006**

Net change in fund balances - total governmental funds \$ 5,136,758

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

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

Expenditures for capital assets	\$ 24,438,360	
Less current year depreciation	<u>(10,155,924)</u>	14,282,436

Certain long-term debt activities provide or use current financial resources in the governmental funds, but create or reduce long-term liabilities in the statement of activities.

Issuance of refunding bonds	(18,690,685)	
Payments to refunded bonds escrow agent	18,337,174	
Principal payments on long-term debt	4,648,451	
Capital leases	(927,040)	
Principal payments on lease-purchase contracts	373,291	
Bond premium (discount)	<u>(38,724)</u>	3,702,467

In the statement of activities, only the gain on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale of these assets increases financial resources. Therefore, the change in net assets differs from the change in fund balance by the cost of the assets sold or disposed of.

Sale of capital assets	<u>(24,435)</u>	(24,435)
------------------------	-----------------	----------

The costs of issuing bonds are reported as an expenditure in governmental funds in the year of bond issuance and, therefore, reduce fund balance. In statement of activities, the bond issuance costs are deferred and amortized over the life of the bonds.

Deferred recognition of debt issuance costs	<u>379,386</u>	379,386
---	----------------	---------

Internal service funds are used by management to charge the costs of risk management, printing services, and fleet management activities to individual funds. The net revenue (expense) of these internal service funds is reported with governmental activities.

255,211

Some revenues and expenses reported in the statement of activities do not provide or use current financial resources. Therefore, they are not reported as revenues or expenditures in the governmental funds.

Amortization of bond premiums, discounts, debt issuance costs, and deferred charges	(126,327)	
Accrual of current year property tax revenue	120,616	
Reversal of prior year accruals	(99,645)	
Recognition of vested sick benefits	14,868	
Recognition of employee benefits	<u>(116,084)</u>	<u>(206,572)</u>

Change in net assets of governmental activities		<u>\$ 23,525,251</u>
---	--	----------------------

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

CITY OF AVONDALE, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2006

	General Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Taxes	\$ 24,643,830	\$ 24,643,830	\$ 29,445,344	\$ 4,801,514
Licenses and permits	3,278,850	3,278,850	4,577,643	1,298,793
Intergovernmental	9,286,730	9,286,730	10,248,836	962,106
Charges for services	1,366,440	1,366,440	1,872,995	506,555
Fines, forfeitures, and penalties	508,580	508,580	951,969	443,389
Interest	101,000	101,000	964,604	863,604
Contributions	203,330	203,330	260,255	56,925
Miscellaneous revenues	106,540	106,540	87,676	(18,864)
Total revenues	<u>39,495,300</u>	<u>39,495,300</u>	<u>48,409,322</u>	<u>8,914,022</u>
Expenditures				
General government	16,452,603	16,566,139	16,566,139	-
Public safety	13,793,480	13,764,840	12,367,051	1,397,789
Health and welfare	404,660	483,290	403,438	79,852
Economic and community development	4,853,070	4,686,349	3,647,570	1,038,779
Culture and recreation	1,240,670	1,240,670	1,230,236	10,434
Debt service				
Principal	194,800	194,800	208,399	(13,599)
Interest	92,500	92,500	78,825	13,675
Capital outlay	392,937	477,772	443,171	34,601
Total expenditures	<u>37,424,720</u>	<u>37,506,360</u>	<u>34,944,829</u>	<u>2,561,531</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,070,580</u>	<u>1,988,940</u>	<u>13,464,493</u>	<u>11,475,553</u>
Other financing sources (uses)				
Sale of capital assets	-	-	15,721	15,721
Transfers out	(4,591,860)	(4,591,860)	(5,814,800)	(1,222,940)
Total other financing sources (uses)	<u>(4,591,860)</u>	<u>(4,591,860)</u>	<u>(5,799,079)</u>	<u>(1,207,219)</u>
Net change in fund balance	(2,521,280)	(2,602,920)	7,665,414	10,268,334
Fund balance at beginning of year	<u>16,310,443</u>	<u>16,310,443</u>	<u>19,994,125</u>	<u>3,683,682</u>
Fund balance at end of year	<u>\$ 13,789,163</u>	<u>\$ 13,707,523</u>	<u>\$ 27,659,539</u>	<u>\$ 13,952,016</u>

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

**CITY OF AVONDALE, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
HIGHWAY USER REVENUE FUND
YEAR ENDED JUNE 30, 2006**

	Highway User Revenue Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Intergovernmental	\$ 2,700,570	\$ 2,700,570	\$ 2,952,118	\$ 251,548
Interest	21,790	21,790	31,641	9,851
Miscellaneous revenues	-	-	2	2
Total revenues	<u>2,722,360</u>	<u>2,722,360</u>	<u>2,983,761</u>	<u>261,401</u>
Expenditures				
Highways and streets	2,507,250	2,570,550	2,205,035	365,515
Economic and community development	412,050	348,750	328,793	19,957
Capital outlay	42,000	42,000	18,418	23,582
Total expenditures	<u>2,961,300</u>	<u>2,961,300</u>	<u>2,552,246</u>	<u>409,054</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(238,940)</u>	<u>(238,940)</u>	<u>431,515</u>	<u>670,455</u>
Other financing sources (uses)				
Transfers out	<u>(640,000)</u>	<u>(640,000)</u>	<u>(885,790)</u>	<u>(245,790)</u>
Total other financing sources (uses)	<u>(640,000)</u>	<u>(640,000)</u>	<u>(885,790)</u>	<u>(245,790)</u>
Net change in fund balance	(878,940)	(878,940)	(454,275)	424,665
Fund balance at beginning of year	<u>1,224,799</u>	<u>1,224,799</u>	<u>1,523,903</u>	<u>299,104</u>
Fund balance at end of year	<u>\$ 345,859</u>	<u>\$ 345,859</u>	<u>\$ 1,069,628</u>	<u>\$ 723,769</u>

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

**CITY OF AVONDALE, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
DEDICATED SALES TAX REVENUE FUND
YEAR ENDED JUNE 30, 2006**

	Dedicated Sales Tax Revenue Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Taxes	\$ 6,093,000	\$ 6,093,000	\$ 6,323,613	\$ 230,613
Interest	55,540	55,540	187,962	132,422
Total revenues	<u>6,148,540</u>	<u>6,148,540</u>	<u>6,511,575</u>	<u>363,035</u>
Expenditures				
General government	-	4,000	4,000	-
Total expenditures	<u>-</u>	<u>4,000</u>	<u>4,000</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>6,148,540</u>	<u>6,144,540</u>	<u>6,507,575</u>	<u>363,035</u>
Other financing sources (uses)				
Transfers out	<u>(6,427,190)</u>	<u>(6,427,190)</u>	<u>(6,427,190)</u>	<u>-</u>
Total other financing sources (uses)	<u>(6,427,190)</u>	<u>(6,427,190)</u>	<u>(6,427,190)</u>	<u>-</u>
Net change in fund balance	(278,650)	(282,650)	80,385	363,035
Fund balance at beginning of year	<u>4,028,048</u>	<u>4,028,048</u>	<u>5,481,339</u>	<u>1,453,291</u>
Fund balance at end of year	<u>\$ 3,749,398</u>	<u>\$ 3,745,398</u>	<u>\$ 5,561,724</u>	<u>\$ 1,816,326</u>

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

**CITY OF AVONDALE, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
PUBLIC SAFETY SALES TAX REVENUE FUND
YEAR ENDED JUNE 30, 2006**

	Public Safety Sales Tax Revenue Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Taxes	\$ 6,093,000	\$ 6,093,000	\$ 6,294,266	\$ 201,266
Interest	25,710	25,710	133,267	107,557
Miscellaneous	-	-	2,103	2,103
Total revenues	<u>6,118,710</u>	<u>6,118,710</u>	<u>6,429,636</u>	<u>310,926</u>
Expenditures				
General government	268,260	268,260	239,705	28,555
Public safety	5,049,100	4,750,200	4,485,327	264,873
Capital outlay	-	543,700	476,736	66,964
Total expenditures	<u>5,317,360</u>	<u>5,562,160</u>	<u>5,201,768</u>	<u>360,392</u>
Excess (deficiency) of revenues over (under) expenditures	<u>801,350</u>	<u>556,550</u>	<u>1,227,868</u>	<u>671,318</u>
Other financing sources (uses)				
Transfers out	(122,530)	(122,530)	(383,270)	(260,740)
Total other financing sources (uses)	<u>(122,530)</u>	<u>(122,530)</u>	<u>(383,270)</u>	<u>(260,740)</u>
Net change in fund balance	678,820	434,020	844,598	410,578
Fund balance at beginning of year	<u>1,512,787</u>	<u>1,512,787</u>	<u>3,201,925</u>	<u>1,689,138</u>
Fund balance at end of year	<u>\$ 2,191,607</u>	<u>\$ 1,946,807</u>	<u>\$ 4,046,523</u>	<u>\$ 2,099,716</u>

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

**CITY OF AVONDALE, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006**

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water Utility	Wastewater Utility	Sanitation Utility	Total	
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 1,337,623	\$ 201,912	\$ 112,391	\$ 1,651,926	\$ 429,101
Investments	26,028,036	27,893,039	2,021,291	55,942,366	737,812
Receivables					
Accounts, net	2,485,604	1,587,433	838,901	4,911,938	-
State and county taxes	159,048	-	-	159,048	-
Interest	225,937	182,526	12,106	420,569	8,117
Inventories	341,323	21,889	35,137	398,349	293,067
Prepaid assets	95,681	947,748	-	1,043,429	-
Total current assets	<u>30,673,252</u>	<u>30,834,547</u>	<u>3,019,826</u>	<u>64,527,625</u>	<u>1,468,097</u>
Non-current assets:					
Restricted assets					
Cash and cash equivalents with fiscal agent	9,608,091	856,378	-	10,464,469	-
Capital assets:					
Capital assets, non-depreciable	31,767,241	6,981,135	-	38,748,376	-
Capital assets, depreciable (net)	180,383,890	181,390,511	1,713,582	363,487,983	181,833
Total non-current assets	<u>221,759,222</u>	<u>189,228,024</u>	<u>1,713,582</u>	<u>412,700,828</u>	<u>181,833</u>
Total assets	<u>252,432,474</u>	<u>220,062,571</u>	<u>4,733,408</u>	<u>477,228,453</u>	<u>1,649,930</u>
LIABILITIES					
Current liabilities:					
Accounts payable	3,328,124	1,028,177	24,178	4,380,479	73,198
Accrued payroll and employee benefits	85,604	45,386	74,665	205,655	41,756
Accrued liabilities	51,716	173,167	-	224,883	-
Construction contracts payable	230,365	77,724	15,415	323,504	-
Sales tax payable	163,769	-	-	163,769	-
Deposits held in custody for others	313,216	-	-	313,216	-
Due to their funds	-	-	-	-	85,497
Unearned revenue	19,853	-	-	19,853	-
Compensated absences	48,389	18,295	43,816	110,500	33,917
Water infrastructure obligations - current	-	759,631	-	759,631	-
Revenue bonds payable - current	121,900	806,696	-	928,596	-
Total current liabilities	<u>4,362,936</u>	<u>2,909,076</u>	<u>158,074</u>	<u>7,430,086</u>	<u>234,368</u>
Non-current liabilities:					
Claims payable	-	-	-	-	280,083
Compensated absences	23,340	11,857	43,894	79,091	-
Water infrastructure obligations	-	8,844,614	-	8,844,614	-
Revenue bonds payable	1,090,200	8,112,561	-	9,202,761	-
Total long term liabilities	<u>1,113,540</u>	<u>16,969,032</u>	<u>43,894</u>	<u>18,126,466</u>	<u>280,083</u>
Total liabilities	<u>5,476,476</u>	<u>19,878,108</u>	<u>201,968</u>	<u>25,556,552</u>	<u>514,451</u>
NET ASSETS					
Invested in capital assets, net of related debt	210,939,031	169,848,144	1,713,582	382,500,757	181,833
Restricted					
Capital improvements	10,587,743	19,387,271	-	29,975,014	-
Cash with fiscal agent	9,608,091	856,378	-	10,464,469	-
Unrestricted	15,821,133	10,092,670	2,817,858	28,731,661	953,646
Total net assets	<u>\$ 246,955,998</u>	<u>\$ 200,184,463</u>	<u>\$ 4,531,440</u>	<u>451,671,901</u>	<u>\$ 1,135,479</u>
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise funds				18,334	
Net assets of business-type activities				<u>\$ 451,690,235</u>	

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

CITY OF AVONDALE, ARIZONA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water Utility	Wastewater Utility	Sanitation Utility	Total	
Operating Revenues					
Charges for services	\$ 9,336,905	\$ 6,946,157	\$ 3,392,810	\$ 19,675,872	\$ 3,347,031
Miscellaneous	58,877	151	11,442	70,470	18,379
Total operating revenues	<u>9,395,782</u>	<u>6,946,308</u>	<u>3,404,252</u>	<u>19,746,342</u>	<u>3,365,410</u>
Operating Expenses					
Personal services	1,763,168	857,371	1,327,752	3,948,291	761,001
Contractual services	2,694,696	1,595,506	1,140,578	5,430,780	220,691
Repairs and maintenance	164,042	220,986	67,058	452,086	109,700
Materials and supplies	2,391,721	335,774	379,349	3,106,844	928,021
Insurance claims and expenses	-	-	-	-	1,023,959
Depreciation	4,761,441	4,508,137	388,212	9,657,790	75,175
Total operating expenses	<u>11,775,068</u>	<u>7,517,774</u>	<u>3,302,949</u>	<u>22,595,791</u>	<u>3,118,547</u>
Operating income (loss)	<u>(2,379,286)</u>	<u>(571,466)</u>	<u>101,303</u>	<u>(2,849,449)</u>	<u>246,863</u>
Non-operating revenues (expenses)					
Gain on sale of assets	2,174	-	5,629	7,803	-
Interest income	1,538,938	1,044,244	101,505	2,684,687	31,440
Interest expense	(61,091)	(785,599)	-	(846,690)	-
Total non-operating revenues (expenses)	<u>1,480,021</u>	<u>258,645</u>	<u>107,134</u>	<u>1,845,800</u>	<u>31,440</u>
Income (loss) before development fees and transfers	(899,265)	(312,821)	208,437	(1,003,649)	278,303
Development fees	6,380,835	5,830,032	320,142	12,531,009	-
Transfers in	650,000	150,000	-	800,000	75,000
Transfers out	-	-	-	-	(37,120)
Change in net assets	<u>6,131,570</u>	<u>5,667,211</u>	<u>528,579</u>	<u>12,327,360</u>	<u>316,183</u>
Net assets - beginning, as restated	<u>240,824,428</u>	<u>194,517,252</u>	<u>4,002,861</u>	<u>439,344,541</u>	<u>819,296</u>
Net assets - ending	<u>\$ 246,955,998</u>	<u>\$ 200,184,463</u>	<u>\$ 4,531,440</u>		<u>\$ 1,135,479</u>
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise funds				<u>60,971</u>	
Change in net assets of business-type activities				<u>\$ 12,388,331</u>	

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

**CITY OF AVONDALE, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006**

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water Utility	Wastewater Utility	Sanitation Utility	Total	
Cash flows from operating activities:					
Receipts from customers	\$ 9,095,237	\$ 6,802,509	\$ 3,270,858	\$ 19,168,604	\$ 3,365,859
Payments to suppliers	(2,302,645)	(1,713,095)	(1,660,212)	(5,675,952)	(2,549,547)
Payments to employees	(1,712,009)	(844,211)	(1,269,224)	(3,825,444)	(700,274)
Net cash provided (used) by operating activities	<u>5,080,583</u>	<u>4,245,203</u>	<u>341,422</u>	<u>9,667,208</u>	<u>116,038</u>
Cash flows from non-capital financing activities:					
Due to other funds	-	-	-	-	85,497
Transfers in	650,000	150,000	-	800,000	75,000
Transfers out	-	-	-	-	(37,120)
Net cash provided (used) for non-capital financing activities	<u>650,000</u>	<u>150,000</u>	<u>-</u>	<u>800,000</u>	<u>123,377</u>
Cash flows from capital and related financing activities:					
Proceeds from sale of assets	2,174	-	5,629	7,803	-
Development fees received	6,380,835	5,830,032	320,142	12,531,009	-
Acquisition and construction of capital assets	(15,064,981)	(4,071,913)	(1,208,324)	(20,345,218)	(7,464)
Principal payments on long-term debt	(115,000)	(1,460,881)	-	(1,575,881)	-
Interest paid on long-term debt	(63,736)	(804,994)	-	(868,730)	-
Net cash provided (used) for capital and related financing activities	<u>(8,860,708)</u>	<u>(507,756)</u>	<u>(882,553)</u>	<u>(10,251,017)</u>	<u>(7,464)</u>
Cash flows from investing activities:					
Interest received on investments	1,437,803	962,139	96,820	2,496,762	25,869
Net cash provided by investing activities	<u>1,437,803</u>	<u>962,139</u>	<u>96,820</u>	<u>2,496,762</u>	<u>25,869</u>
Net increase (decrease) in cash and cash equivalents	(1,692,322)	4,849,586	(444,311)	2,712,953	257,820
Cash and cash equivalents, beginning of period	<u>38,666,072</u>	<u>24,101,743</u>	<u>2,562,578</u>	<u>65,330,393</u>	<u>909,093</u>
Cash and cash equivalents, end of period	<u>\$ 36,973,750</u>	<u>\$28,951,329</u>	<u>\$ 2,118,267</u>	<u>\$ 68,043,346</u>	<u>\$ 1,166,913</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities					
Operating income (loss)	\$ (2,379,286)	\$ (571,466)	\$ 101,303	\$ (2,849,449)	\$ 246,863
Adjustment to reconcile operating income (loss) to net cash provided (used) by operating activities					
Depreciation	4,761,441	4,508,137	388,212	9,657,790	75,175
Change in assets and liabilities:					
(Increase) decrease in accounts receivable	(391,252)	(143,799)	(133,394)	(668,445)	449
(Increase) decrease in inventories	46,443	(12,448)	(909)	33,086	(293,067)
(Increase) decrease in prepaid items	(11,556)	(36,867)	-	(48,423)	-
(Increase) decrease in due from other funds	884,554	-	-	884,554	-
Increase (decrease) in accounts payable	2,465,214	768,775	(72,318)	3,161,671	51,535
Increase (decrease) in accrued payroll and employee benefits	51,159	13,160	58,528	122,847	60,727
Increase (decrease) in accrued liabilities	(377,092)	(280,179)	-	(657,271)	(25,644)
Increase (decrease) in construction contracts payable	(97,400)	-	-	(97,400)	-
Increase (decrease) in sales tax payable	37,651	(110)	-	37,541	-
Increase (decrease) in deposits held in custody for others	84,053	-	-	84,053	-
Increase (decrease) in unearned revenue	6,654	-	-	6,654	-
Net cash provided (used) by operating activities	<u>\$ 5,080,583</u>	<u>\$ 4,245,203</u>	<u>\$ 341,422</u>	<u>\$ 9,667,208</u>	<u>\$ 116,038</u>
Reconciliation of cash and cash equivalents at end of year to Statement of Net Assets:					
Cash and cash equivalents	\$ 1,337,623	\$ 201,912	\$ 112,391	\$ 1,651,926	\$ 429,101
Investments	26,028,036	27,893,039	2,021,291	55,942,366	737,812
Restricted cash	9,608,091	856,378	-	10,464,469	-
Total cash and cash equivalents	<u>\$ 36,973,750</u>	<u>\$28,951,329</u>	<u>\$ 2,133,682</u>	<u>\$ 68,058,761</u>	<u>\$ 1,166,913</u>

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

**CITY OF AVONDALE, ARIZONA
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2006**

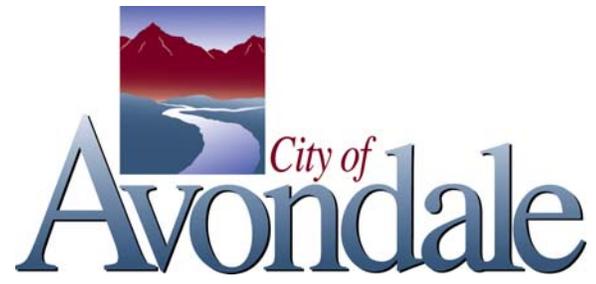
	Volunteer Firefighters' Relief and Pension Trust Fund
	<u> </u>
Assets	
Cash and cash equivalents	\$ 2,708
Investments, at fair value:	
State Treasurer's Local Government Investment Pool	243,569
Receivables	
Interest	<u> 1,531</u>
Total assets	<u> 247,808</u>
Liabilities	
Accounts payable	<u> -</u>
Net assets	
Held in trust for pension benefits	<u> 247,808</u>
Total net assets	<u><u> \$ 247,808</u></u>

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

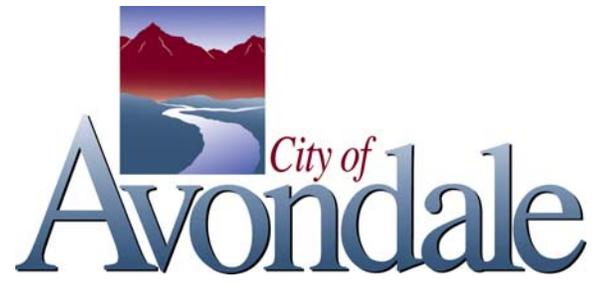
**CITY OF AVONDALE, ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2006**

	Volunteer Firefighters' Relief and Pension Trust Fund
<u>Additions:</u>	
Contributions:	
Employer	\$ -
Employee	-
Interest	9,204
Total additions	<u>9,204</u>
<u>Deductions:</u>	
Benefits paid to plan members	<u>4,800</u>
Total deductions	<u>4,800</u>
Change in net assets	4,404
Total net assets, beginning of year	243,404
Total net assets, end of year	<u>\$ 247,808</u>

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



NOTES TO THE FINANCIAL STATEMENTS



**CITY OF AVONDALE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and procedures of the City of Avondale, Arizona (City), conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting and Standards Board (GASB). The GASB is the recognized standard-setting body for establishing governmental accounting and reporting principles.

For the year ended June 30, 2006, the City implemented the provisions of GASB Statement No. 34, *Basic Financial Statements—Management’s Discussion and Analysis—for State and Local Governments*, that requires at the applicable transition date the retroactive capitalization and reporting of all major infrastructure assets. Also, during the year ended June 30, 2006, the City implemented the provisions of GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*. GASB Statement No. 46 requires that net assets at the end of the reporting period that are restricted by enabling legislation be disclosed in the notes to financial statements, and had no effect on reported amounts for net assets. The effects of retroactive reporting of major infrastructure assets are described in Note 2 on pages 46-47.

A. Reporting Entity

The City is a municipal entity governed by an elected mayor and a six-member council and provides a wide range of services including fire and police protection, water and sanitation services, construction and maintenance of streets and infrastructure, and recreational activities. As required by accounting principles generally accepted in the United States of America (GAAP), the accompanying basic financial statements include financial activities, changes in financial position and cash flows, where applicable, of the City, the primary government, and its component units. Component units are legally separate entities for which the City is considered financially accountable. Blended component units, although legally separate entities, are in substance part of the City’s operations and data from these units are combined with data of the City, the primary government. The blended component unit presented has a June 30 year-end.

The Avondale Municipal Development Corporation (MDC) is a nonprofit corporation organized solely for the purpose of issuing debt to purchase municipal facilities, which it then leases to the City. As the City Council appoints the management of the MDC, receives a financial benefit from a special financing relationship with the MDC, and is financially accountable for the MDC, the corporation is considered a blended component unit of the City. The MDC is reported as a governmental fund type. Financial statements for the MDC are not available as separately issued financial statements are not prepared.

B. Basis of Presentation

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the City as a whole, while the fund statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

**CITY OF AVONDALE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide financial statements – provide useful information about the primary government (the City) and its component units. The statements include a statement of net assets and a statement of activities. These statements report the financial activities and changes in financial position of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole, or primarily, by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not currently have an indirect cost allocation system. However, the General Fund and certain other funds allocate administrative charges to other funds to support general services used by the operating funds such as purchasing, accounting, and administration. These charges are included in the expense column on the Statement of Activities. Program revenues include:

- Charges to customers for applicable goods, services or privileges provided,
- Operating grants and contributions, and
- Capital grants and contributions.

Revenues that are not classified as program revenues, including internally-dedicated resources and all taxes, are reported as general revenues.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements to minimize the double counting of internal activities. However, charges for interfund services provided and used are not eliminated if doing so would distort the direct costs and program revenues reported by the departments concerned.

Fund financial statements – provide information about the City's funds, including the fiduciary funds and blended component units. Separate financial statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds. Fiduciary funds are aggregated and reported by fund type.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the Water Utility, Wastewater Utility, Sanitation Utility and the City's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**CITY OF AVONDALE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City reports the following major governmental funds:

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

The *Highway User Revenue Fund* – is used to account for the City's share of motor fuel tax revenues and Arizona Lottery revenues.

The *Dedicated Sales Tax Revenue Fund* – is used to account for monies received from the voter-approved 0.5-cent sales tax increase dedicated for the purpose of acquiring or constructing capital assets.

The *Public Safety Sales Tax Revenue Fund* – is used to account for monies received from the voter-approved 0.5-cent sales tax increase for the purpose of funding additional police, fire and court activities.

The *Development Fees Fund* – is used to account for monies collected from developers for governmental activities.

The City reports the following major proprietary funds:

The *Water Utility, Wastewater Utility and Sanitation Utility Funds* – account for the revenues from charges to the customers of these services and the costs of these activities.

Additionally, the City reports the following fund types:

The *Internal Service Funds* – account for the risk management, printing, and fleet management services provided to other city departments on a cost-reimbursement basis.

The *Pension Trust Fund* – accounts for assets held by the City in a trustee capacity. The Volunteer Firefighters' Pension Trust Fund was established as a defined contribution plan to provide pensions to volunteer firefighters. The Fund is accounted for in essentially the same manner as enterprise funds since capital maintenance is critical.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Property taxes are recognized as revenue in the year for which they are levied. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed have been met.

**CITY OF AVONDALE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental funds in the fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Those revenues susceptible to accrual are property taxes, intergovernmental revenues, licenses, investment income, and charges for services. Auto lieu taxes, business privilege taxes, and urban revenue sharing taxes are considered available when in the hands of the intermediary collecting governments and are recognized as revenues at that time. Fines, permits and parking meter revenues are not susceptible to accrual because generally they are not measurable until received in cash.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments and compensated absences, which are recognized as expenditures to the extent that they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds.

Proceeds of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

When both restricted and unrestricted resources are available for use, the City uses restricted resources first, then unrestricted resources, as they are required. Additionally, under the terms of grant agreements, the City funds certain programs by a combination of grants and general revenues. The City applies grant resources to such programs before using general revenues.

The City reports deferred revenue on its governmental funds balance sheet. Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the governmental funds balance sheet and revenue is recognized.

The City has adopted GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, for its business-type activities and enterprise funds. The City has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The City has elected not to implement FASB Statements and Interpretations issued after November 30, 1989.

D. Budgets and Budgetary Accounting

On June 3, 1980, Arizona voters approved a constitutional amendment prescribing an expenditure limitation for each county, city, town, and community college district. This constitutional amendment was enacted to control expenditures and limit future increases in spending adjustments for inflation, deflation, and population growth of counties, cities and towns, or student population growth of the community college districts. Provisions were included in the constitutional amendments that allow voter approval to establish an alternative expenditure limitation for cities and towns. The alternative expenditure limitation is valid for a period of two to seven years.

**CITY OF AVONDALE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

On September 13, 2005, City voters approved an alternative expenditure limitation, the effect of which is that the total budgeted expenditures of the adopted budget become the expenditure limitation for that year on a total budget basis. This alternative expenditure limitation is effective for four years.

The City uses the following procedures in establishing the budget reflected in the financial statements.

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. On or before the second Monday in August, the budget is legally enacted through passage of an ordinance.
4. Budgets are adopted on a basis consistent with GAAP.
5. The City Council formally adopts the budget and legally allocates, or appropriates, available monies for the General Fund, Highway User Revenue Fund, Dedicated Sales Tax Revenue Fund, Public Safety Sales Tax Revenue Fund, Local Transportation Assistance Fund, Senior Programs Fund, Juvenile Collection Enhancement Fund, Grants-in-Aid Fund, Other Special Revenue Fund, Development Fees Fund, Vehicle Replacement Fund, Equipment Replacement Fund, Other Capital Projects Fund, General Obligation Bonds Fund, Highway User Revenue Bonds Fund, Dedicated Sales Tax Bonds Fund, and Other Debt Service Fund.
6. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund or any transfers between funds must be approved by the City Council. During the year, City Council approved budgetary transfers of \$40,820, \$150,000, \$4,000 and \$44,000 from the Grants-in-Aid Fund to the General Fund - Health and Welfare function, the Local Transportation Assistance Fund, the Dedicated Sales Tax Revenue Fund, and the Other Debt Service Fund respectively, to cover unanticipated overruns.
7. The legal level of expenditure control is at the function level for the General Fund and at the fund level for all other funds. The original budget has been amended for the year ending June 30, 2006 in a legally permissible manner. Budget-to-actual comparisons are provided in this report for each of the governmental funds.
8. All appropriations lapse at year-end.

**CITY OF AVONDALE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash and investments

Arizona Revised Statutes authorize the City to invest public monies in the State Treasurer's Local Government Investment Pool, interest-bearing savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; bonds or other obligations of the U.S. government that are guaranteed as to principal and interest by the U.S. government; and bonds of the State of Arizona counties, cities, towns, school districts, and special districts as specified by statute.

The State Board of Deposit provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares.

For purposes of the statement of cash flows, the City considers all highly liquid investments with a maturity date of three months or less when purchased to be cash equivalents. Cash and cash equivalents at June 30, 2006, were cash in bank, non-negotiable certificates of deposit, cash and investments held by the State Treasurer, and cash held by paying agent.

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest-earning 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.

F. Inventories

Inventories for governmental and proprietary funds consist primarily of expendable supplies. Governmental funds maintain inventories using the consumption method of accounting. All inventories are valued at cost, which approximates market. Inventories are maintained on a first-in/first out method of valuation. Physical inventories are conducted at year-end for financial statement purposes.

G. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control. Open encumbrances are not reported as reservations of fund balance at June 30, 2006, but liquidated and re-established at the beginning of the next fiscal year. Outstanding encumbrances at year-end were insignificant.

H. Investment Income

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

**CITY OF AVONDALE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Prepaid Assets

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid assets.

J. Capital Assets

Capital assets, including public domain infrastructure such as roads, bridges, curbs and gutters, streets and sidewalks, storm drain system, lighting systems, water distribution system, and sewer collection system, are reported in the government-wide financial statements and the proprietary fund financial statements.

The City defines capital assets as items with initial, individual costs of more than \$5,000 and estimated useful lives greater than one year. These assets are reported at actual cost or estimated historical cost if purchased or constructed. Donated capital assets are reported at the estimated fair value at the time received. The City does not capitalize normal maintenance and repair costs that do not add to the value or significantly extend the life of the asset.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Useful Life Years)</u>
Buildings and improvements	40
Water and sewer systems and improvements	50
Storm drain system and improvements	50
Street system	30-40
Park facilities and streetscape	20
Streetlights and control devices	20
Machinery and equipment	5-15
Furniture and fixtures	5-10
Vehicles	3-15
Computers and software	3

K. Compensated Absences

Compensated absences consist of vacation leave and a calculated amount of sick leave earned by employees based on services already rendered. The City's employee vacation and sick leave policies generally provide for granting vacation and sick leave with pay. Vacation accumulates up to 240 hours for regular full-time employees and 336 for full-time fire employees.

In the governmental funds, the vested accumulated liability for vacation leave used within 60 days of the fiscal year-end is a current liability and is accrued in the applicable fund. For the government-wide financial statements, as well as the proprietary fund financial statements, all of the outstanding vacation, compensatory time and benefits are recorded as a liability.

**CITY OF AVONDALE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

Employees may accumulate an unlimited number of sick leave hours. Generally, sick leave benefits are forfeited upon termination of employment. However, upon retirement, employees with 10 years of continuous service with the City are compensated for 250 hours and employees with 20 years of continuous service with the City are compensated for 500 hours. This amount is accrued as a liability in the government-wide and proprietary funds, as applicable.

L. Use of Estimates

The preparation of 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 reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of net assets/balance sheet and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 BEGINNING BALANCES RESTATED

During the fiscal year ended June 30, 2006, the City completed the retroactive infrastructure reporting requirements of GASB Statement No. 34 for infrastructure assets acquired prior to the year ended June 30, 2003; the year that the City implemented GASB Statement No. 34. The retroactive capitalization of these assets resulted in a restatement of net assets on the government-wide Statement of Activities and the Proprietary Funds Statement of Revenues, Expenses and Changes in Fund Net Assets and includes water and sewer systems, storm drain system, street system, street lights and control devices, and other public domain infrastructure assets that were constructed, purchased, or donated to the City. The July 1, 2005, capitalized amounts were based on estimated historical cost as determining the historical cost was not practical due to inadequate records. Depreciation was calculated using the straight-line method and applicable useful lives presented in Note 1 on page 45.

The following summarizes the restatement of infrastructure in the government-wide financial statements and proprietary fund financial statements:

	Primary Government	
	Governmental Activities	Business-type Activities
Net assets at June 30, 2005, as previously reported	\$ 52,170,316	\$ 145,054,193
General infrastructure assets	181,561,786	
Water distribution system		153,514,644
Sewer collection system		140,733,067
Net assets at July 1, 2005, as restated	<u>\$ 233,732,102</u>	<u>\$ 439,301,904</u>

**CITY OF AVONDALE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 2 BEGINNING BALANCES RESTATED (Concluded)

	Business-type Activities - Enterprise Funds	
	Water Utility	Wastewater Utility
Net assets at June 30, 2005, as previously reported	\$ 87,309,784	\$ 53,784,185
Water distribution system	153,514,644	
Sewer collection system		140,733,067
Net assets at July 1, 2005, as restated	<u>\$ 240,824,428</u>	<u>\$ 194,517,252</u>

NOTE 3 CASH AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. Each fund's portion of this pool is displayed on the financial statements as cash and cash equivalents or investments, as applicable. Pooled cash and investments are stated at fair value. Restricted cash and investments are amounts held separately by trustees.

Custodial credit risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a bank or depository financial institution, a government's deposits may not be returned to it. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance. The City does not have a formal deposit or investment policy for custodial credit risk.

Concentration of credit risk

Statutes do not include any requirements for concentration of credit risk, nor does the City have a formal policy for concentration of credit risk.

Interest rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity period of an investment, the greater the sensitivity of its fair value to the changes in market interest rates. The City does not have a formal policy for interest rate risk.

Deposits

The City's carrying amount of deposits at June 30, 2006, was \$6,281,795 and the bank balance was \$7,057,218. The difference between the book and bank balance was due to outstanding checks, deposits and other reconciling items. Of the bank balance, \$400,000 was covered by federal depository insurance. The remaining deposits were collateralized with securities held by the pledging institution or by its trust department or agent, but not in the City's name.

**CITY OF AVONDALE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 3 CASH AND INVESTMENTS (Concluded)

Restricted cash and cash equivalents with fiscal agent - At June 30, 2006, the City had restricted cash with fiscal agent of \$18,217,163. Of this balance, \$12,712,089 (fair value) of restricted construction bond proceeds was invested with the State Treasurer's Local Government Investment Pool. The remaining cash balance of \$5,505,074 reflects cash temporarily held by fiscal agent for the City's July 1, 2006, debt service payments and was collateralized with securities held by the pledging institution or by its trust department or agent, but not in the City's name.

Fiduciary cash – At June 30, 2006, the Volunteer Firefighters' Relief and Pension Trust Fund had deposits of \$2,708 and the bank balance was \$2,708. The entire balance was collateralized with securities held by the pledging institution or by its trust department or agent, but not in the City's name.

Investments

Arizona Revised Statutes and the City Charter authorize the City to invest public monies in obligations of the U.S. government that are guaranteed as to principal and interest by the U.S. government; and bonds of the State of Arizona counties, cities, towns, school districts, special districts as specified by statute, and the State Treasurer's Local Government Investment Pool.

The State Board of Deposit provides oversight for the State Treasurer's pools. Additionally, the City may invest in interest-bearing savings accounts, certificates of deposit, and repurchase agreements in eligible depositories.

The City invests in the State Treasurer's Local Government Investment Pool–Government Pool (LGIP-GOV). The LGIP-GOV invests solely in securities that are backed by the full faith and credit of the U.S. Government. The pool is not required to register (and is not registered) with the Securities and Exchange Commission under the 1940 Investment Advisors Act. The Activity and performance of the pool is monitored monthly by the State Board of Investment in accordance with A.R.S. § 35-311. The maximum weighted average maturity for the LGIP-GOV is 0.50 years.

The LGIP-GOV is stated at fair value, which approximates the value of the investment upon withdrawal. At June 30, 2006, the City's investment balances in the LGIP-GOV and credit risk were as follows:

Investment Type	Weighted Average Maturity (Years)	Credit Risk		Fair Value
		Rating	Rating Agency	
State Treasurer's Pool				
Primary government	0.1	Unrated	Not Applicable	\$ 110,085,866
Fiduciary activities	0.1	Unrated	Not Applicable	243,569
Total Pool				110,329,435
TOTAL INVESTMENTS	0.1			\$ 110,329,435

**CITY OF AVONDALE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 4 PROPERTY TAX REVENUES

Property taxes are levied by the City and collected by the Maricopa County Treasurer. Property taxes are levied no later than the third Monday in August and are payable in two installments due October 1 of the current year and April 1 of the subsequent year. Taxes become delinquent after the first business day of November and May, respectively. Interest attaches on installments after the delinquency date at a rate of 16%. A lien against property assessed attaches on the first day of January preceding the levy.

The State Constitution and State law specify a property tax levy limitation system. The system consists of two levies, a limited levy known as the primary property tax levy and an unlimited levy referred to as the secondary levy, which may only be used to retire bonded indebtedness.

The primary tax levy is limited to an increase of 2% over the previous year's maximum allowable primary levy, plus an increased dollar amount because of a net gain in property not taxed the previous year. Also, the primary property tax from all taxing jurisdictions for homeowners may not exceed 1% of the market value of their homes. If the combined primary property tax (for the City, County, School District, etc.) exceeds 1% of the market value of the homes, the school districts will reduce their rate until the homeowners' aggregate rate is equal to or less than the allowable 1%. The State will then subsidize the school districts for the reduced revenue. This 1% limitation applies to primary property taxes only and does not affect the secondary property tax levy.

There is also a control on the assessed value of property for primary tax purposes. The base year for the new tax system is fiscal year 1978-79. From this base year, two assessed values evolve. The primary assessed values are allowed to increase by no more than 10% a year. The dollar amount of the secondary property tax levy is "unlimited" and the actual full cash value of property is used in determining the tax rate.

Property tax revenues are recognized as revenues in the government-wide financial statements, when an enforceable legal claim has arisen. Therefore, the City recognizes revenue and a receivable for the entire tax levy in the year it is levied. For the governmental fund financial statements, property taxes are recognized as revenues in the year they are levied and collected or if they are collected within 60 days subsequent to year-end. Property taxes not collected within 60 days subsequent to fiscal year-end or collected in advance of year-end for which they are levied are reported as deferred revenues.

NOTE 5 RECEIVABLES

Receivables in the General, Special Revenue, Debt Service, Capital Projects, and Pension Trust Funds are considered to be fully collectible; therefore, an allowance for doubtful accounts has not been established in these funds. The allowances for doubtful accounts for utility-related receivables in the Water Utility, Wastewater Utility and Sanitation Utility at June 30, 2006, are \$270,000, \$205,000, and \$100,000, respectively. Additionally, uncollectible amounts relating to revenues in the current period for the Water Utility, Wastewater Utility and Sanitation Utility are \$42,978, \$16,481 and \$15,492, respectively.

**CITY OF AVONDALE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 6 CAPITAL ASSETS

A summary of capital asset activity for the governmental activities on the government-wide financial statements for the year ended June 30, 2006, follows:

	Balance July 1, 2005, as restated	Additions	Deletions	Balance June 30, 2006
Governmental Activities:				
Non-depreciable assets:				
Land	\$ 9,720,314	\$ 2,078,827	\$ -	\$ 11,799,141
Construction in progress	8,415,175	19,464,417	(9,671,538)	18,208,054
Total non-depreciable capital assets	<u>18,135,489</u>	<u>21,543,244</u>	<u>(9,671,538)</u>	<u>30,007,195</u>
Depreciable assets:				
Building and improvement	35,237,566	4,916,189	-	40,153,755
Vehicles, furniture, and equipment	15,631,884	3,044,855	(372,467)	18,304,272
Infrastructure	262,537,891	4,613,073	-	267,150,964
Total depreciable capital assets	<u>313,407,341</u>	<u>12,574,117</u>	<u>(372,467)</u>	<u>325,608,991</u>
Less accumulated depreciation for:				
Buildings and improvements	5,931,659	1,074,846	-	7,006,505
Vehicles, furniture and equipment	10,134,498	2,176,802	(348,033)	11,963,267
Infrastructure	62,278,128	6,979,452	-	69,257,580
Total accumulated depreciation	<u>78,344,285</u>	<u>10,231,100</u>	<u>(348,033)</u>	<u>88,227,352</u>
Total capital assets being depreciated, net	<u>235,063,056</u>	<u>2,343,017</u>	<u>(24,434)</u>	<u>237,381,639</u>
Total governmental activities capital assets, net	<u>\$ 253,198,545</u>	<u>\$ 23,886,261</u>	<u>\$ (9,695,972)</u>	<u>\$ 267,388,834</u>

A summary of capital asset activity for the business-type activities on the government-wide financial statements for the year ended June 30, 2006, follows:

	Balance July 1, 2005, as restated	Additions	Deletions	Balance June 30, 2006
Business-type activities:				
Non-depreciable assets:				
Land	\$ 15,596,661	\$ 655,642	\$ -	\$ 16,252,303
Construction in progress	14,240,402	18,273,880	(10,018,209)	22,496,073
Total non-depreciable assets	<u>29,837,063</u>	<u>18,929,522</u>	<u>(10,018,209)</u>	<u>38,748,376</u>
Depreciable assets:				
Water system	203,981,046	9,356,746	-	213,337,792
Sewer system	182,529,249	652,510	-	183,181,759
Wastewater treatment system	31,775,615	-	-	31,775,615
Vehicles, furniture and equipment	4,423,749	1,519,523	(401,078)	5,542,194
Total depreciable capital assets	<u>422,709,659</u>	<u>11,528,779</u>	<u>(401,078)</u>	<u>433,837,360</u>
Less accumulated depreciation for:				
Water system	28,785,891	4,633,446	-	33,419,337
Sewer system	22,974,175	3,853,552	-	26,827,727
Wastewater treatment system	6,329,281	600,037	-	6,929,318
Vehicles, furniture and equipment	2,963,080	570,755	(360,840)	3,172,995
Total accumulated depreciation	<u>61,052,427</u>	<u>9,657,790</u>	<u>(360,840)</u>	<u>70,349,377</u>
Total capital asset being depreciated, net	<u>361,657,232</u>	<u>1,870,989</u>	<u>(40,238)</u>	<u>363,487,983</u>
Total business-type activity capital assets, net	<u>\$ 391,494,295</u>	<u>\$ 20,800,511</u>	<u>\$ (10,058,447)</u>	<u>\$ 402,236,359</u>

**CITY OF AVONDALE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 6 CAPITAL ASSETS (Concluded)

The July 1, 2005, governmental and business-type activities capital assets balances were restated to include major infrastructure assets of the City, as described in Note 2. In addition, the prior year summary of capital assets for the business-type activities contained misstatements of certain depreciable asset types and related accumulated depreciation. The misstatements resulted in an understatement of depreciable capital assets of \$1,836,853 and understatement of accumulated depreciation by the same amount in the summary and had no effect on net assets reported in the government-wide financial statements and proprietary fund financial statements at June 30, 2005.

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 1,386,019
Public safety	1,107,051
Highways and streets	7,129,744
Health and welfare	18,943
Economic and community development	20,659
Culture and recreation	493,509
Internal services	75,175
Total depreciation expenses - governmental activities	<u><u>\$ 10,231,100</u></u>
Business-type activities:	
Water utility	\$ 4,761,441
Wastewater utility	4,508,137
Sanitation utility	388,212
Total depreciation expense - business-type activities	<u><u>\$ 9,657,790</u></u>

NOTE 7 NET ASSETS

The City's government-wide Statement of Net Assets reports \$ 69,247,773 of restricted net assets for the primary government, of which \$ 21,730,597 is restricted by enabling legislation.

NOTE 8 RETIREMENT PLANS

All of the City's full-time employees participate in one of four pension plans. The Arizona State Retirement System (ASRS) is for the benefit of the employees of the State and other participating government jurisdictions. All full-time employees except police and fire participate in ASRS. All full-time police and fire employees participate in Public Safety Personnel Retirement System (PSPRS). The City's Mayor and Council participate in the Elected Officials' Retirement Plan (EORP). Volunteer firefighters participate in the Volunteer Firefighters' Relief and Pension Trust Fund.

**CITY OF AVONDALE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 8 RETIREMENT PLANS (Continued)

Arizona State Retirement System

Plan Description. The Arizona State Retirement System (ASRS) administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the City. 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. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. ASRS issues a publicly available report that includes financial statements and required supplementary information. The report may be obtained in writing at ASRS, 3300 N. Central Avenue, P.O. Box 33910, Phoenix, Arizona 85012-3910 or by calling 602-240-2000 or 1-800-621-3778.

Funding Policy. The Arizona State Legislature establishes and may amend benefits, provisions and contribution rates of active plan members. For the year ended June 30, 2006, active ASRS members and the City were each required by statute to contribute at the actuarially determined rate of 7.4 percent (6.9 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The City's contributions to ASRS for the years ended June 30, 2006, 2005 and 2004 were \$1,051,987, \$692,189, and \$589,327, respectively, which were equal to the required contributions for those years. For the years ended June 30, 2005 and 2004, the City was required by statute to contribute at the actuarially determined rate of 5.7 percent (4.1 percent retirement, 1.1 percent health benefit services and .5 percent long-term disability) of members' annual covered payroll.

Public Safety Personnel Retirement System

Plan Description. 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 167 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. PSPRS issues a publicly available report that includes financial statements and required supplementary information. The report may be obtained in writing at Public Safety Personnel Retirement System, 3010 East Camelback Road, Suite 200, Phoenix, AZ 85016-4416 or by calling 602-255-5575.

Funding Policy - The Arizona State Legislature establishes and may amend benefits, provisions and contribution rates of active plan members. For the year ended June 30, 2006, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll, and the City was required to contribute at the actuarially determined rate of 10.40 percent for police and 9.47 percent for fire. The City contributed the required amount.

**CITY OF AVONDALE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 8 RETIREMENT PLANS (Continued)

Annual Pension Cost - The City's pension cost for the year ended June 30, 2006, the date of the most recent actuarial valuation, and related information follow.

	PSPRS - Police	PSPRS – Fire
Contribution rates:		
City	10.40%	9.47%
Plan members	7.65%	7.65%
Annual pension cost	491,661	367,553
Contributions made	491,661	367,553
Actuarial valuation date	6/30/06	6/30/06
Actuarial cost method	Entry Age	Entry Age
Actuarial assumptions:		
Investment rate of return	8.50%	8.50%
Projected salary increases	5.50% - 8.50%	5.50% - 8.50%
Includes inflation at cost-of-living adjustments	5.00%	5.00%
Post-retirement benefit increases	Based on Investment Income	Based on Investment Income
Amortization method	Level Percentage Open	Level Percentage Open
Remaining amortization period from 7/1/03	Open 20 Years	Open 20 Years
Asset valuation method	4-Year Smoothed Market	4-Year Smoothed Market

Trend information – PSPRS annual pension cost information as of the most recent actuarial valuation follows:

Plan	Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contribution	Net Pension Obligation
PSPRS – Police	2006	\$491,661	100%	-
	2005	\$442,882	100%	-
	2004	\$457,387	100%	-
PSPRS – Fire	2006	\$367,553	100%	-
	2005	\$179,635	100%	-
	2004	\$103,684	100%	-

Funding progress – An analysis of funding progress for each of the plans as of the most recent actuarial valuations, June 30, 2006, follows:

PSPRS – Police

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Funding Liability (Excess)	Funded Ratio	Annual Covered Payroll	Unfunded Liability as Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	([b-a]/c)
6/30/06	\$ 8,191,645	\$10,473,925	\$2,282,280	78.2%	\$ 4,788,461	(47.7%)
6/30/05	\$ 7,261,452	\$9,067,492	\$1,806,040	80.1%	\$ 4,287,267	(42.1%)
6/30/04	\$ 6,041,344	\$7,190,837	\$1,149,493	84.0%	\$ 4,111,058	(28.0%)

**CITY OF AVONDALE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 8 RETIREMENT PLANS (Concluded)

PSPR – Fire

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Funding Liability (Excess)	Funded Ratio	Annual Covered Payroll	Unfunded Liability as Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	[(b-a)/c]
6/30/06	\$5,787,876	\$7,202,151	\$1,414,275	80.4%	\$ 3,614,970	-39.1%
6/30/05	\$4,584,992	\$5,004,123	\$419,980	91.6%	\$ 2,919,910	-14.4%
6/30/04	\$3,858,915	\$4,302,835	\$443,920	89.7%	\$ 2,751,694	-16.1%

Elected Officials' Retirement Plan

The Elected Officials' Retirement Plan (EORP) is a multiple-employer cost sharing defined benefit pension plan. The EORP is administered by the State of Arizona to provide pension benefits for state and county elected officials, judges, and elected officials of participating cities. The EORP is governed by The Fund Manager of the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 3. The Arizona State Legislature establishes and may amend benefits, provisions and contribution rates of active plan members. EORP provides retirement benefits, as well as death and disability benefits. The EORP issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Elected Officials' Retirement Plan, 3010 East Camelback Road, Suite 200, Phoenix, AZ 85016-4416 or by calling 602-255-5575.

For the year ended June 30, 2006, active EORP members were required by statute to contribute 7 percent of the members' annual covered payroll. The payroll for employees covered by EORP for the year ended June 30, 2006, was \$57,900. City contributions to the plan were 20.54% of the members' annual covered payroll, as determined by actuarial valuation. The City's contribution to EORP for the years ended June 30, 2006, 2005 and 2004 were \$11,893, \$8,256 and \$8,256, respectively, which were equal to the required contributions for those years. For the years ended June 30, 2005 and 2004, active employees were required by statute to contribute 7 percent of the members' annual covered payroll. City contributions to the plan were 13.49% of the members' annual covered payroll, as determined by actuarial valuation.

Volunteer Firefighters' Relief and Pension Trust Fund

The Volunteer Firefighters' Relief and Pension Trust Fund (VFRPTF) is a defined contribution plan to provide pensions to volunteer firefighters only. The plan is administered according to state statute that requires both the employee and the City to make contributions equal to 5 percent of the employees' compensation. Some monies are also received from the State. After a volunteer firefighter has 20 years of service, he or she is entitled to a monthly pension, the amount of which is determined by the board of trustees of the VFRPTF, not to exceed \$400. If an employee resigns before completing 20 years of service, he or she is entitled to a refund of his or her contributions only. He or she is not entitled to any part of the employer's contributions, the amounts received from the State, or earnings on any of the contributions.

The payroll for employees covered by VFRPTF for the year ended June 30, 2006, was \$0. Therefore, there were no required contributions from either the City or the employees.

**CITY OF AVONDALE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 9 LONG-TERM OBLIGATIONS

A summary of changes in governmental activities long-term liabilities reported in the government-wide financial statements for the year ended June 30, 2006, is as follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Due Within One Year
Governmental activities:					
Compensated absences	\$ 1,365,807	\$ 198,091	\$ 20,815	\$ 1,543,083	\$ 941,926
Capital leases payable	2,507,621	927,040	373,291	3,061,370	467,186
Contractual Obligations	428,000	-	107,000	321,000	107,000
Claims payable	305,724	-	25,644	280,080	56,650
Municipal Development					
Corporation Bonds	51,743,638	11,360,685	13,535,682	49,568,641	3,266,404
General Obligation Bonds	18,775,000	4,145,000	5,215,000	17,705,000	1,575,000
Highway User Revenue	4,065,000	3,185,000	3,330,000	3,920,000	410,000
	<u>\$ 79,190,790</u>	<u>\$ 19,815,816</u>	<u>\$ 22,607,432</u>	<u>\$ 76,399,174</u>	<u>\$ 6,824,166</u>

The internal service funds predominantly serve governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At fiscal year end \$33,917 of internal service funds compensated absences are included in the above amounts.

Compensated Absences - The compensated absences represent the portion of employee vacation and vested sick leave that will not be liquidated with current assets of the governmental fund types. Compensated absences are generally liquidated by the General Fund.

Capital Leases Payable - The City has entered into lease agreements for a number of capital purchases, including office buildings, street lights, sanitation trucks, and other heavy equipment. These leases provide bargain purchase options and transfer of title at the end of the lease term. The leases range from 5 to 10 years in length and vary in interest rates from 5.25% to 7.8%.

Accordingly, the assets have been capitalized at the present value of the future minimum lease payments as of the date of their inception.

The assets acquired through capital lease are as follows:

Asset:	
Buildings and Improvements	\$ 2,174,449
Vehicles	2,049,237
Less: accumulated depreciation	(897,333)
Total	<u>\$ 3,326,353</u>

**CITY OF AVONDALE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 9 LONG-TERM OBLIGATIONS (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2006, were as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2007	\$467,186	\$118,297
2008	455,350	99,664
2009	412,040	81,164
2010	397,311	64,740
2011	381,666	49,232
2012-2016	947,817	52,660
Total	<u>\$3,061,370</u>	<u>\$465,757</u>

Contractual Obligations - The contractual obligations line item reflects the City's required financial contribution toward bridge construction that occurred in an earlier year. The City was required to make equal payments of \$107,000. There is no interest. Three payments remain at the end of fiscal year 2006.

Municipal Development Corporation Bonds – Municipal Development Corporation (MDC) Bonds are issued for the purpose of constructing capital assets and related improvements. MDC bonds are backed by the City's general excise taxes. Principal and interest payments are due semi-annually. The following issues are currently outstanding.

<u>Issue</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Outstanding Principal June 30, 2006</u>
1999 series bonds	3.6-4.7%	2011	\$ 3,157,955
2002 series bonds	3.0-4.25%	2015	11,975,000
2003 series bonds	2.0-3.75%	2015	11,270,000
2004 series bonds	2.5-4.3%	2020	11,805,000
2005 series bonds	3.0 - 4.0%	2020	11,360,686
			<u>\$ 49,568,641</u>

Annual debt service requirements to maturity for Municipal Development Corporation Bonds are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 3,266,404	\$ 1,712,705
2008	3,312,408	1,617,928
2009	3,432,522	1,513,156
2010	3,617,055	1,378,721
2011	3,754,029	1,245,620
2012-2016	18,438,186	4,177,901
2017-2021	13,748,037	1,105,482
Total	<u>\$ 49,568,641</u>	<u>\$ 12,751,513</u>

**CITY OF AVONDALE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 9 LONG-TERM OBLIGATIONS (Continued)

Refunded Municipal Development Corporation Bonds

On September 20, 2005, the City issued \$11,360,685 in Municipal Development Corporation Bonds with an average interest rate of 4.05% to advance refund \$10,529,231 of outstanding 1999 and 2002 Municipal Development Corporation Bonds with an average interest rate of 4.90%. The net proceeds of \$11,125,328 (less cost of issuance of \$218,662, less additional proceeds of \$1,090, and less \$15,605 of original discount) 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 on the refunded bonds. As a result, a portion of the 1999 and 2002 bonds are considered to be defeased and the liability for those bonds has been removed from the long-term liabilities in the financial statements.

The City advance refunded a portion of the 1999 and 2002 Municipal Development Corporation bonds to reduce its total debt service payments over the next 15 years by \$371,234 and to obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$223,100.

General Obligation Bonds - General obligation bonds are issued for the purpose of constructing capital assets and related improvements. General obligation bonds are backed by the taxing power of the City and are approved by the voters. Principal and interest payments are due semi-annually. The following issues are currently outstanding.

<u>Issue</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Outstanding Principal June 30, 2006</u>
1997 series bonds	7.125%	2007	\$ 615,000
1998 series bonds	4.1 - 5.8%	2018	3,880,000
2003 series A bonds	2.0 - 4.0%	2014	2,590,000
2003 series B bonds	2.0 - 2.75%	2010	6,475,000
2005 series bonds	3.0 - 5.0%	2016	4,145,000
			<u>\$ 17,705,000</u>

Annual debt service requirements to maturity for General Obligation Bonds are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 1,575,000	\$ 550,519
2008	1,945,000	481,835
2009	2,400,000	423,018
2010	2,920,000	342,628
2011	2,035,000	280,068
2012-2016	5,005,000	879,013
2017-2021	1,825,000	55,290
Total	<u>\$ 17,705,000</u>	<u>\$ 3,012,371</u>

**CITY OF AVONDALE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 9 LONG-TERM OBLIGATIONS (Continued)

Refunded General Obligation Bonds

On August 11, 2005, the City issued \$4,145,000 in General Obligation Bonds with an average interest rate of 3.78% to advance refund \$4,030,000 of outstanding 1997 General Obligation Bonds with an average interest rate of 4.75%. The net proceeds of \$4,131,250 (less cost of issuance of \$82,362, less additional proceeds of \$4,379, and plus \$72,991 of premium) 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 on the refunded bonds. As a result, a portion of the 1997 bonds are considered to be defeased and the liability for those bonds has been removed from the long-term liabilities in the financial statements.

The City advance refunded a portion of the 1997 General Obligation Bonds to reduce its total debt service payments over the next 11 years by \$161,234 and to obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$119,575.

Highway User Revenue Bonds - Highway User Revenue Bonds are issued for the specific purpose of constructing street and highway projects. The state-shared motor fuel tax revenues secure these bonds. The voters must approve these bonds. Principal and interest payments are due semi-annually. The following issues are currently outstanding.

<u>Issue</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Outstanding Principal June 30, 2006</u>
1991 series bonds	7.0 – 9.5%	2006	\$ 270,000
1998 series bonds	4.4 – 6.9%	2008	465,000
2005 series bonds	3.0 - 3.875%	2017	3,185,000
			<u>\$ 3,920,000</u>

Annual debt service requirements to maturity for Highway User Revenue Bonds are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 410,000	\$ 127,828
2008	135,000	122,308
2009	290,000	109,838
2010	305,000	100,688
2011	315,000	90,844
2012-2016	1,745,000	273,350
2017-2021	720,000	12,788
Total	<u>\$ 3,920,000</u>	<u>\$ 837,644</u>

**CITY OF AVONDALE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 9 LONG-TERM OBLIGATIONS (Continued)

Refunded Highway User Revenue Bonds

On August 11, 2005, the City issued \$3,185,000 in Highway User Revenue Bonds with an average interest rate of 3.83% to advance refund \$2,980,000 of outstanding 1998 Highway User Revenue Bonds with an average interest rate of 4.91%. The net proceeds of \$3,080,597 (less cost of issuance of \$81,557, less additional proceeds of \$4,185, and less \$18,661 of original discount) 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 on the refunded bonds. As a result, a portion of the 1998 bonds are considered to be defeased and the liability for those bonds has been removed from the long-term liabilities in the financial statements.

The City advance refunded a portion of the 1998 Highway User Revenue bonds to reduce its total debt service payments over the next 12 years by \$102,595 and to obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$77,404.

A summary of changes in long-term liabilities for the business-type activities reported in the government-wide financial statements for the year ended June 30, 2006 is as follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Due Within One Year
Business-type activities:					
Compensated absences	\$ 150,057	\$ 43,353	\$ 3,819	\$ 189,591	\$ 110,500
Water and sewer revenue bonds	1,585,000	-	85,000	1,500,000	90,000
Municipal Development Corporation bonds	9,296,360	1,489,315	2,154,317	8,631,357	838,596
Water infrastructure financing loans	10,332,258	-	728,014	9,604,245	759,631
	<u>\$ 21,363,675</u>	<u>\$ 1,532,668</u>	<u>\$ 2,971,150</u>	<u>\$ 19,925,193</u>	<u>\$ 1,798,727</u>

The revenue produced by the water and sewer facilities secures Water and Sewer Revenue Bonds. The voters must approve these bonds. Principal and interest payments are due semi-annually. The following issues are currently outstanding.

Issue	Interest Rate	Maturity	Outstanding Principal June 30, 2006
1998 series bonds	4.1 – 5.95%	2018	\$ 1,500,000
			<u>\$ 1,500,000</u>

**CITY OF AVONDALE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 9 LONG-TERM OBLIGATIONS (Continued)

Annual debt service requirements to maturity for Water and Sewer Revenue Bonds are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 90,000	\$ 64,363
2008	90,000	60,673
2009	95,000	56,730
2010	100,000	52,480
2011	105,000	47,913
2012-2016	600,000	159,963
2017-2021	420,000	20,855
Total	<u>\$ 1,500,000</u>	<u>\$ 462,977</u>

Municipal Development Corporation Bonds are payable from water and sewer revenues. Principal and interest payments are due semi-annually. The following issues are currently outstanding.

<u>Issue</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Outstanding Principal June 30, 2006</u>
1996 series bonds	3.45 – 5.2%	2013	\$ 5,270,000
1999 series (37% of total issue)	3.6 – 4.7%	2011	1,872,044
2005 series bonds (12% of total issue)	3.0 - 4.0%	2021	1,489,313
			<u>\$ 8,631,357</u>

Annual debt service requirements to maturity for Municipal Development Corporation Bonds for business-type activities are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 838,596	\$ 369,818
2008	857,592	330,319
2009	897,479	288,069
2010	942,945	242,742
2011	990,971	194,098
2012-2016	2,926,811	371,966
2017-2021	1,176,963	89,289
Total	<u>\$ 8,631,357</u>	<u>\$ 1,886,301</u>

**CITY OF AVONDALE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 9 LONG-TERM OBLIGATIONS (Concluded)

Refunded Municipal Development Corporation Bonds

On September 20, 2005, the City issued \$1,489,315 in Municipal Development Corporation Bonds with an average interest rate of 4.05% to advance refund \$1,380,769 of outstanding 1999 Municipal Development Corporation Bonds with an average interest rate of 4.90%. The net proceeds of \$1,458,461 (less cost of issuance of \$28,665, less additional proceeds of \$143, and less \$2,046 of original discount) 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 on the refunded bonds. As a result, a portion of the 1999 bonds are considered to be defeased and the liability for of those bonds has been removed from the long-term liabilities in the financial statements.

The City advance refunded a portion of the 1999 Municipal Development Corporation Bonds to reduce its total debt service payments over the next 15 years by \$48,667, and to obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$29,247.

Water Infrastructure Financing Loans are payable from water and sewer revenues. Principal and interest payments are due semi-annually. The following issues are currently outstanding.

<u>Issue</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Outstanding Principal June 30, 2006</u>
1992 series	3.40%	2012	\$ 4,423,876
1999 series	3.94%	2021	5,180,369
			<u>\$ 9,604,245</u>

Annual debt service requirements to maturity for Water Infrastructure Financing Loans are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 759,631	\$ 327,366
2008	790,247	299,029
2009	819,829	269,628
2010	848,345	239,197
2011	885,296	207,447
2012-2016	3,431,874	585,315
2017-2021	2,069,023	169,335
Total	<u>\$ 9,604,245</u>	<u>\$ 2,097,317</u>

**CITY OF AVONDALE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 10 SEGMENT INFORMATION

Since the City's three identifiable business segments are discretely presented in the proprietary funds financial statements, all required information is disclosed on the face of those statements.

NOTE 11 INTERFUND PAYABLES, RECEIVABLES, AND TRANSFERS

Interfund balances as of June 30, 2006 were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Non-major Governmental Funds	\$ 20,230
General Fund	Internal Service Funds	85,497
		<u>\$ 105,727</u>

The \$105,727 receivable in the General Fund is due to a temporary borrowing to offset a deficit cash position in one of the non-major governmental funds and internal service funds.

During the year, transfers between funds were routine in nature and consistent with the fund making the transfer. Transfers were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental funds:		
General Fund	\$ -	\$ 5,814,800
Highway User Revenue Fund	-	885,790
Dedicated Sales Tax Revenue Fund	-	6,427,190
Public Safety Sales Tax Revenue Fund	-	383,270
Development Fees Fund	4,643,490	1,167,560
Non-major Governmental Funds	9,590,730	393,490
Total governmental funds	14,234,220	15,072,100
Enterprise funds:		
Water Utility Fund	650,000	-
Wastewater Utility Fund	150,000	-
Total enterprise funds	800,000	-
Internal service funds	75,000	37,120
Grand total	<u>\$ 15,109,220</u>	<u>\$ 15,109,220</u>

**CITY OF AVONDALE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 12 RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has obtained commercial coverage for Property Insurance, Public Employee Fidelity Bonds, Crime Insurance and Miscellaneous Insurance (i.e., surety bonds, special event insurance as needed, and fine arts coverage). The City retains all of the risk not covered by commercial carriers and has effectively managed risk through various employee education and prevention programs.

All risk management activities are accounted for in the Risk Management Fund, an Internal Service Fund. There have not been any settlements in excess of the insurance coverage provided by this fund since the inception of the City's self-insurance program in fiscal year 2005.

Annually, the City estimates the liabilities for unpaid claims using a historical cost information method. Claims and expenses are recognized when it is probable that a loss has been incurred, and the amount of the loss can be reasonably estimated. Claims accounted for include reported and paid claims, reported but unpaid claims, and incurred but not reported (IBNR) claims.

The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Unpaid claims liability amounts are reported gross (no discounting).

Changes in the Risk Management Fund's aggregate claims liability for the fiscal years ended June 30, 2006, and 2005 were as follows:

	2006	2005
Beginning balance at July 1	\$ 305,724	\$ -
Current year claims and changes in estimates (including IBNR's)	58,277	492,886
Claim payments	83,921	187,162
Ending balance at June 30	<u>\$ 280,080</u>	<u>\$ 305,724</u>

NOTE 13 CONTINGENT LIABILITIES

Lawsuits - The City is a defendant in a number of lawsuits as of June 30, 2006. It is the opinion of management and city counsel that the amount of losses resulting from this litigation at June 30, 2006, if any, would not be material to the financial position of the City.

Federal and State Grants - The City has received a number of grants from both the Federal and State Governments. Some programs have been audited as of June 30, 2006. The City expects no material disallowance of expenditures.

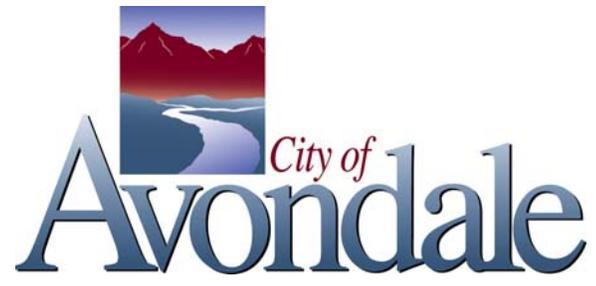
**CITY OF AVONDALE, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 14 SUBSEQUENT EVENTS

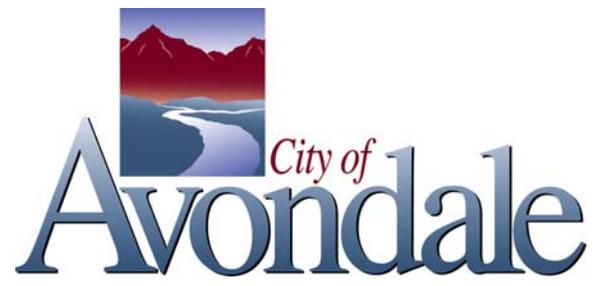
On November 21, 2006, the City issued \$2,500,000 of General Obligation Bonds. The bonds were issued to fund the design and construction of a regional Library. Interest rates range from 3.75% to 4.0%, with a term of 10 years.

On November 21, 2006, the City issued \$18,500,000 of Municipal Development Corporation Excise Tax Revenue Bonds. The bonds were issued to fund the construction of a regional Library, expansion of the wastewater treatment plant, and various street projects. Interest rates range from 4.0% to 5.0%, with a term of 20 years.

SUPPLEMENTARY INFORMATION

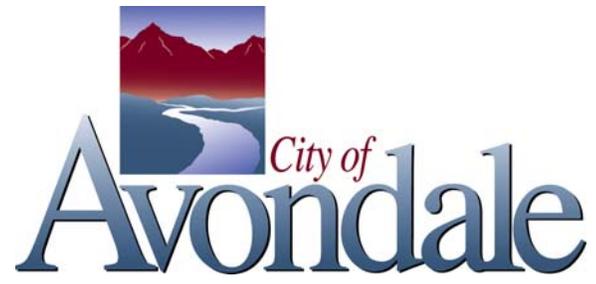


BUDGETARY COMPARISON SCHEDULE – MAJOR GOVERNMENTAL FUND

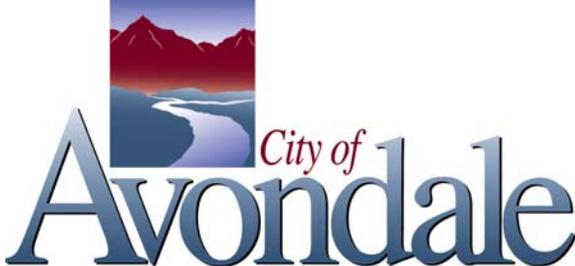


**CITY OF AVONDALE, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
DEVELOPMENT FEES FUND
YEAR ENDED JUNE 30, 2006**

	Development Fees Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Licenses and permits	\$ 4,145,700	\$ 4,145,700	\$ 8,105,962	\$ 3,960,262
Intergovernmental	7,501,220	7,501,220	2,165,000	(6,336,220)
Interest	28,310	28,310	708,951	680,641
Miscellaneous revenues	120,000	120,000	657,526	1,537,526
Total revenues	<u>11,795,230</u>	<u>11,795,230</u>	<u>11,637,439</u>	<u>(157,791)</u>
Expenditures				
Debt service				
Principal	164,870	164,870	164,873	(3)
Interest	20,200	20,200	20,181	19
Capital outlay	40,883,120	40,883,120	22,753,426	18,129,694
Total expenditures	<u>41,068,190</u>	<u>41,068,190</u>	<u>22,938,480</u>	<u>18,129,710</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(29,272,960)</u>	<u>(29,272,960)</u>	<u>(11,301,041)</u>	<u>17,971,919</u>
Other financing sources (uses)				
Capital leases	13,356,510	13,356,510	927,040	(12,429,470)
Transfers in	4,643,490	4,643,490	4,643,490	-
Transfers out	(1,167,560)	(1,167,560)	(1,167,560)	-
Total other financing sources (uses)	<u>16,832,440</u>	<u>16,832,440</u>	<u>4,402,970</u>	<u>(12,429,470)</u>
Net change in fund balance	(12,440,520)	(12,440,520)	(6,898,071)	5,542,449
Fund balance at beginning of year	<u>18,341,899</u>	<u>18,341,899</u>	<u>19,020,421</u>	<u>678,522</u>
Fund balance at end of year	<u>\$ 5,901,379</u>	<u>\$ 5,901,379</u>	<u>\$ 12,122,350</u>	<u>\$ 6,220,971</u>



COMBINING STATEMENTS – NON-MAJOR GOVERNMENTAL FUNDS



**CITY OF AVONDALE, ARIZONA
 COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2006**

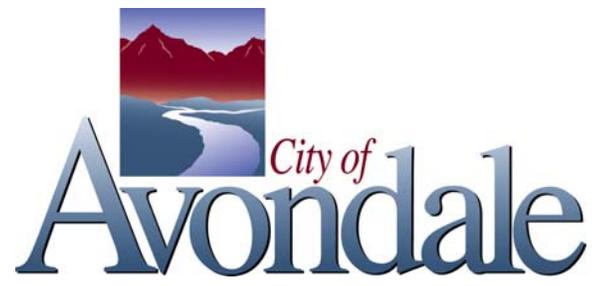
	Special Revenue Funds		
	Local Transportation Assistance Fund	Senior Programs	Judicial Collection Enhancement Fund
ASSETS			
Cash and cash equivalents	\$ 4,240	\$ 123,433	\$ 165,132
Investments	996,615	-	-
Receivables			
Taxes	-	-	-
Accounts	-	29,746	-
Interest	6,393	-	1,184
Due from other governments	-	-	-
Prepaid assets	-	-	-
Cash and cash equivalents with fiscal agent	-	-	-
Total assets	<u>\$ 1,007,248</u>	<u>\$ 153,179</u>	<u>\$ 166,316</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 11,547	\$ 10,162	\$ 1,683
Accrued payroll and employee benefits	-	17,774	-
Accrued liabilities	-	-	-
Construction contracts payable	-	-	-
Sales tax payable	-	-	-
Due to other funds	-	-	-
Deferred revenues	-	870	-
Total liabilities	<u>11,547</u>	<u>28,806</u>	<u>1,683</u>
Fund balances:			
Reserved for:			
Prepaid assets	-	-	-
Debt service	-	-	-
Capital improvements	-	-	-
Cash with fiscal agent	-	-	-
Unreserved	995,701	124,373	164,633
Total fund balances	<u>995,701</u>	<u>124,373</u>	<u>164,633</u>
Total liabilities and fund balances	<u>\$ 1,007,248</u>	<u>\$ 153,179</u>	<u>\$ 166,316</u>

(continued on next page)

CITY OF AVONDALE, ARIZONA
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	Special Revenue Funds		Capital Projects Funds	
	Grants-in-Aid	Other Special Revenue	Vehicle Replacement	Equipment Replacement
ASSETS				
Cash and cash equivalents	\$ 67,228	\$ 5,889	\$ 206,256	\$ 64,501
Investments	-	-	2,529,983	248,646
Receivables				
Taxes	-	-	-	-
Accounts	8,430	-	-	-
Interest	1,384	-	17,843	1,993
Due from other governments	296,298	-	-	-
Prepaid assets	-	-	-	-
Cash and cash equivalents with fiscal agent	-	-	-	-
Total assets	<u>\$ 373,340</u>	<u>\$ 5,889</u>	<u>\$ 2,754,082</u>	<u>\$ 315,140</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 20,215	\$ -	\$ 11,532	\$ 308
Accrued payroll and employee benefits	11,063	-	-	-
Accrued liabilities	24,390	-	-	-
Construction contracts payable	-	-	-	-
Sales tax payable	192	-	-	-
Due to other funds	-	-	-	-
Deferred revenues	2,187	-	-	-
Total liabilities	<u>58,047</u>	<u>-</u>	<u>11,532</u>	<u>308</u>
Fund balances:				
Reserved for:				
Prepaid assets	-	-	-	-
Debt service	-	-	-	-
Capital improvements	-	-	-	-
Cash with fiscal agent	-	-	-	-
Unreserved	315,293	5,889	2,742,550	314,832
Total fund balances	<u>315,293</u>	<u>5,889</u>	<u>2,742,550</u>	<u>314,832</u>
Total liabilities and fund balances	<u>\$ 373,340</u>	<u>\$ 5,889</u>	<u>\$ 2,754,082</u>	<u>\$ 315,140</u>

Debt Service Funds					Total Non-Major Governmental Funds
Other Capital Projects	General Obligation Bonds	Highway User Revenue Bonds	Dedicated Sales Tax Bonds	Other Debt Service	
\$ 123,774	\$ 155,654	\$ -	\$ 359,936	\$ 210,173	\$ 1,486,216
368,833	86,602	4,199	1,452,010	17,795	5,704,683
-	109,467	-	-	-	109,467
20,808	-	-	-	-	58,984
3,026	3,769	674	11,646	354	48,266
-	-	-	-	-	296,298
-	1,525,000	370,000	-	-	1,895,000
-	129,019	96,880	2,513,812	1,756,540	4,496,251
<u>\$ 516,441</u>	<u>\$ 2,009,511</u>	<u>\$ 471,753</u>	<u>\$ 4,337,404</u>	<u>\$ 1,984,862</u>	<u>\$ 14,095,165</u>
\$ -	\$ -	\$ 56,419	\$ -	\$ -	\$ 111,866
-	-	-	-	-	28,837
-	78,716	-	623,445	278,242	1,004,793
5,254	-	-	-	-	5,254
-	-	-	-	-	192
-	-	20,230	-	-	20,230
-	78,318	-	-	188,541	269,916
<u>5,254</u>	<u>157,034</u>	<u>76,649</u>	<u>623,445</u>	<u>466,783</u>	<u>1,441,088</u>
-	1,525,000	370,000	-	-	1,895,000
-	327,477	25,104	1,200,147	-	1,552,728
511,187	-	-	-	-	511,187
-	-	-	2,513,812	1,518,079	4,031,891
-	-	-	-	-	4,663,271
<u>511,187</u>	<u>1,852,477</u>	<u>395,104</u>	<u>3,713,959</u>	<u>1,518,079</u>	<u>12,654,077</u>
<u>\$ 516,441</u>	<u>\$ 2,009,511</u>	<u>\$ 471,753</u>	<u>\$ 4,337,404</u>	<u>\$ 1,984,862</u>	<u>\$ 14,095,165</u>



**CITY OF AVONDALE, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006**

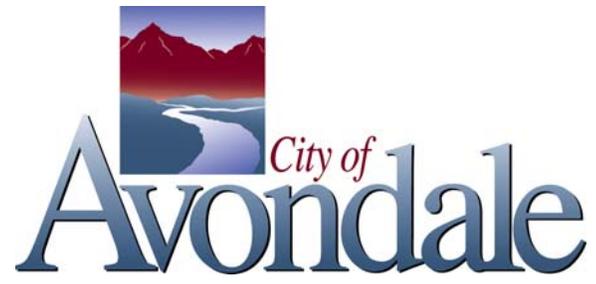
	Special Revenue Funds		
	Local Transportation Assistance Fund	Senior Programs	Judicial Collection Enhancement Fund
Revenues			
Taxes	\$ -	\$ -	\$ -
Intergovernmental	491,284	275,853	-
Charges for services	-	-	82,533
Interest	41,571	-	6,342
Contributions	-	21,690	-
Miscellaneous revenue	-	50	-
Total revenue	<u>532,855</u>	<u>297,593</u>	<u>88,875</u>
Expenditures			
Current:			
General government	-	-	10,571
Public safety	-	-	-
Highway and streets	615,055	-	-
Health and welfare	-	378,494	-
Economic and community development	-	-	-
Culture and recreation	-	-	-
Debt service:			
Principal	-	-	-
Interest and other charges	-	-	-
Capital outlay	-	7,997	8,591
Total expenditures	<u>615,055</u>	<u>386,491</u>	<u>19,162</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(82,200)</u>	<u>(88,898)</u>	<u>69,713</u>
Other financing sources (uses)			
Issuance of refunding bonds	-	-	-
Payments to refunded bonds escrow agent	-	-	-
Bond premium (discount)	-	-	-
Sale of capital assets	-	-	-
Transfers in	163,960	111,020	-
Transfers out	-	-	-
Total other financing sources (uses)	<u>163,960</u>	<u>111,020</u>	<u>-</u>
Net change in fund balances	81,760	22,122	69,713
Fund balances (deficit) at beginning of year	<u>913,941</u>	<u>102,251</u>	<u>94,920</u>
Fund balances at end of year	<u>\$ 995,701</u>	<u>\$ 124,373</u>	<u>\$ 164,633</u>

(continued on next page)

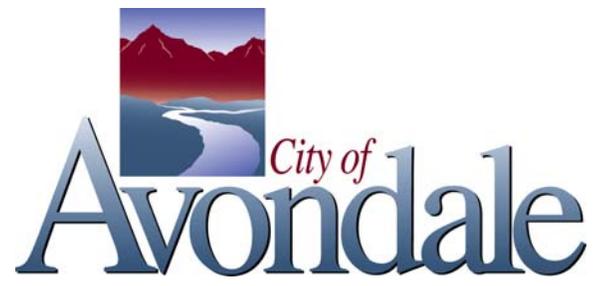
**CITY OF AVONDALE, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006**

	<u>Special Revenue Funds</u>		<u>Capital Projects Funds</u>	
	<u>Grants-in-Aid</u>	<u>Other Special Revenue</u>	<u>Vehicle Replacement</u>	<u>Equipment Replacement</u>
Revenues				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	518,840	-	163,375	-
Charges for services	-	-	-	-
Interest	14,964	4,743	95,515	9,912
Contributions	22,551	-	-	-
Miscellaneous revenue	4,510	-	-	-
Total revenue	<u>560,865</u>	<u>4,743</u>	<u>258,890</u>	<u>9,912</u>
Expenditures				
Current:				
General government	-	-	-	-
Public safety	402,098	-	-	-
Highway and streets	-	-	-	-
Health and welfare	132,874	-	-	-
Economic and community development	-	-	-	-
Culture and recreation	2,096	-	-	-
Debt service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital outlay	265,042	-	877,097	184,560
Total expenditures	<u>802,110</u>	<u>-</u>	<u>877,097</u>	<u>184,560</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(241,245)</u>	<u>4,743</u>	<u>(618,207)</u>	<u>(174,648)</u>
Other financing sources (uses)				
Issuance of refunding bonds	-	-	-	-
Payments to refunded bonds escrow agent	-	-	-	-
Bond premium (discount)	-	-	-	-
Sale of capital assets	-	-	70,003	-
Transfers in	135,530	885,700	1,371,800	394,790
Transfers out	-	-	(393,490)	-
Total other financing sources (uses)	<u>135,530</u>	<u>885,700</u>	<u>1,048,313</u>	<u>394,790</u>
Net change in fund balances	(105,715)	890,443	430,106	220,142
Fund balances (deficit) at beginning of year	<u>421,008</u>	<u>(884,554)</u>	<u>2,312,444</u>	<u>94,690</u>
Fund balances at end of year	<u>\$ 315,293</u>	<u>\$ 5,889</u>	<u>\$ 2,742,550</u>	<u>\$ 314,832</u>

Debt Service Funds					
Other Capital Projects	General Obligation Bonds	Highway User Revenue Bonds	Dedicated Sales Tax Bonds	Other Debt Service	Total Non- Major Governmental Funds
\$ -	\$ 2,304,660	\$ -	\$ -	\$ -	\$ 2,304,660
-	-	-	-	-	1,449,352
-	-	-	-	-	82,533
22,854	32,351	5,317	69,354	1,875	304,798
78,446	-	-	-	352,082	474,769
-	-	-	-	-	4,560
<u>101,300</u>	<u>2,337,011</u>	<u>5,317</u>	<u>69,354</u>	<u>353,957</u>	<u>4,620,672</u>
-	-	-	-	-	10,571
-	-	-	-	-	402,098
-	-	-	-	-	615,055
-	-	-	-	-	511,368
-	-	-	-	-	-
-	-	-	-	-	2,096
-	1,185,000	350,000	1,570,000	1,436,451	4,541,451
-	668,540	224,879	1,328,164	588,926	2,810,509
145,008	-	-	-	-	1,488,295
<u>145,008</u>	<u>1,853,540</u>	<u>574,879</u>	<u>2,898,164</u>	<u>2,025,377</u>	<u>10,381,443</u>
<u>(43,708)</u>	<u>483,471</u>	<u>(569,562)</u>	<u>(2,828,810)</u>	<u>(1,671,420)</u>	<u>(5,760,771)</u>
-	4,145,000	3,185,000	8,847,225	2,513,460	18,690,685
-	(4,131,250)	(3,080,597)	(8,663,938)	(2,461,389)	(18,337,174)
-	72,991	(18,661)	(12,153)	(3,453)	38,724
-	-	-	-	-	70,003
-	-	640,000	4,187,190	1,700,740	9,590,730
-	-	-	-	-	(393,490)
<u>-</u>	<u>86,741</u>	<u>725,742</u>	<u>4,358,324</u>	<u>1,749,358</u>	<u>9,659,478</u>
(43,708)	570,212	156,180	1,529,514	77,938	3,898,707
<u>554,895</u>	<u>1,282,265</u>	<u>238,924</u>	<u>2,184,445</u>	<u>1,440,141</u>	<u>8,755,370</u>
<u>\$ 511,187</u>	<u>\$ 1,852,477</u>	<u>\$ 395,104</u>	<u>\$ 3,713,959</u>	<u>\$ 1,518,079</u>	<u>\$ 12,654,077</u>



BUDGETARY COMPARISON SCHEDULES –
COMBINING NON-MAJOR FUNDS



**CITY OF AVONDALE, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
LOCAL TRANSPORTATION ASSISTANCE FUND
YEAR ENDED JUNE 30, 2006**

	Local Transportation Assistance Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Intergovernmental	\$ 374,800	\$ 374,800	\$ 491,284	\$ 116,484
Interest	10,110	10,110	41,571	31,461
Total revenues	<u>384,910</u>	<u>384,910</u>	<u>532,855</u>	<u>147,945</u>
Expenditures				
Highways and streets	<u>465,300</u>	<u>615,300</u>	<u>615,055</u>	<u>245</u>
Total expenditures	<u>465,300</u>	<u>615,300</u>	<u>615,055</u>	<u>245</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(80,390)</u>	<u>(230,390)</u>	<u>(82,200)</u>	<u>148,190</u>
Other financing sources (uses)				
Transfers in	<u>163,960</u>	<u>163,960</u>	<u>163,960</u>	<u>-</u>
Total other financing sources (uses)	<u>163,960</u>	<u>163,960</u>	<u>163,960</u>	<u>-</u>
Net change in fund balance	83,570	(66,430)	81,760	148,190
Fund balance at beginning of year	<u>900,315</u>	<u>900,315</u>	<u>913,941</u>	<u>13,626</u>
Fund balance at end of year	<u>\$ 983,885</u>	<u>\$ 833,885</u>	<u>\$ 995,701</u>	<u>\$ 161,816</u>

**CITY OF AVONDALE, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
SENIOR PROGRAMS FUND
YEAR ENDED JUNE 30, 2006**

	Senior Programs Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Intergovernmental	\$ 230,510	\$ 220,310	\$ 275,853	\$ 55,543
Contributions	75,370	85,570	21,690	(63,880)
Miscellaneous revenues	-	-	50	50
Total revenues	<u>305,880</u>	<u>305,880</u>	<u>297,593</u>	<u>(8,287)</u>
Expenditures				
Health and welfare	408,470	398,810	378,494	20,316
Capital outlay	4,630	14,290	7,997	6,293
Total expenditures	<u>413,100</u>	<u>413,100</u>	<u>386,491</u>	<u>26,609</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(107,220)</u>	<u>(107,220)</u>	<u>(88,898)</u>	<u>18,322</u>
Other financing sources (uses)				
Transfers in	111,020	111,020	111,020	-
Total other financing sources (uses)	<u>111,020</u>	<u>111,020</u>	<u>111,020</u>	<u>-</u>
Net change in fund balance	3,800	3,800	22,122	18,322
Fund balance at beginning of year	<u>190,391</u>	<u>190,391</u>	<u>102,251</u>	<u>(88,140)</u>
Fund balance at end of year	<u>\$ 194,191</u>	<u>\$ 194,191</u>	<u>\$ 124,373</u>	<u>\$ (69,818)</u>

**CITY OF AVONDALE, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
JUDICIAL COLLECTION ENHANCEMENT FUND
YEAR ENDED JUNE 30, 2006**

Judicial Collection Enhancement Fund				
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Charges for services	\$ 60,030	\$ 60,030	\$ 82,533	\$ 22,503
Interest	-	-	6,342	6,342
Total revenues	<u>60,030</u>	<u>60,030</u>	<u>88,875</u>	<u>28,845</u>
Expenditures				
General government	56,000	51,000	10,571	40,429
Capital outlay	-	5,000	8,591	(3,591)
Total expenditures	<u>56,000</u>	<u>56,000</u>	<u>19,162</u>	<u>36,838</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,030</u>	<u>4,030</u>	<u>69,713</u>	<u>65,683</u>
Fund balance at beginning of year	<u>79,300</u>	<u>79,300</u>	<u>94,920</u>	<u>15,620</u>
Fund balance at end of year	<u>\$ 83,330</u>	<u>\$ 83,330</u>	<u>\$ 164,633</u>	<u>\$ 81,303</u>

**CITY OF AVONDALE, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
GRANTS-IN-AID FUND
YEAR ENDED JUNE 30, 2006**

	Grants-in-Aid Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Intergovernmental	\$ 181,440	\$ 642,604	\$ 518,840	\$ (123,764)
Interest	500	500	14,964	14,464
Contributions	2,000	2,000	22,551	20,551
Miscellaneous revenues	5,000,000	4,538,836	4,510	(4,534,326)
Total revenues	<u>5,183,940</u>	<u>5,183,940</u>	<u>560,865</u>	<u>(4,623,075)</u>
Expenditures				
General government	5,003,010	4,202,726	-	4,202,726
Public safety	441,600	555,177	402,098	153,079
Health and welfare	-	137,283	132,874	4,409
Culture and recreation	-	8,374	2,096	6,278
Capital outlay	117,000	419,230	265,042	154,188
Total expenditures	<u>5,561,610</u>	<u>5,322,790</u>	<u>802,110</u>	<u>4,520,680</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(377,670)</u>	<u>(138,850)</u>	<u>(241,245)</u>	<u>(102,395)</u>
Other financing sources (uses)				
Transfers in	135,530	135,530	135,530	-
Total other financing sources (uses)	<u>135,530</u>	<u>135,530</u>	<u>135,530</u>	<u>-</u>
Net change in fund balance	(242,140)	(3,320)	(105,715)	(102,395)
Fund balance at beginning of year	<u>284,851</u>	<u>284,851</u>	<u>421,008</u>	<u>136,157</u>
Fund balance at end of year	<u>\$ 42,711</u>	<u>\$ 281,531</u>	<u>\$ 315,293</u>	<u>\$ 33,762</u>

**CITY OF AVONDALE, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
OTHER SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2006**

	Other Special Revenue Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Interest	\$ -	\$ -	\$ 4,743	\$ 4,743
Total revenues	<u>-</u>	<u>-</u>	<u>4,743</u>	<u>4,743</u>
Expenditures				
General government	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>4,743</u>	<u>4,743</u>
Other financing sources (uses)				
Transfers in	885,700	885,700	885,700	-
Total other financing sources (uses)	<u>885,700</u>	<u>885,700</u>	<u>885,700</u>	<u>-</u>
Net change in fund balance	885,700	885,700	890,443	4,743
Fund balance (deficit) at beginning of year	<u>(885,700)</u>	<u>(885,700)</u>	<u>(884,554)</u>	<u>1,146</u>
Fund balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,889</u>	<u>\$ 5,889</u>

**CITY OF AVONDALE, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
VEHICLE REPLACEMENT FUND
YEAR ENDED JUNE 30, 2006**

	Vehicle Replacement Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Intergovernmental	\$ -	\$ -	\$ 163,375	\$ 163,375
Interest	30,000	30,000	95,515	65,515
Total revenues	<u>30,000</u>	<u>30,000</u>	<u>258,890</u>	<u>228,890</u>
Expenditures				
Capital outlay	<u>2,041,500</u>	<u>2,041,500</u>	<u>877,097</u>	<u>1,164,403</u>
Total expenditures	<u>2,041,500</u>	<u>2,041,500</u>	<u>877,097</u>	<u>1,164,403</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,011,500)</u>	<u>(2,011,500)</u>	<u>(618,207)</u>	<u>1,393,293</u>
Other financing sources (uses)				
Sale of capital assets	-	-	70,003	70,003
Transfers in	2,110,370	2,110,370	1,371,800	(738,570)
Transfers out	<u>(393,490)</u>	<u>(393,490)</u>	<u>(393,490)</u>	<u>-</u>
Total other financing sources (uses)	<u>1,716,880</u>	<u>1,716,880</u>	<u>1,048,313</u>	<u>(668,567)</u>
Net change in fund balance	(294,620)	(294,620)	430,106	724,726
Fund balance at beginning of year	<u>3,350,255</u>	<u>3,350,255</u>	<u>2,312,444</u>	<u>(1,037,811)</u>
Fund balance at end of year	<u>\$ 3,055,635</u>	<u>\$ 3,055,635</u>	<u>\$ 2,742,550</u>	<u>\$ (313,085)</u>

**CITY OF AVONDALE, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
EQUIPMENT REPLACEMENT FUND
YEAR ENDED JUNE 30, 2006**

	Equipment Replacement Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Interest	\$ 1,000	\$ 1,000	\$ 9,912	\$ 8,912
Total revenues	<u>1,000</u>	<u>1,000</u>	<u>9,912</u>	<u>8,912</u>
Expenditures				
Capital outlay	200,000	200,000	184,560	15,440
Total expenditures	<u>200,000</u>	<u>200,000</u>	<u>184,560</u>	<u>15,440</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(199,000)</u>	<u>(199,000)</u>	<u>(174,648)</u>	<u>24,352</u>
Other financing sources (uses)				
Transfers in	436,330	436,330	394,790	(41,540)
Total other financing sources (uses)	<u>436,330</u>	<u>436,330</u>	<u>394,790</u>	<u>(41,540)</u>
Net change in fund balance	237,330	237,330	220,142	(17,188)
Fund balance at beginning of year	<u>93,840</u>	<u>93,840</u>	<u>94,690</u>	<u>850</u>
Fund balance at end of year	<u>\$ 331,170</u>	<u>\$ 331,170</u>	<u>\$ 314,832</u>	<u>\$ (16,338)</u>

**CITY OF AVONDALE, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
OTHER CAPITAL PROJECTS FUND
YEAR ENDED JUNE 30, 2006**

	Other Capital Projects Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Interest	\$ 1,200	\$ 1,200	\$ 22,854	\$ 21,654
Contributions	-	-	78,446	78,446
Total revenues	<u>1,200</u>	<u>1,200</u>	<u>101,300</u>	<u>100,100</u>
Expenditures				
Capital outlay	<u>12,145,110</u>	<u>12,145,110</u>	<u>145,008</u>	<u>12,000,102</u>
Total expenditures	<u>12,145,110</u>	<u>12,145,110</u>	<u>145,008</u>	<u>12,000,102</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(12,143,910)</u>	<u>(12,143,910)</u>	<u>(43,708)</u>	<u>12,100,202</u>
Other financing sources (uses)				
Issuance of refunding bonds	<u>12,000,000</u>	<u>12,000,000</u>	<u>-</u>	<u>(12,000,000)</u>
Total other financing sources (uses)	<u>12,000,000</u>	<u>12,000,000</u>	<u>-</u>	<u>(12,000,000)</u>
Net change in fund balance	(143,910)	(143,910)	(43,708)	100,202
Fund balance at beginning of year	<u>145,110</u>	<u>145,110</u>	<u>554,895</u>	<u>409,785</u>
Fund balance at end of year	<u>\$ 1,200</u>	<u>\$ 1,200</u>	<u>\$ 511,187</u>	<u>\$ 509,987</u>

**CITY OF AVONDALE, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
GENERAL OBLIGATION BONDS FUND
YEAR ENDED JUNE 30, 2006**

	General Obligation Bonds Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Taxes	\$ 2,335,540	\$ 2,335,540	\$ 2,304,660	\$ (30,880)
Interest	2,790	2,790	32,351	29,561
Total revenues	<u>2,338,330</u>	<u>2,338,330</u>	<u>2,337,011</u>	<u>(1,319)</u>
Expenditures				
Debt service				
Principal	1,185,000	1,185,000	1,185,000	-
Interest and other charges	642,590	671,590	668,540	3,050
Total expenditures	<u>1,827,590</u>	<u>1,856,590</u>	<u>1,853,540</u>	<u>3,050</u>
Excess (deficiency) of revenues over (under) expenditures	<u>510,740</u>	<u>481,740</u>	<u>483,471</u>	<u>1,731</u>
Other financing sources (uses)				
Issuance of refunding bonds	-	-	4,145,000	4,145,000
Payments to refunded bonds escrow agent	-	-	(4,131,250)	(4,131,250)
Bond premium (discount)	-	-	72,991	72,991
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>86,741</u>	<u>86,741</u>
Net change in fund balances	510,740	481,740	570,212	88,472
Fund balance at beginning of year	<u>1,143,082</u>	<u>1,143,082</u>	<u>1,282,265</u>	<u>139,183</u>
Fund balance at end of year	<u>\$ 2,164,562</u>	<u>\$ 2,106,562</u>	<u>\$ 1,852,477</u>	<u>\$ 227,655</u>

**CITY OF AVONDALE, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
HIGHWAY USER REVENUE BONDS FUND
YEAR ENDED JUNE 30, 2006**

	Highway User Revenue Bonds Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Interest	\$ 410	\$ 410	\$ 5,317	\$ 4,907
Total revenues	<u>410</u>	<u>410</u>	<u>5,317</u>	<u>4,907</u>
Expenditures				
Debt service				
Principal	350,000	350,000	350,000	-
Interest and other charges	224,879	224,879	224,879	-
Total expenditures	<u>574,879</u>	<u>574,879</u>	<u>574,879</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(574,469)</u>	<u>(574,469)</u>	<u>(569,562)</u>	<u>4,907</u>
Other financing sources (uses)				
Issuance of refunding bonds	-	-	3,185,000	3,185,000
Payments to refunded bonds escrow agent	-	-	(3,080,597)	(3,080,597)
Bond premium (discount)	-	-	(18,661)	(18,661)
Transfers in	640,000	640,000	640,000	-
Total other financing sources (uses)	<u>640,000</u>	<u>640,000</u>	<u>725,742</u>	<u>85,742</u>
Net change in fund balance	65,531	65,531	156,180	90,649
Fund balance at beginning of year	<u>237,236</u>	<u>237,236</u>	<u>238,924</u>	<u>1,688</u>
Fund balance at end of year	<u>\$ 302,767</u>	<u>\$ 302,767</u>	<u>\$ 395,104</u>	<u>\$ 92,337</u>

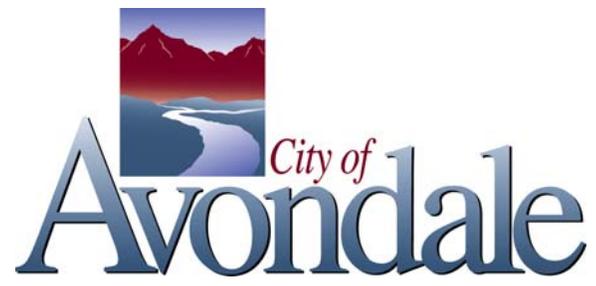
**CITY OF AVONDALE, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
DEDICATED SALES TAX BONDS FUND
YEAR ENDED JUNE 30, 2006**

	Dedicated Sales Tax Bonds Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Interest	\$ 141,980	\$ 141,980	\$ 69,354	\$ (72,626)
Total revenues	<u>141,980</u>	<u>141,980</u>	<u>69,354</u>	<u>(72,626)</u>
Expenditures				
Debt service				
Principal	1,570,000	1,570,000	1,570,000	-
Interest and other charges	<u>2,586,271</u>	<u>2,586,271</u>	<u>1,328,164</u>	<u>1,258,107</u>
Total expenditures	<u>4,156,271</u>	<u>4,156,271</u>	<u>2,898,164</u>	<u>1,258,107</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(4,014,291)</u>	<u>(4,014,291)</u>	<u>(2,828,810)</u>	<u>1,185,481</u>
Other financing sources (uses)				
Issuance of refunding bonds	-	-	8,847,225	8,847,225
Payments to refunded bonds escrow agent	-	-	(8,663,938)	(8,663,938)
Bond premium (discount)	-	-	(12,153)	(12,153)
Transfers in	<u>4,187,190</u>	<u>4,187,190</u>	<u>4,187,190</u>	<u>-</u>
Total other financing sources (uses)	<u>4,187,190</u>	<u>4,187,190</u>	<u>4,358,324</u>	<u>171,134</u>
Net change in fund balance	172,899	172,899	1,529,514	1,356,615
Fund balance at beginning of year	<u>1,638,598</u>	<u>1,638,598</u>	<u>2,184,445</u>	<u>545,847</u>
Fund balance at end of year	<u>\$ 1,811,497</u>	<u>\$ 1,811,497</u>	<u>\$ 3,713,959</u>	<u>\$ 1,902,462</u>

**CITY OF AVONDALE, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
OTHER DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2006**

	Other Debt Service Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Interest	\$ 1,350	\$ 1,350	\$ 1,875	\$ 525
Contributions	352,080	\$ 352,080	352,082	2
Total revenues	<u>353,430</u>	<u>353,430</u>	<u>353,957</u>	<u>527</u>
Expenditures				
Debt service				
Principal	1,436,450	1,436,450	1,436,451	(1)
Interest and other charges	<u>578,090</u>	<u>593,090</u>	<u>588,926</u>	<u>4,164</u>
Total expenditures	<u>2,014,540</u>	<u>2,029,540</u>	<u>2,025,377</u>	<u>4,163</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,661,110)</u>	<u>(1,676,110)</u>	<u>(1,671,420)</u>	<u>4,690</u>
Other financing sources (uses)				
Issuance of refunding bonds	-	-	2,513,460	2,513,460
Payments to refunded bonds escrow agent	-	-	(2,461,389)	(2,461,389)
Bond premium (discount)	-	-	(3,453)	(3,453)
Transfers in	<u>1,700,740</u>	<u>1,700,740</u>	<u>1,700,740</u>	<u>-</u>
Total other financing sources (uses)	<u>1,700,740</u>	<u>1,700,740</u>	<u>1,749,358</u>	<u>48,618</u>
Net change in fund balance	39,630	24,630	77,938	53,308
Fund balance at beginning of year	<u>1,431,912</u>	<u>1,431,912</u>	<u>1,440,141</u>	<u>8,229</u>
Fund balance at end of year	<u>\$ 1,471,542</u>	<u>\$ 1,456,542</u>	<u>\$ 1,518,079</u>	<u>\$ 61,537</u>

COMBINING STATEMENTS – INTERNAL SERVICE FUNDS



CITY OF AVONDALE, ARIZONA
COMBINING STATEMENT OF NET ASSETS -
INTERNAL SERVICE FUNDS
JUNE 30, 2006

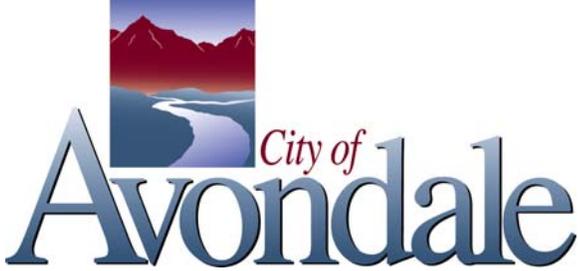
	Governmental Activities - Internal Service Funds			
	Risk Management	Printing Services	Fleet Management	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 278,760	\$ 150,341	-	\$ 429,101
Investments	737,812	-		737,812
Receivables				
Interest	6,547	1,067	503	8,117
Inventories	-	-	293,067	293,067
Total current assets	<u>1,023,119</u>	<u>151,408</u>	<u>293,570</u>	<u>1,468,097</u>
Non-current assets:				
Capital assets:				
Capital assets, depreciable (net)	-	174,742	7,091	181,833
Total non-current assets	<u>-</u>	<u>174,742</u>	<u>7,091</u>	<u>181,833</u>
Total assets	<u>1,023,119</u>	<u>326,150</u>	<u>300,661</u>	<u>1,649,930</u>
LIABILITIES				
Current liabilities:				
Accounts payable	39,120	6,371	27,707	73,198
Compensated absences	11,253	-	22,664	33,917
Accrued payroll and employee benefits	8,480	-	33,276	41,756
Due to other funds	-	-	85,497	85,497
Total current liabilities	<u>58,853</u>	<u>6,371</u>	<u>169,144</u>	<u>234,368</u>
Non-current liabilities:				
Claims payable	280,083	-	-	280,083
Total long term liabilities	<u>280,083</u>	<u>-</u>	<u>-</u>	<u>280,083</u>
Total liabilities	<u>338,936</u>	<u>6,371</u>	<u>169,144</u>	<u>514,451</u>
NET ASSETS				
Invested in capital assets, net of related debt	-	174,742	7,091	181,833
Unrestricted	684,183	145,037	124,426	953,646
Total net assets	<u>\$ 684,183</u>	<u>\$ 319,779</u>	<u>\$ 131,517</u>	<u>\$ 1,135,479</u>

**CITY OF AVONDALE, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2006**

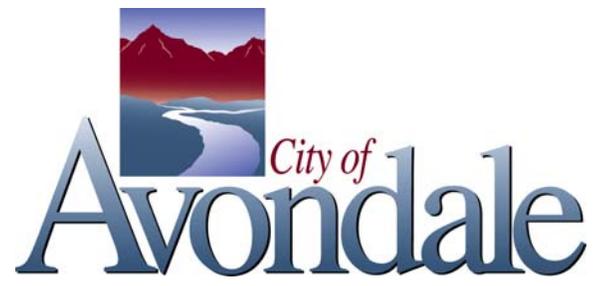
	Governmental Activities - Internal Service Funds			Total
	Risk Management	Printing Services	Fleet Management	
Operating Revenues				
Charges for services	\$ 1,484,850	\$ 178,374	\$ 1,683,807	\$ 3,347,031
Miscellaneous	17,555	-	824	18,379
Total operating revenues	<u>1,502,405</u>	<u>178,374</u>	<u>1,684,631</u>	<u>3,365,410</u>
Operating Expenses				
Personal services	175,483	-	585,518	761,001
Contractual services	99,805	62,842	58,044	220,691
Materials and supplies	42,989	41,154	843,878	928,021
Insurance claims and expenses	1,023,959	-	-	1,023,959
Repairs and maintenance	-	-	109,700	109,700
Depreciation	-	74,802	373	75,175
Total operating expenses	<u>1,342,236</u>	<u>178,798</u>	<u>1,597,513</u>	<u>3,118,547</u>
Operating income (loss)	<u>160,169</u>	<u>(424)</u>	<u>87,118</u>	<u>246,863</u>
Non-operating revenues (expenses)				
Interest income	25,041	5,400	999	31,440
Total non-operating revenues (expenses)	<u>25,041</u>	<u>5,400</u>	<u>999</u>	<u>31,440</u>
Income before development fees and transfers	185,210	4,976	88,117	278,303
Transfers in	-	-	75,000	75,000
Transfers out	(5,520)	-	(31,600)	(37,120)
Change in net assets	<u>179,690</u>	<u>4,976</u>	<u>131,517</u>	<u>316,183</u>
Net assets - beginning	<u>504,493</u>	<u>314,803</u>	<u>-</u>	<u>819,296</u>
Net assets - ending	<u>\$ 684,183</u>	<u>\$ 319,779</u>	<u>\$ 131,517</u>	<u>\$ 1,135,479</u>

**CITY OF AVONDALE, ARIZONA
COMBINING STATEMENT OF CASH FLOWS -
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2006**

	Governmental Activities - Internal Service Funds			Total
	Risk Management	Printing Services	Fleet Management	
Cash flows from operating activities:				
Receipts from customers	\$ 1,502,405	\$ 178,823	\$ 1,684,631	\$ 3,365,859
Payments to suppliers	(1,156,703)	(115,862)	(1,276,982)	(2,549,547)
Payments to employees	(170,696)	-	(529,578)	(700,274)
Net cash provided (used) by operating activities	<u>175,006</u>	<u>62,961</u>	<u>(121,929)</u>	<u>116,038</u>
Cash flows from non-capital financing activities:				
Due to other funds	-	-	85,497	85,497
Transfers in	-	-	75,000	75,000
Transfers out	(5,520)	-	(31,600)	(37,120)
Net cash provided (used) for non-capital financing activities	<u>(5,520)</u>	<u>-</u>	<u>128,897</u>	<u>123,377</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	-	-	(7,464)	(7,464)
Net cash provided (used) for capital and related financing activities	<u>-</u>	<u>-</u>	<u>(7,464)</u>	<u>(7,464)</u>
Cash flows from investing activities:				
Interest received on investments	20,882	4,491	496	25,869
Net cash provided by investing activities	<u>20,882</u>	<u>4,491</u>	<u>496</u>	<u>25,869</u>
Net increase in cash and cash equivalents	190,368	67,452	-	257,820
Cash and cash equivalents, beginning of period	<u>826,204</u>	<u>82,889</u>	<u>-</u>	<u>909,093</u>
Cash and cash equivalents, end of period	<u>\$ 1,016,572</u>	<u>\$ 150,341</u>	<u>\$ -</u>	<u>\$ 1,166,913</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ 160,169	\$ (424)	\$ 87,118	\$ 246,863
Adjustment to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	-	74,802	373	75,175
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	-	449	-	449
(Increase) decrease in inventories	-	-	(293,067)	(293,067)
Increase (decrease) in accounts payable	35,694	(11,866)	27,707	51,535
Increase (decrease) in accrued payroll and employee benefits	4,787	-	55,940	60,727
Increase (decrease) in claims payable	(25,644)	-	-	(25,644)
Net cash provided (used) by operating activities	<u>\$ 175,006</u>	<u>\$ 62,961</u>	<u>\$ (121,929)</u>	<u>\$ 116,038</u>
Reconciliation of cash and cash equivalents at end of year to Statement of Net Assets:				
Cash and cash equivalents	\$ 278,760	\$ 150,341	\$ -	\$ 429,101
Investments	<u>737,812</u>	<u>-</u>	<u>-</u>	<u>737,812</u>
Total cash and cash equivalents	<u>\$ 1,016,572</u>	<u>\$ 150,341</u>	<u>\$ -</u>	<u>\$ 1,166,913</u>



CAPITAL ASSETS USED IN THE OPERATION
OF GOVERNMENTAL ACTIVITIES



**CITY OF AVONDALE, ARIZONA
 CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL ACTIVITIES
 SCHEDULES BY SOURCE
 JUNE 30, 2006**

Governmental activities capital assets:

Land and improvements	\$ 11,799,141
Buildings and improvements	40,153,755
Vehicles, furniture and equipment	18,304,272
Infrastructure	267,150,964
Construction in progress	18,208,054
Total	<u>\$ 355,616,186</u>

Investments in governmental activities capital assets by source:

General Fund	\$ 10,031,699
Special Revenue Funds	6,686,404
Capital Projects Funds	338,898,083
Total	<u>\$ 355,616,186</u>

CITY OF AVONDALE, ARIZONA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL ACTIVITIES
SCHEDULE BY FUNCTION AND ACTIVITY
JUNE 30, 2006

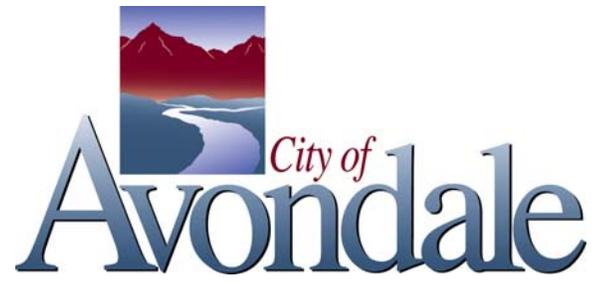
Function and Activity	Asset Classification				
	Land and Improvements	Buildings and Improvements	Vehicles, Furniture and Equipment	Infrastructure	Construction in Progress
General government	\$ 2,673,819	\$ 16,537,822	\$ 7,206,218	\$ -	\$ -
Public safety	307,003	11,998,257	8,536,500	-	-
Highways and streets	2,552,431	1,006,630	1,675,584	267,150,964	11,976,286
Health and welfare	215,948	978,211	59,905	-	-
Economic Development	51,711	134,540	128,287	-	-
Culture and recreation	5,998,229	9,498,295	697,778	-	6,231,768
Total	\$ 11,799,141	\$ 40,153,755	\$ 18,304,272	\$ 267,150,964	\$ 18,208,054

<u>Total</u>	
\$	26,417,859
	20,841,760
	284,361,895
	1,254,064
	314,538
	<u>22,426,070</u>
\$	<u><u>355,616,186</u></u>

**CITY OF AVONDALE, ARIZONA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL ACTIVITIES
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
FOR THE YEAR ENDED JUNE 30, 2006**

<u>Function and Activity</u>	<u>Capital Assets July 1, 2005, as restated</u>	<u>Additions</u>	<u>Deletions</u>	<u>Capital Assets June 30, 2006</u>
General government	\$ 25,993,277	\$ 533,791	\$ 109,209	\$ 26,417,859
Public safety	14,805,508	6,299,510	263,258	20,841,760
Highways and streets	265,557,193	6,828,416	-	272,385,609
Health and welfare	1,254,064	-	-	1,254,064
Culture and recreation	15,248,765	945,537	-	16,194,302
Economic and community development	268,848	45,690	-	314,538
Construction in progress	<u>8,415,175</u>	<u>19,464,417</u>	<u>9,671,538</u>	<u>18,208,054</u>
Totals	<u>\$ 331,542,830</u>	<u>\$ 34,117,361</u>	<u>\$ 10,044,005</u>	<u>\$ 355,616,186</u>

STATISTICAL SECTION



STATISTICAL SECTION – FINANCIAL TRENDS INFORMATION

CITY OF AVONDALE, ARIZONA
NET ASSETS BY COMPONENT
LAST FOUR FISCAL YEARS
(accrual basis of accounting)

	Fiscal Year¹	
	2003	2004
Governmental activities		
Invested in capital assets, net of related debt	\$ (7,765,135)	\$ (728,546)
Restricted	17,748,348	26,113,620
Unrestricted	7,079,459	13,854,820
Total governmental activities net assets	<u>\$ 17,062,672</u>	<u>\$ 39,239,894</u>
Business-type activities		
Invested in capital assets, net of related debt	\$ 49,659,313	\$ 65,140,765
Restricted	29,627,827	31,097,385
Unrestricted	15,485,880	16,450,395
Total business-type activities net assets	<u>\$ 94,773,020</u>	<u>\$ 112,688,545</u>
Primary government		
Invested in capital assets, net of related debt	\$ 41,894,178	\$ 64,412,219
Restricted	47,376,175	57,211,005
Unrestricted	22,565,339	30,305,215
Total Primary government net assets	<u>\$ 111,835,692</u>	<u>\$ 151,928,439</u>

¹ The provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 were adopted in fiscal year 2003; therefore, only four years are shown.

² During fiscal year 2006, the City completed the retroactive infrastructure reporting requirements of GASB Statement No. 34 for infrastructure assets acquired prior to the year ended June 30, 2003. This restatement accounts for \$475.8 million of the increase in net assets between fiscal years 2005 and 2006. See Note 2 on pages 46-47 for additional information.

Source: Audited City of Avondale, Arizona Comprehensive Annual Financial Report.

Fiscal Year¹	
2005	2006²
\$ (2,213,511)	\$ 196,509,921
33,627,735	28,808,290
20,756,092	31,939,142
<u>\$ 52,170,316</u>	<u>\$ 257,257,353</u>
\$ 76,032,966	\$ 382,500,757
44,558,842	40,439,483
24,462,385	28,749,995
<u>\$ 145,054,193</u>	<u>\$ 451,690,235</u>
\$ 73,819,455	\$ 579,010,678
78,186,577	69,247,773
45,218,477	60,689,137
<u>\$ 197,224,509</u>	<u>\$ 708,947,588</u>

CITY OF AVONDALE, ARIZONA
CHANGES IN NET ASSETS
LAST FOUR FISCAL YEARS
(accrual basis of accounting)

	Fiscal Year ¹	
	2003	2004
Expenses		
Governmental activities:		
General government	\$ 10,128,809	\$ 12,773,774
Public safety	11,107,465	12,309,510
Highways and streets	2,439,612	2,885,844
Sanitation ³	2,746,075	3,047,585
Health and welfare	573,859	693,682
Economic and community development	2,078,521	2,718,598
Culture and recreation	945,473	1,013,654
Interest on long-term debt	2,386,274	2,650,407
Total governmental activities net expenses	<u>32,406,088</u>	<u>38,093,054</u>
Business-type activities:		
Water utility	5,364,526	6,137,470
East Avondale water utility ³	501,732	701,085
Wastewater utility	5,054,347	4,589,305
Sanitation utility ³	-	-
Total business-type activities expenses	<u>10,920,605</u>	<u>11,427,860</u>
Total primary government expenses	<u>\$ 43,326,693</u>	<u>\$ 49,520,914</u>
Program Revenues		
Governmental activities:		
Charges for Services:		
General government ²	\$ 4,486,404	\$ 513,754
Public safety	3,050	12,483
Sanitation ³	2,754,200	3,000,264
Economic and community development ²	-	4,940,363
Culture and recreation	28,440	100,390
Operating grants and contributions	1,860,947	2,078,204
Capital grants and contributions	12,183,730	11,151,696
Total governmental activities program revenues	<u>21,316,771</u>	<u>21,797,154</u>
Business-type activities:		
Charges for Services:		
Water utility ³	6,283,314	5,847,391
East Avondale water utility ³	1,308,192	1,770,151
Wastewater utility	5,296,408	6,315,059
Sanitation Utility ³	-	-
Operating grants and contributions	-	-
Capital grants and contributions	7,066,770	15,536,911
Total business-type activities program revenues	<u>19,954,684</u>	<u>29,469,512</u>
Total primary government program revenues	<u>\$ 41,271,455</u>	<u>\$ 51,266,666</u>

Fiscal Year ¹	
2005	2006
\$ 17,652,671	\$ 22,764,573
14,797,695	14,935,013
3,080,032	8,396,708
-	-
806,332	939,572
3,356,334	5,213,085
1,157,280	1,816,712
2,530,003	2,042,879
<u>43,380,347</u>	<u>56,108,542</u>
6,939,975	11,818,914
-	-
4,733,439	8,296,298
3,145,714	3,266,298
<u>14,819,128</u>	<u>23,381,510</u>
<u>\$ 58,199,475</u>	<u>\$ 79,490,052</u>
\$ 918,596	\$ 1,267,440
50,474	147,137
-	-
5,589,855	5,817,266
135,916	254,323
4,462,062	5,085,797
7,924,999	10,699,397
<u>19,081,902</u>	<u>23,271,360</u>
8,485,789	9,336,905
-	-
6,907,659	6,946,157
2,890,001	3,392,810
-	-
14,686,667	12,531,009
<u>32,970,116</u>	<u>32,206,881</u>
<u>\$ 52,052,018</u>	<u>\$ 55,478,241</u>

(Continued on next page)

CITY OF AVONDALE, ARIZONA
CHANGES IN NET ASSETS
LAST FOUR FISCAL YEARS
(accrual basis of accounting)

	Fiscal Year ¹	
	2003	2004
<i>(Continuation)</i>		
Net (Expense)/Revenue		
Governmental activities	\$ (11,089,317)	\$ (16,295,900)
Business-type activities	9,034,079	18,041,652
Total primary government net (expense)/revenue	<u>\$ (2,055,238)</u>	<u>\$ 1,745,752</u>
General Revenues and Other Changes in Net Assets		
Governmental activities:		
Taxes		
Sales and use taxes	\$ 16,167,320	\$ 23,177,913
Property taxes, levied for general purposes	831,159	884,323
Property taxes, levied for debt service	1,192,297	1,452,584
Franchise taxes	558,196	640,293
State shared revenues, unrestricted	10,323,804	10,272,674
Investment income	534,050	378,780
Gain on sale of capital asset	31,114	372,845
Miscellaneous	676,905	709,802
Transfers	(16,924,196)	583,908
Total governmental activities	<u>13,390,649</u>	<u>38,473,122</u>
Business-type activities:		
Investment income	577,619	440,575
Gain on sale of capital asset	180,736	-
Miscellaneous	5,085	17,206
Transfers	16,924,196	(583,908)
Total business-type activities	<u>17,687,636</u>	<u>(126,127)</u>
Total primary government	<u>\$ 31,078,285</u>	<u>\$ 38,346,995</u>
Changes in Net Assets		
Governmental activities	\$ 2,301,332	\$ 22,177,222
Business-type activities	26,721,715	17,915,525
Total primary government	<u>\$ 29,023,047</u>	<u>\$ 40,092,747</u>

¹ The provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 were adopted in fiscal year 2003; therefore, only four years are shown.

² Beginning in fiscal year 2004, the City reclassified economic and community development activities from general government to economic and community development.

³ Beginning in fiscal year 2005, sanitation services were reclassified from governmental activities to business-type activities. In addition, East Avondale water utility services activities were combined with Water utility services.

Source: Audited City of Avondale, Arizona Comprehensive Annual Financial Report.

Fiscal Year¹

<u>2005</u>	<u>2006</u>
\$ (24,298,445)	\$ (32,837,182)
18,150,988	8,825,371
<u>\$ (6,147,457)</u>	<u>\$ (24,011,811)</u>

\$ 36,525,428	\$ 39,883,436
1,147,443	1,310,133
1,941,381	2,319,060
682,292	876,224
8,218,495	10,022,750
1,093,019	2,331,224
286,400	61,289
407,388	358,317
(13,072,979)	(800,000)
<u>37,228,867</u>	<u>56,362,433</u>

1,087,666	2,684,687
50,100	7,803
3,915	70,470
13,072,979	800,000
<u>14,214,660</u>	<u>3,562,960</u>
<u>\$ 51,443,527</u>	<u>\$ 59,925,393</u>

\$ 12,930,422	\$ 23,525,251
32,365,648	12,388,331
<u>\$ 45,296,070</u>	<u>\$ 35,913,582</u>

CITY OF AVONDALE, ARIZONA
FUND BALANCES OF GOVERNMENTAL FUNDS
LAST FOUR FISCAL YEARS
(modified accrual basis of accounting)

	Fiscal Year ¹			
	2003	2004	2005	2006
General Fund				
Reserved	\$ 199,102	\$ 139,183	\$ 212,336	\$ 154,179
Unreserved	9,574,224	12,894,969	19,781,789	27,505,360
Total general fund	<u>\$ 9,773,326</u>	<u>\$ 13,034,152</u>	<u>\$ 19,994,125</u>	<u>\$ 27,659,539</u>
All other governmental funds				
Reserved	\$ 19,224,835	\$ 8,305,841	\$ 8,965,365	\$ 11,270,955
Unreserved, reported in:				
Special revenue funds	2,280,820	5,590,870	10,831,027	12,260,058
Capital projects funds	9,599,629	17,673,575	18,186,566	11,923,289
Total all other governmental funds	<u>\$ 31,105,284</u>	<u>\$ 31,570,286</u>	<u>\$ 37,982,958</u>	<u>\$ 35,454,302</u>

¹ The provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 were adopted in fiscal year 2003; therefore, only four years are shown.

Source: Audited City of Avondale, Arizona Comprehensive Annual Financial Report.

CITY OF AVONDALE, ARIZONA
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST FOUR FISCAL YEARS

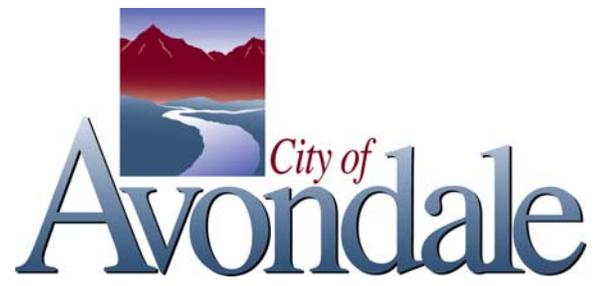
(modified accrual basis of accounting)

	Fiscal Year ¹			
	2003	2004	2005	2006
Revenues				
Taxes	\$18,736,691	\$26,225,061	\$40,196,899	\$44,367,883
Licenses and permits	9,619,546	13,407,638	11,976,285	12,683,605
Intergovernmental	13,683,424	12,283,227	12,999,608	16,815,306
Charges for services ²	2,957,895	4,003,862	943,619	1,955,528
Fines, forfeitures, and penalties	262,032	334,376	660,602	951,969
Interest	545,722	385,013	1,093,019	2,331,223
Contributions	4,869,567	1,981,544	824,627	735,024
Miscellaneous revenues	839,084	714,629	425,769	751,867
Total revenues	<u>51,513,961</u>	<u>59,335,350</u>	<u>69,120,428</u>	<u>80,592,405</u>
Expenditures				
General government	16,574,345	11,644,262	15,738,926	16,820,415
Public safety	10,209,532	10,995,415	13,859,897	17,254,476
Highways and streets	2,226,206	2,356,237	2,140,090	2,820,090
Sanitation ²	2,454,368	2,406,162	-	-
Health and welfare	530,698	1,033,165	793,862	914,806
Economic and community development	2,078,510	2,177,974	2,370,053	3,976,363
Culture and recreation	768,906	890,534	969,467	1,232,332
Debt Service				
Principal	1,196,220	2,890,843	3,882,461	4,914,723
Interest	2,387,562	2,650,407	2,957,914	2,909,515
Capital outlay	32,262,324	22,595,576	12,704,572	25,180,046
Total expenditures	<u>70,688,671</u>	<u>59,640,575</u>	<u>55,417,242</u>	<u>76,022,766</u>
Excess of revenues over (under) expenditures	(19,174,710)	(305,225)	13,703,186	4,569,639
Other Financing Sources (Uses)				
Bond issuance	43,170,000	-	12,400,000	18,690,685
Issuance of refunding bonds	3,060,000	-	-	-
Bond premium (discount)	381,356	-	(45,989)	38,724
Payment to refunding bonds escrow agent	(3,977,913)	-	-	(18,337,174)
Sale of capital assets	707,553	909,196	436,574	85,724
Capital leases	387,435	2,537,949	-	927,040
Transfer in	18,255,356	11,226,148	13,551,582	14,234,220
Transfer out	(35,179,552)	(10,642,240)	(26,672,708)	(15,072,100)
Total other financing sources (uses)	<u>26,804,235</u>	<u>4,031,053</u>	<u>(330,541)</u>	<u>567,119</u>
Net change in fund balances	<u>\$ 7,629,525</u>	<u>\$ 3,725,828</u>	<u>\$13,372,645</u>	<u>\$ 5,136,758</u>
Debt service as a percentage of noncapital expenditures	9.3%	15.0%	16.0%	15.4%

¹ The provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34 were adopted in fiscal year 2003; therefore, only four years are shown.

² Beginning in fiscal year 2005, sanitation services were reclassified from governmental activities to business-type activities.

Source: Audited City of Avondale, Arizona Comprehensive Annual Financial Report.



STATISTICAL SECTION – REVENUE CAPACITY INFORMATION

**CITY OF AVONDALE, ARIZONA
 ASSESSED VALUE, ESTIMATED ACTUAL VALUE AND ASSESSMENT RATIOS OF TAXABLE PROPERTY²
 LAST TEN FISCAL YEARS**

Fiscal Year	Residential Owner Occupied Property	Residential Rental Property	Commercial and Industrial Property	Agricultural and Vacant Property	Railroad Property	Timber and Mining Property
2005-2006	\$ 200,052,758	\$ 35,937,301	\$ 117,241,485	\$ 89,720,469	\$ 326,959	\$ -
2004-2005	182,086,324	25,380,852	95,313,347	73,626,681	315,401	-
2003-2004	151,090,125	16,748,041	71,796,337	74,293,583	297,703	-
2002-2003	135,198,702	14,637,321	47,767,825	46,665,816	65,788	-
2001-2002	97,965,574	10,009,484	32,301,284	42,473,870	52,954	-
2000-2001	81,152,019	7,235,821	24,824,405	31,243,348	53,870	-
1999-2000	67,964,260	6,711,705	23,144,351	15,593,607	49,289	-
1998-1999	50,966,769	6,079,551	18,587,663	13,168,877	50,938	-
1997-1998	40,579,777	4,904,069	16,149,851	13,012,938	56,146	1,612
1996-1997	38,741,593	4,731,186	14,328,400	12,565,609	58,697	2,720

Assessment Ratios³ of Taxable Property

Fiscal Year	Residential Owner Occupied Property	Residential Rental Property	Commercial and Industrial Property	Agricultural and Vacant Property	Railroad Property	Timber and Mining Property
2005-2006	10 %	10 %	24.5 %	16 %	22 %	24.5 %
2004-2005	10	10	25	16	21	25.0
2003-2004	10	10	25	16	21	25.0
2002-2003	10	10	25	16	20	25.0
2001-2002	10	10	25	16	20	25.0
2000-2001	10	10	25	16	21	25.0
1999-2000	10	10	25	16	21	25.0
1998-1999	10	10	25	16	21	25.0
1997-1998	10	10	26	16	22	26.0
1996-1997	10	10	27	16	23	27.0

¹ Includes tax-exempt property.

² Property in Maricopa County is required to be reassessed yearly. Upon meeting certain requirements, the County Assessor may value residential, agricultural and vacant land at the same full cash valuation for up to three years. Tax rates are per \$100 of assessed value.

³ The assessment ratios for each property classification is applied to the primary and secondary full-cash value of the property to determine the respective assessed valuation for tax levy purposes.

Source: Maricopa County Assessor's Office and Arizona Department of Revenue, *Abstract of the Assessment Role* (1997-2006).

<u>Historical Property</u>	<u>Gross Valuation</u>	<u>Less: Tax Exempt Real Property</u>	<u>Total Taxable Assessed Value</u>	<u>Total Direct Tax Rate</u>	<u>Estimated Actual Taxable Value</u>	<u>Assessed Value¹ as a Percentage of Actual Value</u>
\$ -	\$ 443,278,972	\$ (56,488,332)	\$ 386,790,640	1.17	\$ 3,404,843,546	13.019 %
-	376,722,605	(54,118,826)	322,603,779	1.17	2,920,329,986	12.900
-	314,225,789	(48,997,680)	265,228,109	1.17	2,430,772,423	12.927
-	244,335,452	(32,083,392)	212,252,060	1.27	1,981,422,235	12.331
-	182,803,166	(26,604,390)	156,198,776	1.28	1,474,541,801	12.397
33	144,509,496	(15,209,116)	129,300,380	1.28	1,180,235,350	12.244
-	113,463,212	(9,001,340)	104,461,872	1.64	938,408,667	12.091
-	88,853,798	(9,308,056)	79,545,742	1.78	727,182,030	12.219
-	74,704,393	(9,545,441)	65,158,952	1.35	600,345,095	12.444
-	70,428,205	(9,532,305)	60,895,900	1.58	569,686,925	12.363

<u>Historical Property</u>
1 %
1
1
1
1
1
1
1
1
1
1

CITY OF AVONDALE, ARIZONA
PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS
(rate per \$100 of assessed valuation)

Fiscal Year ¹	Direct Rate		Overlapping Rates ²			
	City of Avondale, Arizona	County		Tolleson Elementary School District No. 17	Tolleson Union High School District No. 214	Pendergast Elementary School District No. 92
		County-wide	Community College			
2005-06 Primary	0.44	1.20	0.89	2.90	2.70	2.25
2005-06 Secondary	0.73	0.00	0.14	2.34	1.09	3.79
2004-05 Primary	0.46	1.21	0.92	4.01	3.15	2.35
2004-05 Secondary	0.71	0.00	0.12	2.73	1.14	4.02
2003-04 Primary	0.48	1.21	0.94	3.30	3.24	2.39
2003-04 Secondary	0.69	0.07	0.14	2.31	1.03	3.98
2002-03 Primary	0.54	1.21	0.96	3.06	3.59	2.81
2002-03 Secondary	0.73	0.08	0.15	2.20	1.31	4.67
2001-02 Primary	0.55	1.18	0.96	2.56	2.76	2.40
2001-02 Secondary	0.73	0.09	0.15	2.87	1.48	4.88
2000-01 Primary	0.60	1.16	0.97	3.27	2.81	2.50
2000-01 Secondary	0.68	0.12	0.15	3.06	1.66	4.90
1999-00 Primary	0.64	1.19	0.97	2.41	2.13	2.68
1999-00 Secondary	1.00	1.00	0.15	3.33	1.63	4.89
1998-99 Primary	0.63	1.15	0.99	2.68	2.39	2.62
1998-99 Secondary	1.15	0.13	0.13	2.97	1.81	5.11
1997-98 Primary	0.63	1.66	0.97	2.59	2.69	3.19
1997-98 Secondary	0.72	0.14	0.16	3.06	1.80	4.57
1996-97 Primary	0.67	1.49	0.98	2.43	2.50	2.20
1996-97 Secondary	0.91	0.16	0.07	2.73	2.25	4.36

¹ Taxes based on the primary assessment may be levied to pay current operating and maintenance expenses. Taxes based on the secondary assessment, enacted in 1980, may be levied to pay bonded indebtedness. Under the primary system, the full cash value of locally assessed real property consisting of residential, commercial, industrial, agricultural and unimproved property, cannot increase by more than 10% per year, except under certain circumstances. This limitation does not apply to mines, utilities and railroads which are assessed by the State. Annual tax levies under the primary system are based on the nature of the property taxed and the taxing authority. Primary taxes are levied on residential property are limited to 1% of the full cash value of such property. In addition, primary taxes levied on all types of property by counties, cities, towns and community college districts are limited to a maximum increase of 2% over the prior year's levy plus any amount directly attributable to new construction and annexation. The 2% limitation does not apply to primary taxes levied for local school districts. Under the secondary system, there is no limitation on annual increases in full cash value of any property. In addition, annual tax levies for voter-approved bonded indebtedness and special district taxes are unlimited.

² Overlapping rates are those of local and county governments that apply to the property owners within the City of Avondale. Not all overlapping rates apply to all Avondale property owners. For example, although county property tax rates apply to all city property owners, the school district rates apply only to those property owners whose property is located within the district's geographical boundaries.

Source: Arizona Research Foundation and Maricopa County Assessor's Office Property Tax Rates and Assessed Values (1997-2006).

Overlapping Rates

Litchfield Elementary School District No. 79	Avondale Elementary School District No. 44	Agua Fria Union High School District No. 216	Littleton Elementary School District No. 65	Liberty Elementary School District No. 25
1.89	2.38	2.24	2.74	2.22
1.46	1.89	1.36	1.85	1.73
2.50	2.61	3.38	2.12	2.50
1.61	1.85	1.37	1.72	0.58
2.38	3.45	2.42	3.90	2.26
1.89	0.79	1.37	2.02	1.83
2.13	2.25	2.83	2.33	2.50
2.14	0.77	1.39	1.56	1.64
2.61	2.91	2.47	2.88	2.34
2.21	1.11	1.41	1.77	1.76
2.62	2.57	3.62	2.29	2.26
2.51	1.93	1.57	1.82	2.08
2.31	2.87	2.99	2.31	2.35
2.93	2.10	1.51	1.37	2.00
2.71	2.69	2.95	2.89	Not Available
3.04	2.10	1.68	1.24	Not Available
2.53	2.66	2.96	2.38	Not Available
2.47	1.88	1.19	1.79	Not Available
2.67	2.56	2.80	2.71	Not Available
2.37	2.03	1.34	1.46	Not Available

**CITY OF AVONDALE, ARIZONA
 PRINCIPAL PROPERTY TAXPAYERS
 CURRENT YEAR AND NINE YEARS AGO**

Taxpayer	2006		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Gateway Pavilions LLC	\$ 6,850,651	1	1.77 %
Phoenix Speedway Corporation	3,538,871	2	0.91
Mechanic (AZ) Ars 15-41 Inc.	3,418,898	3	0.88
Harkins Phoenix Cinemas LLC	2,800,902	4	0.72
No Bull LLC	2,763,237	5	0.71
Moreland Properties LLC	2,523,404	6	0.65
Arizona Public Service Company	2,449,339	7	0.63
Fulton Homes Corporation	2,430,379	8	0.63
Smiths Food & Drug Centers Inc.	2,372,919	9	0.61
Aventura Apartments LLC	2,164,380	10	0.56
Jobe Emmet Jr.	—		—
US West Corporation	—		—
Southwest Gas Corporation	—		—
Avondale Plaza	—		—
Bay Club Partners	—		—
Data Prompt Inc.	—		—
Avondale Investment & Development Corp.	—		—
First Service Title Agency	—		—
Research Products Corp.	—		—
Totals	31,312,980		8.10 %

Source: Maricopa County Assessor's Office.

1997

<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total Taxable Assessed Value</u>
—		—
—		—
—		—
—		—
—		—
—		—
\$ 1,200,306	1	2.44 %
—		—
—		—
—		—
897,211	2	1.82
675,880	3	1.37
556,801	4	1.13
471,840	5	0.96
425,000	6	0.86
411,600	7	0.84
365,744	8	0.74
333,102	9	0.68
293,515	10	0.60
<u>\$ 5,630,999</u>		<u>11.44 %</u>

**CITY OF AVONDALE, ARIZONA
PROPERTY TAX LEVIES AND COLLECTIONS¹
LAST TEN FISCAL YEARS**

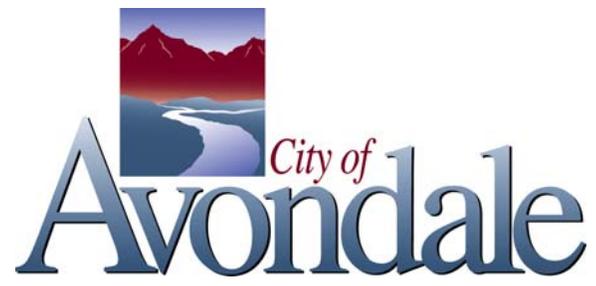
Fiscal Year	Original Property Tax Levy	Collections within the Fiscal Year of the Levy		Collections in Subsequent Years
		Amount	Percentage of Levy	
2005-2006	\$ 3,668,855	\$ 3,593,624	97.95 %	28,187
2004-2005	2,977,361	2,906,636	97.62	26,545
2003-2004	2,406,999	2,374,955	98.67	22,005
2002-2003	2,014,427	1,976,098	98.10	21,542
2001-2002	1,607,427	1,502,020	93.44	26,930
2000-2001	1,290,209	1,260,264	97.68	7,531
1999-2000	1,273,147	1,259,546	98.93	9,109
1998-1999	1,103,916	1,062,957	96.29	5,592
1997-1998	799,004	717,389	89.79	46,507
1996-1997	767,197	720,393	93.90	46,506

¹ Property taxes are payable in two installments. The first installment becomes due on the first day of October and is delinquent after the first business day of November. The second installment is due on the first day of March and becomes delinquent after the first business day of May. Delinquent property taxes are subject to a penalty of 16% per annum, prorated at a monthly rate of 1.33%.

Source: Maricopa County Budget Department and Maricopa County Treasurer's Office, *Secured Levy Report* (1997-2006)

Total Collections to Date

Amount	Percentage of Levy
\$ 3,621,811	98.72 %
2,933,181	98.52
2,396,960	99.58
1,997,640	99.17
1,528,950	95.12
1,267,795	98.26
1,268,655	99.65
1,068,549	96.80
763,896	95.61
766,899	99.96



STATISTICAL SECTION – DEBT CAPACITY INFORMATION

CITY OF AVONDALE, ARIZONA
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST FOUR FISCAL YEARS
(dollars expressed in thousands, except per capita)

Fiscal Year	Governmental Activities				Business-Type Activities			
	General Obligation Bonds	HURF Bonds	Municipal Development Corporation Bonds	Capital Leases	Revenue Bonds	Municipal Development Corporation Bonds	WIFA Loans	
2003	\$ 20,096	\$4,690	\$ 42,891	\$ 1,184	\$ 3,564	\$ 10,719	\$11,710	
2004	19,620	4,390	41,608	2,997	1,665	10,032	11,033	
2005	18,775	4,065	51,744	2,508	1,585	9,296	10,332	
2006	17,705	3,920	49,569	3,061	1,500	8,631	9,604	

¹ The provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 were adopted in fiscal year 2003; therefore, only four years are shown.

² See Demographics and Economic Statistics schedule on pages 144-145 for personal income and population data.

Source: City records.

<u>Total Primary Government</u>		<u>Percentage of Personal Income²</u>	<u>Per Capita²</u>
\$	94,854	0.08 %	\$ 1,992
	91,345	0.08	1,694
	98,305	0.09	1,631
	93,990	0.09	1,422

**CITY OF AVONDALE, ARIZONA
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS**

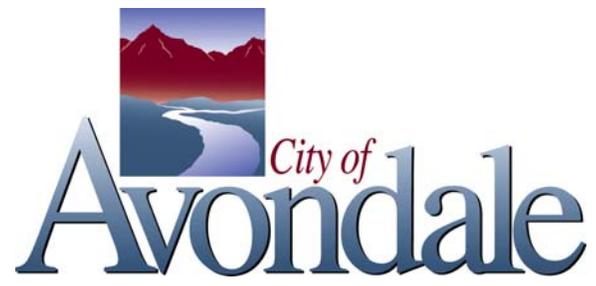
Fiscal Year	Secondary Assessed Valuation²	General Obligation Bonds	Less: Amounts available in Debt Service Fund	Net General Obligation Bonded Debt
1997	60,895,900	10,482,000	-	10,482,000
1998	65,158,952	10,359,000	-	10,359,000
1999	79,545,742	14,436,000	-	14,436,000
2000	104,461,872	14,123,000	-	14,123,000
2001	129,300,380	13,759,000	-	13,759,000
2002	156,198,776	13,370,000	566,141	12,803,859
2003	212,252,060	19,926,000	675,756	19,250,244
2004	265,228,109	19,620,000	923,817	18,696,183
2005	322,603,779	18,775,000	1,282,265	17,492,735
2006	386,790,640	17,705,000	1,852,477	15,852,523

¹ See Demographics and Economic Statistics schedule on pages 144-145 for personal income and population data.

² See Assessed Value, Estimated Actual Value and Assessment Ratios of Taxable Property Schedule on pages 116-117 for secondary assessed valuation data.

Source: Maricopa County Assessor's Office and Arizona Department of Revenue, Abstract of the Assessment Role (1997-2006).

Percentage of Net Bonded Debt to Estimated Actual Taxable Value of Property	Per Capita¹
17.21%	419.28
15.90%	398.12
18.15%	468.70
13.52%	437.65
10.64%	383.44
8.20%	316.57
9.07%	404.33
7.05%	346.71
5.42%	290.31
4.10%	239.79



**CITY OF AVONDALE, ARIZONA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT¹
AS OF JUNE 30, 2006**

Jurisdiction	Net General Obligation Debt Outstanding	Percentage Applicable to City of Avondale	Amount Applicable to City of Avondale
State of Arizona	\$ NONE	0.71 %	\$ NONE
Maricopa County	NONE	1.07	NONE
Maricopa County Community College District	369,320,000	1.07	3,951,724
Maricopa County Library District	NONE	N/A	NONE
Maricopa County Flood Control District	NONE	N/A	NONE
Maricopa County Fire District	NONE	N/A	NONE
Central Arizona Water Conservation District	NONE	N/A	NONE
Avondale Elementary School District No. 44	24,335,000	23.11	5,623,819
Litchfield Elementary School District No. 79	14,350,000	13.15	1,887,025
Littleton Elementary School District No. 65	1,270,000	58.97	748,919
Pendergast Elementary School District No. 92	16,380,000	37.34	6,116,292
Tolleson Elementary School District No. 17	4,755,000	7.1	337,605
Liberty Elementary School District No. 25	6,625,000	0.03	1,988
Agua Fria Union High School District No. 216	64,790,000	16.55	10,722,745
Tolleson Union High School District No. 214	61,790,000	26.77	16,541,183
City of Avondale	<u>17,705,000</u>	100.00	<u>17,705,000</u>
 Total direct and overlapping general obligation bonded debt	 <u>\$ 581,320,000</u>		 <u>\$ 63,636,299</u>

¹ Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City of Avondale. The percentages presented in this schedule estimate the percent to which the jurisdictions' geographic boundaries overlap with those of the City. This schedule further estimates the portion of outstanding debt of those overlapping governments that is borne by the residents and businesses of the City. This process recognizes that, when considering a city's ability to issue and repay long-term debt, the entire debt burden borne by residents should be taken into account. However, this does not imply that every taxpayer is a resident and, therefore responsible for repaying the debt of each overlapping government.

Source: Maricopa County Assessor's Office, *Property Tax Rates and Assessed Values (1997-2006)*, Arizona Tax Research Foundation and the Arizona Department of Revenue, *Abstract of the Assessment Roll (1997-2006)*.

**CITY OF AVONDALE, ARIZONA
LEGAL DEBT MARGIN INFORMATION²
LAST FOUR FISCAL YEARS**

	Fiscal Year	
	2003	2004
Net secondary assessed valuation	\$ 212,252,060	\$ 265,228,109
<u>20% Limitation</u>		
Debt limit	42,450,412	53,045,622
Net debt applicable to limit	<u>10,576,000</u>	<u>10,270,000</u>
Legal 20% debt margin	<u>\$ 31,874,412</u>	<u>\$ 42,775,622</u>
Total net debt applicable to the limit as a percentage of debt limit	24.9%	19.4%
<u>6% Limitation</u>		
Debt limit	12,735,124	15,913,687
Net debt applicable to limit	<u>8,775,000</u>	<u>8,775,000</u>
Legal 6% debt margin	<u>\$ 3,960,124</u>	<u>\$ 7,138,687</u>
Total net debt applicable to the limit as a percentage of debt limit	68.9%	55.1%

¹ The provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 were adopted in fiscal year 2003; therefore, only four years are shown.

² Under the provisions of the Arizona Constitution, the City's combined outstanding general obligation bonded debt for water, sewer, light, open space preserves, parks, playgrounds and recreational facilities may not exceed 20% of the City's net secondary assessed valuation, nor may general obligation bonded debt for all other purposes exceed 6% of the City's net secondary assessed valuation.

Source: City records.

Fiscal Year	
<u>2005</u>	<u>2006</u>
\$ 322,603,779	\$ 386,790,640
64,520,756	77,358,128
<u>9,565,000</u>	<u>8,930,000</u>
<u>\$ 54,955,756</u>	<u>\$ 68,428,128</u>
14.8%	11.5%
19,356,227	23,207,438
<u>8,775,000</u>	<u>8,775,000</u>
<u>\$ 10,581,227</u>	<u>\$ 14,432,438</u>
45.3%	37.8%

**CITY OF AVONDALE, ARIZONA
 AVONDALE WATER AND SEWER SYSTEMS^{1, 2}
 PLEDGED REVENUE COVERAGE
 LAST FIVE FISCAL YEARS**

	Fiscal Year		
	2002	2003	2004
Total operating revenues ³	\$ 10,822,148	\$ 11,579,722	\$ 12,179,219
Total operating expenses ⁴	<u>7,109,672</u>	<u>6,655,346</u>	<u>7,247,442</u>
Net operating income	<u>3,712,476</u>	<u>4,924,376</u>	<u>4,931,777</u>
Other revenues	<u>\$ 571,524</u>	<u>\$ 740,400</u>	<u>\$ 420,466</u>
Net revenues before debt service	<u><u>\$ 4,284,000</u></u>	<u><u>\$ 5,664,776</u></u>	<u><u>\$ 5,352,243</u></u>
Debt service ⁵	\$ 2,271,301	\$ 2,538,561	\$ 3,034,873
Debt service coverage	1.89	2.23	1.76

1 The provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 were adopted in fiscal year 2003. Five years of data rather than four years are presented in this schedule because this schedule is used to meet the City's ongoing debt disclosure requirements in addition to GASB reporting requirements.

2 The information contained in this schedule excludes East Avondale Water Company revenues, expenses and debt service.

3 Includes all water and sewer operating revenues except for water and sewer development fees.

4 Excludes depreciation and interest expenses.

5 Debt Service includes all bonds having a water and sewer system revenue pledge including the following outstanding debt: (1) Municipal Development Corporation Revenue Bonds, Series 1996; Series 1999 (37% of total issue); and Series 2005 (12% of total issue); (2) Water and Sewer Revenue Bonds, Series 1998; and (3) Water Infrastructure Financing Loans, Series 1992 and 1999.

Note: See Note 9 - Long-term Obligations on pages 55-61 for additional detailed information on the City's long-term debt and pledged revenues.

Source: City records.

Fiscal Year	
2005	2006
\$ 18,287,364	\$ 19,746,342
11,728,882	12,938,001
<u>6,558,482</u>	<u>6,808,341</u>
 \$ 1,137,766	 \$ 2,692,490
 <u>\$ 7,696,248</u>	 <u>\$ 9,500,831</u>
 \$ 2,461,448	 \$ 2,455,293
 3.13	 3.87

**CITY OF AVONDALE, ARIZONA
MUNICIPAL DEVELOPMENT CORPORATION BONDS
DEBT SERVICE COVERAGE**

Debt service payable during year ended June 30	Actual Excise tax Revenues²	Total Actual/Estimated Annual Debt Service Requirements	Debt Service Coverage Ratio
2003	\$ 27,411,443	\$ 2,601,893	10.54 %
2004	34,943,465	4,079,119	8.57
2005	49,478,255	4,954,707	9.99
2006	54,195,623	5,704,165	9.50
2007	N/A	6,187,522	8.76
2008	N/A	6,118,246	8.86
2009	N/A	6,131,224	8.84
2010	N/A	6,181,462	8.77
2011	N/A	6,184,717	8.76
2012	N/A	6,184,866	8.76
2013	N/A	5,826,128	9.30
2014	N/A	5,383,416	10.07
2015	N/A	4,274,789	12.68
2016	N/A	4,245,666	12.76
2017	N/A	3,423,266	15.83
2018	N/A	3,395,935	15.96
2019	N/A	3,392,835	15.97
2020	N/A	3,417,735	15.86
2021	N/A	2,490,000	21.77

¹ The provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 were adopted in fiscal year 2003; therefore, only four year of actual data are shown. As this schedule is used to meet the City's ongoing debt disclosure requirements in addition to GASB reporting requirements, estimated debt service requirements and debt service coverage ratios are presented for the term of the outstanding debt.

² The City has pledged excise taxes to secure Municipal Development Corporation Bonds outstanding that are not covered by pledged water and sewer utilities operating revenues (see the Avondale Water and Sewer Systems Pledged Revenue Coverage schedule on pages 134-135).

Note: See Note 9 - Long-term Obligations on pages 55-61 for additional detailed information on the City's long-term debt and pledged revenues.

Source: City records.

**CITY OF AVONDALE, ARIZONA
HIGHWAY USER REVENUE FUND BONDS
DEBT SERVICE COVERAGE
LAST FOUR FISCAL YEARS**

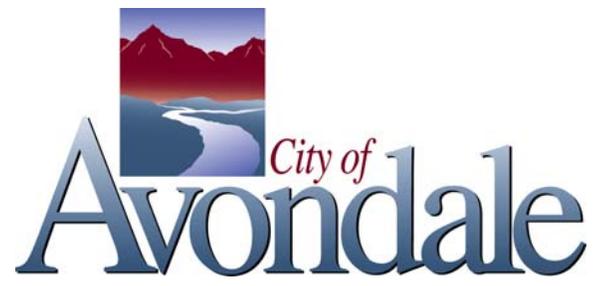
Debt service payable during year ended June 30	Street and Highway Revenue Receipts	Total Actual Annual Debt Service Requirements	Debt Service Coverage Ratio
2003	\$ 2,323,982	\$ 563,746	4.12 %
2004	2,484,542	564,574	4.40
2005	2,608,891	563,249	4.63
2006	2,952,118	553,370	5.33

¹ The provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 were adopted in fiscal year 2003; therefore, only four years are shown.

² The Highway User Revenue Fund (HURF) Bonds are special revenue bonds specifically issued for the purpose of constructing street and highway projects. The bonds are secured by motor fuel tax revenues distributed by the State to the City based on a formula of population and motor fuel sales within the county of origin. The bonds must be voter-approved and the amount of bonds the City may issue is limited by the annual amount of HURF revenues from the State. The annual total debt service (principal and interest) must not exceed one-half of the annual revenues received by the City.

Note: See Note 9 - Long-term Obligations on pages 55-61 for additional detailed information on the City's long-term debt and pledged revenues.

Source: City records.



**CITY OF AVONDALE, ARIZONA
STREET AND HIGHWAY REVENUE RECEIPTS
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>Street and Highway Revenue Receipts</u>
2005-06	\$ 2,952,118
2004-05	2,608,891
2003-04	2,484,542
2002-03	2,323,982
2001-02	2,227,397
2000-01	1,726,651
1999-00	1,630,701
1998-99	1,573,340
1997-98	1,432,158
1996-97	1,612,147

¹ This schedule has been presented to meet the City's ongoing debt disclosure requirements.

Source: City records.

**CITY OF AVONDALE, ARIZONA
ACTUAL EXCISE TAX REVENUES
LAST FIVE FISCAL YEARS**

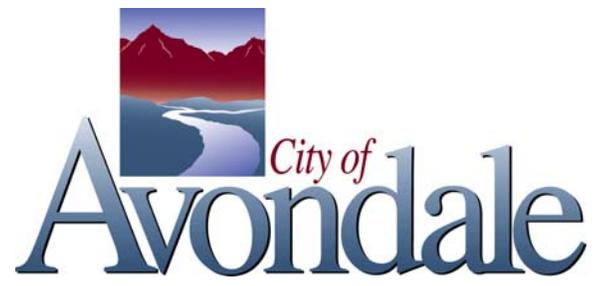
Source	Fiscal Year		
	2002	2003	2004
City sales tax	\$14,342,501	\$15,964,921	\$22,875,566
State sales tax	2,765,159	2,806,331	3,018,844
State revenue sharing	3,748,916	3,770,461	3,240,789
Utility and cable franchise fees	492,526	558,196	640,293
Licenses and permits	4,194,488	4,049,503	4,862,956
Fines and forfeitures	297,233	262,032	334,392
Totals	<u>\$25,840,823</u>	<u>\$27,411,443</u>	<u>\$34,972,840</u>

¹ This schedule has been presented to meet the City's ongoing debt disclosure requirements.

Source: City records.

Fiscal Year

<u>2005</u>	<u>2006</u>
\$ 35,955,607	\$ 39,327,962
3,324,212	4,055,107
3,336,656	4,100,286
682,292	876,223
5,518,886	4,884,077
660,601	951,968
<u>\$49,478,255</u>	<u>\$ 54,195,623</u>



STATISTICAL SECTION – DEMOGRAPHIC AND ECONOMIC INFORMATION

**CITY OF AVONDALE, ARIZONA
 DEMOGRAPHIC AND ECONOMIC STATISTICS
 LAST TEN FISCAL YEARS**

Fiscal Year	Population	Personal Income (in thousands of dollars)	Per Capita Personal Income¹	Estrella Mountain Community College Enrollment²
2006	66,110	\$ 120,516,164	\$ 33,459	12,849
2005	60,255	115,809,870	32,608	13,357
2004	53,925	111,103,576	31,232	9,689
2003	47,610	102,277,852	30,111	9,040
2002	40,445	96,998,974	30,597	5,193
2001	35,883	93,554,549	29,133	4,958
2000	32,270	89,771,608	28,962	4,300
1999	30,800	80,924,901	27,582	4,400
1998	26,020	75,639,499	27,028	4,222
1997	25,000	68,656,472	25,505	3,010

Sources:

- ¹ The City does not maintain per capita personal income information; therefore, the information presented are Maricopa County, Arizona per capita personal income amounts. The source of this information is the Arizona Department of Economic Security. Per capita personal income amounts presented for fiscal years 2005 and 2006 data are estimates based on the average annual change.
- ² Information provided by Estrella Mountain Community College
- ³ Information provided by US Department of Labor, Bureau of Labor Statistics
- ⁴ Information provided by Arizona Department of Economic Security.

City of Avondale Unemployment Rate³	State of Arizona Unemployment Rate⁴
3.5 %	4.4 %
3.9	4.7
7.6	5.0
9.4	5.7
10.6	6.1
7.4	4.7
8.2	4.0
4.9	4.6
5.2	4.3
5.7	4.5

**CITY OF AVONDALE, ARIZONA
 PRINCIPAL EMPLOYERS
 CURRENT YEAR AND NINE YEARS AGO**

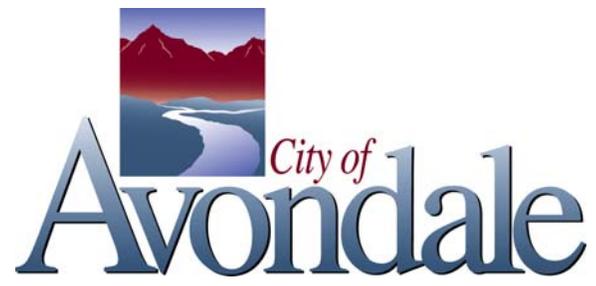
<u>Employer</u>	<u>2006</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
Wal-Mart Stores, Inc	560	1	1.16 %
City of Avondale	481	2	1.00
Bean Corporation	—	—	—
Avondale Elementary School District #44	375	3	0.78
Tolleson Union High School District#214	305	4	0.63
Agua Fria Union High School District#216	235	5	0.49
Universal Technical Institute	225	6	0.47
Estrella Mountain Community College	221	7	0.46
Costco Wholesale	186	8	0.39
Sam's Club	176	9	0.37
Home Depot	170	10	0.35
Baker Concrete Construction	150	11	0.31
Litchfield Elementary School District	155	12	0.32
Royal Sun West Care Center	—	—	—
ABCO Commercial Center	—	—	—
Joe Gambino Chevrolet/Geo	—	—	—
Arizona Machinery	—	—	—
Totals	<u>3,239</u>		<u>6.73 %</u>

¹ Principal employers information is available only for the top eight employers in 1997.

Source: Source: City of Avondale Telephone Surveys, March 2006. Reported by ESI Corporation on Economic Development Strategic Plan and Greater Phoenix Economic Council.

1997

<u>Employees</u>	<u>Rank¹</u>	<u>Percentage of Total City Employment</u>
—	—	—
222	4	1.00 %
470	1	2.12
325	2	1.45
-	-	-
230	3	2.04
—	—	—
—	—	—
—	—	—
—	—	—
—	—	—
—	—	—
—	—	—
130	5	0.58
52	6	0.23
47	7	0.21
45	8	0.20
<u>1,521</u>		<u>7.83 %</u>



STATISTICAL SECTION – OPERATING INFORMATION

**CITY OF AVONDALE, ARIZONA
 FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
 LAST FOUR FISCAL YEARS**

<u>Function</u>	<u>Full-time Equivalent Employees as of June 30</u>			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General government				
City Administration	6.00	8.00	8.00	9.00
Finance & Budget	18.50	21.50	23.50	29.50
City Court	10.00	10.00	10.50	11.50
Planning & Building Services	18.00	19.00	22.00	22.00
Other	30.00	29.60	40.10	44.00
Public safety				
Police				
Officers	110.00	129.00	111.50	120.00
Civilians	5.00	5.50	27.50	30.00
Fire				
Firefighters and officers	41.50	45.50	46.00	45.00
Civilians	12.00	13.00	17.50	12.00
Highways and streets				
Engineering	14.00	14.00	17.00	23.00
Maintenance	17.00	15.30	13.30	14.00
Health and welfare	12.00	12.00	12.00	22.50
Economic and community development	4.00	3.00	2.00	3.00
Sanitation	18.00	19.10	16.10	15.00
Culture and recreation	27.50	27.00	26.00	47.00
Water resources	23.50	25.50	32.00	38.50
Sewer	12.50	12.50	15.00	16.50
Total	<u>379.50</u>	<u>409.50</u>	<u>440.00</u>	<u>502.50</u>

¹ The provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 were adopted in fiscal year 2003; therefore, only four years are shown.

Source: City of Avondale, Arizona Annual Budget and Financial Plan for the applicable fiscal year.

**CITY OF AVONDALE, ARIZONA
OPERATING INDICATORS BY FUNCTION²
LAST FOUR FISCAL YEARS**

Function	Fiscal Year			
	2003	2004	2005	2006
Police				
Calls for service	Not available	46,552	53,476	52,419
Moving citations	Not available	1,985	3,843	3,311
Non-moving citations	Not available	2,864	4,304	4,774
All other citations	Not available	31	594	1,338
Physical arrests	Not available	4,579	4,345	5,062
Fire				
Number of emergency responses	7,939	6,519	7,806	6,735
Inspections	Not available	Not available	3,238	4,900
Number of fires extinguished	15	26	10	-
Sanitation				
Refuse collected (tons per day)	86	87	68	72
Recyclables collected (tons per day)	9	12	14	14
Water				
New connections	16,200	18,417	20,545	21,459
Water mains breaks	Not available	10	17	8
Average daily consumption (thousands of gallons)	8,305	9,185	9,301	10,285
Wastewater				
Average daily sewage treatment (thousands of gallons)	Not available	3,507	3,825	4,080

¹ The provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 were adopted in fiscal year 2003; therefore, only four years are shown

² Indicators are not available for the general government function.

Source: Various city departments.

**CITY OF AVONDALE, ARIZONA
CAPITAL ASSET STATISTICS BY FUNCTION²
LAST FOUR FISCAL YEARS**

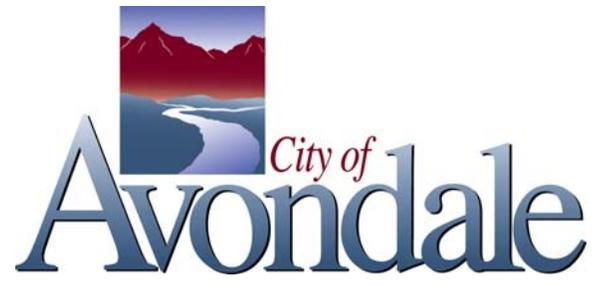
Function	Fiscal Year			
	2003	2004	2005	2006
Public Safety				
Police:				
Stations	2	2	2	2
Patrol units	28	47	53	64
Fire stations				
Stations	2	2	2	3
Fire trucks	4	4	7	7
Fire vehicles (other than fire trucks)	12	13	15	16
Sanitation				
Collection trucks	11	11	15	18
Highways and streets				
Streets (miles)	213	220	263	287
Streetlights	5,950	5,950	5,950	6,499
Traffic signals	24	26	28	29
Culture and recreation				
Parks acreage	118	118	130	265
Parks	11	11	12	14
Racquetball courts	0	0	0	0
Basketball courts	15	11	10	19
Volleyball courts	5	4	4	4
Baseball Fields	0	4	4	4
Softball Fields	0	3	3	3
Soccer Fields	0	10	10	12
Swimming pools	0	0	0	0
Tennis courts	2	2	2	2
Community centers	2	2	2	2
Dog park	0	0	0	1
Playgrounds	4	5	5	6
Amphitheatre	3	3	3	3
Ramadas	5	6	6	7
Water				
Number of service connections	16,200	18,417	20,545	21,459
Water mains (miles)	315	335	335	406
Fire hydrants	Not available	1,965	2,235	2,564
Sewer				
Number of service connections	16,150	18,417	20,100	19,970
Sanitary sewers (miles)	307	329	329	321
Storm sewers (miles)	Not available	Not available	31	37
Wastewater				
Treatment plants	2	2	2	2

¹ The provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 were adopted in fiscal year 2003; therefore, only four years are shown.

² Indicators are not available for the general government function.

Source: Various city departments.

SINGLE AUDIT SECTION





HENRY & HORNE, LLP
Advisors to Business

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

The Honorable Mayor and Council
City of Avondale, Arizona

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Avondale (the City), Arizona as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 3, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Tempe
2055 E. Warner Road
Suite 101
Tempe, AZ 85284-3487
(480) 839-4900
Fax (480) 839-3624

Scottsdale
7098 E. Cochise Road
Suite 100
Scottsdale, AZ 85253-4517
(480) 483-1170
Fax (480) 483-7126

Casa Grande
711 E. Cottonwood Lane
Suite C
Casa Grande, AZ 85222-2725
(520) 836-8201
Fax (520) 426-9432

Pinetop
Post Office Box 527
Pinetop, AZ 85935-0527
(928) 367-2591
Fax (928) 367-3501

The Honorable Mayor and Council
City of Avondale, Arizona

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City council, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Henry H. Howell". The signature is stylized with a large initial "H" and a long horizontal stroke.

November 3, 2006



HENRY & HORNE, LLP
Advisors to Business

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

The Honorable Mayor and Council
City of Avondale, Arizona

Compliance

We have audited the compliance of the City of Avondale (the City), Arizona with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Avondale, Arizona, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Tempe
2055 E. Warner Road
Suite 101
Tempe, AZ 85284-3487
(480) 839-4900
Fax (480) 839-3624

Scottsdale
7098 E. Cochise Road
Suite 100
Scottsdale, AZ 85253-4517
(480) 483-1170
Fax (480) 483-7126

Casa Grande
711 E. Cottonwood Lane
Suite C
Casa Grande, AZ 85222-2725
(520) 836-8201
Fax (520) 426-9432

Pinetop
Post Office Box 527
Pinetop, AZ 85935-0527
(928) 367-2591
Fax (928) 367-3501

155

www.henryandhorne.com

**CITY OF AVONDALE, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006**

Federal Grantor/Pass- Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Housing and Urban Development			
Passed through the Maricopa County Community Development Agency Community Development Block Grant	14.218	DG0501	\$ 340,000 *
U.S. Department of Justice			
Edward Byrne Memorial Formula Grant Program	16.579		19,945
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580		3,178
Bullet Proof Vest Partnership Program	16.607		5,288
Local Law Enforcement Block Grant	16.592		1,811
COPS Technology	16.710		17,156
COPS Universal Hiring Fund	16.710		84,369
Paul Coverdell Forensic Sciences Improvement Grant Program Passed through Arizona Department of Public Safety Crime Victim Assistance	16.742		84,116
Total U.S. Department of Justice	16.575	2004-387	<u>17,665</u>
			<u>233,528</u>
National Highway Traffic Safety Administration, Department of Transportation			
State and Community Highway Safety	20.600		24,021
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601		<u>21,174</u>
			<u>45,195</u>
National Endowment for the Humanities			
Passed through the Arizona State Library, Archives and Public Records State Library Program	45.310	251-3-1-(1)	21,962
		251-5-1-(12)	25,000
		241-6-2-(1)	1,000
			<u>47,962</u>
U.S. Department of Health and Human Services			
Passed through the Arizona Department of Economic Security and Area Agency on Aging Support Services and Senior Centers	93.044	2006-10-AVO	23,106
Nutrition Services	93.045	2006-10-AVO	53,584
National Family Caregiver Support	93.052	2006-10-AVO	752
Nutritional Services Incentive Program	93.053	2006-10-AVO	17,397
Social Services Block Grant	93.667	2006-10-AVO	3,516
Passed Through Maricopa County Division of Human Services Temporary Assistance for Needy Families	93.558	C-22-05-033-2	26,415
Community Services Block Grant	93.569	C-22-05-033-2	17,917
Social Services Block Grant	93.667	C-22-05-033-2	28,127
Total U.S. Department of Health and Human Services			<u>170,814</u>
Department of Homeland Security			
State Domestic Preparedness Equipment Support Program	97.004		<u>40,000</u>
Total Expenditures of Federal Awards			<u>\$ 877,499</u>

* Denotes major program

**CITY OF AVONDALE, ARIZONA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006**

NOTE 1 BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Avondale, Arizona and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 2 CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The program titles, CFDA numbers and pass-through grantor's number were obtained from the federal or pass-through grantor or the 2006 *Catalog of Federal Domestic Assistance*.

CITY OF AVONDALE, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2006

Summary of Auditors' Results

We have audited the financial statements of the City of Avondale (the City), Arizona, as of and for the year ended June 30, 2006, and have issued an unqualified opinion thereon dated November 3, 2006. 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.

Our audit did not disclose any noncompliance which is considered material to the financial statements of the City, nor did our audit disclose any material weaknesses in internal controls.

We have also issued an unqualified opinion dated November 3, 2006, based on our consideration of the City's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133* that are applicable to its major Federal program for the year ended June 30, 2006. The results of our auditing procedures disclosed no findings relating to these requirements that are required to be reported in accordance with *OMB Circular A-133*.

For the June 30, 2006, Single Audit, the threshold used to distinguish between Type A and Type B programs was \$300,000. The City's U.S. Department of Housing and Urban Development Community Development Block Grant Program was audited as the major program. The City of Avondale, Arizona qualified as a low risk auditee.

There were no prior year findings.

