



**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2013**

*425 10TH STREET, DOUGLAS, ARIZONA 85607
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CITY OF DOUGLAS, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2013

Danny Ortega Jr.
Mayor

Councilmembers

Margaret Morales

Mitchell Lindemann

Ben LaForge

Ray Shelton

Luis Greer

Rudy Quiñones

Carlos A. De La Torre
City Manager

Prepared by:
Finance Department

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INTRODUCTORY SECTION

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THE CITY OF DOUGLAS

425 10TH STREET, DOUGLAS, ARIZONA 85607
Telephone (520) 417-7333 Fax (520) 417-7162

FINANCE DEPARTMENT

November 12, 2013

Mayor and City Council
Citizens of the City of Douglas, Arizona

The Arizona Auditor General Office requires all local government entities to file a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with the generally accepted auditing standards by a licensed certified public accounting firm with their office by October 31st or by February 28th of each year if an automatic extension is requested. Pursuant of that requirement, we hereby issue the comprehensive annual financial report of the City of Douglas, Arizona for the fiscal year ended June 30, 2013.

The report consists of management's representations concerning the finances of the City of Douglas, Arizona. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Douglas, Arizona has established a comprehensive internal control framework that is designed both to protect the government assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of City of Douglas's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City of Douglas'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 misstatements. 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 financial statements contained herein have been audited by CliftonLarsonAllen LLP 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 of Douglas, Arizona for the Fiscal-Year-Ended June 30, 2013 are free of material misstatements. 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 statements presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion of City of Douglas's financial statements for the Fiscal-Year-Ended June 30, 2013, and that they are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

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

Mayor and City Council
Citizens of the City of Douglas, Arizona

The City of Douglas, Arizona is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Information related to this single audit, including the schedule of federal awards, findings and recommendations and auditors' reports on the internal control structure and compliance with applicable laws and regulations are included in the single audit report which is available for review at the City of Douglas, Arizona offices.

This report includes all funds of the City of Douglas, Arizona. The City of Douglas, Arizona provides a full range of services that includes police and fire protection; emergency medical services; water, sewer and sanitation services; the construction and maintenance of highways, streets, and infrastructure; recreational activities including an aquatic center, library, visitor center, golf course, public housing, and cultural events. In addition to general government activities, the City of Douglas, Arizona reports two governmental components units: Casa de Esperanza, and Pioneer Village and one business-type component unit Rancho La Perilla Apartments and, therefore, these activities are included as discretely presented component units.

Profile of the City

The City of Douglas is located in Southeastern Arizona 117 miles southeast of Tucson on the U.S./Mexico border. Although it has a population of 17,378 people, it serves a commercial market of approximately 160,000. Agua Prieta, Sonora, Mexico (just across the international border from Douglas) is a part of our market and has a population of approximately 125,000. Our two cities share an interdependent economy and culture.

Government Structure

The Douglas City government is comprised of a Mayor and six Council members, elected by City residents for four year terms. The Mayor is elected at-large, which means that registered voters from all City wards cast their ballots for the mayoral candidates. Council members are elected by registered voters from their respective wards. The Mayor and Council members have equal voting power to create, pass, or disapprove local laws, ordinances, and resolutions that govern the City. The Mayor Pro Tem is appointed by the Mayor.

The City Manager, who is appointed by the City Council, is responsible for the overall operation and supervision of the government functions within the policy directives of the City Council. As the administrative head of the City government, he is responsible for the appointment and dismissal of all employees, except for the City Magistrate, City Clerk, City Treasurer, and City Attorney who are appointed by the Mayor and Council.

Economic Condition and Outlook

The City's economy is primarily based on the commercial exchange with Mexico. The Douglas/Agua Prieta connection continues to strengthen with the coordinated efforts of both local governments for the expansion of the existing and development of a new commercial port of entry. The City's major employers consist of governmental entities such as Arizona State Prison Complex, Customs and Border Protection, Douglas Unified School District, Cochise College and the City of Douglas. Private and major employers in our City include Advanced Call Center Technologies and Wal-Mart Stores. According to the Cochise College for Economic Research the City's unemployment rate at the end of May 2013 was at 12.6%, which is significantly above the national and state unemployment rates of

7.9% and 7.7% respectively. However, the College believes that the Employment and Population Statistics model may be skewed and real unemployment is probably around 11.4%.

Major Initiatives

The construction of a new commercial port of entry in Douglas continues to be a common goal for the Mayor and Council. With the assistance of the Douglas Economic Development Corporation, the City has developed a strategic plan and assigned a consultant to represent the City in garnering support and advocacy for this project. The City has worked with the Mexican government to agree on a location that would be beneficial to both sides. Through our negotiations, the City and Agua Prieta have narrowed down the search to two locations, both located a few miles west of Douglas. In addition, formal commitment from the Mexican land owner has been obtained to donate the necessary land for the construction of the new port. Advocacy efforts continue as the City has reached out to Sonoran officials, Mexican government officials and our State and National representatives in the States as well. The Arizona Governor's office has pledged support for this project as well as the Mexican government. The idea now going forward is to bring stakeholders into the same vision and develop a financing mechanism most likely through a private public partnership.

A great initiative this year was the development of the Secure Electronic Network for Travelers Rapid Inspection (SENTRI) program in Douglas designed to rapidly process low risk travelers that choose to undergo a rigorous background and vehicle inspection and obtain a SENTRI card. Those travelers would experience very low waiting times at the border which increases the flow of travelers to our City. This project was made possible through the collaboration of agencies from both sides of the border. Signage and infrastructure necessary for the SENTRI lane was funded by the Douglas Industrial Development Authority, the Greater Douglas Chamber of Commerce, the Association de Maquiladoras de Agua Prieta, Canacintra de Agua Prieta and the Agua Prieta Chamber of Commerce. The City of Agua Prieta installed all signage and infrastructure and the City of Douglas provided office space to Customs and Border Protection (CBP) at no cost for the administration and enrollment of the SENTRI program.

In another effort to facilitate international trade, the City entered into a no fee license agreement with CBP to use the City's 1st Street parking lot for CBP employee parking. By designating the parking lot for CBP employee parking, it has alleviated the congestion at the commercial port inspection area, therefore making maneuvering of commercial vehicles easier and inspections performed much quicker. The City has received reports from the trade industry that the cleaner less congested commercial port has greatly assisted in facilitating its inspections of inbound and outbound commercial cargo.

The City was awarded a federal grant passed through the Arizona Department of Transportation to operate a transit system for the Douglas community. The grant reimburses the City 80% of Administration costs, 58% of Operations costs and 93% of capital costs. Through the collection of ridership fees and contracting with the Southeastern Arizona Government's Organization to provide transit services for elderly and disabled individuals, the City was able to minimize its match requirement. On October 1, 2012 the City began its first routes transporting citizens through different routes in Douglas including a route to transport students to Cochise Community College located about 10 miles outside of Douglas. The City obtained three buses from Catholic Community Services, who previously ran the program, and also obtained three additional buses through a no cost lease from the Yuma County Intergovernmental Public Transportation Authority. Through the end of June 2013, there were 34,251 riders that benefitted from this program.

The City partnered with the Douglas Unified School District (DUSD) to enhance its Recreation program by sharing physical and human resources to make this possible. The City and DUSD developed an after school program using school facilities and staffing them with City personnel. Four schools were selected that were located throughout the City in order to give participants an opportunity to attend no matter where they lived. The program has been a great success as more than 4,400 participants have attended. In addition, the recreation program also hosts open gym for young adults and adults in one of the schools.

Through grant funding from CDBG and matching funds from the Streets Fund, the City completed the paving of 20th Street from A Avenue to Washington Avenue. It also installed curbing and gutter and ADA ramps throughout this location. The City also completed the paving, curbing and sidewalks in the 3rd Street extension project located in the business district west of Pan American. This street is currently being used to take southbound traffic in to Mexico and relieving the congestion and lines from the heavily trafficked 5th Street. More street work was finalized on 9th and 10th Street between Florida and Rose surrounding our call center. The City acquired a Fire Aerial Ladder truck at the beginning of the Fiscal Year through a lease purchase for \$1.1 million. It also acquired a sewer vacuum truck through a lease purchase for \$291,000 and purchased a new sanitation truck for \$218,000. Finally, two water production capital projects were completed this year. The City put into service a new well #17 and rehabbed two of its 300,000 gallon water reservoirs for an investment amount of \$1.1 million and \$638,000 respectively. The water reservoir rehab was partially grant funded through CDBG in the amount of \$293,718.

Upcoming Year

The Arizona Department of Transportation recently conducted a study in our existing port of entry that confirmed that the current port configuration will be inadequate to meet short term demands placed by privately owned as well as commercial vehicles using the port. The study fortifies the need to expand the commercial port of entry as well as improve and expand the existing port for privately owned vehicles, pedestrians and buses. With the location of the new commercial port of entry narrowed down to two locations, the City is hopeful that by the Spring of 2014, both governments will have come to a consensus on the location of the port as well as applied for a presidential permit. The City continues searching for funding mechanisms for the construction of the port through federal funding programs and possible land leasebacks.

On August 2013, the Council approved the extension of the 0.3% sales tax for the use in capital improvement projects throughout the City. The sales tax was originally levied in September of 2008 for the purpose of generating jobs in Douglas and purchasing IT equipment for a call center operation. With the tax sun-setting on September 1, 2013, the Council voted unanimously to extend the tax for an additional four years and allocate the funds for capital projects throughout the City. Staff will bring a capital improvements plan to Council for their consideration, which will focus on streets improvements and City fleet inventory.

The City was awarded a grant from Freeport McMoran Copper and Gold Foundation in the amount of \$65,000. The use of the funds will be used for the "Making the Connection" bus route that will transport from Douglas to the College and from Bisbee to the College. A pilot program is currently in the works where there will be one morning and one afternoon route.

The City entered into a \$1.04 million lease with U.S. Bancorp Government Leasing and Finance, Inc. for a City wide network and infrastructure upgrade that included servers, hardware, licensing, software and professional services. The new technology is geared towards consolidating servers and replacing obsolete technology that reached the end of its useful life.

Long-Term Financial Planning

The City is cautious entering the new Fiscal Year and is aware of many economic factors on the national, state and local level that may affect our City. The City experienced an increase in state shared revenue in FY 2014, but with increasing pension costs on both PSPRS and ASRS, and uncertainty of health care costs, the City knows that local initiatives are necessary to increase its fund balance and be able to address capital and operational needs.

With this in mind, the City is prepared to undertake these challenges and impact the essential services to our citizens as little as possible as well as it is determined to preserve our valuable workforce.

The General Fund fund balance has increased every year since FY 2010, but not to desired levels. Our goal is to increase the fund balance every year and set aside funds for capital improvement projects as well as pay-as-you-go programs. With such a volatile economic environment it has become both hard but necessary to save in order to continue keeping the City in a financially stable position.

Our enterprise funds continue to be stable due to the rate increases passed by Mayor and Council. The City is seeking new ways to make these funds more efficient through the use of new technology in the hopes of keeping rates stable.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in financial Reporting to the City of Douglas for its comprehensive annual financial report for the fiscal year ended June 30th, 2012. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

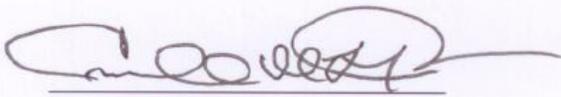
Mayor and City Council
Citizens of the City of Douglas, Arizona

Acknowledgement

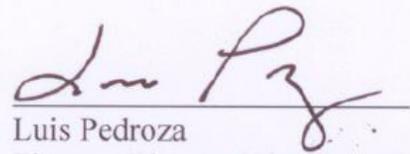
We would like to express our appreciation to each member of the Finance Department who has assisted in the preparation of this report. We are thankful for having the Finance Committee of the City of Douglas providing their support and having them evaluate this report. And also, thanks to our independent auditors CliftonLarsonAllen LLP for their assistance in this process.

Finally to the Douglas Mayor and City Council we extend heartfelt thanks for their support. It is their commitment to financial reporting excellence that allows the citizens of Douglas to be fully informed about their municipal government finances.

Respectfully Submitted,



Carlos De La Torre
City Manager



Luis Pedroza
Finance Director/City Treasurer

**CITY OF DOUGLAS, ARIZONA
LIST OF PRINCIPAL OFFICIALS
YEAR ENDED JUNE 30, 2013**

ELECTED OFFICIALS

Mayor	Danny Ortega Jr.
Councilmember	Margaret Morales
Councilmember	Mitchell Lindemann
Councilmember	Ben LaForge
Councilmember	Ray Shelton
Councilmember	Luis Greer
Councilmember	Rudy Quiñones

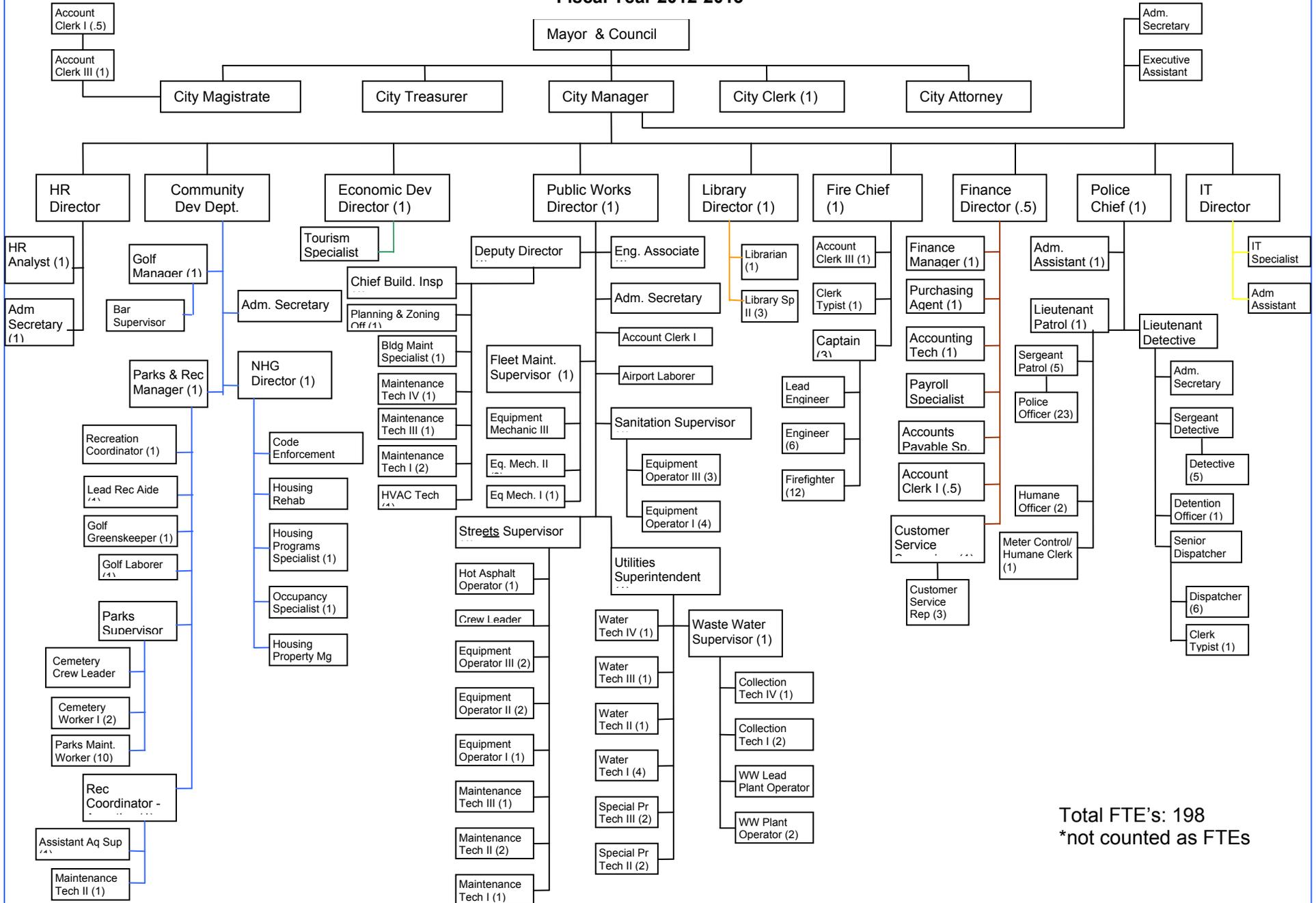
APPOINTED OFFICIALS

City Manager	Carlos A. De La Torre
City Clerk	Brenda Aguilar
City Attorney	Juan Pablo Flores
City Treasurer	Luis Pedroza
City Magistrate	Alma Vildosola

DEPARTMENT DIRECTORS

Finance Director	Luis Pedroza
Public Works Director	Lauren Ortega
Interim Police Chief	Kraig Fullen
Fire Chief	Mario Novoa
Human Resources/Risk Management	Ana Urquijo
Housing Neighborhoods & Grants Director	Vacant
Librarian	Vacant
Information Technology Director	Vacant

City of Douglas Organizational Chart Fiscal Year 2012-2013



Total FTE's: 198
*not counted as FTEs



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Douglas
Arizona**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and the City Council
City of Douglas, Arizona
Douglas, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Douglas, Arizona (City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Douglas Housing Corporation I (Casa de Esperanza), Douglas Housing Corporation II (Pioneer Village) and the Douglas Community Housing Corporation (Rancho La Perilla Apartments). The Douglas Housing Corporation I and II are presented as Governmental Component Units and those assets comprise 62% and 38% of the total Governmental Component Unit assets, 71% and 29% of total operating revenues and a negative 64% and 36% of total net position of the Governmental Component Unit revenues, respectively. Rancho La Perilla comprises 100% of the assets and operating revenues reported in the Proprietary Component Unit. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Governmental Component Units and Proprietary Component Unit, is based solely on the reports of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Douglas, Arizona as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

During the fiscal year ended June 30, 2013, the City adopted the provisions of Governmental Accounting Standards Board Statement (GASBS) No. 61, *The Financial Reporting Entity: Omnibus – an amendment of BASB Statement No. 14 and 24*, GASBS No. 62, *Codification of Accounting and Financial Reporting Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, GASBS No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, and GASBS No 65, *Items Previously Reported as Assets and Liabilities*. As a result of the implementation of GASBS No. 61, the City reported a change in accounting principle (See Note 3.G.) to report the inclusion of the Douglas Public Housing Corporation (DPHC) as a blended component unit. The DPHC was previously reported as a discretely presented component unit, resulting in a restatement of the governmental activities and governmental funds beginning net position/fund balance. The auditors' opinion was not modified with respect to the restatement. GASBS No. 62, 63 and 65 did not have a material effect on the financial statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 13 through 24, the Public Safety Personnel Retirement System Schedule of Funding Progress on page 72, and the General Fund Budget and Actual Statement on pages 73 – 74 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for

The Honorable Mayor and the City Council
City of Douglas, Arizona

consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements and schedules and the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2013, on our consideration of the City of Douglas, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Douglas, Arizona's internal control over financial reporting and compliance.



Phoenix, Arizona
November 12, 2013

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REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

This section of the City of Douglas, Arizona's (City) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information presented in the financial statements.

FINANCIAL HIGHLIGHTS

- ◆ The assets of the City at the close of the most recent fiscal year exceed liabilities by \$46.3 million (net position). Of this amount, \$7.7 million is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.
- ◆ Total net position increased by \$0.5 million during the fiscal year.
- ◆ As of June 30, 2013, the City's governmental funds reported a combined ending fund balance of \$6.3 million. Of this amount, 67% is unassigned fund balance and available for spending at the government's discretion.
- ◆ At the close of the current fiscal year, unassigned fund balance for the General Fund was \$4.3 million or 30.4% of the total General Fund expenditures of \$14.0 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are separated into three component sections:

1. Government-wide financial statements.
2. Fund financial statements and schedules.
3. Notes to basic financial statements.

In addition to the basic financial statements, this report also includes other supplementary information.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to private sector business.

The statement of net position presents information on all of the City's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as useful indicators of whether the City's financial position is improving or deteriorating.

The statement of activities presents data showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs regardless of the timing of the related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal years, such as revenue from uncollected taxes or expenses from earned but unused vacation and sick leave.

**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

Both of the government-wide financial statements distinguish City functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from those functions that intend to recover all or a significant portion of their costs from user fees and charges (business-type activities). The governmental activities of the City include general government, public safety (police, fire and emergency medical services), highways and streets, culture and recreation, and redevelopment and housing. The business-type activities of the City include water, sewer, and solid waste.

The government-wide financial statements include not only the City (known as the primary government), but also three legally separate non-profit corporations - two governmental component units and one proprietary component unit. The governmental units consist of Douglas Housing Corporation I - Casa de Esperanza Apartments and Douglas Housing Corporation II - Pioneer Village providing HUD subsidized housing. The proprietary unit is the Douglas Municipal Housing Corporation market rate apartment complex known as Rancho La Perilla. Although legally separate from the City, these component units are discretely presented because of their governance or financial relationships to the City. Separate financial statements for these entities may be obtained at the City's Finance Department at 425 Tenth Street, Douglas, Arizona 85607.

The government-wide financial statements may be found on pages 25 - 28 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Like other state and local governments, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the City funds can be divided into two categories: governmental funds and proprietary (business-type) funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

The City of Douglas, Arizona maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the MPC Debt Service Fund, which are considered to be major funds. Data from the other eight funds are combined into a single aggregate presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of the combining statements elsewhere in this report.

The City of Douglas, Arizona adopts an annual appropriated budget for its General Fund by department. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. The City adopts a budget by fund for all Special Revenue Funds with the exception of the Public Housing and LTAF Funds; a budget for the MPC Debt Service Fund and the Nonmajor Capital Projects Funds is not adopted.

- ◆ *Proprietary Funds* – Proprietary funds are used to account for services for which the City charges its customers. Enterprise funds are used to report the same functions as presented in the business-type activities in the government-wide financial statements. There are three funds reported under business-type activities and those include the water, sewer, and solid waste funds. The water, sewer and solid waste funds are considered major funds.

Notes to Basic Financial Statements

The notes to basic financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements may be found on pages 37 - 71 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees and the budgetary schedule of the General Fund. Required supplementary information may be found on pages 72 – 76 of this report.

Combining Statements

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

Government-Wide Financial Analysis

Comparative data is presented on the following pages for both the governmental activities and the business-type activities along with an analysis of significant variances between the current and prior year.

Net Position

As noted earlier, net position may serve as useful indicators of a government's financial position. For the City of Douglas, Arizona, assets exceeded liabilities by \$46.3 million.

**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

The largest portion of the City's net position (80%) reflects its investment in capital assets (e.g. land, buildings, and equipment), less any debt used to acquire those assets. The City uses these capital assets to provide services to its citizens; therefore, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, resources needed to repay this debt must be provided from other sources since the assets themselves cannot be liquidated for these liabilities.

**Table A-1
The City's Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2013	2012 Restated	2013	2012	2013	2012 Restated
ASSETS						
Current and Other Assets	\$ 7,778,936	\$ 7,755,243	\$ 4,722,813	\$ 4,557,406	\$ 12,501,749	\$ 12,312,649
Capital Assets:						
Non-depreciable	1,487,410	1,515,112	924,647	1,552,711	2,412,057	3,067,823
Depreciable (net)	29,126,288	30,132,544	21,662,649	20,297,189	50,788,937	50,429,733
Total Assets	38,392,634	39,402,899	27,310,109	26,407,306	65,702,743	65,810,205
DEFERRED OUTFLOWS						
Deferred Amount on Refunding	38,536	-	-	-	38,536	-
LIABILITIES						
Current and Other Liabilities	1,318,301	1,325,512	423,721	506,165	1,742,022	1,831,677
Non-Current Liabilities:						
Due Within One Year	1,967,586	2,356,449	668,595	569,954	2,636,181	2,926,403
Due in More Than One Year	9,831,615	9,735,970	5,223,019	5,529,575	15,054,634	15,265,545
Total Liabilities	13,117,502	13,417,931	6,315,335	6,605,694	19,432,837	20,023,625
NET POSITION						
Net Investment in Capital Assets	20,087,841	20,767,156	16,866,077	15,921,451	36,953,918	36,688,607
Restricted	1,234,695	1,293,822	443,520	-	1,678,215	1,293,822
Unrestricted	3,991,132	3,923,990	3,685,177	3,880,161	7,676,309	7,804,151
Total Net Position	\$ 25,313,668	\$ 25,984,968	\$ 20,994,774	\$ 19,801,612	\$ 46,308,442	\$ 45,786,580

As of June 30, 2013 the City of Douglas, Arizona was able to report positive balances in all categories of net position. As previously discussed, approximately 80% of net position represents the City's net investment in capital assets. Another 4% of the resources are subject to external restrictions on how they may be used. The remaining unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors.

The City's net position increased approximately \$0.5 million over the prior fiscal year. Net investment in capital assets increased \$0.3 million due to the net effect of a reduction in current year debt outstanding used to acquire the assets, current year depreciation and current year capital additions and contributions. Current year debt payments (including discount) were approximately \$2.1 million (including payments on capital leases).

**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

Changes in Net Position

As described above, the City's net position overall increased by \$0.5 million during the current fiscal year. The decrease in the governmental activities and increase in the business-type activities are discussed on the following pages.

**Table A-2
Changes in Net Position**

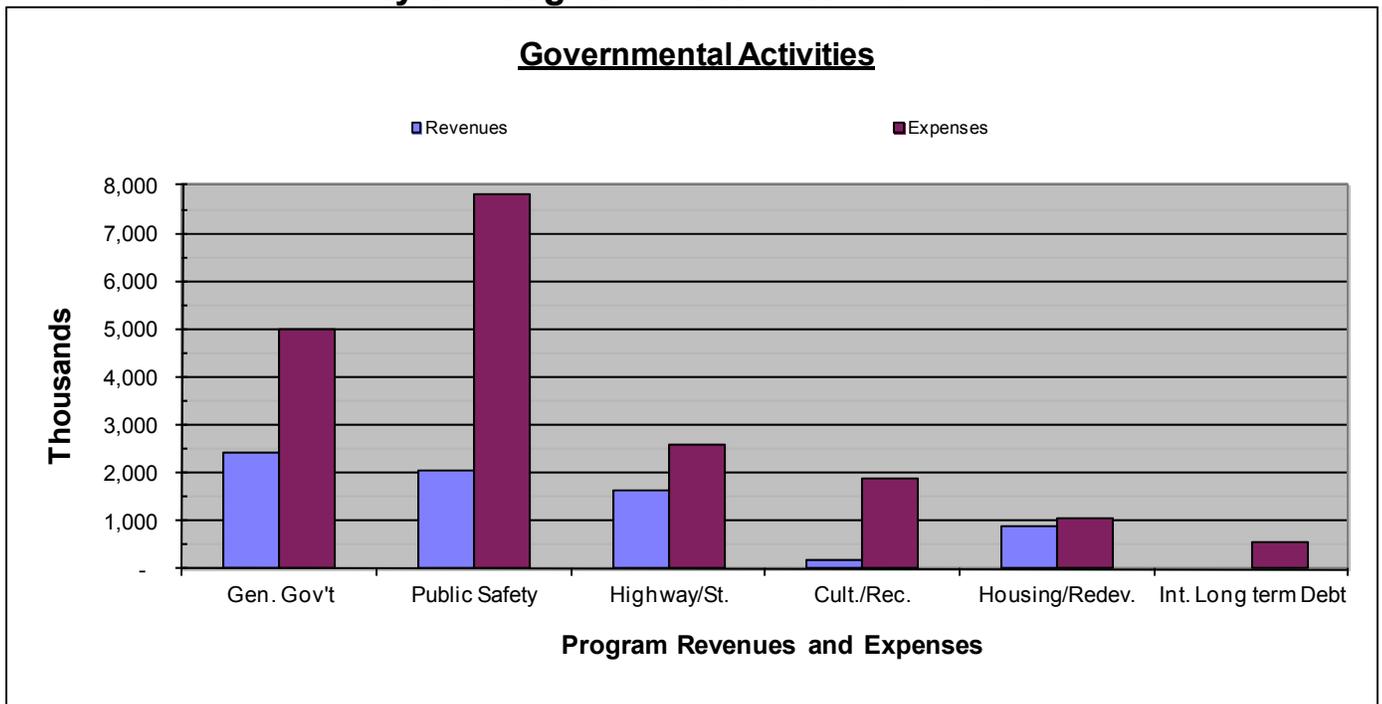
	Governmental Activities		Business-Type Activities		Total	
	2013	2012 Restated	2013	2012	2013	2012 Restated
REVENUES						
Program Revenues:						
Fees, Fines and Charges for Services	\$ 2,810,121	\$ 3,071,208	\$ 5,067,198	\$ 5,034,099	\$ 7,877,319	\$ 8,105,307
Operating Grants and Contributions	3,340,827	3,168,076	8,196	592,435	3,349,023	3,760,511
Capital Grants and Contributions	1,000,170	5,622,718	19,578	274,140	1,019,748	5,896,858
General Revenues:						
Property Taxes	563,698	533,742	-	-	563,698	533,742
Local Taxes	5,678,392	6,159,476	-	-	5,678,392	6,159,476
State Shared Revenues	3,951,575	3,628,090	-	-	3,951,575	3,628,090
Grants and Contributions Not Restricted to Specific Programs	70,074	42,590	-	-	70,074	42,590
Investment Earnings	39,423	44,827	23,470	8,052	62,893	52,879
Gain on Sale of Asset	-	6,769	-	-	-	6,769
Other	596,739	421,874	-	-	596,739	421,874
Total Revenues	<u>18,051,019</u>	<u>22,699,370</u>	<u>5,118,442</u>	<u>5,908,726</u>	<u>23,169,461</u>	<u>28,608,096</u>
EXPENSES						
General Government	4,989,484	4,840,153	-	-	4,989,484	4,840,153
Public Safety	7,799,983	7,186,954	-	-	7,799,983	7,186,954
Highways and Streets	2,605,395	2,555,331	-	-	2,605,395	2,555,331
Culture and Recreation	1,868,116	1,827,388	-	-	1,868,116	1,827,388
Redevelopment and Housing	1,041,957	1,122,840	-	-	1,041,957	1,122,840
Interest on Long-Term Debt	579,592	664,519	-	-	579,592	664,519
Water	-	-	1,666,863	1,698,669	1,666,863	1,698,669
Sewer	-	-	1,310,421	1,313,976	1,310,421	1,313,976
Solid Waste	-	-	785,788	765,647	785,788	765,647
Total Expenses	<u>18,884,527</u>	<u>18,197,185</u>	<u>3,763,072</u>	<u>3,778,292</u>	<u>22,647,599</u>	<u>21,975,477</u>
CHANGE IN NET POSITION BEFORE TRANSFERS	(833,508)	4,502,185	1,355,370	2,130,434	521,862	6,632,619
Transfers	162,208	477,751	(162,208)	(477,751)	-	-
CHANGE IN NET POSITION	(671,300)	4,979,936	1,193,162	1,652,683	521,862	6,632,619
Net Position - Beginning of Year	25,984,968	21,005,032	19,801,612	18,148,929	45,786,580	39,153,961
NET POSITION - END OF YEAR	<u>\$ 25,313,668</u>	<u>\$ 25,984,968</u>	<u>\$ 20,994,774</u>	<u>\$ 19,801,612</u>	<u>\$ 46,308,442</u>	<u>\$ 45,786,580</u>

**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

Governmental Activities – Governmental activities decreased the City's net position by \$0.7 million. Key factors of the overall decrease in net position are as follows:

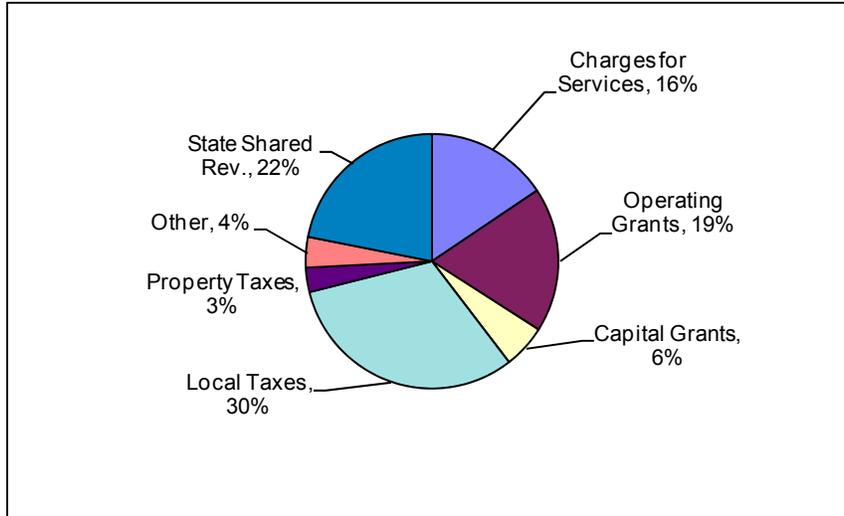
- ◆ Fees, fines and charges for services decreased 7.6% over the prior fiscal year. The decrease was largely due to a decline in golf course sales including a decline in food and beverage sales since the restaurant operation was closed during the fiscal year.
- ◆ Capital grants and contributions decreased \$4.6 million over the prior fiscal year. The decrease was primarily the result of contributed capital recognized last year for the completion of the government center.
- ◆ State shared revenues and local tax revenues had a net decrease of 1.6% due to decreased consumer spending. The City experienced a steep decline of \$0.3 million in construction sales tax compared to last year.
- ◆ Expenses remained relatively unchanged over the prior fiscal year, with the exception of an increase in public safety expenses in the amount of \$0.6 million and a decrease in interest of long term debt. The increase in public safety expenses was attributed to an increase of 6.2% in police and 6.5% in fire retirement contributions compared to last year. The decrease in interest on long term debt was due to the retirement of three leases during the fiscal year.

City of Douglas – Fiscal Year 2012/13



**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

**City of Douglas Revenue by Source
Governmental Activities Fiscal Year 2012/13**



The charts on the previous page and above illustrate the City's governmental expenses and revenues by function and the City's revenues by source. As shown, Public Safety (police, fire, and emergency medical services) is the largest function in expenses (41%), followed by General Government (26%), Highway/Streets (14%), Culture/Recreation (10%), Redevelopment and Housing (6%) and the remaining attributable to Interest. General revenues such as property taxes, state shared revenues, and sales taxes are not shown by program but are effectively used to support program activities of the City as a whole. For governmental activities as a whole, sales tax revenues is the largest source of funds (30%) followed by state shared revenues (22%) as illustrated in the above chart.

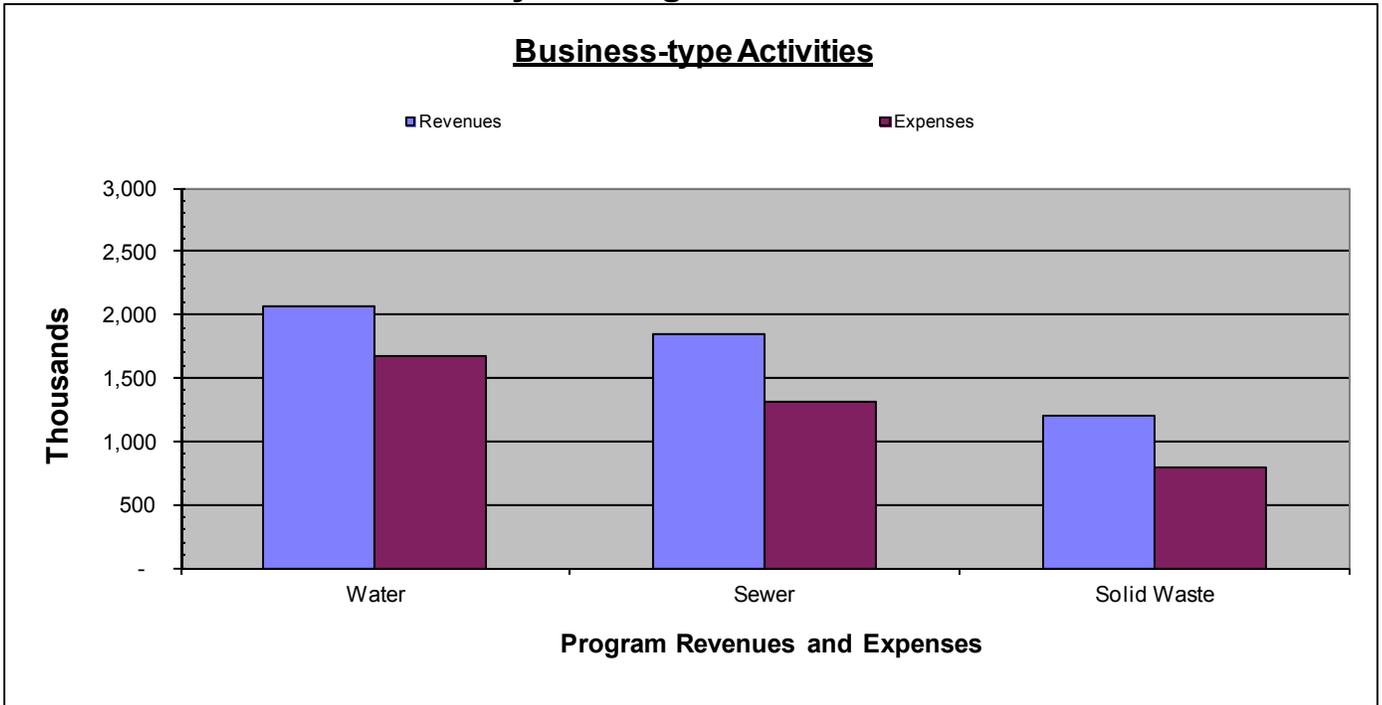
Business-Type Activities – Business-type activities increased the City's net position by \$1.2 million.

The most significant factor accounting for the increase is the increase in water and sewer rates while holding expenses consistent with prior years.

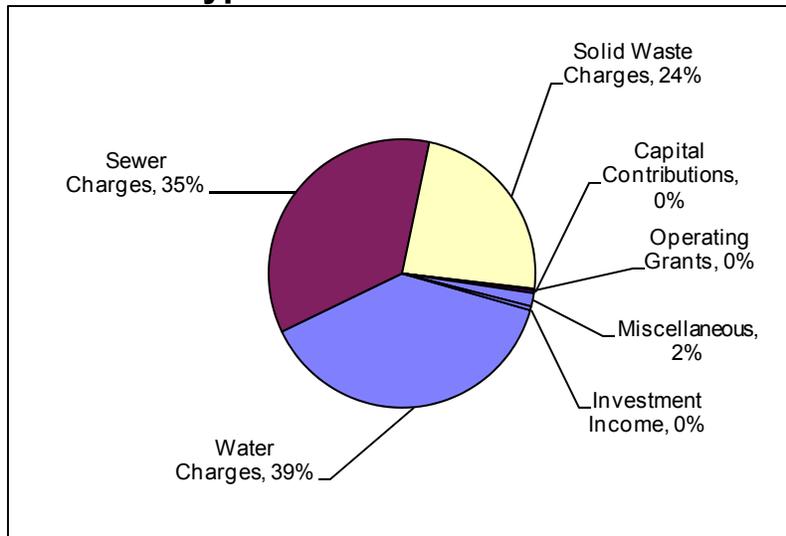
The City received grant funding in fiscal year 2012 to rehabilitate a water reservoir. In addition, federal funds were received to cover principal and interest payments in the amount of \$0.5 million. No similar grants were received in the current fiscal year.

**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

City of Douglas 2012/13



**City of Douglas Revenue by Source
Business-type Activities Fiscal Year 2012/13**



**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

As shown in the charts on the previous page, the largest of the City's business-type activities are water and sewer utilities. Sewer Fund operating expenses were just over \$1.3 million, with Water operating expenses at \$1.7 million, followed by Solid Waste at approximately \$0.8 million. For this fiscal year, the change in net position in the Sewer Fund was a positive \$0.5 million while the change in net position in the Water Fund was a positive \$0.3 million and the Solid Waste Fund was a positive \$0.4 million. The positive change in net position in the Enterprise Funds was due to the City increasing rates to cover operating costs and a decrease in the amount transferred to other funds.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds – The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Douglas, Arizona's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Fund.

As of the end of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$6.3 million, an increase of \$62,859 from the prior year. The change was not significant.

Revenues for governmental funds overall totaled approximately \$17.7 million for the fiscal year ended June 30, 2013 which represents an increase of 4.6% or approximately \$0.6 million from the prior fiscal year. This increase is primarily due to an increase in state shared revenues.

The General Fund is the chief operating fund of the City. At the end of the fiscal year, the unassigned fund balance of the General Fund was \$4.3 million. As a measure of the General Fund's liquidity, it may be useful to compare the fund balance to total fund expenditures. Unassigned General Fund balance represents 30.4% of the total General Fund expenditures of \$14.0 million.

The MPC Debt Service Fund did not significantly change during the fiscal year. The MPC Debt Service Fund accounts for the principal and interest requirements on debt issued by the City's Municipal Property Corporation, a blended component unit. The debt is repaid through transfers from the HURF Fund and the General Fund.

The Nonmajor Governmental Funds decrease was largely due to the use of carryforward in the LTAF and capital projects fund, which was offset by an increase in the Debt Service Fund.

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

At the end of the fiscal year, unrestricted net position for the Water Fund was \$2.0 million, Sewer \$0.6 million, and Solid Waste \$1.0 million. The total increase in net position for the enterprise funds was \$1.2 million largely due to increases in the water and sewer user fees.

**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

GENERAL FUND BUDGETARY HIGHLIGHTS

The City did not revise the budget during the current fiscal year.

Actual revenues were less than the budget by \$1.1 million and actual expenditures were less than budget by \$1.0 million. The actual revenues were less than budget largely due to local sales tax collections not coming in as projected.

The City was able to realize a savings of 7.4% in actual expenditures versus the budget due to substantial savings in the General Government and Transit departments as well as overall departmental health insurance savings. Transfers from the General fund to the HURF fund saw a savings as it was not necessary to provide the transfer this year since HURF revenues alone were enough to cover operations. The Transit department saw substantial savings from the budget as the City entered its first year operating the program. The City was able to reach savings in operations due to only operating the program for 9 months as it began in October 2012. The personnel department saw a savings of \$645,287 from the budget, accounting for a majority of the savings in the general government function, due to the City budgeting for all self insurance costs out of that department, but allocating actual expenditures to the applicable department that incurred the claims. The savings in personnel is offset by over-expenditures in the public safety department due to the allocation of actual claim expenditures, but not budgeted for those claims in public safety. The City experienced \$176,357 in savings from its health insurance line compared to the budget. The City entered into a self-funded insurance plan this year and claims came in lower than projected.

The legal level of budgetary control is at the departmental level in the General Fund; however, the City Council monitors the General Fund as a whole and the City Manager has the authority to make budget transfers between departments in the General Fund as long as the General Fund in total does not exceed the budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2013 amount to \$53.2 million (net of accumulated depreciation). Capital assets include land and improvements, infrastructure, buildings and improvements, machinery equipment, and vehicles, and construction in progress.

**Table A-3
Capital Assets (Net)**

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land and Land Improvements	\$ 3,297,168	\$ 3,475,776	\$ -	\$ -	\$ 3,297,168	\$ 3,475,776
Streets and Storm Drains	6,503,545	6,691,896	-	-	6,503,545	6,691,896
Buildings and Improvements	16,450,558	16,814,530	5,074,059	5,244,025	21,524,617	22,058,555
Water System	-	-	7,485,046	6,089,290	7,485,046	6,089,290
Wastewater System	-	-	8,302,447	8,578,370	8,302,447	8,578,370
Machinery, Equipment and Vehicles	3,940,327	4,215,652	801,097	385,504	4,741,424	4,601,156
Construction In Progress	422,100	449,802	924,647	1,552,711	1,346,747	2,002,513
Total Capital Assets	\$ 30,613,698	\$ 31,647,656	\$ 22,587,296	\$ 21,849,900	\$ 53,200,994	\$ 53,497,556

**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

Major capital asset events during the current fiscal year include the following:

Governmental Activities

- ◆ Completion of Street pavement and curbing in 20th Street for a total project cost of \$0.4 million.
- ◆ Additional infrastructure projects on 3rd and 10 Street that included sidewalk and street repairs for a total cost of \$64,103.
- ◆ Acquisition through donation of YMCA building with a total value of \$0.2 million.
- ◆ Acquisition of a new Fire Ladder Truck through a lease purchase with a value of \$1.1 million and three transit buses with a cumulative value of \$0.1 million.
- ◆ Acquisition of \$0.3 million in equipment including a backhoe through a lease purchase.

Business-type Activities

- ◆ Completion of the rehabilitation of our two three hundred thousand gallon water reservoirs. Total project costs were \$0.6 million with \$0.3 million incurred this fiscal year.
- ◆ Completion of Well #17 was done late in the fiscal year for a total cost of \$1.1 million with \$0.6 million incurred this year.
- ◆ Acquisition of heavy equipment including a new sewer vacuum truck with a cost of \$0.3 million and a new sanitation vehicle with a cost of \$0.2 million.
- ◆ Acquired \$55,856 in small equipment for the water and sewer departments.

For government-wide financial statement purposes, capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures. Additional information on the City of Douglas, Arizona's capital assets may be found in the Notes to the Basic Financial Statements in note 3.A.4. on pages 51 - 54 of this report.

Debt Administration

At the end of the fiscal year, the City of Douglas, Arizona had total long-term obligations outstanding of \$16.3 million. On June 30, 2013, the City retired the Call Center IT \$2.4 million loan financed through the 0.3% sales tax enacted in September 2008. The City also retired a \$595,000 IT Network Infrastructure loan and entered into a \$1.2 million short term leases for a fire ladder truck and a backhoe. The current year decrease was the net effect of the issuance of debt, offset by the required principal due on outstanding debt.

The State constitution imposes certain debt limits on the issuance of General Obligation Bonds at six percent (6%) and twenty percent (20%) of the secondary assessed valuation of the City. The City has not issued any general obligation bonds. Therefore, the City's available debt margin at June 30, 2013 is \$3.3 million in the 6% capacity and \$11.0 million in the 20% capacity.

**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

**Table A-4
Outstanding Debt**

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Loans Payable	\$ 8,260,000	\$ 9,155,000	\$ 5,457,668	\$ 5,928,449	\$ 13,717,668	\$ 15,083,449
Revenue Bonds	925,000	1,365,000	-	-	925,000	1,365,000
Capital Lease	1,345,057	431,731	263,551	-	1,608,608	431,731
Total Outstanding Debt	<u>\$ 10,530,057</u>	<u>\$ 10,951,731</u>	<u>\$ 5,721,219</u>	<u>\$ 5,928,449</u>	<u>\$ 16,251,276</u>	<u>\$ 16,880,180</u>

Additional information on the City's debt can be found in Note 3.E. on pages 56 - 61.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The following factors were considered when preparing the 2013-14 budgets:

- ◆ A conservative economic forecast and limited revenue growth.
- ◆ A focus on preventing layoffs and furloughs.
- ◆ Continued investment in the City's basic infrastructure and public facilities combined with a careful analysis of operating costs.
- ◆ An emphasis on a "pay-as-you-go" approach to funding water and wastewater capital investments.
- ◆ Sustained funding to the General Fund and Enterprise contingency/reserve funds to ensure that the City will be able to provide basic services during economic downturns and major emergencies.
- ◆ Increased contributions for Arizona State Retirement, Public Safety Retirement and increased health insurances rates.

The focus continues to be the planning for the construction of a new commercial port of entry that would enhance the trade between Agua Prieta and Douglas. Additionally, the City is taking measures to facilitate border crossings in the existing port by introducing a speedy lane for low risk vehicles and also leasing a City parking lot to Customs and Border Protection for their employees in order to relieve congestion in the commercial port and make inspections quicker. The City allocated \$120,000 in the FY 13/14 budget for the planning of the new port. The City also expects to sell the government center to the County, but retain some space for City use. The expected contribution would be \$300,000 the first year and an additional \$300,000 the next. The City expects a re-organization of the current operational structure. The current organizational chart shows 198 FTEs, while the City only has 172 employees filling those positions. The City plans to reorganize in accordance to current staffing capacity and eliminate or consolidate departments to achieve efficiencies and savings.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those interested in the government's finances. If you have any questions about this report or need additional financial information, contact:

City of Douglas
Finance Department
425 Tenth Street
Douglas, Arizona 85607
(520) 417-7333

BASIC FINANCIAL STATEMENTS

CITY OF DOUGLAS, ARIZONA
STATEMENT OF NET POSITION
JUNE 30, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 5,371,448	\$ 3,762,123	\$ 9,133,571
Receivables, Net:			
Accounts Receivable	214,081	517,170	731,251
Taxes Receivable	564,504	-	564,504
Intergovernmental Receivables	899,982	-	899,982
Due from Component Unit	634,106	-	634,106
Inventories	44,382	-	44,382
Prepaid Items	8,000	-	8,000
Other Assets	-	-	-
Restricted Assets	42,433	443,520	485,953
Capital Assets:			
Non-Depreciable	1,487,410	924,647	2,412,057
Depreciable (net)	29,126,288	21,662,649	50,788,937
Total Assets	<u>38,392,634</u>	<u>27,310,109</u>	<u>65,702,743</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Amount on Refunding	38,536	-	38,536
LIABILITIES			
Accounts Payable	318,412	307,482	625,894
Accrued Wages and Benefits	384,170	45,901	430,071
Insurance Claims Payable	105,618	10,738	116,356
Interest Payable	23,053	59,600	82,653
Intergovernmental Payable	16,410	-	16,410
Customer Deposits Payable	9,666	-	9,666
Unearned Revenue	20,972	-	20,972
Due to Primary Government	-	-	-
Prepaid Rents	-	-	-
Matured Debt Principal Payable	440,000	-	440,000
Noncurrent Liabilities			
Due Within One Year	1,967,586	668,595	2,636,181
Due in More Than One Year	9,831,615	5,223,019	15,054,634
Total Liabilities	<u>13,117,502</u>	<u>6,315,335</u>	<u>19,432,837</u>
NET POSITION			
Net Investment in Capital Assets	20,087,841	16,866,077	36,953,918
Restricted for:			
Other Federal and State Grants	202,485	-	202,485
Court Administration	69,449	-	69,449
Public Safety	288,682	-	288,682
Highways, Streets and Local Transportation	150,419	-	150,419
Redevelopment and Housing	523,660	-	523,660
Repair and Replacement	-	443,520	443,520
Unrestricted	3,991,132	3,685,177	7,676,309
Total Net Position	<u>\$ 25,313,668</u>	<u>\$ 20,994,774</u>	<u>\$ 46,308,442</u>

See accompanying Notes to Basic Financial Statements.

Component Unit

Governmental Component Units	Proprietary Type Component Units
\$ 172,392	\$ 13,306
19,919	766
-	-
-	-
-	-
24,406	35,056
235,058	110,836
238,219	388,587
91,150	265,000
<u>1,122,193</u>	<u>3,604,156</u>
1,903,337	4,417,707
-	-
44,351	35,374
16,338	1,732
-	-
95,108	15,343
-	-
11,125	18,800
-	-
-	634,106
-	3,312
-	-
23,766	49,268
<u>2,574,611</u>	<u>5,124,416</u>
<u>2,765,299</u>	<u>5,882,351</u>
(1,385,034)	(1,304,528)
-	-
-	-
-	-
-	-
-	-
523,072	(160,116)
<u>\$ (861,962)</u>	<u>\$ (1,464,644)</u>

**CITY OF DOUGLAS, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013**

Functions/Programs	Expenses	Program Revenues		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
General Government	\$ 4,989,484	\$ 1,825,479	\$ 249,304	\$ 338,808
Public Safety	7,799,983	895,111	1,091,444	53,026
Highways and Streets	2,605,395	-	1,103,680	531,040
Culture and Recreation	1,868,116	89,531	7,377	77,296
Redevelopment and Housing	1,041,957	-	889,022	-
Interest and Fiscal Charges	579,592	-	-	-
Total Governmental Activities	<u>18,884,527</u>	<u>2,810,121</u>	<u>3,340,827</u>	<u>1,000,170</u>
Business-Type Activities:				
Water	1,666,863	2,025,752	6,536	19,578
Sewer	1,310,421	1,835,771	1,660	-
Solid Waste	785,788	1,205,675	-	-
Total Business-Type Activities	<u>3,763,072</u>	<u>5,067,198</u>	<u>8,196</u>	<u>19,578</u>
Total Primary Government	<u>\$ 22,647,599</u>	<u>\$ 7,877,319</u>	<u>\$ 3,349,023</u>	<u>\$ 1,019,748</u>
Component Units:				
Governmental Component Units	\$ 627,945	\$ 100,101	\$ 398,904	\$ -
Proprietary Type Component Units	669,703	601,133	-	-
	<u>\$ 1,297,648</u>	<u>\$ 701,234</u>	<u>\$ 398,904</u>	<u>\$ -</u>

General Revenues

Taxes:
Sales Taxes
Property Taxes
Franchise Taxes
State Revenue Sharing
State Sales Tax Revenue Sharing
Auto Lieu Tax Revenue Sharing
Grants and Contributions not Restricted
Investment Income
Other
Transfers
Total General Revenues and Transfers
Change in Net Position
Net Position - Beginning, As Restated
Net Position - Ending

See accompanying Notes to Basic Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	Governmental Component Units	Proprietary Type Component Units
\$ (2,575,893)		\$ (2,575,893)		
(5,760,402)		(5,760,402)		
(970,675)		(970,675)		
(1,693,912)		(1,693,912)		
(152,935)		(152,935)		
(579,592)		(579,592)		
<u>(11,733,409)</u>		<u>(11,733,409)</u>		
	\$ 385,003	385,003		
	527,010	527,010		
	<u>419,887</u>	<u>419,887</u>		
	1,331,900	1,331,900		
(11,733,409)	1,331,900	(10,401,509)		
			\$ (128,940)	\$ -
			<u>-</u>	<u>(68,570)</u>
			(128,940)	(68,570)
5,364,312	-	5,364,312	-	-
563,698	-	563,698	-	-
314,080	-	314,080	-	-
1,775,125	-	1,775,125	-	-
1,419,048	-	1,419,048	-	-
757,402	-	757,402	-	-
70,074	-	70,074	-	-
39,423	23,470	62,893	222	-
596,739	-	596,739	11,818	14,273
162,208	(162,208)	-	-	-
<u>11,062,109</u>	<u>(138,738)</u>	<u>10,923,371</u>	<u>12,040</u>	<u>14,273</u>
(671,300)	1,193,162	521,862	(116,900)	(54,297)
25,984,968	19,801,612	45,786,580	(745,062)	(1,410,347)
<u>\$ 25,313,668</u>	<u>\$ 20,994,774</u>	<u>\$ 46,308,442</u>	<u>\$ (861,962)</u>	<u>\$ (1,464,644)</u>

**CITY OF DOUGLAS, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

	General Fund	MPC Debt Service Fund	Nonmajor Governmental Funds	Totals
ASSETS				
Cash and Investments	\$ 3,744,458	\$ 463,053	\$ 1,163,937	\$ 5,371,448
Receivables:				
Accounts Receivable	207,821	-	6,260	214,081
Taxes Receivable	514,866	-	49,638	564,504
Intergovernmental Receivables	574,532	-	325,450	899,982
Component Unit Long Term Note	634,106	-	-	634,106
Inventory	44,382	-	-	44,382
Prepaid Items	8,000	-	-	8,000
Restricted Assets	-	-	42,433	42,433
Total Assets	<u>\$ 5,728,165</u>	<u>\$ 463,053</u>	<u>\$ 1,587,718</u>	<u>\$ 7,778,936</u>
LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 259,769	\$ -	\$ 58,643	\$ 318,412
Accrued Wages and Benefits	351,794	-	32,376	384,170
Insurance Claims Payable	97,510	-	8,108	105,618
Interest Payable	-	23,053	-	23,053
Intergovernmental Payable	16,410	-	-	16,410
Unearned Revenue	932	-	20,040	20,972
Customer Deposits Payable	-	-	9,666	9,666
Matured Debt Principal Payable	-	440,000	-	440,000
Total Liabilities	<u>726,415</u>	<u>463,053</u>	<u>128,833</u>	<u>1,318,301</u>
Deferred Inflows of Resources				
Unavailable Revenue	<u>54,283</u>	<u>-</u>	<u>60,190</u>	<u>114,473</u>
Fund Balances				
Nonspendable	686,488	-	-	686,488
Restricted	-	-	1,174,505	1,174,505
Assigned	-	-	224,190	224,190
Unassigned	<u>4,260,979</u>	<u>-</u>	<u>-</u>	<u>4,260,979</u>
Total Fund Balances	<u>4,947,467</u>	<u>-</u>	<u>1,398,695</u>	<u>6,346,162</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 5,728,165</u>	<u>\$ 463,053</u>	<u>\$ 1,587,718</u>	<u>\$ 7,778,936</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF DOUGLAS, ARIZONA
RECONCILIATION OF THE BALANCE SHEET
OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
JUNE 30, 2013**

Total Fund Balances for Governmental Funds \$ 6,346,162

Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:

Land	\$ 1,065,310	
Construction in Progress	422,100	
Land Improvements	4,680,684	
Streets and Storm Drains	16,333,916	
Buildings and Improvements	22,316,606	
Machinery, Equipment and Vehicles	15,556,486	
Total Capital Assets	60,375,102	
Less: Accumulated Depreciation	(29,761,404)	30,613,698

Some of the City's property taxes and special assessments will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as unavailable revenue in the governmental funds. 54,283

Some loans receivable through the City's housing rehabilitation program are recorded as a receivable and unavailable revenue in the City's Governmental Fund financial statements, but are recognized as revenue in the government-wide financial statements. 60,190

Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position.

Loans Payable	(8,260,000)	
Revenue Bonds	(925,000)	
Deferred Amount on Refunding	38,536	
Bond Discount	4,200	
Capital Lease Payable	(1,345,057)	
Compensated Absence Payable	(1,273,344)	(11,760,665)

Total Net Position of Governmental Activities \$ 25,313,668

CITY OF DOUGLAS, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

	General Fund	MPC Debt Service Fund	Nonmajor Governmental Funds	Totals
REVENUES				
Taxes:				
Sales Taxes	\$ 4,803,510	\$ -	\$ 560,802	\$ 5,364,312
Property Taxes	556,456	-	-	556,456
Franchise Taxes	314,080	-	-	314,080
Intergovernmental Revenues	5,180,609	-	2,851,254	8,031,863
Fines and Forfeitures	265,988	-	7,487	273,475
Licenses and Permits	162,571	-	-	162,571
Charges for Services	1,605,657	-	-	1,605,657
Rents and Royalties	768,418	-	-	768,418
Investment Income	21,093	-	18,330	39,423
Other	428,870	-	167,869	596,739
Total Revenues	<u>14,107,252</u>	<u>-</u>	<u>3,605,742</u>	<u>17,712,994</u>
EXPENDITURES				
Current:				
General Government	3,447,316	-	22,681	3,469,997
Public Safety	7,051,544	-	87,590	7,139,134
Highways and Streets	736,145	-	1,043,726	1,779,871
Culture and Recreation	1,406,207	-	882	1,407,089
Redevelopment and Housing	-	-	1,035,816	1,035,816
Debt Service:				
Principal Retirement	28,475	440,000	1,159,110	1,627,585
Interest on Long-Term Debt	5,772	46,106	499,219	551,097
Capital Outlay	1,341,395	-	666,270	2,007,665
Total Expenditures	<u>14,016,854</u>	<u>486,106</u>	<u>4,515,294</u>	<u>19,018,254</u>
Excess (Deficiency) of Revenues Over Expenditures	90,398	(486,106)	(909,552)	(1,305,260)
OTHER FINANCING SOURCES (USES)				
Transfers In	425,473	486,106	1,569,151	2,480,730
Transfers Out	(1,535,456)	-	(783,066)	(2,318,522)
Proceeds from Capital Leases	1,205,911	-	-	1,205,911
Total Other Financing Sources (Uses)	<u>95,928</u>	<u>486,106</u>	<u>786,085</u>	<u>1,368,119</u>
Net Change in Fund Balances	186,326	-	(123,467)	62,859
FUND BALANCES				
Beginning of Year, As Restated	4,761,141	-	1,522,162	6,283,303
End of Year	<u>\$ 4,947,467</u>	<u>\$ -</u>	<u>\$ 1,398,695</u>	<u>\$ 6,346,162</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF DOUGLAS, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCES IN THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013**

Net Change in Fund Balances-Total Governmental Funds \$ 62,859

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, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Expenditures for Capital Assets	\$ 1,790,562	
Depreciation Expense	<u>(3,227,520)</u>	(1,436,958)
Capital asset donations.		403,000
Loan receivable recorded as revenue in the government-wide statement of net position, but not yet available.		
Intergovernmental Receivables - June 30, 2012	68,215	
Intergovernmental Receivables - June 30, 2013	<u>60,190</u>	(8,025)

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Interest costs are recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

Issuance of Long-Term Debt	(1,205,911)	
Eliminate Bond Issue Costs	(31,172)	
Amortization of Deferred Amounts on the Refunding	(25,693)	
Amortization of Bond Discount	(2,802)	
Repayment of Long-Term Debt	<u>1,627,585</u>	362,007

Delinquent property taxes receivable will be collected subsequent to year-end, but are not available soon enough to pay for the current period's expenditures, and therefore reported as unavailable in the governmental funds.

Unavailable Revenue - June 30, 2012	47,041	
Unavailable Revenue - June 30, 2013	<u>54,283</u>	7,242

In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).

(61,425)

Change in Net Position of Governmental Activities \$ (671,300)

See accompanying Notes to Basic Financial Statements.

CITY OF DOUGLAS, ARIZONA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	Business-Type Activities			
	Water	Sewer	Solid Waste	Totals
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 2,180,691	\$ 633,875	\$ 947,557	\$ 3,762,123
Receivables, Net:				
Accounts Receivable	236,155	170,526	110,489	517,170
Total Current Assets	<u>2,416,846</u>	<u>804,401</u>	<u>1,058,046</u>	<u>4,279,293</u>
Noncurrent Assets:				
Restricted Cash and Cash Equivalents	99,098	344,422	-	443,520
Capital Assets:				
Non-Depreciable	336,483	588,164	-	924,647
Depreciable (Net)	7,650,766	13,756,828	255,055	21,662,649
Total Noncurrent Assets	<u>8,086,347</u>	<u>14,689,414</u>	<u>255,055</u>	<u>23,030,816</u>
Total Assets	<u>10,503,193</u>	<u>15,493,815</u>	<u>1,313,101</u>	<u>27,310,109</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable	253,999	26,841	26,642	307,482
Accrued Wages and Benefits	18,720	15,144	12,037	45,901
Insurance Claims Payable	5,303	1,638	3,797	10,738
Interest Payable	16,827	42,773	-	59,600
Compensated Absences	63,010	48,328	19,985	131,323
Capital Leases Payable	-	56,516	-	56,516
Loans Payable	70,801	409,955	-	480,756
Total Current Liabilities	<u>428,660</u>	<u>601,195</u>	<u>62,461</u>	<u>1,092,316</u>
Noncurrent Liabilities:				
Compensated Absences Payable	17,250	21,822	-	39,072
Capital Leases Payable	-	207,035	-	207,035
Loans Payable	1,125,096	3,851,816	-	4,976,912
Total Noncurrent Liabilities	<u>1,142,346</u>	<u>4,080,673</u>	<u>-</u>	<u>5,223,019</u>
Total Liabilities	<u>1,571,006</u>	<u>4,681,868</u>	<u>62,461</u>	<u>6,315,335</u>
NET POSITION				
Net Investment in Capital Assets	6,791,352	9,819,670	255,055	16,866,077
Restricted	99,098	344,422	-	443,520
Unrestricted	2,041,737	647,855	995,585	3,685,177
Total Net Position	<u>\$ 8,932,187</u>	<u>\$ 10,811,947</u>	<u>\$ 1,250,640</u>	<u>\$ 20,994,774</u>

See accompanying Notes to Basic Financial Statements.

CITY OF DOUGLAS, ARIZONA
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013

	Business-Type Activities			Totals
	Water	Sewer	Solid Waste	
OPERATING REVENUES				
Charges for Services	\$ 1,964,590	\$ 1,814,469	\$ 1,205,675	\$ 4,984,734
OPERATING EXPENSES				
Cost of Sales and Services	1,206,461	814,899	709,673	2,731,033
Insurance Claims	30,185	23,985	21,143	75,313
Depreciation	430,217	468,582	54,972	953,771
Total Operating Expenses	<u>1,666,863</u>	<u>1,307,466</u>	<u>785,788</u>	<u>3,760,117</u>
Operating Income	297,727	507,003	419,887	1,224,617
NONOPERATING REVENUES (EXPENSE)				
Impact Fees	7,979	6,800	-	14,779
Intergovernmental Revenue	6,536	1,660	-	8,196
Investment Income	15,828	4,259	3,383	23,470
Interest Expense	-	(2,955)	-	(2,955)
Miscellaneous Nonoperating Revenues	53,183	14,502	-	67,685
Total Nonoperating Revenues	<u>83,526</u>	<u>24,266</u>	<u>3,383</u>	<u>111,175</u>
Income Before Contributions and Transfers	381,253	531,269	423,270	1,335,792
Capital Contributions	19,578	-	-	19,578
Transfers Out	<u>(68,909)</u>	<u>(64,883)</u>	<u>(28,416)</u>	<u>(162,208)</u>
Change in Net Position	331,922	466,386	394,854	1,193,162
Total Net Position - Beginning of Year	<u>8,600,265</u>	<u>10,345,561</u>	<u>855,786</u>	<u>19,801,612</u>
TOTAL NET POSITION - END OF YEAR	<u><u>\$ 8,932,187</u></u>	<u><u>\$ 10,811,947</u></u>	<u><u>\$ 1,250,640</u></u>	<u><u>\$ 20,994,774</u></u>

See accompanying Notes to Basic Financial Statements.

**CITY OF DOUGLAS, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013**

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Solid Waste	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	\$ 1,958,689	\$ 1,804,127	\$ 1,206,419	\$ 4,969,235
Payments to Suppliers	(978,547)	(485,304)	(463,306)	(1,927,157)
Payments to Employees	(336,398)	(309,452)	(246,904)	(892,754)
Payment for Claims	(24,882)	(22,347)	(17,346)	(64,575)
Other Receipts	53,183	14,502	-	67,685
Net Cash Flows Provided by Operating Activities	672,045	1,001,526	478,863	2,152,434
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers Out	(68,909)	(64,883)	(28,416)	(162,208)
Intergovernmental Revenue	6,536	1,660	-	8,196
Net Cash Flows Used by Noncapital Financing Activities	(62,373)	(63,223)	(28,416)	(154,012)
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES				
Capital Grants	223,859	-	-	223,859
Impact Fees	7,979	6,800	-	14,779
Purchases of Capital Assets	(944,906)	(408,975)	(218,374)	(1,572,255)
Issuance of Long-Term Debt	-	291,384	-	291,384
Principal Paid on Capital Debt	(68,864)	(429,750)	-	(498,614)
Interest Paid on Capital Debt	(34,334)	(92,522)	-	(126,856)
Net Cash Flows Used by Capital and Related Financing Activities	(816,266)	(633,063)	(218,374)	(1,667,703)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment Income	15,828	4,259	3,383	23,470
NET CHANGE IN CASH AND CASH EQUIVALENTS	(190,766)	309,499	235,456	354,189
Cash and Cash Equivalents - Beginning of Year	2,470,555	668,798	712,101	3,851,454
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 2,279,789</u>	<u>\$ 978,297</u>	<u>\$ 947,557</u>	<u>\$ 4,205,643</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position				
Cash and Cash Equivalents	\$ 2,180,691	\$ 633,875	\$ 947,557	\$ 3,762,123
Restricted Cash and Cash Equivalents	99,098	344,422	-	443,520
Total Cash and Cash Equivalents	<u>\$ 2,279,789</u>	<u>\$ 978,297</u>	<u>\$ 947,557</u>	<u>\$ 4,205,643</u>

(Continued)

See accompanying Notes to Basic Financial Statements.

**CITY OF DOUGLAS, ARIZONA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013**

	Business-type Activities - Enterprise Fund			
	Water	Sewer	Solid Waste	Totals
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income	\$ 297,727	\$ 507,003	\$ 419,887	\$ 1,224,617
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation	430,217	468,582	54,972	953,771
Miscellaneous Nonoperating Revenues	53,183	14,502	-	67,685
Change in Assets/Liabilities:				
Receivables, Net	(5,901)	(10,342)	744	(15,499)
Accounts Payable	(104,727)	16,430	(342)	(88,639)
Accrued Wages and Benefits	(1,895)	(864)	3,205	446
Insurance Claims Payable	5,303	1,638	3,797	10,738
Compensated Absences	(1,862)	4,577	(3,400)	(685)
Net Cash Provided by Operating Activities	<u>\$ 672,045</u>	<u>\$ 1,001,526</u>	<u>\$ 478,863</u>	<u>\$ 2,152,434</u>

See accompanying Notes to Basic Financial Statements.

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NOTES TO BASIC FINANCIAL STATEMENTS

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CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

For the year ended June 30, 2013, the City implemented the provisions of GASB Statements No. 61, 62, 63 and 65. GASB Statement 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statement No. 14 and No. 24*, modifies certain requirements for inclusion of component units in the financial reporting entity. GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB and AICPA Pronouncements issued on or before November 30, 1989 which does not conflict with or contradict GASB Pronouncements. GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows of resources and deferred inflows or resources. GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities* establishes accounting and financial reporting standards that were previously reported as assets and liabilities.

A. Reporting Entity

The City is a municipal government that is governed by a separately elected governing body. It is legally separate from and fiscally independent of other state and local governments. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations. The governmental component units are combined into one column in the government-wide financial statements and condensed financial information is presented in Note 3.H. in the notes to the financial statements. Douglas Housing Corporation I and Douglas Housing Corporation II, are not included in the combining statements because they are audited by other auditors and have separately issued financial statements. The business-type component unit consists of only Rancho La Perilla and is presented in one column of the government-wide financial statements. See the descriptions below of each of the blended and discretely presented component units.

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

Blended component unit:

Douglas Municipal Property Corporation – The Douglas Municipal Property Corporation’s (DMPC) board of directors consists of six members which are appointed by the Douglas City Council. The DMPC, which is a nonprofit corporation incorporated under the laws of the State of Arizona, was formed for the sole purpose of assisting the City in obtaining financing for various projects of the City. The City has a “moral obligation” for the repayment of the Douglas Municipal Property Corporation’s bonds. All related receivables and payables between the City and the DMPC have been eliminated. Separate financial statements for the Douglas Municipal Property Corporation are not prepared.

Douglas Housing Authority – The Douglas Housing Authority (Authority) is a public benefit corporation created by the City to provide subsidized public housing in accordance with federal legislation. The City Council acts as the governing body of the Authority and as such employs executives, authorizes contracts of subsidy with the U.S. Department of Housing and Urban Development pursuant to the latter agency’s regulations and statutory authorizations, and causes the corporation to construct, own and operate public housing facilities within the boundaries of the City. The financial liability of the housing agency is essentially supported by the operating and debt service subsidies received under contract from the federal government, although services or cash subsidies may be, and from time to time, are received from the City as well. Separate financial statements for the Douglas Housing Authority are not prepared.

Discretely presented component units:

Douglas Housing Corporation I (Casa De Esperanza Apartments) – The Douglas Housing Corporation I is a non-profit corporation created by the City to eliminate the financial burden on the City to provide financing for the construction of a low-income apartment complex. The City Council appoints members of the Governing Board for staggered terms; they, in turn, elect a chairman. The Governing Board employs executives, authorizes contracts of subsidy with the U.S. Department of Housing and Urban Development pursuant to the latter agency’s regulations and statutory authorizations, and causes the corporation to construct and operate a low-income apartment complex of fifty units for families under Section 221(d)(3) of the National Housing Act. Such projects are regulated by the United States Department of Housing and Urban Development (HUD) as to rent charges and operating methods. The financial liability of the corporation is supported by the operating subsidies received under contract from HUD. The audited financial statements of the Douglas Housing Corporation I may be obtained at the offices of the corporation.

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

Douglas Housing Corporation II (Pioneer Village) – The Douglas Housing Corporation II is a non-profit corporation created by the City to eliminate the financial burden on the City to provide financing for the construction of a low-income apartment complex. The City Council appoints members of the Governing Board for staggered terms; they, in turn, elect a chairman. The Governing Board employs executives, authorizes contracts of subsidy with the U.S. Department of Housing and Urban Development pursuant to the latter agency's regulations and statutory authorizations, and causes the corporation to construct and operate a low-income apartment complex of twenty-eight units for the elderly under Section 221(d)(3) of the National Housing Act. Such projects are regulated by the United States Department of Housing and Urban Development (HUD) as to rent charges and operating methods. The financial liability of the corporation is supported by the operating subsidies received under contract from HUD. The audited financial statements of the Douglas Housing Corporation II may be obtained at the offices of the corporation.

Douglas Community Housing Corporation (Rancho La Perilla Apartments) – The Douglas Community Housing Corporation is a non-profit 501(c)(3) corporation created by the City to eliminate the financial burden on the City to provide financing for the construction and operation of apartments. The City Council appoints members of the Governing Board; they, in turn, elect a chairman. The Governing Board employs executives, authorizes contracts, and causes the corporation to construct and operate an apartment complex of 80 units. The Community Housing Corporation has appointed a management corporation to promote the apartments and manage the daily activities of the apartments. The financial liability of the Corporation is solely dependent upon the rental revenue received from the tenants. Financial statements of the Douglas Community Housing Corporation may be obtained at the offices of the corporation.

Separately issued financial statements for Casa de Esperanza, Pioneer Village and Rancho La Perilla have been prepared in conformity with the Statement of Financial Accounting Standards No. 117, "Financial Statements of Not-for-Profit Organizations" and are available from the Essex Corporation.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government and its component units. The effect of interfund activity has been removed from these statements except for interfund services provided and used, which are not eliminated in the consolidation. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements (Continued)

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

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

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

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

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

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

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The City reports the following major governmental funds:

Major Governmental Funds

General Fund

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

MPC Debt Service Fund

The MPC Debt Service Fund accounts for the accumulation of resources for, and the payments of, the MPC debt service principal, interest and related debt.

The City reports the following major proprietary funds:

Major Proprietary Funds

Water Fund

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

Sewer Fund

The Sewer Fund accounts for the costs to operate, construct and finance the wastewater treatment system.

Solid Waste Fund

The Solid Waste Fund accounts for the costs to operate, construct and finance the City's solid waste operations.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges for services. Operating expenses for the proprietary funds include the cost of sales and services and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, for governmental activities it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. For business-type activities, the use of restricted resources is governed by the applicable bond covenants.

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

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

Cash and investments are pooled except for funds required to be held by fiscal agents or restricted under provisions of bond indentures. Interest earned from investments purchased with such pooled monies is allocated to each of the funds based on the average daily cash balances. The City Council-approved investment policy authorizes the City to invest in obligations of the U.S. government which do not exceed three years in maturity and are guaranteed by the U.S. Treasury; Certificates of Deposit or other deposits in FDIC insured banks; obligations of FNMA and FHMA which mature the next business day; repurchase agreements of less than \$5,000 which mature on the next business day; and the Local Government Investment Pools managed by the State Treasurer. Additionally, the trustee of the City's employee retirement plan holds certain City funds in a money market mutual fund.

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. No comparable oversight is provided for the County Treasurer's investment pool and that pool's structure does not provide for shares.

The governmental and business-type component units invest cash and investments in local financial institutions and the state's Local Government Investment Pools managed by the State Treasurer.

2. Receivables

All trade and property taxes receivables are shown net of an allowance for uncollectible accounts. All revenues of governmental activities were considered collectible and therefore there was no provision, the business-type activities reported an allowance of \$44,415.

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position or Equity (Continued)

2. Receivables (Continued)

Cochise County levies real and personal property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May. However, a lien against real and personal property assessed attaches on the first day of January preceding assessment and levy thereof.

3. Intergovernmental Receivables

Intergovernmental receivables include state shared revenues and federal and state grants.

4. Short-Term Interfund Receivables/Payables

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

5. Inventories and Prepaid Items

Inventories consist of expendable supplies held for consumption. Inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories are recorded as expenditures at the time of purchase in the governmental funds and are expensed in the governmental activities, business-type activities and proprietary funds when the resources are used.

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

6. Restricted Assets

As required by applicable loan documents, certain resources are set aside for debt service requirements on loans and the repair and replacement of utility infrastructure.

The City's component units also record restrictions on certain assets for replacement reserves, residual receipts and funds with the escrow agent for requirements set forth by the holder of the mortgage notes payable.

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position or Equity (Continued)

7. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year.

Upon implementation of GASB Statement No. 34, all phase I and II governments were required to report infrastructure assets acquired by the government since 1980. The City reports all infrastructure acquired since 1980, as well as pre-1980 infrastructure assets acquired or constructed by the City and report those assets at cost, if available, or the estimated fair value of the asset at the time of acquisition or construction.

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

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

Buildings and improvements	30 Years
Improvements other than buildings	6 to 50 Years
Wastewater system	6 to 50 Years
Water system	6 to 50 Years
Infrastructure	6 to 50 Years
Furniture, machinery and equipment	3 to 6 Years
Vehicles	5 to 7 Years

8. Compensated Absences

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

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position or Equity (Continued)

9. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statements of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are recognized in the period incurred.

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

10. Net Position

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

None of the restricted net position was restricted by enabling legislation.

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position or Equity (Continued)

11. Fund Balance Classifications

Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable and spendable fund balances. Spendable fund balances include restricted, committed, assigned and unassigned fund balance classifications.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form such as inventories, or are legally or contractually required to be maintained intact.

Restricted fund balances are those that have externally imposed restrictions on their usage by creditors (such as through debt covenants), grantors, contributors, or laws and regulations. The committed fund balances are self-imposed limitations approved by the City's Council, through formal resolution. The City Council is the highest level of decision-making authority within the City and the formal commitment must occur prior to fiscal year end. Only the City Council can remove or change the constraints placed on committed fund balances through formal council action. Assigned fund balances are resources constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The City Council, through formal resolution, has authorized the City Manager to make assignments of resources for a specific purpose. The unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not reported in the other classifications. Also, deficits in fund balances of the other governmental funds are reported as unassigned.

When an expenditure is incurred, for purposes for which both restricted and unrestricted fund balance is available, the City's policy is to use restricted fund balance first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned and unassigned are available, the City uses, committed, assigned and finally unassigned amounts.

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

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

1. In accordance with Arizona Revised Statutes, the City Manager submits a proposed budget for the fiscal year commencing the following July 1, to the City Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to the third Monday in August, the expenditure limitation for the City is legally enacted through passage of an ordinance. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total City expenditures from the audited basic financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).
4. Expenditures may not legally exceed the expenditure limitation of all fund types as a whole. For management and legal purposes, the City Council adopts a budget by department for the General Fund and in total by other funds. The City Manager, subject to City Council approval, may at any time transfer any unencumbered appropriation balance or portion thereof between a department or activity.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures. No budget was appropriated for the MPC Debt Service, Public Housing, LTAF, and Capital Projects Fund during the fiscal year.

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

No supplementary budgetary appropriations were necessary during the year.

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Deposits and investments at June 30, 2013 consist of the following:

Deposits:	
Cash on Hand	\$ 2,836
Cash in Bank	4,858,914
Cash on Deposit with County Attorney	379,330
Investments:	
State Treasurer's Investment Pool	3,915,391
Cash on Deposit with Trustee	463,053
Total Cash and Investments	9,619,524
Less Restricted Assets	(485,953)
Cash and Investments - Statement of Net Position	\$ 9,133,571

Deposits

The carrying value of the City's deposits at June 30, 2013 was \$4,858,914 and the bank balance was \$5,162,868. Of the bank balance, \$2,140,981 was covered by federal depository insurance and \$3,021,887 was covered by collateral held by the City's custodial bank in the City's name. The deposits held by the trustee were insured by federal depository insurance or were collateralized by securities held by the pledging financial institution in the trustee's name.

Investments

The State Board of Deposit provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. The shares are not identified with specific investments and are not subject to custodial credit risk.

The City's cash on deposit with the trustee are invested in U.S. Government securities. The securities were not rated and were not subject to credit risk.

Interest Rate Risk – In accordance with the City's investment policy, the City manages its exposure to declines in fair value by limiting the City's investment portfolio in maturities of more than one year to less than 20% of total investments.

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

The City's investments at June 30, 2013 consist of the following:

Investment Type	Amount	Interest - Risk: Maturity in Years		
		Less than 1	1-2	2-3
State Treasurer's Investment Pool 5	\$ 3,237,420	\$ 3,237,420	\$ -	\$ -
State Treasurer's Investment Pool 500	677,971	-	677,971	-
	<u>\$ 3,915,391</u>	<u>\$ 3,237,420</u>	<u>\$ 677,971</u>	<u>\$ -</u>

Concentration of Credit Risk – The City does not have a formal investment policy regarding the concentration of credit risk. However, the City invests in funds authorized by Arizona state law and currently only invests in the State Treasurer Investment Pool.

Custodial Credit Risk – For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a formal investment policy regarding custodial credit risk.

Credit Risk – The City does not have a policy related to credit risk. The City's deposits and investments consist of insured or collateralized deposits and investments in U.S. Government Securities, U.S. Treasury Notes and the State Treasurer's Investment Pool. The City's investment in the State Treasurer's investment pool did not receive a credit quality rating from a national rating agency.

Cash and investments of the component unit's at June 30, 2013 consist of the following:

Deposits:	
Cash on Hand	\$ 100
Cash in Bank	215,523
Investments:	
Funds Held by Mortgage	596,881
Restricted Assets	<u>(626,806)</u>
Total Cash and Cash Equivalents	<u>\$ 185,698</u>

The carrying value of the component unit's deposits at June 30, 2013 was \$215,473 which was entirely covered by federal depository insurance.

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Restricted Assets

Restricted assets in the Governmental Activities, Water Fund and the Sewer Fund at June 30, 2013 consisted of the following:

	Governmental Activities	Business-Type Activities		Total
		Water Fund	Sewer Fund	
Loan Debt Service Reserve Requirement	\$ -	\$ 99,098	\$ 344,422	\$ 443,520
Customer Deposits	9,666	-	-	9,666
Grantor Reserve Requirement	32,767	-	-	32,767
Total	\$ 42,433	\$ 99,098	\$ 344,422	\$ 485,953

Restricted assets of the discretely presented component units at June 30, 2013 consisted of the following:

Funds Held by Mortgage	\$ 596,881
Tenant Deposits	29,925
Total Restricted Assets of the Component Units	\$ 626,806

3. Receivables

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

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent Property Taxes Receivable: (General Fund)	\$ 54,283	\$ -
Unavailable Grant Revenue: (Nonmajor Governmental Funds)	60,190	-
Unearned Grant Revenue: (General Fund)	-	932
(Grants Fund)	-	20,040
	\$ 114,473	\$ 20,972

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets

Capital asset activity for the primary government's governmental activities for the year ended June 30, 2013 was as follows:

	Beginning Balance as Restated	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,065,310	\$ -	\$ -	\$ 1,065,310
Construction in Progress	449,802	332,590	(360,292)	422,100
Total Capital Assets, Not Being Depreciated	1,515,112	332,590	(360,292)	1,487,410
Capital Assets, Being Depreciated:				
Land Improvements	4,673,188	7,496	-	4,680,684
Streets and Storm Drains	15,911,232	422,684	-	16,333,916
Buildings and Improvements	22,010,699	305,907	-	22,316,606
Machinery and Equipment	10,841,467	273,016	-	11,114,483
Vehicles	3,229,842	1,212,161	-	4,442,003
Total Capital Assets, Being Depreciated	56,666,428	2,221,264	-	58,887,692
Accumulated Depreciation for:				
Land Improvements	(2,262,722)	(186,104)	-	(2,448,826)
Streets and Storm Drains	(9,219,336)	(611,035)	-	(9,830,371)
Buildings and Improvements	(5,196,169)	(669,879)	-	(5,866,048)
Machinery and Equipment	(7,446,095)	(1,374,540)	-	(8,820,635)
Vehicles	(2,409,562)	(385,962)	-	(2,795,524)
Total Accumulated Depreciation	(26,533,884)	(3,227,520)	-	(29,761,404)
Total Capital Assets, Being Depreciated, Net	30,132,544	(1,006,256)	-	29,126,288
Governmental Activities Capital Assets, Net	\$ 31,647,656	\$ (673,666)	\$ (360,292)	\$ 30,613,698

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets (Continued)

Capital assets activity for the primary government's business-type activities for the year ended June 30, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Construction in Progress	\$ 1,552,711	\$ 1,125,553	\$ (1,753,617)	\$ 924,647
Capital Assets, Being Depreciated:				
Buildings and Improvements	7,648,482	-	-	7,648,482
Water System	13,747,312	1,770,563	-	15,517,875
Wastewater System	13,720,106	-	-	13,720,106
Machinery, Equipment, and Vehicles	1,973,370	548,668	-	2,522,038
Total Capital Assets, Being Depreciated	37,089,270	2,319,231	-	39,408,501
Accumulated Depreciation for:				
Buildings and Improvements	(2,404,457)	(169,966)	-	(2,574,423)
Water System	(7,658,022)	(374,807)	-	(8,032,829)
Wastewater System	(5,141,736)	(275,923)	-	(5,417,659)
Machinery, Equipment, and Vehicles	(1,587,866)	(133,075)	-	(1,720,941)
Total Accumulated Depreciation	(16,792,081)	(953,771)	-	(17,745,852)
Total Capital Assets, Being Depreciated, Net	20,297,189	1,365,460	-	21,662,649
Business-Type Activities Capital Assets, Net	<u>\$ 21,849,900</u>	<u>\$ 2,491,013</u>	<u>\$ (1,753,617)</u>	<u>\$ 22,587,296</u>

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets (Continued)

The activity for the governmental component units for the year ended June 30, 2013 was as follows:

	Beginning Balance as Restated	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 91,150	\$ -	\$ -	\$ 91,150
Capital Assets, Being Depreciated:				
Buildings and Improvements	3,614,923	12,500	-	3,627,423
Furniture and Equipment	157,419	7,186	-	164,605
Total Capital Assets, Being Depreciated	3,772,342	19,686	-	3,792,028
Accumulated Depreciation for:				
Accumulated Depreciation	(2,533,090)	(136,745)	-	(2,669,835)
Total Capital Assets, Being Depreciated, Net	1,239,252	(117,059)	-	1,122,193
Business-Type Activities				
Capital Assets, Net	<u>\$ 1,330,402</u>	<u>\$ (117,059)</u>	<u>\$ -</u>	<u>\$ 1,213,343</u>

The activity for the business-type component units for the year ended June 30, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 265,000	\$ -	\$ -	\$ 265,000
Capital Assets, Being Depreciated:				
Buildings and Improvements	5,207,564	-	-	5,207,564
Furniture and Equipment	24,021	-	-	24,021
Total Capital Assets, Being Depreciated	5,231,585	-	-	5,231,585
Accumulated Depreciation for:				
Buildings and Improvements	(1,473,718)	(130,189)	-	(1,603,907)
Furniture and Equipment	(23,067)	(455)	-	(23,522)
Total Accumulated Depreciation	(1,496,785)	(130,644)	-	(1,627,429)
Total Capital Assets, Being Depreciated, Net	3,734,800	(130,644)	-	3,604,156
Business-Type Activities				
Capital Assets, Net	<u>\$ 3,999,800</u>	<u>\$ (130,644)</u>	<u>\$ -</u>	<u>\$ 3,869,156</u>

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets (Continued)

Depreciation expense was charged to functions/programs as follows:

Primary Government

Governmental Activities:

General Government	\$ 1,452,762
Public Safety	616,330
Highways and Streets	689,499
Culture and Recreation	462,788
Redevelopment and Housing	6,141
Total Depreciation Expense, Governmental Activities	<u><u>\$ 3,227,520</u></u>

Business-Type Activities:

Water	\$ 430,217
Sewer	468,582
Solid Waste	54,972
Total Depreciation Expense, Business-Type Activities	<u><u>\$ 953,771</u></u>

Component Units

Governmental Activities:

Casa de Esperanza	\$ 93,355
Pioneer Village	43,390
Total Depreciation Expense - Governmental Activities	<u><u>\$ 136,745</u></u>

Business-type Activities:

Rancho La Perilla	<u><u>\$ 130,644</u></u>
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CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Receivables, Payables and Transfers

Interfund transfers for the year ended June 30, 2013 consisted of the following:

Transfers Out	Transfers In			Total
	General Fund	MPC Debt Service Fund	Nonmajor Governmental Funds	
General Fund	\$ -	\$ 325,691	\$ 1,209,765	\$ 1,535,456
Nonmajor Governmental Funds	269,479	160,415	353,172	783,066
Water Fund	66,424	-	2,485	68,909
Sewer Fund	62,398	-	2,485	64,883
Solid Waste Fund	27,172	-	1,244	28,416
	<u>\$ 425,473</u>	<u>\$ 486,106</u>	<u>\$ 1,569,151</u>	<u>\$ 2,480,730</u>

Transfers were used to fund debt service and to fund capital outlay and indirect administrative costs. General Fund transfers were also used to subsidize the operating costs of Nonmajor Governmental Funds. The Business-type funds were used to allocate a percentage of their costs of goods sold to the General Fund for indirect administrative costs and to allocate the cost of the use of certain facilities owned and operated by the General Fund.

C. Obligations Under Capital Leases

The City has acquired communication equipment, vehicles and equipment, lawn mowers, and golf carts under the provisions of long-term lease agreements classified as capital leases. Accordingly, the principal amount of the assets totaling \$2,402,263 and 291,384 capitalized as governmental activities and business-type activities, respectively.

The assets acquired through capital leases are as follows:

	Governmental Activities	Business-type Activities
Asset:		
Furniture, Equipment and Vehicles	\$ 2,402,263	\$ 291,384
Less: Accumulated Depreciation	(789,660)	(2,728)
Total	<u>\$ 1,612,603</u>	<u>\$ 288,656</u>

Amortization expense on the capital leases is included in depreciation expense.

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Obligations Under Capital Leases (Continued)

Year Ended June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2014	\$ 266,480	\$ 25,492	\$ 56,516	\$ 5,060
2015	201,404	24,157	57,668	3,896
2016	198,042	19,169	58,844	2,732
2017	178,115	14,839	60,043	1,533
2018	170,830	10,940	30,480	309
2019-2020	330,186	10,985	-	-
Total	<u>\$ 1,345,057</u>	<u>\$ 105,582</u>	<u>\$ 263,551</u>	<u>\$ 13,530</u>

D. Call Center Lease Revenue

During fiscal year 2009, the City established a lease agreement for the City's new call center. Revenue related to this lease totaled \$715,478 during this fiscal year. Future minimum lease payments related to the call center lease are as follows:

Year Ended June 30,	Amount
2014	\$ 670,182
2015	647,076
2016	647,076
2017	647,076
2018	647,076
2019 - 2023	3,027,372
2024	300,426
	<u>\$ 6,586,284</u>

E. Long-Term Obligations

The City has long-term bonds and loans payable issued to provide funds for the acquisition and construction of major capital facilities. The debt is being repaid by the Highway User Revenue and Debt Service Funds. Compensated absences are paid by the applicable fund where each employee is regularly paid, primarily the General Fund.

The City of Douglas, Arizona reports the following outstanding bonds:

Description	Maturity	Interest Rate (%)	Outstanding at June 30, 2013
Revenue Bonds			
Municipal Property Corporation Excise Tax			
Refunding Bond, Series 2004; original issue			
\$4,165,000	7/1/13-15	2.00-3.50%	<u>\$ 925,000</u>

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

The City has pledged future excise taxes to repay \$4.2 million in governmental excise tax refunding bonds issued in 2004. Proceeds of the bonds were used to refund and refinance the outstanding excise tax revenue bonds, series 1995 and highways and streets revenue bonds, Series 1996. The bonds are payable solely from excise taxes and are payable through 2015. Annual principal and interest payments on the bonds are expected to require approximately 12 percent of excise tax revenues recorded in the HURF and Debt Service Funds. The total principal and interest remaining to be paid on the bonds is \$973,256. Principal and interest paid for the current year and total excise taxes were \$486,106 and \$5,364,312, respectively.

The City of Douglas, Arizona reports the following outstanding loans:

Description	Maturity	Interest Rate (%)	Outstanding at June 30, 2013
Governmental Activities			
Loans Payable:			
Greater Arizona Development Authority, Series 2008A; original issue \$3,000,000	8/1/13-28	4.00-5.25%	\$ 2,495,000
The Industrial Development Authority of the City of Douglas, Arizona. Original issue \$400,000	7/1/13-14	0%	140,000
Call Center Purchase Agreement; collateralized by the building and equipment acquired with the debt; original issue \$9,000,000	7/31/13-28	4.29-5.63%	5,625,000
Total Governmental Loans Payable			<u>\$ 8,260,000</u>
Business-Type Activities			
Water Infrastructure Finance Authority of Arizona Issued 2009-2010	7/1/13-29	2.00%	\$ 4,261,771
Water Infrastructure Finance Authority of Arizona Issued 2009-2010	7/1/13-27	2.814%	1,195,897
Total Business-Type Loans Payable			<u>\$ 5,457,668</u>

The City has pledged future state shared revenue tax, state shared sales tax, City sales tax, transaction privilege tax and other miscellaneous revenues to repay \$3.0 million in GADA loans, Series 2008A. Proceeds of the loan provided financing for the development center project, including the purchase and renovation of buildings, land purchase, and upgrades and renovations to the existing City Hall. The loan is payable solely from pledged revenues discussed previously and are payable through 2029. Annual principal and interest payments on the bonds are expected to require less than 3 percent of pledged revenues. The total principal and interest remaining to be paid on the loan is \$3,479,469. Principal and interest paid for the current year and total excise taxes were \$236,264 and \$9,243,530.

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

In 2009, the City issued loans totaling \$9,000,000 for the acquisition and construction of a call center. The loan is payable from a 0.3 percent City sales tax, plus unused lease revenues received on the lease agreement with a third party. The lease of the call center is a 13 year lease with annual payments of \$693,288 plus taxes and utilities. The lease revenues are to be used for maintenance and operations costs, then for payment of the debt. Annual principal and interest payments on the loans are expected to require more than 100 percent of the committed sales tax and 83 percent of the lease revenues through the fiscal year 2014. For fiscal years 2015 through 2029, the annual principal and interest payments on the loans are expected to require 95 percent of the City sales tax in 2015, declining each year to 53 percent in 2029. The call center lease agreement expires fiscal year 2023; however, the City does not anticipate using any lease revenue to fund the debt service payments after fiscal year 2014. The total principal and interest remaining to be paid on the loan is \$7,873,359. Principal and interest paid for the current year and the City sales tax and lease revenues were \$1,096,805 and \$1,215,652.

The City has two loans through the Water Infrastructure Financing Authority of Arizona (WIFA). The loans are structured where the City draws on the loans as funds are needed. To-date, the City has drawn down \$0.9 million and \$5.1 million from the total authorized loan of \$1.5 million and \$9.0 million, respectively, for the acquisition and construction of water and sewer facilities and improvements. The loans are payable from water and sewer charges for services through the fiscal year 2025. The City draws the loan as funds are utilized and pays interest on the outstanding principal balance. Annual principal and interest payments on the bonds are expected to require approximately 65-75% percent of net available revenue. The total principal and interest remaining to be paid on the loan is \$6,074,421. Principal and interest paid for the current year and total pledged revenues were \$594,970 and \$804,730.

The City's component units have outstanding mortgage notes payables collateralized by an insured mortgage on the projects land and buildings. The notes are being repaid through federal subsidies and tenant rents. The governmental component units' outstanding debt consisted of interest only mortgage notes payable at 1% per annum. The future principal payments are scheduled based on estimated principal retirement. The component units pay principal as cash is available; the maturity date of the outstanding debt is May 1, 2042.

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

Changes in long-term obligations for the year ended June 30, 2013 are as follows:

	Beginning of Year	Additions	Retirements	End of Year	Due within One Year
Governmental Activities:					
Loans Payable	\$ 9,155,000	\$ -	\$ (895,000)	\$ 8,260,000	\$ 535,000
Revenue Bonds	1,365,000	-	(440,000)	925,000	455,000
Discount	(7,002)	-	2,802	(4,200)	-
Total Bonds and Loans	<u>10,512,998</u>	<u>-</u>	<u>(1,332,198)</u>	<u>9,180,800</u>	<u>990,000</u>
Other Liabilities:					
Capital Leases	431,731	1,205,911	(292,585)	1,345,057	266,480
Compensated Absences	1,211,919	695,850	(634,425)	1,273,344	711,106
Total Governmental Activities	<u>\$ 12,156,648</u>	<u>\$ 1,901,761</u>	<u>\$ (2,259,208)</u>	<u>\$ 11,799,201</u>	<u>\$ 1,967,586</u>
Business-Type Activities:					
Loans Payable	\$ 5,928,449	\$ -	\$ (470,781)	\$ 5,457,668	\$ 480,756
Other Liabilities:					
Capital Lease	-	291,384	(27,833)	263,551	56,516
Compensated Absences	171,080	109,069	(109,754)	170,395	131,323
Total Business-Type Activities	<u>\$ 6,099,529</u>	<u>\$ 400,453</u>	<u>\$ (608,368)</u>	<u>\$ 5,891,614</u>	<u>\$ 668,595</u>
Governmental Component Units:					
Notes Payable	<u>\$ 2,612,175</u>	<u>\$ -</u>	<u>\$ (13,798)</u>	<u>\$ 2,598,377</u>	<u>\$ 23,766</u>
Business-Type Component Units:					
Notes Payable	<u>\$ 5,220,998</u>	<u>\$ -</u>	<u>\$ (47,314)</u>	<u>\$ 5,173,684</u>	<u>\$ 49,268</u>

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

Debt service requirements on long-term debt at June 30, 2013 are as follows:

Years	Primary Government				Component Units	
	Governmental Activities		Business-Type Activities		Governmental Activities	Business-type Activities
	Principal	Interest	Principal	Interest	Principal	Principal
2014	\$ 990,000	\$ 444,403	\$ 480,756	\$ 109,009	\$ 23,766	\$ 49,268
2015	1,010,000	402,092	490,947	98,597	12,708	51,300
2016	545,000	358,487	501,359	87,961	13,525	53,417
2017	530,000	331,757	511,995	77,034	14,395	55,621
2018	520,000	304,002	522,862	65,993	15,321	57,916
2019-2023	2,690,000	1,095,072	2,785,709	161,173	-	627,700
2024-2028	2,900,000	345,271	164,040	16,986	-	-
2029-2033	-	-	-	-	-	-
2034-2038	-	-	-	-	-	-
2039-2043	-	-	-	-	-	-
Thereafter					2,518,662	4,278,462
Totals	<u>\$ 9,185,000</u>	<u>\$ 3,281,084</u>	<u>\$ 5,457,668</u>	<u>\$ 616,753</u>	<u>\$ 2,598,377</u>	<u>\$ 5,173,684</u>

F. Fund Balance Classifications of Governmental Funds

The City has classified its fund balances as follows:

	General Fund	MPC Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balances:				
Nonspendable:				
Inventory	\$ 44,382	\$ -	\$ -	\$ 44,382
Prepaid Items	8,000	-	-	8,000
Due from Component Unit	634,106	-	-	634,106
Total Nonspendable	<u>686,488</u>	<u>-</u>	<u>-</u>	<u>686,488</u>
Restricted:				
Federal and State Programs	-	-	303,281	303,281
Court Administration	-	-	69,449	69,449
Public Safety Programs	-	-	288,682	288,682
Highways and Streets	-	-	150,419	150,419
Housing and Redevelopment	-	-	362,674	362,674
Total Restricted	<u>-</u>	<u>-</u>	<u>1,174,505</u>	<u>1,174,505</u>
Assigned for Debt Service	-	-	224,190	224,190
Unassigned:	<u>4,260,979</u>	<u>-</u>	<u>-</u>	<u>4,260,979</u>
Total Fund Balance	<u>\$ 4,947,467</u>	<u>\$ -</u>	<u>\$ 1,398,695</u>	<u>\$ 6,346,162</u>

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

G. Change in Accounting Principle

During the fiscal year ended June 30, 2013, the City adopted the provisions of Governmental Accounting Standards Board Statement (GASBS) No. 61, *The Financial Reporting Entity: Omnibus – an amendment of BASB Statement No. 14 and 24*. As a result of the implementation of GASBS No. 61, the beginning net position/fund balance was restated in the Government-wide and Nonmajor Governmental Fund financial statements, respectively, as the Douglas Public Housing Corporation (DPHC) is presented as a blended component unit for the year ended June 30, 2013. The DPHC was previously reported as a discretely presented component unit.

	Net Position/ Fund Balance Beginning of Year	Restatement	Net Position/ Fund Balance as Restated
	<u> </u>	<u> </u>	<u> </u>
Governmental Activities	\$ 25,530,727	\$ 454,241	\$ 25,984,968
Governmental Funds			
General Fund	\$ 4,761,141	\$ -	\$ 4,761,141
MPC Debt Service Fund	-	-	-
Nonmajor Governmental Funds	1,099,850	422,312	1,522,162
Total Governmental Funds	<u>\$ 5,860,991</u>	<u>\$ 422,312</u>	<u>\$ 6,283,303</u>
	Net Position Beginning of Year	Restatement	Net Position as Restated
	<u> </u>	<u> </u>	<u> </u>
Governmental Component Unit	<u>\$ (290,821)</u>	<u>\$ (454,241)</u>	<u>\$ (745,062)</u>

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

H. Component Units Condensed Financial Information

The City includes within its reporting entity two governmental component units and one business-type component unit. Separately issued financial statements for Rancho La Perilla (the business-type component unit) have been prepared in conformity with the Statement of Financial Accounting Standards No. 117, "Financial Statements for Not-for-Profit Organizations" and are available from the City. Summary financial information for the two governmental component units is presented below:

	Casa De Esperanza	Pioneer Village	Totals
Condensed Statement of Net Position			
Assets:			
Current Assets:			
Cash and Equivalents	\$ 118,784	\$ 53,608	\$ 172,392
Accounts Receivable	15,954	3,965	19,919
Prepaid Items	15,263	9,143	24,406
Other Assets	82,224	152,834	235,058
Restricted Assets	104,820	133,399	238,219
Capital Assets			
Non-depreciable	74,696	16,454	91,150
Depreciable (Net)	766,803	355,390	1,122,193
Total Assets	1,178,544	724,793	1,903,337
Liabilities:			
Current Liabilities:			
Accounts Payable	30,319	14,032	44,351
Accrued Wages and Benefits	11,657	4,681	16,338
Interest Payable	35,733	59,375	95,108
Customer Deposits Payable	6,620	4,505	11,125
Notes Payable	19,164	4,602	23,766
Noncurrent Liabilities:			
Due in More Than One Year	1,626,600	948,011	2,574,611
Total Liabilities	1,730,093	1,035,206	2,765,299
Net Position:			
Net Investment in Capital Assets	(804,265)	(580,769)	(1,385,034)
Restricted for Redevelopment and Housing	252,716	270,356	523,072
Total Net Position	\$ (551,549)	\$ (310,413)	\$ (861,962)

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

H. Component Units Condensed Financial Information (Continued)

	Casa De Esperanza	Pioneer Village	Totals
Condensed Statement of Activities			
Expenses:			
Current:			
Redevelopment and Housing	\$ 281,309	\$ 131,598	\$ 412,907
Depreciation	93,355	43,390	136,745
Debt Service:			
Interest on Long-Term Debt	54,127	24,166	78,293
Total Expenses	428,791	199,154	627,945
Program Revenues:			
Operating Grants and Contributions	307,790	91,114	398,904
Charges for Services	48,260	51,841	100,101
Total Program Revenues	356,050	142,955	499,005
Net Program (Expense)	(72,741)	(56,199)	(128,940)
General Revenues:			
Investment Income	59	163	222
Other	9,893	1,925	11,818
Total General Revenues	9,952	2,088	12,040
Change in Net Assets	(62,789)	(54,111)	(116,900)
Net Position, Beginning of Year	(488,760)	(256,302)	(745,062)
Net Position, End of Year	\$ (551,549)	\$ (310,413)	\$ (861,962)

The deficits reported in Casa de Esperanza and Pioneer Village net investment in capital assets on the previous page and above was due to the entities debt exceeding the investment in capital assets.

Separately issued financial statements for Casa de Esperanza and Pioneer Village have been prepared in conformity with the Statement of Financial Accounting Standards No. 117, "Financial Statements of Not-for-Profit Organizations" and are available from the Essex Corporation.

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 4 OTHER INFORMATION

A. Risk Management

The City of Douglas, Arizona, is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City's insurance protection is provided by a private carrier (Travelers), of which the City is a participating member. The limit for basic coverage is for \$1,000,000 per occurrence on a claims made basis. Excess coverage is for an additional \$5,000,000 per occurrence on a follow form, claims made basis. No significant reduction in insurance coverage occurred during the year and no settlements exceeded insurance coverage during any of the past three fiscal years.

The City is also insured by State Compensation Fund for workers compensation for potential worker related accidents.

During fiscal year 2013, the City began financing its uninsured risks of loss. The City is self-insured for individual health claims up to \$50,000 per covered person. Coverage in excess of this amount is provided through the purchase of commercial insurance. Settlements for the past fiscal year did not exceed the City's excess insurance coverage amounts for any claims.

The City reports its self-insurance activity in all funds. The City allocates the cost of claims by charging a premium to each fund based on a percentage of each funds estimated current-year payroll. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

The liability claims amount recorded in the accompanying financial statements is based on reported pending claims, effects of inflation, recent claim settlement trends and other economic and social trends. At June 30, 2013, the self-insured benefit claims payable, including amounts incurred, but not yet reported totaled \$116,356.

As of June 30, 2013, unpaid claims were as follows:

	2013
Beginning unpaid claims	\$ -
Claims incurred and changes in estimates	698,134
Payments made	(581,778)
Ending unpaid claims	\$ 116,356

The self-insurance program began in August of 2012 and therefore there is no prior year data.

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 OTHER INFORMATION (CONTINUED)

B. Contingent Liabilities

Lawsuits

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's legal counsel, the City has some exposure to loss; however, the City is vigorously defending these claims and any loss or dollar value of the loss is not determinable.

C. Commitments

The City has two committed projects that will be funded through the Water Infrastructure Authority of Arizona (WIFA) in the amount of \$1.5 million and \$9.0 million. The projects are for drinkwater and wastewater, respectively. As of June 30, 2013, the City had no construction commitments related to either project, but spent and drew down \$6.0 million; the WIFA funds, negotiated as a loan, have an available balance in the amount of \$0.6 million and \$3.9 million. Annual principal and semi-annual interest payment will be due through 2027 on the outstanding loan balance.

The City entered into a loan agreement in the amount of \$400,000 to fund the acquisition of the Hidden Treasures RV Park. The City has not drawn on the available \$400,000; however, principal and interest will be due on any outstanding balance drawn by the City.

In prior years, the City entered into a settlement agreement related to on-going litigation related to a civil matter. The settlement agreement releases either party of any continued litigation. Under the settlement agreement, the City is required to pay \$350,000; however, the party receiving payment has credited the City \$23,100 under the settlement agreement for sewer development fees. The settlement is structured such that the remaining \$326,900 on the \$350,000 settlement will be paid by the City in installments; the first installment of \$75,000 was paid on October 27, 2011, the second installment of \$70,000 was paid on October 27, 2012, and two annual payments of \$70,000 will be made on October 27, 2013 and 2014 and the final payment will be due on October 27, 2015. There will be no interest on the settlement amount of the unpaid balance.

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Subsequent Events

Subsequent to June 30, 2013 the City entered into a lease purchase agreement for the purchase of a dump truck and street sweeper. The Lease has a total principal amount of \$292,169 with an annual interest rate of 2.28%. The lease requires semi-annual principal and interest payments of \$30,730 through July 2018.

In September 2013, the City entered into a lease purchase agreement for the purchase of Information Technology and Infrastructure upgrades. The lease has a total principal amount of \$1,041,474 with an annual interest of 1.53%. The lease requires semi-annual principal and interest payments of \$107,765 through March 2018.

E. Retirement Plans

Arizona State Retirement System

Plan Descriptions

The City of Douglas, Arizona contributes to a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health care plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan, all of which are administered by the Arizona State Retirement System. The Arizona State Retirement System (through its Retirement Fund) provides retirement (i.e., pension), death, and survivor benefits; the Health Benefit Supplement Fund provides health insurance premium benefits (i.e., a monthly subsidy); and the Long-Term Disability Fund provides long-term disability benefits. Benefits are established by state statute. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

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

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 4 OTHER INFORMATION (CONTINUED)

E. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

Funding Policy

The Arizona State Legislature establishes and may amend active plan members' and the City of Douglas, Arizona's contribution rates. For the year ended June 30, 2013, active plan members were required by statute to contribute at the actuarially determined rate of 11.14 percent (10.25 percent for retirement, 0.65% for health insurance premium, and 0.24 percent for long-term disability) of the members' annual covered payroll and the City of Douglas, Arizona was required by statute to contribute at the actuarially determined rate of 11.14 percent (10.25 percent for retirement, 0.65 percent for health insurance premium, and 0.24 percent for long-term disability) of the members' annual covered payroll. The City's contributions to the ASRS for the years ended June 30, 2013, 2012, and 2011, which were equal to 100 percent of the required contributions for each year, were as follows:

<u>Year Ended June 30,</u>	<u>Retirement Fund</u>	<u>Health Benefit Supplement Fund</u>	<u>Long-Term Disability Fund</u>
2013	\$ 440,157	\$ 27,912	\$ 10,306
2012	404,836	26,715	9,864
2011	396,381	25,956	10,998

Public Safety Personnel Retirement System (PSPRS)

Plan Description

The City contributes to the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer, public employee retirement system that acts as a common investment and administrative agent to provide retirement and death and disability benefits for public safety personnel who are regularly assigned hazardous duty in the employ of the State of Arizona or a political subdivision thereof. All benefit provisions and other requirements are established by State statute. The Public Safety Personnel Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PSPRS. That report may be obtained by writing to Public Safety Personnel, 1020 E. Missouri Ave., Phoenix, AZ 85014 or by calling (602) 255-5575.

Funding Policy

Covered employees are required to contribute 7.65 percent of their annual salary to the PSPRS. The City is required to contribute the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The current rate is 36.09 and 41.77 percent of annual covered payroll for Police and Fire, respectively.

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 OTHER INFORMATION (CONTINUED)

E. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Annual Pension Cost

During the year ended June 30, 2013, the City of Douglas, Arizona's annual pension cost of \$679,993 for police and \$519,131 for fire was equal to the City of Douglas, Arizona's required and actual contributions.

The required contribution was determined as part of the June 30, 2011 actuarial valuation using an entry age actuarial funding method. Significant actuarial assumptions used in determining the entry age actuarial accrued liability related to the PSPRS plan and related OPEB health insurance subsidy include (a) a rate of return on the investment of present and future assets of 8.5% per year compounded annually, (b) projected salary increases of 6.5% (including inflation at 5.0%) per year compounded annually, and (c) additional projected salary increases of 0.0% to 3.0% per year attributable to seniority/merit.

Funded Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the plan for police was 44.0 percent funded and the plan for fire was 38.0 percent funded. The actuarial accrued liability for benefits was \$16.8 million and \$11.9 million for police and fire, respectively; and the actuarial value of assets was \$7.4 million and \$4.5 million, respectively; resulting in an unfunded actuarial accrued liability (UAAL) of \$9.4 million and \$7.3 million, respectively. The covered payroll (annual payroll of active employees covered by the plan) for the police and fire plan was \$1.9 million and \$1.3 million, and the ratio of the UAAL to the covered payroll was 485.2 percent and 568.3 percent, respectively.

As of June 30, 2012, the OPEB plan for police and fire was 0.0 percent funded. The actuarial accrued liability for benefits was \$0.4 million and \$0.2 million for police and fire, respectively; and the actuarial value of assets was \$0.0 million for police and fire; resulting in an unfunded actuarial accrued liability (UAAL) of \$0.4 million and \$0.2 million, respectively. The covered payroll (annual payroll of active employees covered by the plan) for the police and fire plan was \$1.9 million and \$1.3 million, and the ratio of the UAAL to the covered payroll was 18.4 percent and 17.3 percent, respectively.

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 4 OTHER INFORMATION (CONTINUED)

E. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The City of Douglas, Arizona's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2012, was 24 years.

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

**Three-Year Trend Information
Police**

Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percent Contributed	Net Pension Obligation
2011	\$ 472,674	100%	\$ -
2012	569,043	100%	-
2013	679,993	100%	-
Fiscal Year Ended June 30,	Annual OPEB Cost	Percent Contributed	OPEB Benefit Obligation
2011	\$ 31,981	100%	\$ -
2012	32,868	100%	-
2013	30,515	100%	-

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 4 OTHER INFORMATION (CONTINUED)

E. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Funded Status and Funding Progress

Three-Year Trend Information			
Fire			
<u>Fiscal Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent Contributed</u>	<u>Net Pension Obligation</u>
2011	\$ 411,893	100%	\$ -
2012	435,560	100%	-
2013	519,131	100%	-
<u>Fiscal Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percent Contributed</u>	<u>OPEB Benefit Obligation</u>
2011	\$ 18,740	100%	\$ -
2012	20,045	100%	-
2013	19,203	100%	-

Additional historical trend information for the City's PSPRS is disclosed on page 72. Historical trend information is presented in order for the reader to assess the progress made in accumulating sufficient assets to pay pension benefits as they become payable.

REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF DOUGLAS, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS
YEAR ENDED JUNE 30, 2013**

Douglas Police

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Over (Under) Funded AAL	Annual Covered Payroll	Under Funded AAL as a Percentage of Covered Payroll
2010	\$ 7,498,002	\$ 13,570,575	55.3%	\$ (6,072,573)	\$ 1,811,688	335.2%
2011	7,416,284	15,053,324	49.3	(7,637,040)	1,785,679	427.7
2012	7,381,173	16,791,531	44.0	(9,410,358)	1,939,472	485.2

Other Post Employment Benefits (Health Insurance Subsidy)

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Over (Under) Funded AAL	Annual Covered Payroll	Under Funded AAL as a Percentage of Covered Payroll
2010	\$ -	\$ 320,514	0.0%	\$ (320,514)	\$ 1,811,688	17.7%
2011	-	368,007	0.0	(368,007)	1,785,679	20.6
2012	-	357,260	0.0	(357,260)	1,939,472	18.4

Douglas Fire

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Over (Under) Funded AAL	Annual Covered Payroll	Under Funded AAL as a Percentage of Covered Payroll
2010	\$ 5,036,495	\$ 10,098,073	49.9%	\$ (5,061,578)	\$ 1,161,906	435.6%
2011	4,928,154	10,975,912	44.9	(6,047,758)	1,168,985	517.4
2012	4,510,557	11,856,479	38.0	(7,345,922)	1,292,729	568.3

Other Post Employment Benefits (Health Insurance Subsidy)

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Over (Under) Funded AAL	Annual Covered Payroll	Under Funded AAL as a Percentage of Covered Payroll
2010	\$ -	\$ 221,080	0.0%	\$ (221,080)	\$ 1,161,906	19.0%
2011	-	234,971	0.0	(234,971)	1,168,985	20.1
2012	-	223,089	0.0	(223,089)	1,292,729	17.3

**CITY OF DOUGLAS, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2013**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
REVENUES			
Taxes:			
Sales Taxes	\$ 5,651,978	\$ 4,803,510	\$ (848,468)
Property Taxes	549,141	556,456	7,315
Franchise Taxes	350,000	314,080	(35,920)
Intergovernmental Revenues	5,514,383	5,180,609	(333,774)
Fines and Forfeitures	332,500	265,988	(66,512)
Licenses and Permits	183,000	162,571	(20,429)
Charges for Services	1,840,527	1,605,657	(234,870)
Rents and Royalties	758,278	768,418	10,140
Investment Income	10,000	21,093	11,093
Other	64,000	428,870	364,870
Total Revenues	<u>15,253,807</u>	<u>14,107,252</u>	<u>(1,146,555)</u>
EXPENDITURES			
Current:			
General Government:			
Administration	510,898	536,093	(25,195)
Finance	498,324	492,565	5,759
Personnel	1,075,885	430,598	645,287
General Government	409,253	169,041	240,212
Management Information Systems	566,005	510,161	55,844
Parking Lot	45,216	33,758	11,458
Transit	410,982	292,900	118,082
City Magistrate	71,862	73,837	(1,975)
Cemetery	94,038	101,025	(6,987)
Community Development	89,036	87,065	1,971
Golf Course	518,778	493,104	25,674
Economic Development	35,000	15,013	19,987
Airport	183,702	151,528	32,174
Call Center	66,959	60,628	6,331
Total General Government	<u>4,575,938</u>	<u>3,447,316</u>	<u>1,128,622</u>
Public Safety:			
Police	4,303,264	4,493,418	(190,154)
Fire	1,227,190	1,289,303	(62,113)
Emergency Medical Services	1,209,812	1,268,823	(59,011)
Total Public Safety	<u>6,740,266</u>	<u>7,051,544</u>	<u>(311,278)</u>
Highways and Streets:			
Public Works	894,992	736,145	158,847

(Continued)

**CITY OF DOUGLAS, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE (CONTINUED)
GENERAL FUND
YEAR ENDED JUNE 30, 2013**

(Concluded)	Original and Final Budget	Actual	Variance With Final Budget
	<u> </u>	<u> </u>	<u> </u>
EXPENDITURES (CONTINUED)			
Culture and Recreation:			
Parks	\$ 572,647	\$ 582,676	\$ (10,029)
Recreation	121,066	124,558	(3,492)
Library	358,727	308,609	50,118
Aquatics	312,058	317,512	(5,454)
Visitor Center	93,172	72,852	20,320
Total Culture and Recreation	<u>1,457,670</u>	<u>1,406,207</u>	<u>51,463</u>
Debt Service:			
Principal Retirement	28,475	28,475	-
Interest on Long-Term Debt	4,236	5,772	(1,536)
Total Debt Service	<u>32,711</u>	<u>34,247</u>	<u>(1,536)</u>
Capital Outlay	134,469	135,484	(1,015)
Total Expenditures	<u>13,836,046</u>	<u>12,810,943</u>	<u>1,025,103</u>
Excess (Deficiency) of Revenues Over Expenditures	1,417,761	1,296,309	(121,452)
OTHER FINANCING SOURCES (USES)			
Transfers In	467,062	425,473	(41,589)
Transfers Out	(2,087,340)	(1,535,456)	551,884
Total Other Financing Sources (Uses)	<u>(1,620,278)</u>	<u>(1,109,983)</u>	<u>510,295</u>
Net Change in Fund Balance	(202,517)	186,326	388,843
FUND BALANCE			
Beginning of Year	5,518,150	4,761,141	(3,639,900)
End of Year	<u>\$ 5,315,633</u>	<u>\$ 4,947,467</u>	<u>\$ (368,166)</u>

See accompanying Notes to Budgetary Comparison Schedule.

**CITY OF DOUGLAS, ARIZONA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2013**

NOTE 1 BASIS OF ACCOUNTING

The General Fund budgetary comparison schedule is prepared on a budgetary basis of accounting. See Note 2 for a reconciliation of the General Fund Budgetary Comparison Schedule to the Statement of Revenues, Expenditures and Changes in Fund Balances.

Expenditures may not legally exceed the expenditure limitation of all fund types as a whole. For management and legal purposes, the City Council adopts an annual budget by department for the General Fund. The City Manager, subject to City Council approval, may at any time transfer any unencumbered appropriation balance or portion thereof between departments.

NOTE 2 BUDGETARY COMPARISON SCHEDULE RECONCILIATION

Proceeds from capital leases and leased capital outlay expenditures are not recognized on the budgetary basis. Therefore the following reconciliation is necessary to reconcile the General Fund Budgetary Comparison Schedule to the Statement of Revenues, Expenditures and Changes in Fund Balances.

	Statement of Revenues Expenditures and Changes in Fund Balances	Adjustments	Budgetary Comparison Schedule - General Fund
Revenues	\$ 14,107,252	\$ -	\$ 14,107,252
Expenditures	14,016,854	(1,205,911)	12,810,943
Excess (Deficiency) of Revenues Over Expenditures	90,398	1,205,911	1,296,309
Other Financing Sources and (Uses)	95,928	(1,205,911)	(1,109,983)
Net Change in Fund Balance	186,326	-	186,326
Fund Balance, Beginning of Year	4,761,141	-	4,761,141
Fund Balance, End of Year	<u>\$ 4,947,467</u>	<u>\$ -</u>	<u>\$ 4,947,467</u>

CITY OF DOUGLAS, ARIZONA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2013

NOTE 3 EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Expenditures exceeded appropriations in the following funds:

	<u>Amount of Overexpenditure</u>
General Fund:	
Administration	\$ 25,195
City Magistrate	1,975
Cemetery	6,987
Police	190,154
Fire	62,113
Emergency Medical Services	59,011
Parks	10,029
Recreation	3,492
Aquatics	5,454
Capital Outlay	1,015
Nonmajor Governmental Funds	
Police Grants Fund	30,846

Cash was available to meet all of the overexpenditures listed above.

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**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Highway Users Fund (HURF) – accounts for the City’s share of state taxes on gasoline, diesel fuels, and other transportation related fees to be used solely for street and highway purposes. Eligible expenditures include the cost of right-of-way acquisitions, construction, reconstruction, maintenance, repair, roadside development of city roads, streets and bridges and the payment of the interest and principal on highway and street bonds.

Grants Fund – accounts for the activity of the City’s grants.

Police Grants – accounts for the activity of grants received by the City’s police department.

Local Transportation Assistance Fund (LTAF) – accounts for the City’s share of state lottery funds. Expenditures are restricted to transportation. Ten percent of revenues received may be used for culture and recreation with a match from other non-governmental sources.

JCEF Restricted Court Fund – accounts for the activity of the JCEF court receipts.

Public Housing Fund – accounts for the Douglas Housing Authority component unit of the City. The Douglas Housing Authority receives federal assistance and provides low rent housing for the area.

CAPITAL PROJECTS FUND

Capital Projects Fund – accounts for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

DEBT SERVICE FUND

Debt Service Fund – accounts for the accumulation of resources for, and the payments of, debt service principal, interest and related debt.

**CITY OF DOUGLAS, ARIZONA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2013**

	Special Revenue			
	HURF	Grants	Police Grants	LTAF
ASSETS				
Cash and Cash Equivalents	\$ 119,396	\$ 141,486	\$ 290,651	\$ -
Receivables				
Accounts Receivable	-	-	-	-
Taxes Receivable	-	-	-	-
Intergovernmental Receivable	101,347	224,103	-	-
Restricted Assets	-	-	-	-
Total Assets	\$ 220,743	\$ 365,589	\$ 290,651	\$ -
LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 47,090	\$ 2,118	\$ 1,969	\$ -
Accrued Wages and Benefits	15,126	-	-	-
Insurance Claims Payable	8,108	-	-	-
Unearned Revenue	-	-	-	-
Customer Deposits Payable	-	-	-	-
Total Liabilities	70,324	2,118	1,969	-
Deferred Inflows of Resources				
Unavailable Revenue	-	60,190	-	-
Fund Balances				
Restricted	150,419	303,281	288,682	-
Assigned	-	-	-	-
Total Fund Balances	150,419	303,281	288,682	-
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 220,743	\$ 365,589	\$ 290,651	\$ -

Special Revenue

<u>JCEF Restricted Court</u>	<u>Public Housing</u>	<u>Total Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 69,699	\$ 366,464	\$ 987,696	\$ -	\$ 176,241	\$ 1,163,937
-	6,260	6,260	-	-	6,260
-	-	-	-	49,638	49,638
-	-	325,450	-	-	325,450
-	42,433	42,433	-	-	42,433
<u>\$ 69,699</u>	<u>\$ 415,157</u>	<u>\$ 1,361,839</u>	<u>\$ -</u>	<u>\$ 225,879</u>	<u>\$ 1,587,718</u>
\$ 250	\$ 5,527	\$ 56,954	\$ -	\$ 1,689	\$ 58,643
-	17,250	32,376	-	-	32,376
-	-	8,108	-	-	8,108
-	20,040	20,040	-	-	20,040
-	9,666	9,666	-	-	9,666
<u>250</u>	<u>52,483</u>	<u>127,144</u>	<u>-</u>	<u>1,689</u>	<u>128,833</u>
<u>-</u>	<u>-</u>	<u>60,190</u>	<u>-</u>	<u>-</u>	<u>60,190</u>
69,449	362,674	1,174,505	-	-	1,174,505
-	-	-	-	224,190	224,190
<u>69,449</u>	<u>362,674</u>	<u>1,174,505</u>	<u>-</u>	<u>224,190</u>	<u>1,398,695</u>
<u>\$ 69,699</u>	<u>\$ 415,157</u>	<u>\$ 1,361,839</u>	<u>\$ -</u>	<u>\$ 225,879</u>	<u>\$ 1,587,718</u>

**CITY OF DOUGLAS, ARIZONA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCES
YEAR ENDED JUNE 30, 2013**

	Special Revenue			
	HURF	Grants	Police Grants	LTAF
REVENUES				
Taxes				
Sales Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental Revenues	1,103,680	633,607	224,946	-
Fines and Forfeitures	-	-	-	-
Charges for Services	-	-	-	-
Investment Income	-	2,228	2,878	-
Other	17,245	-	-	-
Total Revenues	<u>1,120,925</u>	<u>635,835</u>	<u>227,824</u>	<u>-</u>
EXPENDITURES				
Current				
General Government	-	8,710	-	-
Public Safety	-	1,989	85,601	-
Highways and Streets	849,311	194,415	-	-
Culture and Recreation	-	882	-	-
Redevelopment and Housing	-	-	-	-
Debt Service				
Principal Retirement	-	-	-	-
Interest on Long-Term Debt	-	-	-	-
Capital Outlay	112,493	314,457	100,245	-
Total Expenditures	<u>961,804</u>	<u>520,453</u>	<u>185,846</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	159,121	115,382	41,978	-
OTHER FINANCING SOURCES (USES)				
Transfers In	211,937	137,354	-	-
Transfers Out	(282,840)	(224,190)	-	(211,937)
Total Other Financing Sources (Uses)	<u>(70,903)</u>	<u>(86,836)</u>	<u>-</u>	<u>(211,937)</u>
Net Change in Fund Balances	88,218	28,546	41,978	(211,937)
FUND BALANCES				
Beginning of Year, As Restated	62,201	274,735	246,704	211,937
End of Year	<u>\$ 150,419</u>	<u>\$ 303,281</u>	<u>\$ 288,682</u>	<u>\$ -</u>

Special Revenue

JCEF Restricted Court	Public Housing	Total Special Revenue	Capital Projects	Debt Service	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 560,802	\$ 560,802
-	889,021	2,851,254	-	-	2,851,254
7,487	-	7,487	-	-	7,487
-	-	-	-	-	-
-	152	5,258	12,295	777	18,330
-	87,005	104,250	63,619	-	167,869
<u>7,487</u>	<u>976,178</u>	<u>2,968,249</u>	<u>75,914</u>	<u>561,579</u>	<u>3,605,742</u>
13,971	-	22,681	-	-	22,681
-	-	87,590	-	-	87,590
-	-	1,043,726	-	-	1,043,726
-	-	882	-	-	882
-	1,035,816	1,035,816	-	-	1,035,816
-	-	-	-	1,159,110	1,159,110
-	-	-	-	499,219	499,219
-	-	527,195	139,075	-	666,270
<u>13,971</u>	<u>1,035,816</u>	<u>2,717,890</u>	<u>139,075</u>	<u>1,658,329</u>	<u>4,515,294</u>
(6,484)	(59,638)	250,359	(63,161)	(1,096,750)	(909,552)
-	-	349,291	-	1,219,860	1,569,151
-	-	(718,967)	(64,099)	-	(783,066)
<u>-</u>	<u>-</u>	<u>(369,676)</u>	<u>(64,099)</u>	<u>1,219,860</u>	<u>786,085</u>
(6,484)	(59,638)	(119,317)	(127,260)	123,110	(123,467)
75,933	422,312	1,293,822	127,260	101,080	1,522,162
<u>\$ 69,449</u>	<u>\$ 362,674</u>	<u>\$ 1,174,505</u>	<u>\$ -</u>	<u>\$ 224,190</u>	<u>\$ 1,398,695</u>

CITY OF DOUGLAS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
HURF FUND
YEAR ENDED JUNE 30, 2013

	Original and Final Budget	Actual	Variance With Final Budget
REVENUES			
Intergovernmental Revenues	\$ 1,178,000	\$ 1,103,680	\$ (74,320)
Other	35,000	17,245	(17,755)
Total Revenues	<u>1,213,000</u>	<u>1,120,925</u>	<u>(92,075)</u>
EXPENDITURES			
Current:			
Highways and Streets	1,003,350	849,311	154,039
Debt Service:			
Principal Retirement	5,000	-	5,000
Capital Outlay	<u>182,980</u>	<u>112,493</u>	<u>70,487</u>
Total Expenditures	<u>1,191,330</u>	<u>961,804</u>	<u>229,526</u>
Excess (Deficiency) of Revenues Over Expenditures	21,670	159,121	137,451
OTHER FINANCING SOURCES (USES)			
Transfers In	175,477	211,937	36,460
Transfers Out	<u>(197,147)</u>	<u>(282,840)</u>	<u>(85,693)</u>
Total Other Financing Sources (Uses)	<u>(21,670)</u>	<u>(70,903)</u>	<u>(49,233)</u>
Net Change in Fund Balance	-	88,218	88,218
FUND BALANCE			
Beginning of Year	-	62,201	62,201
End of Year	<u>\$ -</u>	<u>\$ 150,419</u>	<u>\$ 150,419</u>

CITY OF DOUGLAS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GRANTS FUND
YEAR ENDED JUNE 30, 2013

	Original and Final Budget	Actual	Variance With Final Budget
REVENUES			
Intergovernmental Revenues	\$ 4,089,713	\$ 633,607	\$ (3,456,106)
Investment Income	-	2,228	2,228
Total Revenues	4,089,713	635,835	(3,453,878)
EXPENDITURES			
Current:			
General Government	10,700	8,710	1,990
Public Safety	4,500	1,989	2,511
Highways and Streets	869,117	194,415	674,702
Culture and Recreation	1,000	882	118
Redevelopment and Housing	69,000	-	69,000
Capital Outlay	3,015,091	314,457	2,700,634
Total Expenditures	3,969,408	520,453	3,448,955
Excess (Deficiency) of Revenues Over Expenditures	120,305	115,382	(4,923)
OTHER FINANCING SOURCES (USES)			
Transfers In	94,715	137,354	42,639
Transfers Out	(8,535)	(224,190)	(215,655)
Total Other Financing Sources (Uses)	86,180	(86,836)	(173,016)
Net Change in Fund Balance	206,485	28,546	(177,939)
FUND BALANCE			
Beginning of Year	-	274,735	274,735
End of Year	\$ 206,485	\$ 303,281	\$ 96,796

CITY OF DOUGLAS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
POLICE GRANTS FUND
YEAR ENDED JUNE 30, 2013

	Original and Final Budget	Actual	Variance With Final Budget
REVENUES			
Intergovernmental Revenues	\$ 155,000	\$ 224,946	\$ 69,946
Investment Income	-	2,878	2,878
Total Revenues	<u>155,000</u>	<u>227,824</u>	<u>72,824</u>
EXPENDITURES			
Current			
Public Safety	55,000	85,601	(30,601)
Capital Outlay	<u>100,000</u>	<u>100,245</u>	<u>(245)</u>
Total Expenditures	<u>155,000</u>	<u>185,846</u>	<u>(30,846)</u>
Excess (Deficiency) of Revenues Over Expenditures	-	41,978	41,978
FUND BALANCE			
Beginning of Year	-	246,704	246,704
End of Year	<u>\$ -</u>	<u>\$ 288,682</u>	<u>\$ 288,682</u>

CITY OF DOUGLAS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
JCEF FUND
YEAR ENDED JUNE 30, 2013

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
REVENUES			
Fines and Forfeits	\$ 10,500	\$ 7,487	\$ (3,013)
EXPENDITURES			
Current:			
General Government	<u>18,560</u>	<u>13,971</u>	<u>4,589</u>
Excess (Deficiency) of Revenues Over Expenditures	(8,060)	(6,484)	1,576
FUND BALANCE			
Beginning of Year	-	75,933	75,933
End of Year	<u>\$ (8,060)</u>	<u>\$ 69,449</u>	<u>\$ 77,509</u>

CITY OF DOUGLAS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2013

	Original and Final Budget	Actual	Variance With Final Budget
REVENUES			
Taxes	\$ 671,987	\$ 560,802	\$ (111,185)
Investment Earnings	1,500	777	(723)
Total Revenues	673,487	561,579	(111,908)
EXPENDITURES			
Debt Service:			
Principal Retirement	1,162,246	1,159,110	3,136
Interest on Long-Term Debt	508,871	499,219	9,652
Total Expenditures	1,671,117	1,658,329	12,788
Excess (Deficiency) of Revenues Over Expenditures	(997,630)	(1,096,750)	(99,120)
OTHER FINANCING SOURCES (USES)			
Transfers In	1,158,134	1,219,860	61,726
Net Change in Fund Balance	160,504	123,110	(37,394)
FUND BALANCE			
Beginning of Year	-	101,080	101,080
End of Year	\$ 160,504	\$ 224,190	\$ 63,686

STATISTICAL SECTION (UNAUDITED)

This section of the City of Douglas, Arizona's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Financial Trends

These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the government's most significant local revenue source, sales tax.

Debt Capacity

These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.

See the table of contents for page numbers of the schedules that encompass the above sections.

**CITY OF DOUGLAS, ARIZONA
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)**

	Fiscal Year			
	2004	2005	2006	2007
Governmental Activities:				
Net Investment in Capital Assets	\$ 4,663,850	\$ 5,862,693	\$ 6,617,585	\$ 14,111,791
Restricted	2,762,253	3,233,910	3,008,022	2,756,736
Unrestricted	3,445,457	3,376,539	3,586,626	3,951,726
Total Governmental Activities Net Position	<u>\$ 10,871,560</u>	<u>\$ 12,473,142</u>	<u>\$ 13,212,233</u>	<u>\$ 20,820,253</u>
Business-Type Activities:				
Net Investment in Capital Assets	\$ 11,497,904	\$ 11,354,586	\$ 11,052,102	\$ 11,744,198
Restricted	-	-	-	-
Unrestricted	1,910,464	1,885,932	2,010,602	1,586,749
Total Business-Type Activities Net Position	<u>\$ 13,408,368</u>	<u>\$ 13,240,518</u>	<u>\$ 13,062,704</u>	<u>\$ 13,330,947</u>
Primary Government:				
Net Investment in Capital Assets	\$ 16,161,754	\$ 17,217,279	\$ 17,669,687	\$ 25,855,989
Restricted	2,762,253	3,233,910	3,008,022	2,756,736
Unrestricted	5,355,921	5,262,471	5,597,228	5,538,475
Total Primary Government Net Position	<u>\$ 24,279,928</u>	<u>\$ 25,713,660</u>	<u>\$ 26,274,937</u>	<u>\$ 34,151,200</u>

Source: The City's Finance Department.

Fiscal Year					
2008	2009	2010	2011	2012	2013
\$ 13,509,453	\$ 12,376,658	\$ 13,775,501	\$ 15,847,448	\$ 20,735,227	\$ 20,087,841
2,939,323	3,634,763	477,084	719,796	871,510	1,234,695
3,491,020	5,438,330	7,049,956	3,938,127	3,923,990	3,991,132
<u>\$ 19,939,796</u>	<u>\$ 21,449,751</u>	<u>\$ 21,302,541</u>	<u>\$ 20,505,371</u>	<u>\$ 25,530,727</u>	<u>\$ 25,313,668</u>
\$ 12,314,881	\$ 15,535,124	\$ 15,872,761	\$ 16,048,928	\$ 15,921,451	\$ 16,866,077
-	-	-	-	-	443,520
1,815,909	1,006,658	1,205,402	2,100,001	3,880,161	3,685,177
<u>\$ 14,130,790</u>	<u>\$ 16,541,782</u>	<u>\$ 17,078,163</u>	<u>\$ 18,148,929</u>	<u>\$ 19,801,612</u>	<u>\$ 20,994,774</u>
\$ 25,824,334	\$ 27,911,782	\$ 29,648,262	\$ 31,896,376	\$ 36,656,678	\$ 36,953,918
2,939,323	3,634,763	477,084	719,796	871,510	1,678,215
5,306,929	6,444,988	8,255,358	6,038,128	7,804,151	7,676,309
<u>\$ 34,070,586</u>	<u>\$ 37,991,533</u>	<u>\$ 38,380,704</u>	<u>\$ 38,654,300</u>	<u>\$ 45,332,339</u>	<u>\$ 46,308,442</u>

**CITY OF DOUGLAS, ARIZONA
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)**

	Fiscal Year			
	2004	2005	2006	2007
EXPENSES				
Governmental Activities:				
General Government	\$ 2,446,006	\$ 2,989,561	\$ 3,406,989	\$ 3,725,063
Public Safety	4,840,034	4,985,627	5,720,526	6,043,744
Highways and Streets	1,794,385	2,144,672	2,938,401	2,271,480
Culture and Recreation	1,676,356	1,792,405	1,771,149	1,983,227
Redevelopment and Housing	202,831	20,744	281,392	25,159
Interest on Long-Term Debt	227,622	186,596	165,418	159,577
Total Governmental Activities	<u>11,187,234</u>	<u>12,119,605</u>	<u>14,283,875</u>	<u>14,208,250</u>
Business-Type Activities:				
Water	1,649,980	1,758,738	1,774,516	1,838,462
Sewer	808,261	902,247	861,899	938,588
Solid Waste	659,918	814,419	842,263	872,341
Total Business-Type Activities	<u>3,118,159</u>	<u>3,475,404</u>	<u>3,478,678</u>	<u>3,649,391</u>
 Total Primary Government Expenses	 <u>\$ 14,305,393</u>	 <u>\$ 15,595,009</u>	 <u>\$ 17,762,553</u>	 <u>\$ 17,857,641</u>
PROGRAM REVENUES				
Governmental Activities:				
Fines, Fees and Charges for Services:				
General Government	\$ 1,636,724	\$ 1,334,218	\$ 1,359,062	\$ 1,031,216
Public Safety	598,003	556,022	586,562	591,610
Highways and Streets	-	2,750	3,256	62
Culture and Recreation	104,814	157,660	104,169	102,689
Redevelopment and Housing	-	-	-	-
Operating Grants and Contributions	2,628,305	1,826,751	2,326,620	2,428,909
Capital Grants and Contributions	1,982,658	809,180	555,531	651,377
Total Governmental Activities	<u>6,950,504</u>	<u>4,686,581</u>	<u>4,935,200</u>	<u>4,805,863</u>
Program Revenues	<u>6,950,504</u>	<u>4,686,581</u>	<u>4,935,200</u>	<u>4,805,863</u>
Business-Type Activities:				
Charges for Services:				
Water	1,673,639	1,586,261	1,597,155	1,618,744
Sewer	912,736	903,830	911,694	916,597
Solid Waste	662,740	673,965	643,107	667,241
Operating Grants and Contributions	-	-	-	-
Capital Grants and Contributions	-	-	86,803	580,433
Total Business-Type Activities	<u>3,249,115</u>	<u>3,164,056</u>	<u>3,238,759</u>	<u>3,783,015</u>
Program Revenues	<u>3,249,115</u>	<u>3,164,056</u>	<u>3,238,759</u>	<u>3,783,015</u>
 Total Primary Government Program Revenues	 <u>\$ 10,199,619</u>	 <u>\$ 7,850,637</u>	 <u>\$ 8,173,959</u>	 <u>\$ 8,588,878</u>

Source: The City's Finance Department.

Fiscal Year

2008	2009	2010	2011	2012	2013
\$ 4,340,737	\$ 3,999,501	\$ 4,639,733	\$ 5,121,084	\$ 4,840,153	\$ 4,989,484
6,348,866	6,604,306	6,715,219	6,700,135	7,186,954	7,799,983
1,760,251	2,702,979	2,970,829	2,773,973	2,555,331	2,605,395
2,189,769	2,074,291	1,986,674	1,936,579	1,827,388	1,868,116
132,857	497,600	53,973	51,599	-	1,041,957
180,077	727,564	760,128	704,510	664,519	579,592
<u>14,952,557</u>	<u>16,606,241</u>	<u>17,126,556</u>	<u>17,287,880</u>	<u>17,074,345</u>	<u>18,884,527</u>
1,455,706	1,344,052	1,261,985	1,367,914	1,698,669	1,666,863
952,579	1,385,910	1,337,193	1,320,648	1,313,976	1,310,421
891,003	707,042	716,047	755,546	765,647	785,788
<u>3,299,288</u>	<u>3,437,004</u>	<u>3,315,225</u>	<u>3,444,108</u>	<u>3,778,292</u>	<u>3,763,072</u>
<u>\$ 18,251,845</u>	<u>\$ 20,043,245</u>	<u>\$ 20,441,781</u>	<u>\$ 20,731,988</u>	<u>\$ 20,852,637</u>	<u>\$ 22,647,599</u>
\$ 939,208	\$ 1,387,975	\$ 1,766,509	\$ 1,728,090	\$ 2,035,725	\$ 1,825,479
642,820	760,669	669,040	972,724	924,788	895,111
2,834	-	-	-	-	-
97,949	98,174	90,033	173,836	73,255	89,531
-	-	-	-	-	-
2,293,564	1,818,551	2,128,442	2,303,776	2,193,829	3,340,827
589,152	1,765,876	902,228	951,180	5,622,718	1,000,170
<u>4,565,527</u>	<u>5,831,245</u>	<u>5,556,252</u>	<u>6,129,606</u>	<u>10,850,315</u>	<u>7,151,118</u>
1,749,040	1,782,320	1,870,916	1,965,519	2,000,402	2,025,752
924,045	909,842	1,042,152	1,703,223	1,796,248	1,835,771
668,023	816,038	1,056,305	1,203,563	1,237,449	1,205,675
-	-	-	-	592,435	8,196
110,274	2,373,486	-	-	274,140	19,578
<u>3,451,382</u>	<u>5,881,686</u>	<u>3,969,373</u>	<u>4,872,305</u>	<u>5,900,674</u>	<u>5,094,972</u>
<u>\$ 8,016,909</u>	<u>\$ 11,712,931</u>	<u>\$ 9,525,625</u>	<u>\$ 11,001,911</u>	<u>\$ 16,750,989</u>	<u>\$ 12,246,090</u>

CITY OF DOUGLAS, ARIZONA
CHANGES IN NET POSITION (CONTINUED)
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)

(Concluded)	Fiscal Year			
	2004	2005	2006	2007
NET (EXPENSE)/REVENUE				
Governmental Activities	\$ (4,236,730)	\$ (7,433,024)	\$ (9,348,675)	\$ (9,402,387)
Business-Type Activities	130,956	(311,348)	(239,919)	133,624
Total Primary Government Net Expense	\$ (4,105,774)	\$ (7,744,372)	\$ (9,588,594)	\$ (9,268,763)
GENERAL REVENUES AND OTHER CHANGES IN NET POSITION				
Governmental Activities:				
Taxes:				
Sales Taxes	\$ 4,432,493	\$ 4,390,874	\$ 4,740,475	\$ 5,006,857
Property Taxes	369,912	410,706	448,571	465,726
Franchise Taxes	242,164	253,182	261,809	322,308
Unrestricted Grants and Contributions	2,901,935	3,089,912	-	-
State Revenue Sharing	-	-	1,765,690	2,002,854
State Sales Tax Revenue Sharing	-	-	1,729,948	1,634,497
Auto Lieu Tax Revenue Sharing	-	-	791,931	789,900
Payments in Lieu of Taxes	685,970	713,727	-	-
Gain (Loss) on Sale of Capital Assets	-	-	-	-
Investment Income	202,299	170,524	229,305	311,744
Other	992	25	1,802	1,119
Transfers	67,064	5,656	118,235	63,387
Total Governmental Activities	8,902,829	9,034,606	10,087,766	10,598,392
Business-Type Activities:				
Sales Tax	91,380	98,995	91,380	91,380
Investment Income (Loss)	24,975	50,159	88,960	106,626
Transfers	(67,064)	(5,656)	(118,235)	(63,387)
Total Business-Type Activities	49,291	143,498	62,105	134,619
Total Primary Government	\$ 8,952,120	\$ 9,178,104	\$ 10,149,871	\$ 10,733,011
CHANGE IN NET POSITION				
Governmental Activities	\$ 4,666,099	\$ 1,601,582	\$ 739,091	\$ 1,196,005
Business-Type Activities	180,247	(167,850)	(177,814)	268,243
Total Primary Government	\$ 4,846,346	\$ 1,433,732	\$ 561,277	\$ 1,464,248

Source: The City's Finance Department.

Fiscal Year

2008	2009	2010	2011	2012	2013
\$ (10,387,030)	\$ (10,774,996)	\$ (11,570,304)	\$ (11,158,274)	\$ (6,224,030)	\$ (11,733,409)
152,094	2,444,682	654,148	1,428,197	2,122,382	1,331,900
<u>\$ (10,234,936)</u>	<u>\$ (8,330,314)</u>	<u>\$ (10,916,156)</u>	<u>\$ (9,730,077)</u>	<u>\$ (4,101,648)</u>	<u>\$ (10,401,509)</u>
\$ 5,095,143	\$ 6,151,531	\$ 5,808,108	\$ 5,953,998	\$ 5,825,402	\$ 5,364,312
462,232	532,028	531,489	545,995	533,742	563,698
349,444	341,702	351,635	337,029	334,074	314,080
49,612	18,467	30,274	39,082	42,590	70,074
2,448,141	2,608,244	2,245,322	1,687,895	1,466,716	1,775,125
1,580,288	1,368,088	1,261,862	1,316,667	1,357,922	1,419,048
845,030	793,358	732,787	762,824	803,452	757,402
-	-	-	-	-	-
-	-	-	-	6,769	-
280,685	16,212	107,495	67,493	44,626	39,423
1,697	322,889	238,124	258,705	356,342	596,739
(323,514)	132,432	115,998	358,411	477,751	162,208
<u>10,788,758</u>	<u>12,284,951</u>	<u>11,423,094</u>	<u>11,328,099</u>	<u>11,249,386</u>	<u>11,062,109</u>
224,968	77,114	-	-	-	-
99,267	21,628	(1,769)	980	8,052	23,470
323,514	(132,432)	(115,998)	(358,411)	(477,751)	(162,208)
<u>647,749</u>	<u>(33,690)</u>	<u>(117,767)</u>	<u>(357,431)</u>	<u>(469,699)</u>	<u>(138,738)</u>
<u>\$ 11,436,507</u>	<u>\$ 12,251,261</u>	<u>\$ 11,305,327</u>	<u>\$ 10,970,668</u>	<u>\$ 10,779,687</u>	<u>\$ 10,923,371</u>
\$ 401,728	\$ 1,509,955	\$ (147,210)	\$ 169,825	\$ 5,025,356	\$ (671,300)
799,843	2,410,992	536,381	1,070,766	1,652,683	1,193,162
<u>\$ 1,201,571</u>	<u>\$ 3,920,947</u>	<u>\$ 389,171</u>	<u>\$ 1,240,591</u>	<u>\$ 6,678,039</u>	<u>\$ 521,862</u>

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**CITY OF DOUGLAS, ARIZONA
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)**

<u>Fiscal Year</u>	<u>Sales Taxes</u>	<u>Property Taxes</u>	<u>Franchise Taxes</u>	<u>Total</u>
2004	\$ 4,432,493	\$ 330,022	\$ 242,164	\$ 5,004,679
2005	4,390,874	416,850	253,182	5,060,906
2006	4,740,475	448,571	261,809	5,450,855
2007	5,006,857	465,726	322,308	5,794,891
2008	5,095,143	462,232	349,444	5,906,819
2009	6,228,645	532,028	341,702	7,102,375
2010	5,808,108	531,489	351,635	6,691,232
2011	5,953,998	545,995	337,029	6,837,022
2012	5,825,402	533,742	334,074	6,693,218
2013	5,364,312	563,698	314,080	6,242,090

Source: The City's Finance Department.

CITY OF DOUGLAS, ARIZONA
FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)

	Fiscal Year				
	2004	2005	2006	2007	2008
General Fund:					
Reserved	\$ 60,472	\$ 1,285	\$ -	\$ 5,878	\$ 78,239
Unreserved	3,035,409	3,328,604	3,788,373	4,076,080	3,735,584
Non-spendable	-	-	-	-	-
Unassigned	-	-	-	-	-
Total General Fund	<u>\$ 3,095,881</u>	<u>\$ 3,329,889</u>	<u>\$ 3,788,373</u>	<u>\$ 4,081,958</u>	<u>\$ 3,813,823</u>
All Other Governmental Funds:					
Reserved	\$ 14,780	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
Unreserved, Reported in:					
Special Revenue Funds	2,733,028	2,897,657	2,597,332	2,643,920	4,854,098
Capital Projects Funds	14,445	15,184	-	3,143	(68,512)
Debt Service Funds	-	-	300	-	-
Restricted	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
Total All Other Governmental Funds	<u>\$ 2,762,253</u>	<u>\$ 2,922,841</u>	<u>\$ 2,607,632</u>	<u>\$ 2,657,063</u>	<u>\$ 4,795,586</u>

Source: The City's Finance Department.

Note 1: The City implemented the provisions of GASB Statement No. 54 in the fiscal year 2011, which required fund balances to be reported in different categories.

Fiscal Year				
2009	2010	2011	2012	2013
\$ 68,239	\$ -	\$ -	\$ -	\$ -
3,962,160	4,174,438	-	-	-
-	-	58,493	652,189	686,488
-	-	4,683,978	4,108,952	4,260,979
<u>\$ 4,030,399</u>	<u>\$ 4,174,438</u>	<u>\$ 4,742,471</u>	<u>\$ 4,761,141</u>	<u>\$ 4,947,467</u>
\$ 10,000	\$ 15,453	\$ -	\$ -	\$ -
5,335,420	4,065,860	-	-	-
(7,499)	-	-	-	-
-	-	-	-	-
-	-	2,220,530	871,510	1,174,505
-	-	-	228,340	224,190
-	-	(29,857)	-	-
<u>\$ 5,337,921</u>	<u>\$ 4,081,313</u>	<u>\$ 2,190,673</u>	<u>\$ 1,099,850</u>	<u>\$ 1,398,695</u>

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

	Fiscal Year			
	2004	2005	2006	2007
REVENUES				
Taxes	\$ 5,004,679	\$ 5,060,906	\$ 5,464,419	\$ 5,782,276
Intergovernmental	6,773,955	6,439,570	7,169,720	7,507,537
Fines and Forfeitures	177,795	206,150	185,754	199,420
Licenses and Permits	318,126	223,484	262,858	270,278
Charges for Services	834,821	972,483	1,040,529	1,012,858
Rents and Royalties	-	-	45,000	45,000
Special Assessments	15,600	18,000	-	-
Investment Income	202,299	170,524	229,305	311,744
Other	262,423	681,111	661,749	324,140
Total Revenues	<u>13,589,698</u>	<u>13,772,228</u>	<u>15,059,334</u>	<u>15,453,253</u>
EXPENDITURES				
General Government	2,381,289	3,579,484	3,477,225	3,801,423
Public Safety	5,047,690	4,989,254	5,764,769	5,992,153
Highways and Streets	2,135,963	2,700,498	3,166,478	2,551,227
Culture and Recreation	1,486,634	1,671,445	1,767,630	2,266,214
Redevelopment and Housing	202,831	20,744	281,392	25,159
Capital Outlay	489,038	-	38,999	-
Debt Service				
Principal Retirement	304,083	390,742	413,349	418,837
Interest on Long-Term Debt	207,138	145,630	124,452	118,611
Issuance Costs	137,176	-	-	-
Total Expenditures	<u>12,391,842</u>	<u>13,497,797</u>	<u>15,034,294</u>	<u>15,173,624</u>
Excess of Revenues				
Over (Under) Expenditures	1,197,856	274,431	25,040	279,629
OTHER FINANCING SOURCES				
(USES)				
Transfers In	833,301	1,161,277	1,374,466	1,380,037
Transfers Out	(766,237)	(1,155,621)	(1,256,231)	(1,316,650)
Issuance of Refunding Debt	4,134,181	-	-	-
Issuance of Long-Term Debt	-	-	-	-
Payment to Refunded Debt				
Escrow agent	(4,037,620)	-	-	-
Proceeds from Capital Leases	-	114,509	-	-
Proceeds from Sale of Capital Assets	-	-	-	-
Total Other Financing Sources (Uses)	<u>163,625</u>	<u>120,165</u>	<u>118,235</u>	<u>63,387</u>
Net Change in Fund Balance	<u>\$ 1,361,481</u>	<u>\$ 394,596</u>	<u>\$ 143,275</u>	<u>\$ 343,016</u>
Debt Service as a Percentage of Noncapital Expenditures	5.45%	3.97%	3.59%	3.54%

Source: The City's Finance Department.

Fiscal Year

	2008	2009	2010	2011	2012	2013
\$	5,914,743	\$ 7,012,223	\$ 6,689,354	\$ 6,831,876	\$ 6,707,653	\$ 6,234,848
	7,805,787	8,372,584	7,184,648	7,083,337	6,783,653	8,031,863
	141,232	195,644	189,333	201,361	319,294	273,475
	169,697	126,224	192,309	172,602	196,385	162,571
	1,059,989	1,386,022	1,410,391	1,745,359	1,759,653	1,605,657
	36,000	538,928	733,549	755,328	758,436	768,418
	-	-	-	-	-	-
	280,685	16,212	107,495	67,493	44,626	39,423
	307,449	322,889	238,124	258,705	356,342	596,739
	<u>15,715,582</u>	<u>17,970,726</u>	<u>16,745,203</u>	<u>17,116,061</u>	<u>16,926,042</u>	<u>17,712,994</u>
	5,169,854	13,462,021	3,961,316	3,910,726	3,555,255	3,469,997
	6,078,350	6,579,669	6,554,551	6,275,426	6,709,042	7,139,134
	2,413,444	2,626,696	2,660,654	1,975,991	2,093,297	1,779,871
	1,863,014	1,750,997	1,513,127	1,409,501	1,361,590	1,407,089
	132,857	497,600	53,973	51,599	-	1,035,816
	896,225	817,482	728,862	2,007,704	2,620,504	2,007,665
	429,669	656,965	2,228,723	1,611,006	1,636,402	1,627,585
	133,267	686,598	719,162	663,544	623,553	551,097
	-	-	-	-	-	-
	<u>17,116,680</u>	<u>27,078,028</u>	<u>18,420,368</u>	<u>17,905,497</u>	<u>18,599,643</u>	<u>19,018,254</u>
	(1,401,098)	(9,107,302)	(1,675,165)	(789,436)	(1,673,601)	(1,305,260)
	1,553,137	1,020,458	1,303,871	2,837,907	2,923,356	2,480,730
	(1,876,651)	(888,026)	(1,002,494)	(2,479,496)	(2,445,605)	(2,318,522)
	-	-	-	-	-	-
	3,000,000	9,000,000	400,000	-	-	-
	-	-	-	-	-	-
	595,000	595,000	-	75,413	71,676	1,205,911
	-	-	-	-	52,021	-
	<u>3,271,486</u>	<u>9,727,432</u>	<u>701,377</u>	<u>433,824</u>	<u>601,448</u>	<u>1,368,119</u>
\$	<u>1,870,388</u>	<u>\$ 620,130</u>	<u>\$ (973,788)</u>	<u>\$ (355,612)</u>	<u>\$ (1,072,153)</u>	<u>\$ 62,859</u>
	4.05%	9.80%	18.09%	14.02%	14.27%	12.65%

**CITY OF DOUGLAS, ARIZONA
TAXABLE SALES BY CATEGORY
LAST TEN FISCAL YEARS
(UNAUDITED)**

Sales Category:	Fiscal Year			
	2004	2005	2006	2007
Mining	\$ 505,885	\$ 788,852	\$ 499,539	\$ 466,247
Communications and Utilities	9,284,375	9,522,557	10,008,146	15,039,614
Transportation & Warehousing	144,228	118,643	47,034	40,313
Construction	17,584,695	5,509,385	9,952,326	8,593,952
Manufacturing	3,070,108	3,669,492	3,246,085	3,375,254
Wholesale Trade	4,388,768	3,853,589	4,063,304	3,994,393
Retail Trade	120,347,438	133,948,362	141,390,374	145,310,162
Finance and Insurance	211,112	105,986	94,754	84,995
Real Estate, Rental and Leases	5,319,960	5,231,069	7,666,144	6,656,980
Restaurants and Bars	12,705,315	11,927,045	12,864,527	12,923,634
Accommodations	2,237,920	1,971,777	2,286,598	2,600,819
Public Administration	626	241,021	130,215	108,890
Services	2,571,763	1,851,152	1,785,624	2,714,689
Arts & Entertainment	8,912	15,673	23,100	8,285
Other	2,432,757	2,417,236	2,393,080	2,532,122
Total	\$ 180,813,862	\$ 181,171,839	\$ 196,450,850	\$ 204,450,349
City Sales Tax Rate	2.50%	2.50%	2.50%	2.50%

Source: Arizona Department of Revenue.

Fiscal Year

2008	2009	2010	2011	2012	2013
\$ 510,450	\$ 2,318,215	\$ 2,318,215	\$ 301,452	\$ 6,606	\$ 4,715
23,876,918	22,195,363	22,195,363	23,550,249	21,998,591	20,996,222
15,283	48,456	48,456	66,060	36,614	34,024
7,578,438	15,965,933	15,965,933	19,963,998	18,615,619	4,980,458
4,144,993	3,945,094	3,945,094	986,650	-	-
4,093,177	3,884,491	3,884,491	1,226,017	-	-
146,386,134	144,710,942	144,710,942	147,664,164	136,449,566	137,243,931
194,035	93,629	93,629	33,753	-	-
5,664,318	6,249,386	6,249,386	8,690,896	8,369,967	7,812,435
12,932,385	12,500,240	12,500,240	14,153,836	15,215,328	14,682,935
2,277,339	2,363,017	2,363,017	3,652,951	4,552,670	3,855,249
100,106	294,021	294,021	-	-	-
3,342,416	3,242,519	3,242,519	1,018,073	1,224,696	1,152,749
-	56,562	56,562	410,600	758,552	642,019
3,121,725	2,921,447	2,921,447	2,599,103	276,830	196,727
<u>\$ 214,237,717</u>	<u>\$ 220,789,315</u>	<u>\$ 220,789,315</u>	<u>\$ 224,317,802</u>	<u>\$ 207,505,039</u>	<u>\$ 191,601,464</u>
2.50%	2.50%	2.80%	2.80%	2.80%	2.80%

**CITY OF DOUGLAS, ARIZONA
DIRECT AND OVERLAPPING SALES TAX RATES
LAST TEN FISCAL YEARS
(UNAUDITED)**

<u>Fiscal Year</u>	<u>City Direct Rate</u>	<u>Cochise County</u>
2004	2.50 %	6.10 %
2005	2.50	6.10
2006	2.50	6.10
2007	2.50	6.10
2008	2.50	6.10
2009	2.80	6.10
2010	2.80	6.10
2011	2.80	7.10
2012	2.80	7.10
2013	2.80	6.10

Source: Arizona Department of Revenue.

CITY OF DOUGLAS, ARIZONA
ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS
(IN THOUSANDS OF DOLLARS)
(UNAUDITED)

Fiscal Year	Assessed Value			Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
	Real Property	Personal Property	Less: Tax Exempt Real Property				
2004	\$ 37,278	\$ 3,473	\$ 4,207	\$ 36,544	11.20	\$ 439,875	8.308%
2005	39,514	5,087	4,443	40,158	11.15	444,275	9.039
2006	41,500	4,385	4,466	41,419	10.70	448,500	9.235
2007	54,948	2,925	5,980	51,893	8.70	459,832	11.285
2008	55,520	1,506	4,205	52,821	8.87	462,040	11.432
2009	58,804	4,848	6,625	57,027	10.55	470,911	12.110
2010	58,950	4,728	7,328	56,350	13.07	478,320	11.781
2011	62,801	4,254	9,278	57,777	8.23	509,351	11.343
2012	61,660	3,936	9,408	56,188	8.36	505,672	11.112
2013	60,730	3,905	9,743	54,892	7.21	499,781	10.983

Source: The Cochise County Treasurer.

**CITY OF DOUGLAS, ARIZONA
PROPERTY TAX RATES
DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS
(UNAUDITED)**

Fiscal Year	Primary Rates					Secondary Rates		Rate Total
	City of Douglas	Cochise County	Cochise County Community College	Douglas Unified School District	Total Direct Rate	School District	County	
2004	1.09	3.39	1.79	4.93	11.20	1.90	0.51	13.61
2005	1.09	2.94	1.79	5.33	11.15	0.83	0.51	12.49
2006	1.05	2.92	1.79	4.94	10.70	1.58	0.51	12.79
2007	0.99	2.87	1.74	3.10	8.70	1.72	0.40	10.82
2008	1.02	2.68	1.66	3.51	8.87	1.78	0.40	11.05
2009	1.00	2.64	1.61	5.30	10.55	0.96	0.40	11.91
2010	0.98	2.63	1.60	7.86	13.07	1.07	0.34	14.48
2011	0.98	2.63	1.67	2.95	8.23	0.87	0.45	9.55
2012	1.05	2.63	1.73	2.95	8.36	0.53	0.55	9.44
2013	1.08	2.63	1.85	1.65	7.21	0.86	0.55	8.62

Source: The Cochise County Treasurer.

**CITY OF DOUGLAS, ARIZONA
 PRINCIPAL PROPERTY TAXPAYERS
 JUNE 30, 2013 AND 2004
 (UNAUDITED)**

Taxpayer	2013			2004		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Wal-Mart	\$ 2,162,111	1	3.94 %	\$ 1,136,367	2	3.05 %
Southwest Gas Corporation	440,761	2	0.80	771,078	5	2.07
SFP Pool Five Shopping Center	465,790	3	0.85	-	-	-
Safeway Inc.	518,204	4	0.94	810,682	4	2.18
Qwest Corporation	450,539	5	0.82	955,884	3	2.57
Phelps Dodge Corporation	612,035	6	1.11	290,846	9	0.78
J C Penney Co Inc	332,280	7	0.61	461,917	6	1.24
G6 Hospitality Property LLC	278,889	8	0.51	-	-	-
Douglas Customs LLC	392,261	9	0.71	-	-	-
DHD LLC	618,852	10	1.13	-	-	-
Arizona Public Service	-	-	-	1,540,039	1	4.13
Accotel Properties Investors LLC	-	-	-	296,952	8	0.80
Newhall Douglas LTD PRT	-	-	-	300,233	7	0.81
Borane Ronald J and Rona JT Rev T	-	-	-	246,543	10	0.66
	<u>\$ 6,271,722</u>		11.43 %	<u>\$ 6,810,541</u>		18.28 %

Source: The Cochise County Assessor's Office.

**CITY OF DOUGLAS, ARIZONA
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(UNAUDITED)**

<u>Fiscal Year</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections</u>	<u>Percent of Current Taxes Collected</u>	<u>Delinquent Tax Collections</u>	<u>Total Tax Collections</u>	<u>Ratio of Total Tax Collections to Total Tax Levy</u>
2004	\$ 387,160	\$ 359,258	92.79 %	\$ 27,902	\$ 387,160	100.00 %
2005	399,279	242,065	60.63	156,777	398,842	99.89
2006	442,229	411,452	93.04	29,834	441,286	99.79
2007	468,748	423,146	90.27	44,386	467,532	99.74
2008	485,584	440,446	90.70	43,886	484,332	99.74
2009	542,878	489,507	90.17	50,200	539,707	99.42
2010	546,719	477,007	87.25	66,030	543,037	99.33
2011	555,804	504,613	90.79	46,936	551,549	99.23
2012	538,029	490,427	91.15	41,393	531,820	98.85
2013	552,411	501,212	90.73	-	501,212	90.73

Source: The Cochise County Treasurer.

Outstanding Delinquent Taxes	Ratio of Delinquent Taxes to Tax Levy
\$ -	- %
437	0.11
943	0.21
1,216	0.26
1,252	0.26
3,171	0.58
3,682	0.67
4,255	0.77
6,209	1.15
51,199	9.27

CITY OF DOUGLAS, ARIZONA
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year	Governmental Activities			Business-Type Activities		Total Primary Government	Percentage of Personal Income	Per Capita
	Revenue Bonds	Loans Payable	Capital Leases	Loans Payable	Capital Leases			
2004	\$ 4,435,000	\$ -	\$ 785,356	\$ -	\$ 341,697	\$ 5,562,053	2.93 %	\$ 327
2005	4,095,000	-	771,477	-	258,035	5,124,512	2.31	298
2006	3,735,000	-	623,828	-	314,761	4,673,589	1.99	268
2007	3,370,000	-	483,879	-	198,842	4,052,721	1.57	220
2008	2,995,000	3,000,000	947,738	-	109,353	7,052,091	2.73	371
2009	2,605,000	12,000,000	1,275,773	-	61,716	15,942,489	5.65	862
2010	2,205,000	10,890,000	957,050	3,239,489	31,626	17,323,165	5.62	864
2011	1,790,000	10,025,000	701,457	5,857,703	-	18,374,160	6.24	913
2012	1,365,000	9,155,000	431,731	5,928,449	-	16,880,180	6.44	854
2013	920,800	8,260,000	1,345,057	5,457,668	263,551	16,247,076	7.15	935

Source: The City's Finance Department.

CITY OF DOUGLAS, ARIZONA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
JUNE 30, 2013
(UNAUDITED)

Governmental Unit	Outstanding Debt	Estimated Percentage Applicable (1)	Estimated Share of Overlapping Debt
Debt Repaid with Property Taxes			
Cochise County	\$ 3,165,000	5.54%	\$ 175,183
Cochise County Community College District	21,195,000	5.54%	1,173,143
Douglas Unified School District No. 27	6,785,000	100.00%	<u>6,785,000</u>
Subtotal, Overlapping Debt			<u>8,133,326</u>
City of Douglas, Arizona direct debt	10,525,857	100.00%	<u>10,525,857</u>
Total Direct and Overlapping Debt			<u><u>\$ 18,659,183</u></u>

Source: Cochise County Treasurer's Office.

(1) Proportion applicable to the City of Douglas, Arizona, is computed on the ratio of secondary assessed valuation for 2012-13.

**CITY OF DOUGLAS, ARIZONA
 LEGAL DEBT MARGIN INFORMATION
 LAST TEN FISCAL YEARS
 (UNAUDITED)**

	Fiscal Year				
	2004	2005	2006	2007	2008
20% Debt Limit	\$ 7,173,258	\$ 7,442,536	\$ 8,283,788	\$ 9,938,245	\$ 10,378,721
Total Applicable to Limit	-	-	-	-	-
Legal Debt Margin	<u>\$ 7,173,258</u>	<u>\$ 7,442,536</u>	<u>\$ 8,283,788</u>	<u>\$ 9,938,245</u>	<u>\$ 10,378,721</u>
Total Net Debt Applicable to the Limit as a Percentage of the Debt Limit	-	-	-	-	-

	Fiscal Year				
	2004	2005	2006	2007	2008
6% Debt Limit	\$ 2,151,977	\$ 2,232,761	\$ 2,485,137	\$ 2,981,474	\$ 3,113,616
Total Applicable to Limit	-	-	-	-	-
Legal Debt Margin	<u>\$ 2,151,977</u>	<u>\$ 2,232,761</u>	<u>\$ 2,485,137</u>	<u>\$ 2,981,474</u>	<u>\$ 3,113,616</u>
Total Net Debt Applicable to the Limit as a Percentage of the Debt Limit	-	-	-	-	-

Source: The City's Finance Department and the Cochise County Assessor's Office.

Fiscal Year				
2009	2010	2011	2012	2013
\$ 10,890,226	\$ 11,240,800	\$ 11,387,094	\$ 11,237,561	\$ 10,978,476
-	-	-	-	-
<u>\$ 10,890,226</u>	<u>\$ 11,240,800</u>	<u>\$ 11,387,094</u>	<u>\$ 11,237,561</u>	<u>\$ 10,978,476</u>

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Fiscal Year				
2009	2010	2011	2012	2013
\$ 3,267,068	\$ 3,372,240	\$ 3,416,128	\$ 3,371,268	\$ 3,293,543
-	-	-	-	-
<u>\$ 3,267,068</u>	<u>\$ 3,372,240</u>	<u>\$ 3,416,128</u>	<u>\$ 3,371,268</u>	<u>\$ 3,293,543</u>

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CITY OF DOUGLAS, ARIZONA
CALCULATION OF LEGAL DEBT MARGIN
JUNE 30, 2013
(UNAUDITED)

Net Secondary Assessed Value		<u>\$ 54,892,380</u>
<u>Water, Sewer, Light, Parks, Open Space and Recreational Facility Bonds</u>		
Debt Limit - 20% of Net Secondary Assessed Value		10,978,476
Debt Applicable to Limit		
General Obligation Bonds Outstanding	\$ -	
Less: Amount Set Aside for Repayment of Debt	-	
Net Debt Applicable to Limit	<u>-</u>	<u>-</u>
20% Legal Debt Margin		<u>10,978,476</u>
<u>All Other General Obligation Bonds</u>		
Debt Limit - 6% of Net Secondary Assessed Value		3,293,543
Debt Applicable to Limit		
General Obligation Bonds Outstanding	-	
Less: Amount Set Aside for Repayment of Debt	-	
Net Debt Applicable to Limit	<u>-</u>	<u>-</u>
All Other General Obligation Bonds debt Margin		<u>3,293,543</u>
Total Legal Debt Margin		<u>\$ 14,272,019</u>

Source: Cochise County Assessor's Office.

Note: The City did not have any debt subject to the debt limits.

**CITY OF DOUGLAS, ARIZONA
 PLEDGED-REVENUE COVERAGE
 LAST TEN FISCAL YEARS
 (UNAUDITED)**

Fiscal Year	Revenue Bonds						Coverage
	Excise Tax	Less: Operating Expenses	Net Available Revenue	Debt Service Principal	Debt Service Interest		
2004	\$ 3,552,034	\$ -	\$ 3,552,034	\$ 175,000	\$ 135,204	1145.06 %	
2005	3,518,881	-	3,518,881	250,000	122,136	945.59	
2006	3,796,816	-	3,796,816	360,000	111,472	805.31	
2007	4,012,867	-	4,012,867	365,000	104,838	854.10	
2008	4,067,101	-	4,067,101	375,000	97,238	861.24	
2009	5,095,143	-	5,095,143	390,000	97,237	1045.72	
2010	5,808,108	-	5,808,108	400,000	80,476	1208.82	
2011	5,953,998	-	5,953,998	415,000	71,077	1224.90	
2012	5,825,402	-	5,825,402	425,000	59,457	1202.46	
2013	5,364,312	-	5,364,312	440,000	46,106	1103.53	

Source: The City of Douglas' internal records.

Note: The City's bonds are secured by City sales tax revenues. Sales tax revenues are applied first to the bonds and therefore no operating expenses are presented.

GADA Loan

Fiscal Year	Excise Tax	Less: Operating Expenses	Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage
2004	\$ -	\$ -	\$ -	\$ -	\$ -	N/A
2005	-	-	-	-	-	N/A
2006	-	-	-	-	-	N/A
2007	-	-	-	-	-	N/A
2008	10,217,630	-	10,217,630	-	24,369	41928.80%
2009	11,456,914	-	11,456,914	-	147,935	7744.56%
2010	9,545,898	-	9,545,898	170,000	142,812	3051.64%
2011	9,274,436	-	9,274,436	110,000	128,638	3886.40%
2012	9,383,676	-	9,383,676	110,000	123,775	4013.98%
2013	9,243,530	-	9,243,530	115,000	121,264	3912.37%

Call Center Loan

Fiscal Year	City Sales Tax and Lease Revenue	Less: Operating Expenses	Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage
2004	\$ -	\$ -	\$ -	\$ -	\$ -	N/A
2005	-	-	-	-	-	N/A
2006	-	-	-	-	-	N/A
2007	-	-	-	-	-	N/A
2008	-	-	-	-	-	N/A
2009	483,499	-	483,499	-	239,925	201.52%
2010	704,620	-	704,620	1,260,000	451,849	41.16%
2011	1,421,131	123,081	1,298,050	675,000	431,325	117.33%
2012	1,319,984	77,286	1,242,698	700,000	391,310	113.87%
2013	1,276,280	60,628	1,215,652	740,000	356,805	110.84%

WIFA Loan

Fiscal Year	Water/Sewer Revenues	Less: Operating Expenses	Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage
2010	\$ 2,749,697	\$ 2,586,553	\$ 163,144	\$ -	\$ 12,625	1292.23%
2011	3,540,996	2,688,562	852,434	65,145	103,461	505.58%
2012	3,722,556	2,980,047	742,509	460,014	126,183	126.67%
2013	3,779,059	2,974,329	804,730	470,781	124,189	135.26%

**CITY OF DOUGLAS, ARIZONA
 DEMOGRAPHIC AND ECONOMIC STATISTICS
 LAST TEN FISCAL YEARS
 (UNAUDITED)**

<u>Fiscal Year</u>	<u>Population</u>	<u>Personal Income</u>	<u>Per Capita Personal Income</u>	<u>Median Age</u>	<u>Unemployment Rate</u>
2004	17,035	\$ 190,042,460	\$ 11,156	30.50	7.7 %
2005	17,195	222,142,205	12,919	30.50	7.6
2006	17,468	235,241,556	13,467	30.50	7.2
2007	18,411	258,453,618	14,038	30.50	6.8
2008	18,996	277,987,464	14,634	30.50	6.8
2009	18,500	282,199,000	15,254	31.00	9.1
2010	20,061	308,277,387	15,367	31.10	9.2
2011	20,122	294,364,738	14,629	32.20	13.1
2012	19,772	262,236,036	13,263	32.20	12.0
2013	17,378	227,252,106	13,077	32.20	12.6

Source: Arizona Department of Economic Security
 Cochise College Center for Economic Research

**CITY OF DOUGLAS, ARIZONA
PRINCIPAL EMPLOYERS
CURRENT YEAR AND TEN YEARS AGO
(UNAUDITED)**

Employer	2013			2004		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Arizona Department of Corrections	615	1	9.77 %	666	1	11.98 %
Douglas Unified School District	477	2	7.58	617	2	11.10
Wal-Mart Stores, Inc.	249	3	3.96	235	4	4.23
Advance Call Center Technologies	236	4	3.75	-	0	-
City of Douglas	200	5	3.08	234	5	4.21
Cochise College	194	6	3.00	166	6	2.99
Chiricahua Community Health Center	100	7	1.59	-	-	-
Southeast Arizona Medical Center	87	8	1.38	120	8	2.16
Havens of Douglas	58	9	0.92	-	-	-
Cochise County	53	10	0.84	-	-	-
Basha's Inc.	-	-	-	117	8	2.10
Homeland Security: U.S. Border Patrol	-	-	-	510	3	9.17
Homeland Security: U.S. Customs	-	-	-	70	8	1.26
Gadsen Hotel	-	-	-	65	10	1.17
	<u>2,269</u>		35.87 %	<u>2,800</u>		50.35 %

Source: Cochise College Center for Economic Research
Arizona Department of Economic Security

Note: This list includes only those employers who responded to the annual major employer survey.

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CITY OF DOUGLAS, ARIZONA
FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS
(UNAUDITED)

Function	Full-Time Equivalent Employees									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Government										
Management Services:										
Administration	5	5	5	7	7	5	5	5	5	5
Human resources	3	3	3	4	4	4	3	3	3	3
Court	2	2	1	3	3	3	2	2	2	2
MIS	2	2	2	2	3	3	3	4	4	3
Finance	3	3	4	6	7	6	6	6	6	6
Economic Development	1	-	1	1	1	1	-	-	-	-
Visitor Parking Center	-	-	-	5	5	4	-	4	4	1
Building (Housing)	4	4	4	4	4	5	4	8	9	7
Police										
Officers	30	32	35	29	31	37	34	32	32	32
Civilians	14	13	13	15	16	14	14	14	14	15
Fire										
Firefighters and Officers	22	22	21	26	24	25	23	25	23	24
Civilians	2	2	2	2	2	1	1	1	2	2
Public Works										
Engineering (PW Adm)	2	2	2	4	4	6	4	4	4	2
Refuse Collections	8	7	8	10	7	5	4	6	5	7
Mechanics	4	5	4	4	4	4	4	3	2	3
Streets	10	10	10	12	11	8	6	7	6	8
Street Maintenance	4	5	5	5	4	4	4	4	4	1
Parks and Recreation										
Comm Dev Admin	2	2	2	3	3	2	1	1	1	1
Planning & Zoning	2	2	2	2	3	2	2	2	2	1
Aquatics	3	3	3	16	14	12	2	11	11	13
Construction	4	4	4	4	4	4	4	6	6	6
Cemetery	4	4	4	4	4	2	2	1	2	3
Parks	9	10	9	9	10	10	10	11	10	9
Recreation	2	2	1	7	9	5	1	6	7	6
Golf Course	1	1	1	4	6	8	-	11	10	8
Library	5	5	5	8	8	7	5	8	7	7
Transit	-	-	-	-	-	-	-	-	-	6
Water										
Field	7	7	7	10	9	8	4	7	7	8
CIP	3	3	1	6	8	7	4	4	4	2
Billing	4	4	4	4	4	4	4	3	3	3
Wastewater	6	5	7	7	8	7	7	6	5	6
Total	168	169	170	223	227	213	163	205	200	200

Source: The City of Douglas' internal records.

CITY OF DOUGLAS, ARIZONA
OPERATING INDICATORS BY FUNCTION
LAST TEN FISCAL YEARS
(UNAUDITED)

Function	Fiscal Year				
	2004	2005	2006	2007	2008
General Government					
Building Permits Issued	60	48	258	262	338
Building Inspection Conducted	1,000	1,440	1,085	1,100	858
Police					
Physical Arrests	1,657	1,804	1,725	1,615	1,475
Parking Violations	1,463	2,208	1,640	1,919	1,562
Traffic Violations	4,051	3,283	4,134	4,590	3,814
Fire					
Emergency Responses	2,565	2,670	2,540	2,336	2,200
Fires Extinguished	219	289	17	187	201
Inspections	68	105	122	62	80
Refuse Collection					
Refuse Collections (Tons/Day)	18.0	17.0	17.0	23.9	30.0
Recyclables Collected (Tons/Day)	1.0	1.0	1.0	0.5	0.5
Other Public Works					
Street Resurfacing (Miles)	-	-	-	1.0	1.4
Potholes Repaired	-	273	175	143	152
Parks and Recreation					
Athletic Field Permits Issued	25	26	40	120	117
Community Center Admissions	7,610	13,743	9,724	16,535	14,660
Aquatic Center Admissions	10,178	11,925	21,852	26,990	28,369
Library					
Volumes in Collection	41,517	47,302	49,141	52,824	56,961
Total Volumes Borrowed	71,833	91,623	94,147	83,018	94,955
Water					
New Connections	-	-	-	60	28
Water Main Breaks	9	6	7	8	18
Average Daily Consumption (Thousands of Gallons)	6,852,381	2,602,839	3,167,934	2,579,831	3,660,000
Peak Daily Consumption (Thousands of Gallons)	-	-	-	4,385,713	5,380,000
Wastewater					
Average Daily Sewage Treatment (Thousands of Gallons)	3.1	2.8	2.6	1.8	2.1

Source: The City of Douglas' internal records.

Fiscal Year

2009	2010	2011	2012	2013
354	305	198	221	264
400	344	305	778	695
1,917	1,795	1,564	554	1,332
648	646	745	545	252
4,569	4,300	4,211	3,888	4,158
2,030	2,312	2,829	2,437	2,459
216	198	61	55	231
80	101	150	200	161
30.0	16.3	23.5	26.5	27.5
0.5	-	-	-	-
1.5	2.1	1.0	0.5	2.1
195	680	1,360	2,100	1,600
120	119	122	125	93
9,071	10,036	11,021	8,812	10,199
36,761	31,408	14,808	21,301	16,685
60,856	59,649	57,684	56,715	47,157
85,595	86,098	74,141	63,180	61,256
68	10	16	10	11
5	2	9	8	12
2,638,660	3,662,519	3,500,000	3,177,000	3,216,045
3,613,013	148,101,000	5,023,000	4,725,000	4,716,136
1.6	1.5	1.7	1.7	2.0

CITY OF DOUGLAS, ARIZONA
CAPITAL ASSETS STATISTICS BY FUNCTION
LAST TEN FISCAL YEARS
(UNAUDITED)

Function	Fiscal Year				
	2004	2005	2006	2007	2008
Police					
Stations	1	1	1	1	1
Patrol Units	-	-	25	21	20
Fire Stations	1	1	1	1	1
Refuse Collection					
Collection Trucks	-	-	4	5	5
Other Public Works					
Streets (Miles)	79	95	110	110	110
Streetlights	1,959	2,083	1,192	1,192	1,194
Traffic Signals	-	-	13	13	14
Parks and Recreation					
Acreage	42	62	92	92	92
Playgrounds	-	-	5	5	5
Baseball and Softball Diamonds	-	-	6	6	6
Soccer/Football Fields	-	-	13	13	13
Aquatic Centers	2	2	2	2	2
Community Centers	1	1	1	1	1
Water					
Water Mains (Miles)	65	80	81	81	83
Fire hydrants	338	338	445	445	526
Storage Capacity (Thousands of Gallons)	500,900	500,900	500,900	500,900	500,900
Wastewater					
Sanitary Sewers (Miles)	69	75	75	75	78
Storm Sewers (Miles)	2	2	2	2	2
Maximum Treatment Capacity (Thousands of Gallons)	1,800,000	2,000,000	2,000,000	2,000,000	2,000,000

Source: The City of Douglas' internal records.

Fiscal Year

2009	2010	2011	2012	2013
1	1	1	1	1
27	22	21	23	22
1	1	1	1	1
5	5	5	5	3
110	112	110	110	110
1,194	1,194	1,194	1,194	1,194
14	14	14	14	14
92	92	92	92	92
5	5	5	5	5
6	6	6	6	6
13	13	13	13	13
2	2	2	2	2
1	1	1	1	1
83	84	100	100	100
526	535	540	545	458
500,900	500,900	500,900	500,900	500,900
78	80	85	85	86
2	2	2	2	2
2,000,000	2,000,000	2,000,000	2,000,000	2,000,000

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