



**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2014**

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

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CITY OF DOUGLAS, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2014

Danny Ortega Jr.
Mayor

Councilmembers

Margaret Morales

Ken Nelson

Ben LaForge

Patricia Lopez

Luis Greer

Fernando Betancourt

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, 2014

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 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, 2014.

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, 2014 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, 2014, 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 the 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 March 2014 was at 12.1%, which is significantly above the national and state unemployment rates of 6.39% and 6.9% respectively.

Major Initiatives

The construction of a new commercial port of entry in Douglas continues to be a common goal for the Mayor and Council. Although the City was in a position to begin the permitting process and begin procuring feasibility studies, the City was delayed due to the Federal Government imposing new regulations on private public partnerships. The City had to wait for new rules to be issued and must comply with them moving forward if it is to enter into an agreement with the private sector. In the meantime, the City continues to seek and receive support for this project from both Mexican and American officials.

With federal awarded CDBG funding, the City made paving improvements on 23rd Street from Thompkins to Kline Avenue. ADA ramps and curbing were also installed with a total investment of \$167,041. The transit system continues to be a success for the City as ridership increased by 25% from last year. The City received \$219,433 in federal funds and also established partnerships with local organizations and was able to offset some of its match requirement. The City partnered with Freeport McMoran from which it received \$65,000, SEAGO \$38,124, Cochise College \$16,264 and ACT Call Center \$2,754.

The City Council voted to sell the Douglas Regional Service Center to Cochise County for \$900,000. The City had partnered with the County to construct a central government offices building mainly housing County services offices. The City relinquished its areas of operations, but agreed with the County to keep the SENTRI offices operational. In the deal the City also received two County office buildings located at 661 G Avenue and 640 10th Street valued at \$400,000 and \$170,000 respectively. The City is currently housing its recreation department and also leases space to Wellness Connections and Arizona Workforce at 661 G Avenue. The City Council also voted to extend the .3% sales tax. The sales tax was originally passed in 2008 with a sunset period of five years. The funds were allocated for the construction of a new call center, specifically for IT equipment and infrastructure. With the sunset date being September 1, 2013, the Council voted to extend the .3% sales tax for an additional four years, this time allocating the funds for capital projects.

All City departments were tasked to go through their respective inventories and turn in any assets that were no longer useful for their operations. The intention was to get departments to clean their areas of obsolete equipment and put it up for sale through auction. The auction was a great success as it generated \$105,039. The City sold vehicles and equipment and also recycled unused metal.

The City acquired five police vehicles one with federal funds obtained through the Governor's Office of Highways Safety and the other four from use of RICO funds and police auction funds. The Fire department acquired two used ambulances from the City of Sierra Vista. The two ambulances were \$30,000 each with less than 45,000 miles. The City entered into a couple of leases to acquire IT network infrastructure for \$1 million and \$292,000 to acquire a street sweeper and a dump truck.

Upcoming Year

The City continues to look for a qualified buyer for the City Golf Course. The City almost made the sale to an investor group, but negotiations failed before the third reading could take place. The City continues to look at opportunities and is looking at prospective buyers to sell the Golf Course as a package deal to include the RV park and La Perilla Apartments. The City is hopeful that it can find a buyer and relieve the General Fund subsidy.

In January 2015, the City expects to transfer the Casas Esperanza project to the private sector. Although the operation was paying for itself, the future capital investment required to upkeep the properties were not in the City's fiscal capabilities. The City also is seeking opportunities to sell Pioneer Village, a smaller project for elderly and disabled that could also benefit more from private investment.

The implementation of HB2111 has been delayed by the State after requests from self-collecting cities in Arizona. This bill was designed to bring simplification to collections of sales taxes by bringing collections to one central location at the State. This would eliminate the ability of cities to collect their own sales taxes. Due to IT complications in the State's tax system the collections transfer will take place until January 2016. However, parts of HB 2111 which centralized sales tax auditing at the state level and also reformed contracting sales tax, will be implemented in January 2015.

Long-Term Financial Planning

The City continues to take a cautious approach as the national, state and local economies continue a painfully slow recovery. The City is aware of upcoming increasing pension costs and the need for reform specifically in the PSPRS plan, where the City's plan is currently funded at only 43% for police and 35% for fire. Of course, health care costs continue to be a concern and overall rising costs. Our federal and state finances are also concerning since we know that eventually any affects at that level will trickle down to our City as well.

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.

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

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 30, 2013. 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.

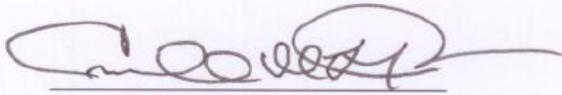
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgement

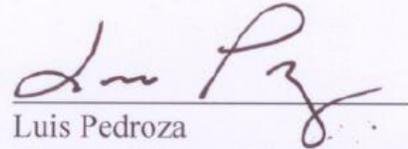
We would like to express our appreciation to each member of the Finance Department who has assisted in the preparation of this report. We are thankful for having the Finance Committee of the City of Douglas providing their support and having them evaluate this report. And also, thanks to our independent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

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**CITY OF DOUGLAS, ARIZONA
LIST OF PRINCIPAL OFFICIALS
YEAR ENDED JUNE 30, 2014**

ELECTED OFFICIALS

Mayor	Danny Ortega Jr.
Councilmember	Margaret Morales
Councilmember	Ken Nelson
Councilmember	Ben LaForge
Councilmember	Patricia Lopez
Councilmember	Luis Greer
Councilmember	Fernando Betancourt

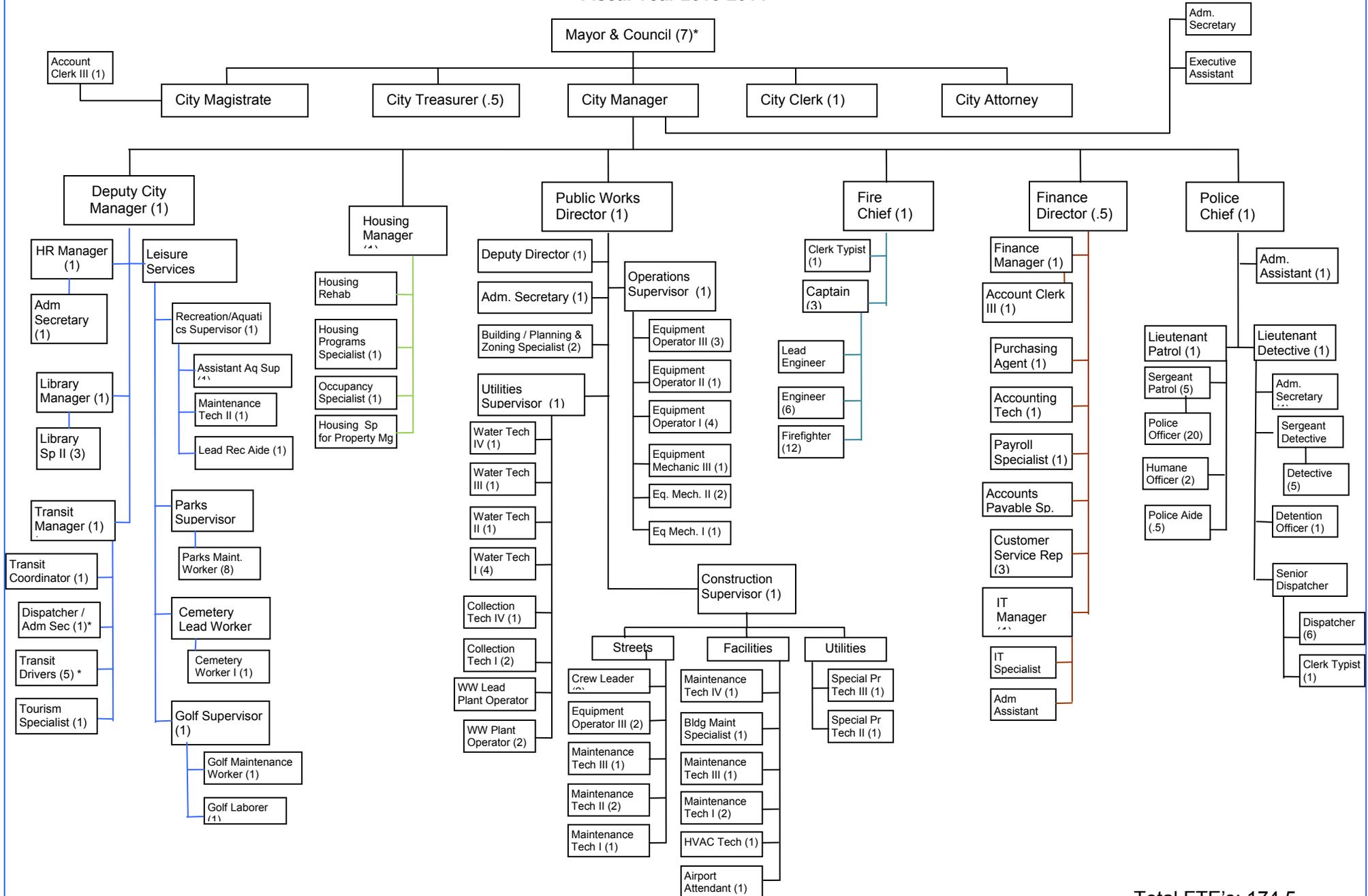
APPOINTED OFFICIALS

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
Deputy City Manager	Ana Urquijo
Housing Manager	Xenia Gonzalez

City of Douglas Organizational Chart Fiscal Year 2013-2014



Total FTE's: 174.5
*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, 2013

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, 2014, 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 61% and 39% of the total Governmental Component Unit assets, 69% and 31% 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, 2014, 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.

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 12 through 23, the Public Safety Personnel Retirement System Schedule of Funding Progress on page 68, and the General Fund Budget and Actual Statement on pages 69 – 70 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 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.

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

The combining and individual 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, 2014, 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, 2014

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REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

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, 2014. 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 \$41.6 million (net position). Of this amount, \$10.0 million is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.
- ◆ Total net position decreased by \$4.7 million during the fiscal year.
- ◆ As of June 30, 2014, the City's governmental funds reported a combined ending fund balance of \$8.1 million. Of this amount, 59% 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 \$4.8 million or 34.9% of the total General Fund expenditures of \$13.7 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, 2014**

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 24 - 27 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, 2014**

The City of Douglas, Arizona maintains nine 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 seven 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 Fund.

- ◆ *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 36 - 67 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 68 – 72 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 \$41.6 million.

**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

The largest portion of the City's net position (72%) 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	
	2014	2013	2014	2013	2014	2013
ASSETS						
Current and Other Assets	\$ 9,669,009	\$ 7,778,936	\$ 5,598,228	\$ 4,722,813	\$ 15,267,237	\$ 12,501,749
Capital Assets:						
Non-depreciable	2,660,393	1,487,410	810,112	924,647	3,470,505	2,412,057
Depreciable (net)	20,687,559	29,126,288	21,217,763	21,662,649	41,905,322	50,788,937
Total Assets	33,016,961	38,392,634	27,626,103	27,310,109	60,643,064	65,702,743
DEFERRED OUTFLOWS						
Deferred Amount on Refunding	12,843	38,536	-	-	12,843	38,536
LIABILITIES						
Current and Other Liabilities	1,464,854	1,318,301	356,998	423,721	1,821,852	1,742,022
Non-Current Liabilities:						
Due Within One Year	2,019,837	1,967,586	696,120	668,595	2,715,957	2,636,181
Due in More Than One Year	9,515,107	9,831,615	5,005,123	5,223,019	14,520,230	15,054,634
Total Liabilities	12,999,798	13,117,502	6,058,241	6,315,335	19,058,039	19,432,837
NET POSITION						
Net Investment in Capital Assets	13,255,510	20,087,841	16,491,574	16,866,077	29,747,084	36,953,918
Restricted	1,261,605	1,234,695	568,237	443,520	1,829,842	1,678,215
Unrestricted	5,512,891	3,991,132	4,508,051	3,685,177	10,020,942	7,676,309
Total Net Position	<u>\$ 20,030,006</u>	<u>\$ 25,313,668</u>	<u>\$ 21,567,862</u>	<u>\$ 20,994,774</u>	<u>\$ 41,597,868</u>	<u>\$ 46,308,442</u>

As of June 30, 2014 the City of Douglas, Arizona was able to report positive balances in all categories of net position. As previously discussed, approximately 72% of net position represents the City's net investment in capital assets. Another 4.4% 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 decreased approximately \$4.7 million over the prior fiscal year. Net investment in capital assets decreased \$7.2 million due to the net effect of a reduction in current year debt outstanding used to acquire the assets, current year depreciation, current year capital additions and contributions and the sale of capital assets. Current year debt payments (including discount) were approximately \$2.1 million (including payments on capital leases). In addition, the government plaza was sold in fiscal year 2014 with a net book value of \$6.8 million.

**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

Changes in Net Position

As described above, the City's net position overall decreased by \$4.7 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**

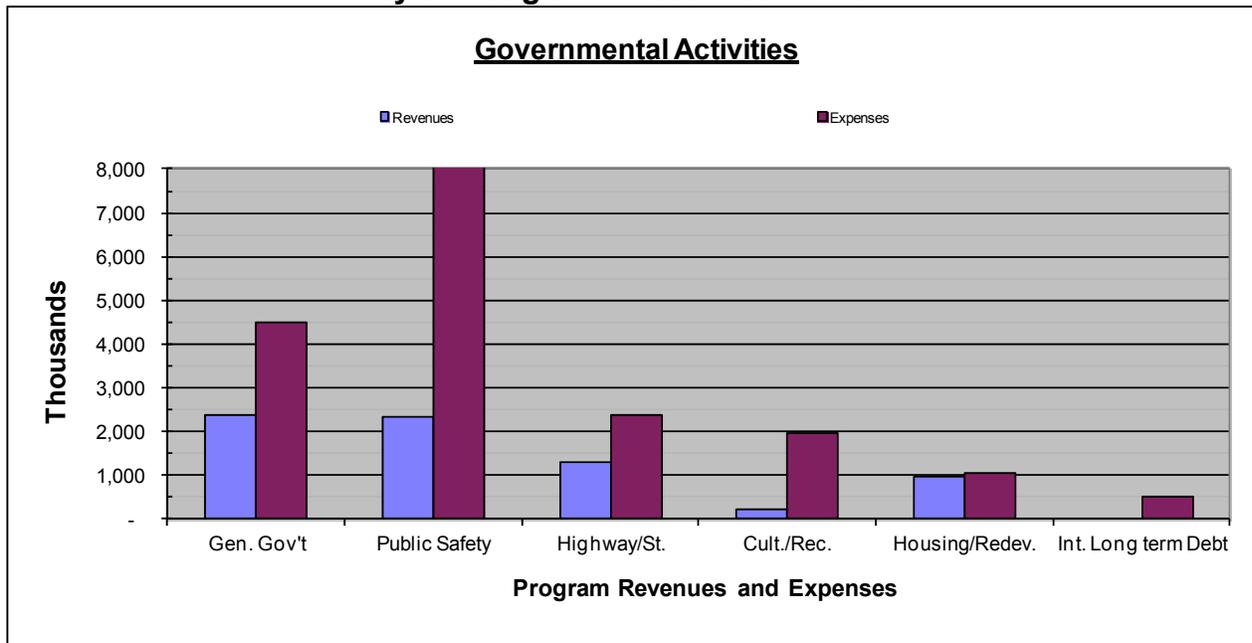
	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
REVENUES						
Program Revenues:						
Fees, Fines and Charges for Services	\$ 3,095,494	\$ 2,810,121	\$ 5,153,542	\$ 5,067,198	\$ 8,249,036	\$ 7,877,319
Operating Grants and Contributions	3,751,156	3,340,827	1,320	8,196	3,752,476	3,349,023
Capital Grants and Contributions	423,034	1,000,170	-	19,578	423,034	1,019,748
General Revenues:						
Property Taxes	578,759	563,698	-	-	578,759	563,698
Local Taxes	5,844,370	5,678,392	-	-	5,844,370	5,678,392
State Shared Revenues	4,257,712	3,951,575	-	-	4,257,712	3,951,575
Grants and Contributions Not Restricted to Specific Programs	41,950	70,074	-	-	41,950	70,074
Investment Income	30,607	39,423	22,077	23,470	52,684	62,893
Other	281,915	596,739	-	-	281,915	596,739
Total Revenues	18,304,997	18,051,019	5,176,939	5,118,442	23,481,936	23,169,461
EXPENSES						
General Government	4,499,732	4,989,484	-	-	4,499,732	4,989,484
Public Safety	8,050,797	7,799,983	-	-	8,050,797	7,799,983
Highways and Streets	2,394,792	2,605,395	-	-	2,394,792	2,605,395
Culture and Recreation	1,965,397	1,868,116	-	-	1,965,397	1,868,116
Redevelopment and Housing	1,064,489	1,041,957	-	-	1,064,489	1,041,957
Interest on Long-Term Debt	530,417	579,592	-	-	530,417	579,592
Water	-	-	1,839,897	1,666,863	1,839,897	1,666,863
Sewer	-	-	1,538,514	1,310,421	1,538,514	1,310,421
Solid Waste	-	-	956,297	785,788	956,297	785,788
Total Expenses	18,505,624	18,884,527	4,334,708	3,763,072	22,840,332	22,647,599
CHANGE IN NET POSITION BEFORE TRANSFERS AND SPECIAL ITEMS						
	(200,627)	(833,508)	842,231	1,355,370	641,604	521,862
Transfers	269,143	162,208	(269,143)	(162,208)	-	-
Special Item	(5,352,178)	-	-	-	(5,352,178)	-
CHANGE IN NET POSITION						
	(5,283,662)	(671,300)	573,088	1,193,162	(4,710,574)	521,862
Net Position - Beginning of Year	25,313,668	25,984,968	20,994,774	19,801,612	46,308,442	45,786,580
NET POSITION - END OF YEAR	\$ 20,030,006	\$ 25,313,668	\$ 21,567,862	\$ 20,994,774	\$ 41,597,868	\$ 46,308,442

**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

Governmental Activities – Governmental activities decreased the City's net position by \$5.3 million. Key factors of the overall decrease in net position are as follows:

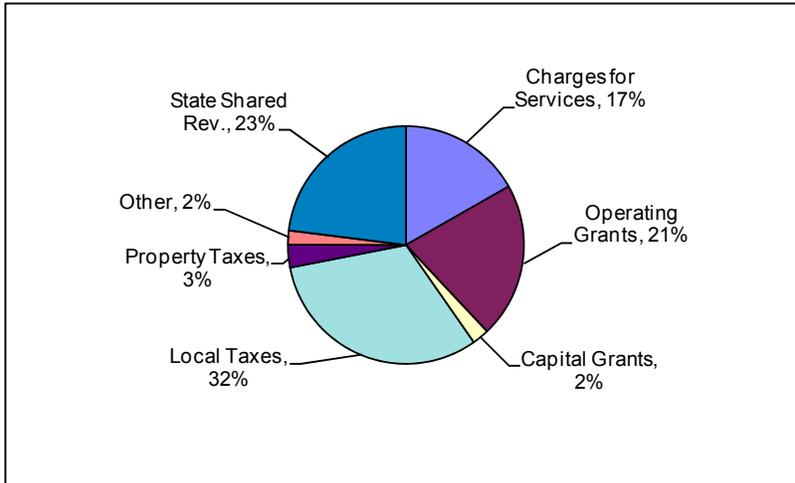
- ◆ Fees, fines and charges for services increased 10.2% over the prior fiscal year. The increase was largely due to an increase in ambulance transports and revenue received from its billing.
- ◆ Capital grants and contributions decreased \$0.6 million over the prior fiscal year and Operating Grants and Contributions increased \$0.4 million due to the receipt and use of more federal funds for overtime of officers and support for to enhance security along the border.
- ◆ State shared revenues and local tax revenues had a net increase of \$0.5 million due to an increase in consumer spending as well as an adjustment made to our census population data which increased our population to 17,509.
- ◆ Total expenses remained relatively unchanged over the prior fiscal year, with the exception of an increase in public safety expenses in the amount of \$0.3 million offset by a decrease in general government expense of \$0.5 million. The increase in public safety expenses was largely attributed to an increase in fire personnel costs compared to last year. The City experienced higher turnover in prior year than in the current year. The decrease in general government expense was due to a savings in personnel costs through retirements and attrition.
- ◆ The City executed an intergovernmental agreement with Cochise County to transfer ownership of the Douglas Regional Service Center. The net book value of assets transferred totaled \$6.8 million at the time of the transfer. The City received proceeds totaling \$0.9 million and the County conveyed the Douglas Juvenile Probation and Health Department Buildings with an appraised value of \$0.2 million and \$0.4 million respectively. The City reported a loss on the sale totaling \$5.3 million.

City of Douglas – Fiscal Year 2013/14



**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

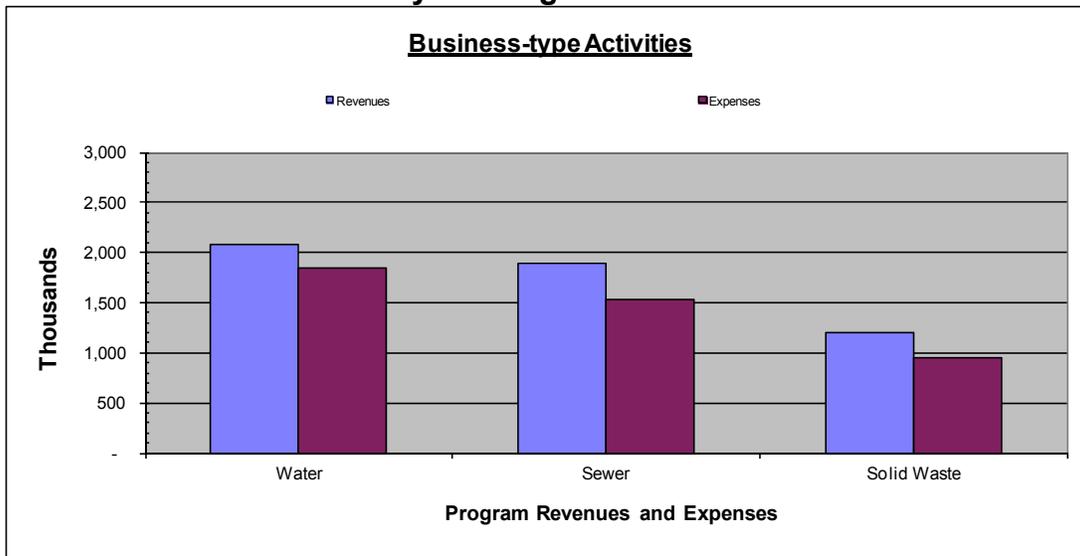
**City of Douglas Revenue by Source
Governmental Activities Fiscal Year 2013/14**



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 (44%), followed by General Government (24%), Highway/Streets (13%), Culture/Recreation (11%), 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 (32%) followed by state shared revenues (23%) as illustrated in the above chart.

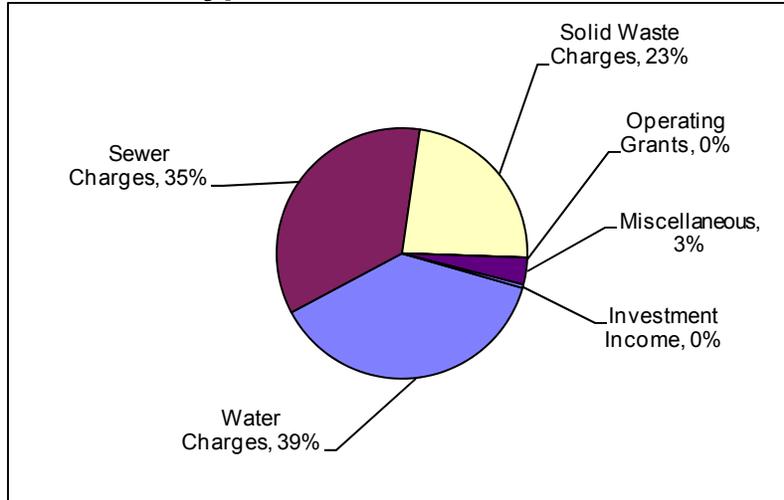
Business-Type Activities – Business-type activities increased the City's net position by \$0.6 million. The increase in net position was not significant and was primarily the result of the City holding operating revenues consistent with prior year. Operating expenses increased in the business-type activities due to a general increase in operating costs (including salaries and related benefits) and claims expense.

City of Douglas 2013/14



**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

**City of Douglas Revenue by Source
Business-type Activities Fiscal Year 2013/14**



As shown in the chart on the previous page and above, the largest of the City's business-type activities are water and sewer utilities. Sewer Fund operating expenses were just over \$1.5 million, with Water operating expenses at \$1.8 million, followed by Solid Waste at approximately \$1.0 million. For this fiscal year, the change in net position in the Sewer Fund was a positive \$0.3 million while the change in net position in the Water Fund was a positive \$0.1 million and the Solid Waste Fund was a positive \$0.2 million. The positive change in net position in the Enterprise Funds was due to revenues exceeding expenses.

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 \$8.1 million, an increase of \$1.7 million from the prior year. This increase is primarily due to sales proceeds received on the transfer of the Douglas Regional Service Center to Cochise County totaling \$0.9 million. Remaining increase is attributed to an increase in state shared revenues

Revenues for governmental funds overall totaled approximately \$18.3 million for the fiscal year ended June 30, 2014 which represents an increase of 3.1% or approximately \$0.6 million from the prior fiscal year. This increase is primarily due to an increase in state shared revenues.

**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

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 \$4.8 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 34.9% of the total General Fund expenditures of \$13.7 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 increase of \$1.2 million was largely due to sales proceeds totaling \$0.6 million recognized in the capital project fund related to the transfer of the Douglas Regional Service Center to Cochise County. Remaining increase was due to 0.3% sales tax enacted in September 2008 and extended in August 2013 which has been earmarked by council for future capital projects.

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 \$2.5 million, Sewer \$0.7 million, and Solid Waste \$1.2 million. The total increase in net position for the enterprise funds was \$0.6 million largely due to revenues exceeding expenses. Expenses increased in all three funds due to an increase in claims and operating costs.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

Actual revenues were less than the budget by \$0.5 million and actual expenditures were less than budget by \$0.6 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 in actual expenditures versus the budget due to substantial savings in the General Government, Transit and Police Operations expenditures. Transfers from the General fund to the Capital Projects fund saw a savings as it was not necessary to provide the transfers as was originally projected due to savings from port of entry budgeted costs. The Transit department saw savings once again from its operations budget specifically from the inability to hire the amount of personnel as originally planned, from fuel savings and its contingency account. The Police operations department had savings from personnel turnover in dispatching as well as police detectives. Although short staffed, savings were realized from the personnel, overtime and benefits line items.

Fire and emergency medical services exceeded the budget largely due to excess overtime charged to the departments in comparison with the budget and more salary and related benefits, other than overtime in the emergency medical services. Because the General Fund as a whole did not exceed the budget, the City is in compliance with its legal level of budgetary control.

**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

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, 2014 amount to \$45.4 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	
	2014	2013	2014	2013	2014	2013
Land and Land Improvements	\$ 3,192,056	\$ 3,297,168	\$ -	\$ -	\$ 3,192,056	\$ 3,297,168
Streets and Storm Drains	6,183,414	6,503,545	-	-	6,183,414	6,503,545
Buildings and Improvements	9,547,474	16,450,558	4,904,093	5,074,059	14,451,567	21,524,617
Water System	-	-	7,248,630	7,485,046	7,248,630	7,485,046
Wastewater System	-	-	8,082,660	8,302,447	8,082,660	8,302,447
Machinery, Equipment and Vehicles	2,864,925	3,940,327	982,380	801,097	3,847,305	4,741,424
Construction In Progress	1,560,083	422,100	810,112	924,647	2,370,195	1,346,747
Total Capital Assets	\$ 23,347,952	\$ 30,613,698	\$ 22,027,875	\$ 22,587,296	\$ 45,375,827	\$ 53,200,994

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

Governmental Activities

- ◆ The City entered into and executed an intergovernmental agreement with Cochise County to transfer the Douglas Regional Service Center in exchange for proceeds totaling \$0.9 million and the receipt of the Douglas Juvenile Probation Office (\$0.2 million) and Health Department Building (\$0.4 million). The net book value of assets transferred to the County totaled \$6.8 million and resulted in a loss totaling \$5.3 million.
- ◆ Commencement of IT Network upgrades financed through a lease purchase with a value of \$1.0 million.
- ◆ Acquisition of two ambulances and five trucks with a cumulative cost of \$0.3 million.

Business-type Activities

- ◆ Acquisition of heavy equipment including a street sweeper and dump truck with a cumulative cost of \$0.3 million.
- ◆ Continued construction on Wastewater System Improvement Project totaling \$0.1 million.

For government-wide financial statement purposes, capital assets were depreciated from acquisition date to the end of the current fiscal year. Governmental 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 50 - 53 of this report.

**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

Debt Administration

At the end of the fiscal year, the City of Douglas, Arizona had total long-term obligations outstanding of \$15.6 million. The City entered into a \$1.3 million short term leases to finance IT Network upgrades, street sweeper and a dump truck. 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, 2014 is \$3.2 million in the 6% capacity and \$10.7 million in the 20% capacity.

**Table A-4
Outstanding Debt**

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Loans Payable	\$ 7,725,000	\$ 8,260,000	\$ 5,095,574	\$ 5,457,668	\$ 12,820,574	\$ 13,717,668
Revenue Bonds	470,000	925,000	-	-	470,000	925,000
Capital Lease	1,911,683	1,345,057	440,727	263,551	2,352,410	1,608,608
Total Outstanding Debt	<u>\$ 10,106,683</u>	<u>\$ 10,530,057</u>	<u>\$ 5,536,301</u>	<u>\$ 5,721,219</u>	<u>\$ 15,642,984</u>	<u>\$ 16,251,276</u>

Additional information on the City's debt can be found in Note 3.E. on pages 56 - 59.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The following factors were considered when preparing the 2014-15 budgets:

- ◆ A conservative economic forecast and limited revenue growth.
- ◆ A focus on preventing layoffs and furloughs.
- ◆ A focus on capital improvements through the use of .3% sales tax.
- ◆ 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 planning for the construction of a new commercial port of entry that would enhance the trade between Agua Prieta and Douglas. The City Council direction has been to focus on essential government services. The council voted not to budget a full year of revenues and expenditures for the golf course for FY 2015 as the intent is to sell it. The council is also moving away from other businesses that the private sector may be able to enhance such as the Casas de Esperanza housing project. By focusing our efforts on the essential government services, the City can provide better service and consequently save in operational costs as well.

**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

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, 2014**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 6,601,582	\$ 4,534,908	\$ 11,136,490
Cash with Fiscal Agent	626,320	-	626,320
Receivables, Net:			
Accounts Receivable	292,356	495,083	787,439
Taxes Receivable	591,945	-	591,945
Intergovernmental Receivables	816,755	-	816,755
Due from Component Unit	646,789	-	646,789
Inventories	56,700	-	56,700
Prepaid Items	16,927	-	16,927
Other Assets	-	-	-
Restricted Assets	19,635	568,237	587,872
Capital Assets:			
Non-Depreciable	2,660,393	810,112	3,470,505
Depreciable (Net)	20,687,559	21,217,763	41,905,322
Total Assets	33,016,961	27,626,103	60,643,064
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Amount on Refunding	12,843	-	12,843
LIABILITIES			
Accounts Payable	359,425	215,658	575,083
Accrued Wages and Benefits	434,747	55,472	490,219
Insurance Claims Payable	139,478	26,173	165,651
Interest Payable	15,903	55,955	71,858
Intergovernmental Payable	16,345	-	16,345
Customer Deposits Payable	19,635	3,740	23,375
Unearned Revenue	24,321	-	24,321
Due to Primary Government	-	-	-
Prepaid Rents	-	-	-
Matured Debt Principal Payable	455,000	-	455,000
Noncurrent Liabilities			
Due Within One Year	2,019,837	696,120	2,715,957
Due in More Than One Year	9,515,107	5,005,123	14,520,230
Total Liabilities	12,999,798	6,058,241	19,058,039
NET POSITION			
Net Investment in Capital Assets	13,255,510	16,491,574	29,747,084
Restricted for:			
Other Federal and State Grants	206,172	-	206,172
Court Administration	61,234	-	61,234
Public Safety	369,088	-	369,088
Highways, Streets and Local Transportation	84,783	-	84,783
Redevelopment and Housing	540,328	-	540,328
Debt Service	-	558,327	558,327
Repair and Replacement	-	9,910	9,910
Unrestricted	5,512,891	4,508,051	10,020,942
Total Net Position	\$ 20,030,006	\$ 21,567,862	\$ 41,597,868

See accompanying Notes to Basic Financial Statements.

Component Units

<u>Governmental</u>		<u>Proprietary Type</u>	
<u>Component Units</u>		<u>Component Unit</u>	
\$	142,767	\$	18,453
	-		-
	27,308		513
	-		-
	-		-
	-		-
	29,061		33,182
	213,173		107,976
	249,603		383,720
	91,150		265,000
	<u>1,002,203</u>		<u>3,480,780</u>
	1,755,265		4,289,624
	-		-
	7,955		41,608
	34,233		2,881
	-		-
	116,062		15,017
	-		-
	11,300		15,510
	-		-
	-		646,789
	-		17,697
	-		-
	25,163		51,300
	<u>2,561,903</u>		<u>5,073,115</u>
	<u>2,756,616</u>		<u>5,863,917</u>
	(1,493,713)		(1,378,635)
	-		-
	-		-
	-		-
	-		-
	-		-
	-		-
	492,362		(195,658)
\$	<u>(1,001,351)</u>	\$	<u>(1,574,293)</u>

**CITY OF DOUGLAS, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014**

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	\$ 4,499,732	\$ 1,890,264	\$ 470,846	\$ 35,000
Public Safety	8,050,797	1,069,174	1,115,498	156,229
Highways and Streets	2,394,792	-	1,159,672	166,042
Culture and Recreation	1,965,397	136,056	25,090	65,763
Redevelopment and Housing	1,064,489	-	980,050	-
Interest and Fiscal Charges	530,417	-	-	-
Total Governmental Activities	<u>18,505,624</u>	<u>3,095,494</u>	<u>3,751,156</u>	<u>423,034</u>
Business-Type Activities:				
Water	1,839,897	2,070,331	1,320	-
Sewer	1,538,514	1,880,405	-	-
Solid Waste	956,297	1,202,806	-	-
Total Business-Type Activities	<u>4,334,708</u>	<u>5,153,542</u>	<u>1,320</u>	<u>-</u>
Total Primary Government	<u>\$ 22,840,332</u>	<u>\$ 8,249,036</u>	<u>\$ 3,752,476</u>	<u>\$ 423,034</u>
Component Units:				
Governmental Component Units	\$ 613,145	\$ 114,724	\$ 350,993	\$ -
Proprietary Type Component Units	667,776	554,177	-	-
	<u>\$ 1,280,921</u>	<u>\$ 668,901</u>	<u>\$ 350,993</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

Special Item - Loss on sale of capital assets

Transfers

 Total General Revenues, Special Item, and Transfers

Change in Net Position

Net Position - Beginning

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 Unit
\$ (2,103,622)		\$ (2,103,622)		
(5,709,896)		(5,709,896)		
(1,069,078)		(1,069,078)		
(1,738,488)		(1,738,488)		
(84,439)		(84,439)		
(530,417)		(530,417)		
<u>(11,235,940)</u>		<u>(11,235,940)</u>		
	\$ 231,754	231,754		
	341,891	341,891		
	<u>246,509</u>	<u>246,509</u>		
	820,154	820,154		
(11,235,940)	<u>820,154</u>	<u>(10,415,786)</u>		
			\$ (147,428)	\$ -
			<u>-</u>	<u>(113,599)</u>
			(147,428)	(113,599)
5,533,351	-	5,533,351	-	-
578,759	-	578,759	-	-
311,019	-	311,019	-	-
1,976,038	-	1,976,038	-	-
1,545,589	-	1,545,589	-	-
736,085	-	736,085	-	-
41,950	-	41,950	-	-
30,607	22,077	52,684	334	-
281,915	-	281,915	7,705	3,950
(5,352,178)	-	(5,352,178)	-	-
269,143	(269,143)	-	-	-
<u>5,952,278</u>	<u>(247,066)</u>	<u>5,705,212</u>	<u>8,039</u>	<u>3,950</u>
(5,283,662)	573,088	(4,710,574)	(139,389)	(109,649)
25,313,668	20,994,774	46,308,442	(861,962)	(1,464,644)
<u>\$ 20,030,006</u>	<u>\$ 21,567,862</u>	<u>\$ 41,597,868</u>	<u>\$ (1,001,351)</u>	<u>\$ (1,574,293)</u>

**CITY OF DOUGLAS, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	General Fund	MPC Debt Service Fund	Nonmajor Governmental Funds	Totals
ASSETS				
Cash and Investments	\$ 4,106,076	\$ -	\$ 2,495,506	\$ 6,601,582
Cash with Fiscal Agent	155,417	470,903	-	626,320
Receivables:				
Accounts Receivable	287,851	-	4,505	292,356
Taxes Receivable	540,106	-	51,839	591,945
Intergovernmental Receivables	534,762	-	281,993	816,755
Component Unit Long Term Note	646,789	-	-	646,789
Inventory	56,700	-	-	56,700
Prepaid Items	16,927	-	-	16,927
Restricted Assets	-	-	19,635	19,635
Total Assets	<u>\$ 6,344,628</u>	<u>\$ 470,903</u>	<u>\$ 2,853,478</u>	<u>\$ 9,669,009</u>
LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 212,938	\$ -	\$ 146,487	\$ 359,425
Accrued Wages and Benefits	398,991	-	35,756	434,747
Insurance Claims Payable	128,876	-	10,602	139,478
Interest Payable	-	15,903	-	15,903
Intergovernmental Payable	16,345	-	-	16,345
Unearned Revenue	932	-	23,389	24,321
Customer Deposits Payable	-	-	19,635	19,635
Matured Debt Principal Payable	-	455,000	-	455,000
Total Liabilities	<u>758,082</u>	<u>470,903</u>	<u>235,869</u>	<u>1,464,854</u>
Deferred Inflows of Resources				
Unavailable Revenue	<u>75,243</u>	<u>-</u>	<u>45,884</u>	<u>121,127</u>
Fund Balances				
Nonspendable	720,416	-	-	720,416
Restricted	-	-	1,218,198	1,218,198
Committed	-	-	1,033,237	1,033,237
Assigned	-	-	320,290	320,290
Unassigned	<u>4,790,887</u>	<u>-</u>	<u>-</u>	<u>4,790,887</u>
Total Fund Balances	<u>5,511,303</u>	<u>-</u>	<u>2,571,725</u>	<u>8,083,028</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 6,344,628</u>	<u>\$ 470,903</u>	<u>\$ 2,853,478</u>	<u>\$ 9,669,009</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, 2014**

Total Fund Balances for Governmental Funds \$ 8,083,028

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	\$	1,100,310	
Construction in Progress		1,560,083	
Land Improvements		4,728,676	
Streets and Storm Drains		16,626,188	
Buildings and Improvements		15,775,191	
Machinery, Equipment and Vehicles		15,944,707	
Total Capital Assets		55,735,155	
Less: Accumulated Depreciation		(32,387,203)	23,347,952

Some of the City's property taxes and sales taxes 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.

77,720

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.

43,407

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		(7,725,000)	
Revenue Bonds		(470,000)	
Deferred Amount on Refunding		12,843	
Bond Discount		1,398	
Capital Lease Payable		(1,911,683)	
Compensated Absence Payable		(1,429,659)	(11,522,101)

Total Net Position of Governmental Activities

\$ 20,030,006

CITY OF DOUGLAS, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

	General Fund	MPC Debt Service Fund	Nonmajor Governmental Funds	Totals
REVENUES				
Taxes:				
Sales Taxes	\$ 4,933,107	\$ -	\$ 577,115	\$ 5,510,222
Property Taxes	578,451	-	-	578,451
Franchise Taxes	311,019	-	-	311,019
Intergovernmental Revenues	5,570,260	-	2,885,375	8,455,635
Fines and Forfeitures	305,830	-	5,618	311,448
Licenses and Permits	201,227	-	-	201,227
Charges for Services	1,763,797	-	-	1,763,797
Rents and Royalties	819,022	-	-	819,022
Investment Income	11,691	-	18,916	30,607
Other	107,142	-	174,773	281,915
Total Revenues	<u>14,601,546</u>	<u>-</u>	<u>3,661,797</u>	<u>18,263,343</u>
EXPENDITURES				
Current:				
General Government	3,392,748	-	14,490	3,407,238
Public Safety	7,190,474	-	105,238	7,295,712
Highways and Streets	617,465	-	1,067,833	1,685,298
Culture and Recreation	1,378,439	-	135,488	1,513,927
Redevelopment and Housing	-	-	1,058,347	1,058,347
Debt Service:				
Principal Retirement	29,632	455,000	980,216	1,464,848
Interest on Long-Term Debt	4,376	31,806	465,740	501,922
Capital Outlay	1,131,988	-	674,902	1,806,890
Total Expenditures	<u>13,745,122</u>	<u>486,806</u>	<u>4,502,254</u>	<u>18,734,182</u>
Excess (Deficiency) of Revenues Over Expenditures	856,424	(486,806)	(840,457)	(470,839)
OTHER FINANCING SOURCES (USES)				
Transfers In	237,392	486,806	1,630,694	2,354,892
Transfers Out	(1,868,542)	-	(217,207)	(2,085,749)
Proceeds from Sale of Capital Assets	297,088	-	600,000	897,088
Proceeds from Capital Leases	1,041,474	-	-	1,041,474
Total Other Financing Sources (Uses)	<u>(292,588)</u>	<u>486,806</u>	<u>2,013,487</u>	<u>2,207,705</u>
Net Change in Fund Balances	563,836	-	1,173,030	1,736,866
FUND BALANCES				
Beginning of Year	4,947,467	-	1,398,695	6,346,162
End of Year	<u>\$ 5,511,303</u>	<u>\$ -</u>	<u>\$ 2,571,725</u>	<u>\$ 8,083,028</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, 2014**

Net Change in Fund Balances-Total Governmental Funds		\$ 1,736,866
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	\$ 1,892,287	
Depreciation Expense	<u>(2,943,767)</u>	(1,051,480)
The governmental funds report proceeds received on the sale of assets. Conversely, the statement of activities report the gain or loss on sale of assets.		
		(6,249,266)
Contributions of capital assets are not current financial resources and are not reflected in the governmental funds.		
		35,000
Loan receivable recorded as revenue in the government-wide statement of net position, but not yet available.		
Intergovernmental Receivables - June 30, 2013	60,190	
Intergovernmental Receivables - June 30, 2014	<u>43,407</u>	(16,783)
The governmental funds report the issuance of bonds 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:		
Amortization of Deferred Amount on Refunding	(25,693)	
Amortization of Bond Discount	(2,802)	
Repayment of Long-Term Debt	<u>1,464,848</u>	394,879
Delinquent property taxes and sales 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, 2013	54,283	
Unavailable Revenue - June 30, 2014	<u>77,720</u>	23,437
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).		
		<u>(156,315)</u>
Change in Net Position of Governmental Activities		<u>\$ (5,283,662)</u>

See accompanying Notes to Basic Financial Statements.

CITY OF DOUGLAS, ARIZONA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

	Business-Type Activities			
	Water	Sewer	Solid Waste	Totals
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 2,585,030	\$ 737,900	\$ 1,211,978	\$ 4,534,908
Receivables, Net:				
Accounts Receivable	222,626	163,796	108,661	495,083
Total Current Assets	<u>2,807,656</u>	<u>901,696</u>	<u>1,320,639</u>	<u>5,029,991</u>
Noncurrent Assets:				
Restricted Cash and Cash Equivalents	109,008	459,229	-	568,237
Capital Assets:				
Non-Depreciable	234,549	575,563	-	810,112
Depreciable (Net)	7,400,684	13,444,017	373,062	21,217,763
Total Noncurrent Assets	<u>7,744,241</u>	<u>14,478,809</u>	<u>373,062</u>	<u>22,596,112</u>
Total Assets	<u>10,551,897</u>	<u>15,380,505</u>	<u>1,693,701</u>	<u>27,626,103</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable	163,239	20,370	32,049	215,658
Accrued Wages and Benefits	21,552	17,260	16,660	55,472
Insurance Claims Payable	8,117	9,939	8,117	26,173
Interest Payable	17,281	38,674	-	55,955
Customer Deposits Payable	1,265	1,275	1,200	3,740
Compensated Absences	50,770	19,986	20,298	91,054
Capital Leases Payable	-	75,748	38,371	114,119
Loans Payable	72,793	418,154	-	490,947
Total Current Liabilities	<u>335,017</u>	<u>601,406</u>	<u>116,695</u>	<u>1,053,118</u>
Noncurrent Liabilities:				
Compensated Absences Payable	19,812	54,076	-	73,888
Capital Leases Payable	-	206,132	120,476	326,608
Loans Payable	1,155,394	3,449,233	-	4,604,627
Total Noncurrent Liabilities	<u>1,175,206</u>	<u>3,709,441</u>	<u>120,476</u>	<u>5,005,123</u>
Total Liabilities	<u>1,510,223</u>	<u>4,310,847</u>	<u>237,171</u>	<u>6,058,241</u>
NET POSITION				
Net Investment in Capital Assets	6,407,046	9,870,313	214,215	16,491,574
Restricted for:				
Debt Service	99,098	459,229	-	558,327
Repair and Replacement	9,910	-	-	9,910
Unrestricted	2,525,620	740,116	1,242,315	4,508,051
Total Net Position	<u>\$ 9,041,674</u>	<u>\$ 11,069,658</u>	<u>\$ 1,456,530</u>	<u>\$ 21,567,862</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, 2014

	Business-Type Activities			
	Water	Sewer	Solid Waste	Totals
OPERATING REVENUES				
Charges for Services	\$ 1,954,693	\$ 1,816,287	\$ 1,202,756	\$ 4,973,736
OPERATING EXPENSES				
Cost of Sales and Services	1,304,667	888,260	822,236	3,015,163
Insurance Claims	46,613	51,131	44,425	142,169
Depreciation	455,506	506,020	87,610	1,049,136
Total Operating Expenses	<u>1,806,786</u>	<u>1,445,411</u>	<u>954,271</u>	<u>4,206,468</u>
Operating Income	147,907	370,876	248,485	767,268
NONOPERATING REVENUES (EXPENSE)				
Impact Fees	44,800	59,935	-	104,735
Intergovernmental Revenue	1,320	-	-	1,320
Investment Income	8,212	11,405	2,460	22,077
Interest Expense	(33,111)	(93,103)	(2,026)	(128,240)
Miscellaneous Nonoperating Revenues	70,838	4,183	50	75,071
Total Nonoperating Revenues	<u>92,059</u>	<u>(17,580)</u>	<u>484</u>	<u>74,963</u>
Income Before Transfers	239,966	353,296	248,969	842,231
Transfers Out	<u>(130,479)</u>	<u>(95,585)</u>	<u>(43,079)</u>	<u>(269,143)</u>
Change in Net Position	109,487	257,711	205,890	573,088
Total Net Position - Beginning of Year	<u>8,932,187</u>	<u>10,811,947</u>	<u>1,250,640</u>	<u>20,994,774</u>
TOTAL NET POSITION - END OF YEAR	<u><u>\$ 9,041,674</u></u>	<u><u>\$ 11,069,658</u></u>	<u><u>\$ 1,456,530</u></u>	<u><u>\$ 21,567,862</u></u>

See accompanying Notes to Basic Financial Statements.

**CITY OF DOUGLAS, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014**

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Solid Waste	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	\$ 1,968,222	\$ 1,823,017	\$ 1,204,584	\$ 4,995,823
Payments to Suppliers	(1,055,883)	(562,992)	(522,915)	(2,141,790)
Payments to Employees	(346,390)	(325,711)	(288,978)	(961,079)
Payment for Claims	(43,799)	(42,830)	(40,105)	(126,734)
Other Receipts	72,103	5,458	1,250	78,811
Net Cash Flows Provided by Operating Activities	594,253	896,942	353,836	1,845,031
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers Out	(130,479)	(95,585)	(43,079)	(269,143)
Intergovernmental Revenue	1,320	-	-	1,320
Net Cash Flows Used by Noncapital Financing Activities	(129,159)	(95,585)	(43,079)	(267,823)
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES				
Impact Fees	44,800	59,935	-	104,735
Purchases of Capital Assets	(103,490)	(174,778)	(205,617)	(483,885)
Issuance of Long-Term Debt	103,091	109,145	198,595	410,831
Principal Paid on Capital Debt	(70,801)	(485,200)	(39,748)	(595,749)
Interest Paid on Capital Debt	(32,657)	(103,032)	(2,026)	(137,715)
Net Cash Flows Used by Capital and Related Financing Activities	(59,057)	(593,930)	(48,796)	(701,783)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment Income	8,212	11,405	2,460	22,077
NET CHANGE IN CASH AND CASH EQUIVALENTS	414,249	218,832	264,421	897,502
Cash and Cash Equivalents - Beginning of Year	2,279,789	978,297	947,557	4,205,643
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 2,694,038</u>	<u>\$ 1,197,129</u>	<u>\$ 1,211,978</u>	<u>\$ 5,103,145</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION				
Cash and Cash Equivalents	\$ 2,585,030	\$ 737,900	\$ 1,211,978	\$ 4,534,908
Restricted Cash and Cash Equivalents	109,008	459,229	-	568,237
Total Cash and Cash Equivalents	<u>\$ 2,694,038</u>	<u>\$ 1,197,129</u>	<u>\$ 1,211,978</u>	<u>\$ 5,103,145</u>

(Continued)

See accompanying Notes to Basic Financial Statements.

**CITY OF DOUGLAS, ARIZONA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014**

	Business-type Activities - Enterprise Fund			
	Water	Sewer	Solid Waste	Totals
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income	\$ 147,907	\$ 370,876	\$ 248,485	\$ 767,268
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation	455,506	506,020	87,610	1,049,136
Miscellaneous Nonoperating Revenues	70,838	4,183	50	75,071
Change in Assets/Liabilities:				
Receivables, Net	13,529	6,730	1,828	22,087
Accounts Payable	(90,760)	(6,471)	5,407	(91,824)
Accrued Wages and Benefits	2,832	2,116	4,623	9,571
Insurance Claims Payable	2,814	8,301	4,320	15,435
Customer Deposits Payable	1,265	1,275	1,200	3,740
Compensated Absences	(9,678)	3,912	313	(5,453)
Net Cash Provided by Operating Activities	<u>\$ 594,253</u>	<u>\$ 896,942</u>	<u>\$ 353,836</u>	<u>\$ 1,845,031</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, 2014

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.

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.G. 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.

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.

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

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.

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.

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

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.

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.

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

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 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, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources 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 \$54,853.

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources 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, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources 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 \$5,000 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. Deferred Outflows of Resources

The deferred outflows of resources reported in the government-wide financial statements, represent the reacquisition costs related to the refunding of bonded debt. The reacquisition costs are amortized and expensed over the lesser of the maturity of the refunded bonds or the refunding bonds.

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity (Continued)

9. 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.

10. 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 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.

11. 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, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity (Continued)

12. 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, 2014

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 Public Housing 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, 2014**

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Deposits and investments at June 30, 2014 consist of the following:

Deposits:	
Cash on Hand	\$ 3,056
Cash in Bank	5,398,772
Cash on Deposit with County Attorney	467,004
Investments:	
State Treasurer's Investment Pool	5,855,530
Cash on Deposit with Trustee	626,320
Total Cash and Investments	12,350,682
Less Restricted Assets	(587,872)
Less Cash with Fiscal Agent	(626,320)
Cash and Investments - Statement of Net Position	\$ 11,136,490

Deposits

The carrying value of the City's deposits at June 30, 2014 was \$5,398,772 and the bank balance was \$5,413,194. Of the bank balance, \$3,991,296 was covered by federal depository insurance and \$1,421,898 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, 2014

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

The City's investments at June 30, 2014 consist of the following:

Investment Type	Amount	Maturity in Years	
		Less than 1	1-2
State Treasurer's Investment Pool 5	\$ 5,165,918	\$ 5,165,918	\$ -
State Treasurer's Investment Pool 500	689,612	-	689,612
	<u>\$ 5,855,530</u>	<u>\$ 5,165,918</u>	<u>\$ 689,612</u>

Concentration of Credit Risk – 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's investment policy limits investments to 1) the State of Arizona Local Government Investment Pool; 2) U.S. government obligations, U.S. government agency obligations, and U.S. government instrumentality obligations; 3) obligations of the Government National Mortgage Association, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, or any federal farm credit bank, federal land bank or federal home loan bank notes or bonds. In addition to limitations imposed by Arizona statute, City funds shall not be invested in reverse repurchase agreement, callable agency securities, or derivative type investments.

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, 2014 consist of:

Deposits:	
Cash on Hand	\$ 100
Cash in Bank	187,930
Investments:	
Funds Held by Mortgage	606,513
Restricted Assets	(633,323)
Total Cash and Cash Equivalents	<u>\$ 161,220</u>

The carrying value of the component unit's deposits at June 30, 2014 was \$187,930 which was entirely covered by federal depository insurance.

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

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, 2014 consisted of the following:

	Governmental Activities	Business-Type Activities		Total
		Water Fund	Sewer Fund	
Loan Debt Service Reserve Requirement	\$ -	\$ 109,008	\$ 459,229	\$ 568,237
Customer Deposits	9,666	-	-	9,666
Grantor Reserve Requirement	9,969	-	-	9,969
Total	\$ 19,635	\$ 109,008	\$ 459,229	\$ 587,872

Restricted assets of the discretely presented component units at June 30, 2014 consisted of the following:

Funds Held by Mortgage	\$ 606,513
Tenant Deposits	26,810
Total Restricted Assets of the Component Units	\$ 633,323

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:

	Unavailable	Unearned
Delinquent Property Taxes Receivable: (General Fund)	\$ 54,591	\$ -
Unavailable Grant Revenue: (Nonmajor Governmental Funds)	43,407	-
Sales Tax Audit Receivable: (General Fund)	20,652	-
(Nonmajor Governmental Funds)	2,477	-
Unearned Grant Revenue: (General Fund)	-	932
(Nonmajor Governmental Funds)	-	23,389
	\$ 121,127	\$ 24,321

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,065,310	\$ 35,000	\$ -	\$ 1,100,310
Construction in Progress	422,100	1,758,209	(620,226)	1,560,083
Total Capital Assets, Not Being Depreciated	1,487,410	1,793,209	(620,226)	2,660,393
Capital Assets, Being Depreciated:				
Land Improvements	4,680,684	47,992	-	4,728,676
Streets and Storm Drains	16,333,916	292,272	-	16,626,188
Buildings and Improvements	22,316,606	612,869	(7,154,284)	15,775,191
Machinery and Equipment	11,114,483	120,579	-	11,235,062
Vehicles	4,442,003	267,642	-	4,709,645
Total Capital Assets, Being Depreciated	58,887,692	1,341,354	(7,154,284)	53,074,762
Accumulated Depreciation for:				
Land Improvements	(2,448,826)	(188,104)	-	(2,636,930)
Streets and Storm Drains	(9,830,371)	(612,403)	-	(10,442,774)
Buildings and Improvements	(5,866,048)	(679,637)	317,968	(6,227,717)
Machinery and Equipment	(8,820,635)	(1,067,661)	-	(9,888,296)
Vehicles	(2,795,524)	(395,962)	-	(3,191,486)
Total Accumulated Depreciation	(29,761,404)	(2,943,767)	317,968	(32,387,203)
Total Capital Assets, Being Depreciated, Net	29,126,288	(1,602,413)	(6,836,316)	20,687,559
Governmental Activities Capital Assets, Net	<u>\$ 30,613,698</u>	<u>\$ 190,796</u>	<u>\$ (7,456,542)</u>	<u>\$ 23,347,952</u>

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Construction in Progress	\$ 924,647	\$ 43,535	\$ (158,070)	\$ 810,112
Capital Assets, Being Depreciated:				
Buildings and Improvements	7,648,482	-	-	7,648,482
Water System	15,517,875	159,728	-	15,677,603
Wastewater System	13,720,106	56,136	-	13,776,242
Machinery, Equipment, and Vehicles	2,522,038	388,386	-	2,910,424
Total Capital Assets, Being Depreciated	39,408,501	604,250	-	40,012,751
Accumulated Depreciation for:				
Buildings and Improvements	(2,574,423)	(169,966)	-	(2,744,389)
Water System	(8,032,829)	(396,144)	-	(8,428,973)
Wastewater System	(5,417,659)	(275,923)	-	(5,693,582)
Machinery, Equipment, and Vehicles	(1,720,941)	(207,103)	-	(1,928,044)
Total Accumulated Depreciation	(17,745,852)	(1,049,136)	-	(18,794,988)
Total Capital Assets, Being Depreciated, Net	21,662,649	(444,886)	-	21,217,763
Business-Type Activities Capital Assets, Net	<u>\$ 22,587,296</u>	<u>\$ (401,351)</u>	<u>\$ (158,070)</u>	<u>\$ 22,027,875</u>

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 91,150	\$ -	\$ -	\$ 91,150
Capital Assets, Being Depreciated:				
Buildings and Improvements	3,627,423	5,000	-	3,632,423
Furniture and Equipment	164,605	5,432	(17,441)	152,596
Total Capital Assets, Being Depreciated	3,792,028	10,432	(17,441)	3,785,019
Accumulated Depreciation for:				
Accumulated Depreciation	(2,669,835)	(130,422)	17,441	(2,782,816)
Total Capital Assets, Being Depreciated, Net	1,122,193	(119,990)	-	1,002,203
Business-Type Activities				
Capital Assets, Net	<u>\$ 1,213,343</u>	<u>\$ (119,990)</u>	<u>\$ -</u>	<u>\$ 1,093,353</u>

The activity for the business-type component units for the year ended June 30, 2014 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	7,583	(5,326)	26,278
Total Capital Assets, Being Depreciated	5,231,585	7,583	(5,326)	5,233,842
Accumulated Depreciation for:				
Buildings and Improvements	(1,603,907)	(130,189)	-	(1,734,096)
Furniture and Equipment	(23,522)	(770)	5,326	(18,966)
Total Accumulated Depreciation	(1,627,429)	(130,959)	5,326	(1,753,062)
Total Capital Assets, Being Depreciated, Net	3,604,156	(123,376)	-	3,480,780
Business-Type Activities				
Capital Assets, Net	<u>\$ 3,869,156</u>	<u>\$ (123,376)</u>	<u>\$ -</u>	<u>\$ 3,745,780</u>

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

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	\$ 1,169,182
Public Safety	625,462
Highways and Streets	684,501
Culture and Recreation	458,480
Redevelopment and Housing	6,142
Total Depreciation Expense, Governmental Activities	<u><u>\$ 2,943,767</u></u>

Business-Type Activities:

Water	\$ 455,506
Sewer	506,020
Solid Waste	87,610
Total Depreciation Expense, Business-Type Activities	<u><u>\$ 1,049,136</u></u>

Component Units

Governmental Activities:

Casa de Esperanza	\$ 86,052
Pioneer Village	44,370
Total Depreciation Expense - Governmental Activities	<u><u>\$ 130,422</u></u>

Business-type Activities:

Rancho La Perilla	<u><u>\$ 130,959</u></u>
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CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Transfers

Interfund transfers for the year ended June 30, 2014 consisted of the following:

Transfers Out	Transfers In			Total
	General Fund	MPC Debt Service Fund	Nonmajor Governmental Funds	
General Fund	\$ -	\$ 326,160	\$ 1,542,382	\$ 1,868,542
Nonmajor Governmental Funds	42,136	160,646	14,425	217,207
Water Fund	78,239	-	52,240	130,479
Sewer Fund	81,150	-	14,435	95,585
Solid Waste Fund	35,867	-	7,212	43,079
	<u>\$ 237,392</u>	<u>\$ 486,806</u>	<u>\$ 1,630,694</u>	<u>\$ 2,354,892</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 \$3,377,118 and \$583,553 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	\$ 3,377,118	\$ 583,553
Less: Accumulated Depreciation	(1,176,079)	(55,914)
Total	<u>\$ 2,201,039</u>	<u>\$ 527,639</u>

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

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

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
2015	\$ 404,930	\$ 36,160	\$ 114,119	\$ 8,904
2016	404,703	28,038	116,589	6,446
2017	387,959	20,525	119,113	3,923
2018	383,905	13,395	90,906	1,344
2019	163,288	7,297	-	-
2020	166,898	3,688	-	-
Total	<u>\$ 1,911,683</u>	<u>\$ 109,103</u>	<u>\$ 440,727</u>	<u>\$ 20,617</u>

D. 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 \$692,372 during this fiscal year. Future minimum lease payments related to the call center lease are as follows:

Year Ended June 30,	Amount
2015	\$ 647,076
2016	647,076
2017	647,076
2018	647,076
2019	647,076
2020 - 2024	2,680,722
	<u>\$ 5,916,102</u>

The City leases land to various third parties. Annual rental revenues from the lease agreements are recognized in the General Fund. Payments relating to these leases totaled \$99,298. The future minimum lease payments required under the leases at June 30, 2104 are as follows:

Year Ended June 30,	Amount
2015	\$ 113,930
2016	82,920
2017	61,320
2018	61,320
2019	23,823
Thereafter	39,600
	<u>\$ 382,913</u>

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

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, 2014
Revenue Bonds			
Municipal Property Corporation Excise Tax Refunding Bond, Series 2004; original issue \$4,165,000	7/1/14-15	2.00-3.50%	<u>\$ 470,000</u>

The City has pledged future excise taxes and other revenue 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 from excise taxes, state shared revenues, franchise taxes and fees for license and permits, and are payable through 2015. Annual principal and interest payments on the bonds are expected to require approximately 4 percent of pledged revenues recorded in the HURF and Debt Service Funds. The total principal and interest remaining to be paid on the bonds is \$486,450. Principal and interest paid for the current year and total pledged were \$486,806 and \$11,462,981, respectively.

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

Description	Maturity	Interest Rate (%)	Outstanding at June 30, 2014
Governmental Activities			
Loans Payable:			
Greater Arizona Development Authority, Series 2008A; original issue \$3,000,000	8/1/14-28	4.00-5.25%	\$ 2,375,000
The Industrial Development Authority of the City of Douglas, Arizona. Original issue \$400,000	7/1/14-17	0%	100,000
Call Center Purchase Agreement; collateralized by the building and equipment acquired with the debt; original issue \$9,000,000	7/31/14-28	4.29-5.63%	<u>5,250,000</u>
Total Governmental Loans Payable			<u>\$ 7,725,000</u>

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

Business-Type Activities			
Water Infrastructure Finance Authority of Arizona			
Issued 2009-2010	7/1/14-29	2.00%	\$ 3,867,387
Water Infrastructure Finance Authority of Arizona			
Issued 2009-2010	7/1/14-27	2.814%	<u>1,228,187</u>
Total Business-Type Loans Payable			<u>\$ 5,095,574</u>

The City has pledged future state shared revenue and City excise taxes, 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 Regional Service 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 2 percent of pledged revenues. The total principal and interest remaining to be paid on the loan is \$3,246,894. Principal and interest paid for the current year and total excise taxes and shared revenues were \$234,974 and \$9,791,063, respectively.

In 2009, the City issued two loans totaling \$9,000,000 for the acquisition and construction of a call center. The IT loan for 2,400,000 is payable from a 0.3 percent City sales tax, and the building loan for 6,600,000 is payable from lease revenues received on the lease agreement with a third party. The IT Loan was paid in full on 6/30/13. The lease of the call center is a 15 year lease with annual payments of \$670,182 plus property expenses. The lease revenues are to be used for payment of the debt, then for maintenance and operations costs. Annual principal and interest payments on the loans are expected to require more than 100 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 exceed revenue by 21%. The call center lease agreement expires fiscal year 2023; however, the City anticipates extending the lease agreement to cover the loan obligation period. The total principal and interest remaining to be paid on the loan is \$7,468,432. Principal and interest paid for the current year was \$696,086 and the City sales tax and lease revenues were \$96,100 and \$692,372, respectively.

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 \$1.5 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.

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

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 \$5,603,378. Principal and interest paid for the current year and total pledged revenues were \$594,860 and \$664,780.

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.

Changes in long-term obligations for the year ended June 30, 2014 are as follows:

	Beginning of Year	Additions	Retirements	End of Year	Due within One Year
Governmental Activities:					
Loans Payable	\$ 8,260,000	\$ -	\$ (535,000)	\$ 7,725,000	\$ 540,000
Revenue Bonds	925,000	-	(455,000)	470,000	470,000
Discount	(4,200)	-	2,802	(1,398)	-
Total Bonds and Loans	9,180,800	-	(987,198)	8,193,602	1,010,000
Other Liabilities:					
Capital Leases	1,345,057	1,041,474	(474,848)	1,911,683	404,930
Compensated Absences	1,273,344	758,839	(602,524)	1,429,659	604,907
Total Governmental Activities	<u>\$ 11,799,201</u>	<u>\$ 1,800,313</u>	<u>\$ (2,064,570)</u>	<u>\$ 11,534,944</u>	<u>\$ 2,019,837</u>
Business-Type Activities:					
Loans Payable	\$ 5,457,668	\$ 118,662	\$ (480,756)	\$ 5,095,574	\$ 490,947
Other Liabilities:					
Capital Lease	263,551	292,169	(114,993)	440,727	114,119
Compensated Absences	170,395	96,817	(102,270)	164,942	91,054
Total Business-Type Activities	<u>\$ 5,891,614</u>	<u>\$ 507,648</u>	<u>\$ (698,019)</u>	<u>\$ 5,701,243</u>	<u>\$ 696,120</u>
Governmental Component Units:					
Notes Payable	<u>\$ 2,598,377</u>	<u>\$ -</u>	<u>\$ (11,311)</u>	<u>\$ 2,587,066</u>	<u>\$ 25,163</u>
Business-Type Component Units:					
Notes Payable	<u>\$ 5,173,684</u>	<u>\$ -</u>	<u>\$ (49,269)</u>	<u>\$ 5,124,415</u>	<u>\$ 51,300</u>

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

Debt service requirements on long-term debt at June 30, 2014 are as follows:

Years	Primary Government				Component Units	
	Governmental Activities		Business-Type Activities		Governmental Activities	Business-type Activities
	Principal	Interest	Principal	Interest	Principal	Principal
2015	\$ 1,010,000	\$ 402,625	\$ 490,947	\$ 98,597	\$ 25,163	\$ 51,300
2016	545,000	376,539	501,359	87,961	13,525	53,417
2017	530,000	349,375	511,995	77,034	14,395	55,621
2018	520,000	321,938	522,862	65,993	15,321	57,916
2019	525,000	294,106	533,963	54,652	16,306	60,306
2020-2024	2,725,000	1,048,060	2,534,448	1,235,007	-	627,700
2025-2029	2,340,000	297,683	-	-	-	-
2030-2034	-	-	-	-	-	-
2035-2039	-	-	-	-	-	-
2040-2042	-	-	-	-	-	-
Thereafter	-	-	-	-	2,502,356	4,218,155
Totals	<u>\$ 8,195,000</u>	<u>\$ 3,090,326</u>	<u>\$ 5,095,574</u>	<u>\$ 1,619,244</u>	<u>\$ 2,587,066</u>	<u>\$ 5,124,415</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	\$ 56,700	\$ -	\$ -	\$ 56,700
Prepaid Items	16,927	-	-	16,927
Due from Component Unit	646,789	-	-	646,789
Total Nonspendable	<u>720,416</u>	<u>-</u>	<u>-</u>	<u>720,416</u>
Restricted:				
Federal and State Programs	-	-	323,751	323,751
Court Administration	-	-	61,234	61,234
Public Safety Programs	-	-	369,088	369,088
Highways and Streets	-	-	84,783	84,783
Housing and Redevelopment	-	-	379,342	379,342
Total Restricted	<u>-</u>	<u>-</u>	<u>1,218,198</u>	<u>1,218,198</u>
Committed for Capital Projects	-	-	1,033,237	1,033,237
Assigned for Debt Service	-	-	320,290	320,290
Unassigned:	<u>4,790,887</u>	<u>-</u>	<u>-</u>	<u>4,790,887</u>
Total Fund Balance	<u>\$ 5,511,303</u>	<u>\$ -</u>	<u>\$ 2,571,725</u>	<u>\$ 8,083,028</u>

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

G. 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	\$ 76,828	\$ 65,939	\$ 142,767
Accounts Receivable	18,785	8,523	27,308
Prepaid Items	18,796	10,265	29,061
Other Assets	74,030	139,143	213,173
Restricted Assets	127,926	121,677	249,603
Capital Assets			
Non-depreciable	74,696	16,454	91,150
Depreciable (Net)	685,097	317,106	1,002,203
Total Assets	1,076,158	679,107	1,755,265
Liabilities:			
Current Liabilities:			
Accounts Payable	2,260	5,695	7,955
Accrued Wages and Benefits	24,191	10,042	34,233
Interest Payable	47,137	68,925	116,062
Customer Deposits Payable	7,044	4,256	11,300
Notes Payable	19,932	5,231	25,163
Noncurrent Liabilities:			
Due in More Than One Year	1,613,892	948,011	2,561,903
Total Liabilities	1,714,456	1,042,160	2,756,616
Net Position:			
Net Investment in Capital Assets	(874,031)	(619,682)	(1,493,713)
Restricted for Redevelopment and Housing	235,733	256,629	492,362
Total Net Position	\$ (638,298)	\$ (363,053)	\$ (1,001,351)

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

G. Component Units Condensed Financial Information (Continued)

	Casa De Esperanza	Pioneer Village	Totals
Condensed Statement of Activities			
Expenses:			
Current:			
Redevelopment and Housing	\$ 272,588	\$ 131,486	\$ 404,074
Depreciation	86,052	44,370	130,422
Debt Service:			
Interest on Long-Term Debt	54,789	23,860	78,649
Total Expenses	413,429	199,716	613,145
Program Revenues:			
Operating Grants and Contributions	263,673	87,320	350,993
Charges for Services	56,369	58,355	114,724
Total Program Revenues	320,042	145,675	465,717
Net Program (Expense)	(93,387)	(54,041)	(147,428)
General Revenues:			
Investment Income	98	236	334
Other	6,540	1,165	7,705
Total General Revenues	6,638	1,401	8,039
Change in Net Position	(86,749)	(52,640)	(139,389)
Net Position, Beginning of Year	(551,549)	(310,413)	(861,962)
Net Position, End of Year	\$ (638,298)	\$ (363,053)	\$ (1,001,351)

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, 2014

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 (State National Insurance Company), 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.

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, 2014, the self-insured benefit claims payable, including amounts incurred, but not yet reported totaled \$165,651.

As of June 30, 2013 and 2014, unpaid claims were as follows:

	2014	2013
Beginning unpaid claims	\$ 116,356	\$ -
Claims incurred and changes in estimates	942,570	698,134
Payments made	(893,275)	(581,778)
Ending unpaid claims	\$ 165,651	\$ 116,356

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

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 \$9.0 million and \$1.3 million. The projects are for wastewater and solar field installation at the wastewater treatment facility respectively. As of June 30, 2014, the City had no construction commitments related to either project, but spent and drew down \$3.9 million; the WIFA funds, negotiated as a loan, have an available balance in the amount of \$5.1 million and \$1.3 million. Annual principal and semi-annual interest payment will be due through 2027 on the outstanding loan balance.

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, the third payment installment was paid on October 27, 2013, remaining scheduled installments are due on October 27, 2014 and October 27, 2015. There will be no interest on the settlement amount of the unpaid balance.

D. Special Item- Loss on Sale of Capital Assets

During fiscal year 2014, the City executed an intergovernmental agreement with Cochise County to transfer ownership of the Douglas Regional Service Center. The net book value of assets transferred totaled \$6,836,316 at the time of the transfer. The City received proceeds totaling \$897,088 and the County conveyed the Douglas Juvenile Probation and Health Department Buildings with an appraised value of \$170,000 and 417,050 respectively. The City reported a loss on the sale totaling \$5,352,178.

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 4 OTHER INFORMATION (CONTINUED)

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.

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, 2014, active plan members were required by statute to contribute at the actuarially determined rate of 11.54 percent (11.30 percent for retirement, 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 11.54 percent (10.70 percent for retirement, 0.60 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, 2014, 2013, and 2012, 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>
2014	\$ 437,731	\$ 24,546	\$ 9,818
2013	440,157	27,912	10,306
2012	404,836	26,715	9,864

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 4 OTHER INFORMATION (CONTINUED)

E. Retirement Plans (Continued)

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 39.46 and 45.05 percent of annual covered payroll for Police and Fire, respectively.

Annual Pension Cost

During the year ended June 30, 2014, the City of Douglas, Arizona's annual pension cost of \$815,322 for police and \$624,252 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, 2012 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, 2013, the most recent actuarial valuation date, the plan for police was 42.6 percent funded and the plan for fire was 35.3 percent funded. The actuarial accrued liability for benefits was \$17.0 million and \$11.9 million for police and fire, respectively; and the actuarial value of assets was \$7.3 million and \$4.2 million, respectively; resulting in an unfunded actuarial accrued liability (UAAL) of \$9.8 million and \$7.7 million, respectively. The covered payroll (annual payroll of active employees covered by the plan) for the police and fire plan was \$2.0 million and \$1.4 million, and the ratio of the UAAL to the covered payroll was 477.3 percent and 546.3 percent, respectively.

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 4 OTHER INFORMATION (CONTINUED)

E. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

As of June 30, 2013, 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 \$2.0 million and \$1.4 million, and the ratio of the UAAL to the covered payroll was 18.7 percent and 15.3 percent, respectively.

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, 2013, was 23 years.

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

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

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
Police**

<u>Fiscal Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent Contributed</u>	<u>Net Pension Obligation</u>
2012	\$ 569,043	100%	\$ -
2013	679,993	100%	-
2014	815,322	100%	-
<u>Fiscal Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percent Contributed</u>	<u>OPEB Benefit Obligation</u>
2012	\$ 32,868	100%	\$ -
2013	30,515	100%	-
2014	28,439	100%	-

**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>
2012	\$ 435,560	100%	\$ -
2013	519,131	100%	-
2014	624,252	100%	-
<u>Fiscal Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percent Contributed</u>	<u>OPEB Benefit Obligation</u>
2012	\$ 20,045	100%	\$ -
2013	19,203	100%	-
2014	17,815	100%	-

Additional historical trend information for the City's PSPRS is disclosed on page 68. 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, 2014**

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
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
2013	7,254,659	17,025,775	42.6	(9,771,116)	2,047,135	477.3

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
2011	\$ -	\$ 368,007	0.0%	\$ (368,007)	\$ 1,785,679	20.6%
2012	-	357,260	0.0	(357,260)	1,939,472	18.4
2013	-	383,172	0.0	(383,172)	2,047,135	18.7

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
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
2013	4,203,038	11,901,240	35.3	(7,698,202)	1,409,268	546.3

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
2011	\$ -	\$ 234,971	0.0%	\$ (234,971)	\$ 1,168,985	20.1%
2012	-	223,089	0.0	(223,089)	1,292,729	17.3
2013	-	215,366	0.0	(215,366)	1,409,268	15.3

**CITY OF DOUGLAS, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2014**

	Original and Final Budget	Actual	Variance With Final Budget
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Taxes:			
Sales Taxes	\$ 5,169,980	\$ 4,933,107	\$ (236,873)
Property Taxes	604,393	578,451	(25,942)
Franchise Taxes	331,000	311,019	(19,981)
Intergovernmental Revenues	5,597,599	5,570,260	(27,339)
Fines and Forfeitures	290,500	305,830	15,330
Licenses and Permits	183,000	201,227	18,227
Charges for Services	1,787,088	1,763,797	(23,291)
Rents and Royalties	832,078	819,022	(13,056)
Investment Income	10,000	11,691	1,691
Other	184,000	107,142	(76,858)
Total Revenues	<u>14,989,638</u>	<u>14,601,546</u>	<u>(388,092)</u>
EXPENDITURES			
Current:			
General Government:			
Administration	510,141	536,363	(26,222)
Finance	530,292	543,684	(13,392)
Personnel	502,391	440,906	61,485
General Government	487,808	209,381	278,427
Management Information Systems	503,102	490,555	12,547
Parking Lot	-	979	(979)
Transit	506,452	373,977	132,475
City Magistrate	71,495	73,597	(2,102)
Cemetery	129,874	155,357	(25,483)
Community Development	2,369	29,152	(26,783)
Golf Course	379,000	321,042	57,958
Economic Development	-	7,103	(7,103)
Airport	137,302	158,135	(20,833)
Call Center	68,142	52,517	15,625
Total General Government	<u>3,828,368</u>	<u>3,392,748</u>	<u>435,620</u>
Public Safety:			
Police	4,489,423	4,436,035	53,388
Fire	1,191,510	1,364,775	(173,265)
Emergency Medical Services	1,286,490	1,389,664	(103,174)
Total Public Safety	<u>6,967,423</u>	<u>7,190,474</u>	<u>(223,051)</u>
Highways and Streets:			
Public Works	825,898	617,465	208,433

(Continued)

**CITY OF DOUGLAS, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE (CONTINUED)
GENERAL FUND
YEAR ENDED JUNE 30, 2014**

(Concluded)	Original and Final Budget	Actual	Variance With Final Budget
EXPENDITURES (CONTINUED)			
Culture and Recreation:			
Parks	\$ 574,056	\$ 533,599	\$ 40,457
Recreation	99,995	125,450	(25,455)
Library	309,834	327,437	(17,603)
Aquatics	308,724	318,487	(9,763)
Visitor Center	73,354	73,466	(112)
Total Culture and Recreation	<u>1,365,963</u>	<u>1,378,439</u>	<u>(12,476)</u>
Debt Service:			
Principal Retirement	32,644	29,632	3,012
Interest on Long-Term Debt	67	4,376	(4,309)
Total Debt Service	<u>32,711</u>	<u>34,008</u>	<u>(1,297)</u>
Capital Outlay	415,000	245,931	169,069
Total Expenditures	<u>13,435,363</u>	<u>12,859,065</u>	<u>576,298</u>
Excess (Deficiency) of Revenues Over Expenditures	1,554,275	1,742,481	188,206
OTHER FINANCING SOURCES (USES)			
Transfers In	369,582	237,392	(132,190)
Transfers Out	(2,159,464)	(1,868,542)	290,922
Proceeds from Sale of Capital Assets	310,000	297,088	(12,912)
Proceeds from Capital Leases	-	155,417	155,417
Total Other Financing Sources (Uses)	<u>(1,479,882)</u>	<u>(1,178,645)</u>	<u>301,237</u>
Net Change in Fund Balance	74,393	563,836	489,443
FUND BALANCE			
Beginning of Year	4,544,106	4,947,467	403,361
End of Year	<u>\$ 4,618,499</u>	<u>\$ 5,511,303</u>	<u>\$ 892,804</u>

See accompanying Notes to Budgetary Comparison Schedule.

CITY OF DOUGLAS, ARIZONA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2014

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	\$ 14,601,546	\$ -	\$ 14,601,546
Expenditures	<u>13,745,122</u>	<u>(886,057)</u>	<u>12,859,065</u>
Excess (Deficiency) of Revenues Over Expenditures	856,424	886,057	1,742,481
Other Financing Sources and (Uses)	<u>(292,588)</u>	<u>(886,057)</u>	<u>(1,178,645)</u>
Net Change in Fund Balance	563,836	-	563,836
Fund Balance, Beginning of Year	<u>4,947,467</u>	<u>-</u>	<u>4,947,467</u>
Fund Balance, End of Year	<u><u>\$ 5,511,303</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,511,303</u></u>

**CITY OF DOUGLAS, ARIZONA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2014**

NOTE 3 EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Expenditures exceeded appropriations in the following funds:

		<u>Amount of Overexpenditure</u>
General Fund:		
Administration	\$	26,222
Finance		13,392
Parking Lot		979
City Magistrate		2,102
Cemetery		25,483
Community Development		26,783
Economic Development		7,103
Airport		20,833
Fire		173,265
Emergency Medical Services		103,174
Recreation		25,455
Library		17,603
Aquatics		9,763
Visitor Center		112
Debt Service		1,297

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.

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, 2014**

	Special Revenue			
	HURF	Grants	Police Grants	JCEF Restricted Court
ASSETS				
Cash and Investments	\$ 33,210	\$ 284,823	\$ 370,916	\$ 61,487
Receivables				
Accounts Receivable	-	-	-	-
Taxes Receivable	-	-	-	-
Intergovernmental Receivable	108,809	173,184	-	-
Restricted Assets	-	-	-	-
Total Assets	\$ 142,019	\$ 458,007	\$ 370,916	\$ 61,487
LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 31,277	\$ 90,849	\$ 1,828	\$ 253
Accrued Wages and Benefits	15,357	-	-	-
Insurance Claims Payable	10,602	-	-	-
Unearned Revenue	-	-	-	-
Customer Deposits Payable	-	-	-	-
Total Liabilities	57,236	90,849	1,828	253
Deferred Inflows of Resources				
Unavailable Revenue	-	43,407	-	-
Fund Balances				
Restricted	84,783	323,751	369,088	61,234
Committed	-	-	-	-
Assigned	-	-	-	-
Total Fund Balances	84,783	323,751	369,088	61,234
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 142,019	\$ 458,007	\$ 370,916	\$ 61,487

Special Revenue

<u>Public Housing</u>	<u>Total Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 440,717	\$ 1,191,153	\$ 984,063	\$ 320,290	\$ 2,495,506
4,505	4,505	-	-	4,505
-	-	51,839	-	51,839
-	281,993	-	-	281,993
19,635	19,635	-	-	19,635
<u>\$ 464,857</u>	<u>\$ 1,497,286</u>	<u>\$ 1,035,902</u>	<u>\$ 320,290</u>	<u>\$ 2,853,478</u>
\$ 22,092	\$ 146,299	\$ 188	\$ -	\$ 146,487
20,399	35,756	-	-	35,756
-	10,602	-	-	10,602
23,389	23,389	-	-	23,389
19,635	19,635	-	-	19,635
<u>85,515</u>	<u>235,681</u>	<u>188</u>	<u>-</u>	<u>235,869</u>
<u>-</u>	<u>43,407</u>	<u>2,477</u>	<u>-</u>	<u>45,884</u>
379,342	1,218,198	-	-	1,218,198
-	-	1,033,237	-	1,033,237
-	-	-	320,290	320,290
<u>379,342</u>	<u>1,218,198</u>	<u>1,033,237</u>	<u>320,290</u>	<u>2,571,725</u>
<u>\$ 464,857</u>	<u>\$ 1,497,286</u>	<u>\$ 1,035,902</u>	<u>\$ 320,290</u>	<u>\$ 2,853,478</u>

**CITY OF DOUGLAS, ARIZONA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCES
YEAR ENDED JUNE 30, 2014**

	Special Revenue			
	HURF	Grants	Police Grants	JCEF Restricted Court
REVENUES				
Taxes				
Sales Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental Revenues	1,159,672	478,028	267,625	-
Fines and Forfeitures	-	-	-	5,618
Investment Income	-	1,165	4,725	-
Other	59,732	-	-	-
Total Revenues	<u>1,219,404</u>	<u>479,193</u>	<u>272,350</u>	<u>5,618</u>
EXPENDITURES				
Current				
General Government	-	657	-	13,833
Public Safety	-	3,232	102,006	-
Highways and Streets	1,067,833	-	-	-
Culture and Recreation	-	135,488	-	-
Redevelopment and Housing	-	-	-	-
Debt Service				
Principal Retirement	-	-	-	-
Interest on Long-Term Debt	-	-	-	-
Capital Outlay	-	472,717	89,938	-
Total Expenditures	<u>1,067,833</u>	<u>612,094</u>	<u>191,944</u>	<u>13,833</u>
Excess (Deficiency) of Revenues Over Expenditures	151,571	(132,901)	80,406	(8,215)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	153,371	-	-
Transfers Out	(217,207)	-	-	-
Proceeds from Sale of Capital Assets	-	-	-	-
Total Other Financing Sources (Uses)	<u>(217,207)</u>	<u>153,371</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(65,636)	20,470	80,406	(8,215)
FUND BALANCES				
Beginning of Year	150,419	303,281	288,682	69,449
End of Year	<u>\$ 84,783</u>	<u>\$ 323,751</u>	<u>\$ 369,088</u>	<u>\$ 61,234</u>

Special Revenue

<u>Public Housing</u>	<u>Total Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ -	\$ 481,015	\$ 96,100	\$ 577,115
980,050	2,885,375	-	-	2,885,375
-	5,618	-	-	5,618
178	6,068	12,458	390	18,916
94,787	154,519	20,254	-	174,773
<u>1,075,015</u>	<u>3,051,580</u>	<u>513,727</u>	<u>96,490</u>	<u>3,661,797</u>
-	14,490	-	-	14,490
-	105,238	-	-	105,238
-	1,067,833	-	-	1,067,833
-	135,488	-	-	135,488
1,058,347	1,058,347	-	-	1,058,347
-	-	-	980,216	980,216
-	-	-	465,740	465,740
-	562,655	112,247	-	674,902
<u>1,058,347</u>	<u>2,944,051</u>	<u>112,247</u>	<u>1,445,956</u>	<u>4,502,254</u>
16,668	107,529	401,480	(1,349,466)	(840,457)
-	153,371	31,757	1,445,566	1,630,694
-	(217,207)	-	-	(217,207)
-	-	600,000	-	600,000
<u>-</u>	<u>(63,836)</u>	<u>631,757</u>	<u>1,445,566</u>	<u>2,013,487</u>
16,668	43,693	1,033,237	96,100	1,173,030
362,674	1,174,505	-	224,190	1,398,695
<u>\$ 379,342</u>	<u>\$ 1,218,198</u>	<u>\$ 1,033,237</u>	<u>\$ 320,290</u>	<u>\$ 2,571,725</u>

**CITY OF DOUGLAS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
MPC DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2014**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
EXPENDITURES			
Debt Service			
Principal Retirement	\$ 455,000	\$ 455,000	\$ -
Interest and Fiscal Charges	31,806	31,806	-
Total Expenditures	<u>486,806</u>	<u>486,806</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	(486,806)	(486,806)	-
OTHER FINANCING SOURCES (USES)			
Transfers In	<u>486,806</u>	<u>486,806</u>	<u>-</u>
Net Change in Fund Balance	-	-	-
FUND BALANCE			
Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>
End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF DOUGLAS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
HURF FUND
YEAR ENDED JUNE 30, 2014

	Original and Final Budget	Actual	Variance With Final Budget
REVENUES			
Intergovernmental Revenues	\$ 1,161,303	\$ 1,159,672	\$ (1,631)
Other	35,000	59,732	24,732
Total Revenues	1,196,303	1,219,404	23,101
EXPENDITURES			
Current:			
Highways and Streets	982,115	1,067,833	(85,718)
Excess (Deficiency) of Revenues Over Expenditures	214,188	151,571	(62,617)
OTHER FINANCING SOURCES (USES)			
Transfers Out	(214,188)	(217,207)	(3,019)
Net Change in Fund Balance	-	(65,636)	(65,636)
FUND BALANCE			
Beginning of Year	-	150,419	150,419
End of Year	\$ -	\$ 84,783	\$ 84,783

CITY OF DOUGLAS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GRANTS FUND
YEAR ENDED JUNE 30, 2014

	Original and Final Budget	Actual	Variance With Final Budget
REVENUES			
Intergovernmental Revenues	\$ 3,303,934	\$ 478,028	\$ (2,825,906)
Investment Income	-	1,165	1,165
Total Revenues	3,303,934	479,193	(2,824,741)
EXPENDITURES			
Current:			
General Government	-	657	(657)
Public Safety	45,719	3,232	42,487
Highways and Streets	528,220	-	528,220
Culture and Recreation	1,000	135,488	(134,488)
Capital Outlay	2,917,520	472,717	2,444,803
Total Expenditures	3,492,459	612,094	2,880,365
Excess (Deficiency) of Revenues Over Expenditures	(188,525)	(132,901)	55,624
OTHER FINANCING SOURCES (USES)			
Transfers In	94,715	153,371	58,656
Net Change in Fund Balance	(93,810)	20,470	114,280
FUND BALANCE			
Beginning of Year	-	303,281	303,281
End of Year	\$ (93,810)	\$ 323,751	\$ 417,561

**CITY OF DOUGLAS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
POLICE GRANTS FUND
YEAR ENDED JUNE 30, 2014**

	Original and Final Budget	Actual	Variance With Final Budget
REVENUES			
Intergovernmental Revenues	\$ 210,000	\$ 267,625	\$ 57,625
Investment Income	-	4,725	4,725
Total Revenues	<u>210,000</u>	<u>272,350</u>	<u>62,350</u>
EXPENDITURES			
Current			
Public Safety	52,000	102,006	(50,006)
Capital Outlay	<u>158,000</u>	<u>89,938</u>	<u>68,062</u>
Total Expenditures	<u>210,000</u>	<u>191,944</u>	<u>18,056</u>
Excess (Deficiency) of Revenues Over Expenditures	-	80,406	80,406
FUND BALANCE			
Beginning of Year	-	288,682	288,682
End of Year	<u>\$ -</u>	<u>\$ 369,088</u>	<u>\$ 369,088</u>

CITY OF DOUGLAS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
JCEF RESTRICTED COURT FUND
YEAR ENDED JUNE 30, 2014

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
REVENUES			
Fines and Forfeits	\$ 10,500	\$ 5,618	\$ (4,882)
EXPENDITURES			
Current:			
General Government	<u>18,572</u>	<u>13,833</u>	<u>4,739</u>
Excess (Deficiency) of Revenues Over Expenditures	(8,072)	(8,215)	(143)
FUND BALANCE			
Beginning of Year	-	69,449	69,449
End of Year	<u>\$ (8,072)</u>	<u>\$ 61,234</u>	<u>\$ 69,306</u>

CITY OF DOUGLAS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
CAPITAL PROJECTS FUND
YEAR ENDED JUNE 30, 2014

	Original and Final Budget	Actual	Variance With Final Budget
REVENUES			
Taxes	\$ 448,038	\$ 481,015	\$ 32,977
Investment Income	-	12,458	12,458
Other	-	20,254	20,254
Total Revenues	<u>448,038</u>	<u>513,727</u>	<u>65,689</u>
EXPENDITURES			
Capital Outlay	<u>670,000</u>	<u>112,247</u>	<u>557,753</u>
Excess (Deficiency) of Revenues Over Expenditures	(221,962)	401,480	623,442
OTHER FINANCING SOURCES (USES)			
Transfers In	221,962	31,757	(190,205)
Proceeds from Sale of Capital Assets	-	600,000	600,000
Total Other Financing Sources (Uses)	<u>221,962</u>	<u>631,757</u>	<u>409,795</u>
Net Change in Fund Balance	-	1,033,237	1,033,237
FUND BALANCE			
Beginning of Year	-	-	-
End of Year	<u>\$ -</u>	<u>\$ 1,033,237</u>	<u>\$ 1,033,237</u>

CITY OF DOUGLAS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2014

	Original and Final Budget	Actual	Variance With Final Budget
REVENUES			
Taxes	\$ 101,962	\$ 96,100	\$ (5,862)
Investment Earnings	-	390	390
Total Revenues	<u>101,962</u>	<u>96,490</u>	<u>(5,472)</u>
EXPENDITURES			
Debt Service:			
Principal Retirement	980,216	980,216	-
Interest on Long-Term Debt	<u>481,676</u>	<u>465,740</u>	<u>15,936</u>
Total Expenditures	<u>1,461,892</u>	<u>1,445,956</u>	<u>15,936</u>
Excess (Deficiency) of Revenues Over Expenditures	(1,359,930)	(1,349,466)	10,464
OTHER FINANCING SOURCES (USES)			
Transfers In	<u>1,461,892</u>	<u>1,445,566</u>	<u>(16,326)</u>
Net Change in Fund Balance	-	96,100	96,100
FUND BALANCE			
Beginning of Year	-	224,190	224,190
End of Year	<u>\$ -</u>	<u>\$ 320,290</u>	<u>\$ 320,290</u>

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			
	2005	2006	2007	2008
Governmental Activities:				
Net Investment in Capital Assets	\$ 5,862,693	\$ 6,617,585	\$ 14,111,791	\$ 13,509,453
Restricted	3,233,910	3,008,022	2,756,736	2,939,323
Unrestricted	3,376,539	3,586,626	3,951,726	3,491,020
Total Governmental Activities Net Position	<u>\$ 12,473,142</u>	<u>\$ 13,212,233</u>	<u>\$ 20,820,253</u>	<u>\$ 19,939,796</u>
Business-Type Activities:				
Net Investment in Capital Assets	\$ 11,354,586	\$ 11,052,102	\$ 11,744,198	\$ 12,314,881
Restricted	-	-	-	-
Unrestricted	1,885,932	2,010,602	1,586,749	1,815,909
Total Business-Type Activities Net Position	<u>\$ 13,240,518</u>	<u>\$ 13,062,704</u>	<u>\$ 13,330,947</u>	<u>\$ 14,130,790</u>
Primary Government:				
Net Investment in Capital Assets	\$ 17,217,279	\$ 17,669,687	\$ 25,855,989	\$ 25,824,334
Restricted	3,233,910	3,008,022	2,756,736	2,939,323
Unrestricted	5,262,471	5,597,228	5,538,475	5,306,929
Total Primary Government Net Position	<u>\$ 25,713,660</u>	<u>\$ 26,274,937</u>	<u>\$ 34,151,200</u>	<u>\$ 34,070,586</u>

Source: The City's Finance Department.

Fiscal Year

2009	2010	2011	2012	2013	2014
\$ 12,376,658	\$ 13,775,501	\$ 15,847,448	\$ 20,735,227	\$ 20,087,841	\$ 13,255,510
3,634,763	477,084	719,796	871,510	1,234,695	1,261,605
5,438,330	7,049,956	3,938,127	3,923,990	3,991,132	5,512,891
<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>	<u>\$ 20,030,006</u>
\$ 15,535,124	\$ 15,872,761	\$ 16,048,928	\$ 15,921,451	\$ 16,866,077	\$ 16,491,574
-	-	-	-	443,520	568,237
1,006,658	1,205,402	2,100,001	3,880,161	3,685,177	4,508,051
<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>	<u>\$ 21,567,862</u>
\$ 27,911,782	\$ 29,648,262	\$ 31,896,376	\$ 36,656,678	\$ 36,953,918	\$ 29,747,084
3,634,763	477,084	719,796	871,510	1,678,215	1,829,842
6,444,988	8,255,358	6,038,128	7,804,151	7,676,309	10,020,942
<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>	<u>\$ 41,597,868</u>

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

	Fiscal Year			
	2005	2006	2007	2008
EXPENSES				
Governmental Activities:				
General Government	\$ 2,989,561	\$ 3,406,989	\$ 3,725,063	\$ 4,340,737
Public Safety	4,985,627	5,720,526	6,043,744	6,348,866
Highways and Streets	2,144,672	2,938,401	2,271,480	1,760,251
Culture and Recreation	1,792,405	1,771,149	1,983,227	2,189,769
Redevelopment and Housing	20,744	281,392	25,159	132,857
Interest on Long-Term Debt	186,596	165,418	159,577	180,077
Total Governmental Activities	<u>12,119,605</u>	<u>14,283,875</u>	<u>14,208,250</u>	<u>14,952,557</u>
Business-Type Activities:				
Water	1,758,738	1,774,516	1,838,462	1,455,706
Sewer	902,247	861,899	938,588	952,579
Solid Waste	814,419	842,263	872,341	891,003
Total Business-Type Activities	<u>3,475,404</u>	<u>3,478,678</u>	<u>3,649,391</u>	<u>3,299,288</u>
 Total Primary Government Expenses	 <u>\$ 15,595,009</u>	 <u>\$ 17,762,553</u>	 <u>\$ 17,857,641</u>	 <u>\$ 18,251,845</u>
PROGRAM REVENUES				
Governmental Activities:				
Fines, Fees and Charges for Services:				
General Government	\$ 1,334,218	\$ 1,359,062	\$ 1,031,216	\$ 939,208
Public Safety	556,022	586,562	591,610	642,820
Highways and Streets	2,750	3,256	62	2,834
Culture and Recreation	157,660	104,169	102,689	97,949
Operating Grants and Contributions	1,826,751	2,326,620	2,428,909	2,293,564
Capital Grants and Contributions	809,180	555,531	651,377	589,152
Total Governmental Activities	<u>4,686,581</u>	<u>4,935,200</u>	<u>4,805,863</u>	<u>4,565,527</u>
Business-Type Activities:				
Charges for Services:				
Water	1,586,261	1,597,155	1,618,744	1,749,040
Sewer	903,830	911,694	916,597	924,045
Solid Waste	673,965	643,107	667,241	668,023
Operating Grants and Contributions	-	-	-	-
Capital Grants and Contributions	-	86,803	580,433	110,274
Total Business-Type Activities	<u>3,164,056</u>	<u>3,238,759</u>	<u>3,783,015</u>	<u>3,451,382</u>
 Total Primary Government	 <u>\$ 7,850,637</u>	 <u>\$ 8,173,959</u>	 <u>\$ 8,588,878</u>	 <u>\$ 8,016,909</u>

Source: The City's Finance Department.

Fiscal Year

	2009	2010	2011	2012	2013	2014
\$	3,999,501	\$ 4,639,733	\$ 5,121,084	\$ 4,840,153	\$ 4,989,484	\$ 4,499,732
	6,604,306	6,715,219	6,700,135	7,186,954	7,799,983	8,050,797
	2,702,979	2,970,829	2,773,973	2,555,331	2,605,395	2,394,792
	2,074,291	1,986,674	1,936,579	1,827,388	1,868,116	1,965,397
	497,600	53,973	51,599	-	1,041,957	1,064,489
	727,564	760,128	704,510	664,519	579,592	530,417
	<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>	<u>18,505,624</u>
	1,344,052	1,261,985	1,367,914	1,698,669	1,666,863	1,839,897
	1,385,910	1,337,193	1,320,648	1,313,976	1,310,421	1,538,514
	707,042	716,047	755,546	765,647	785,788	956,297
	<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>4,334,708</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>	<u>22,840,332</u>
\$	1,387,975	\$ 1,766,509	\$ 1,728,090	\$ 2,035,725	\$ 1,825,479	\$ 1,890,264
	760,669	669,040	972,724	924,788	895,111	1,069,174
	-	-	-	-	-	-
	98,174	90,033	173,836	73,255	89,531	136,056
	1,818,551	2,128,442	2,303,776	2,193,829	3,340,827	3,751,156
	1,765,876	902,228	951,180	5,622,718	1,000,170	423,034
	<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>	<u>7,269,684</u>
	1,782,320	1,870,916	1,965,519	2,000,402	2,025,752	2,070,331
	909,842	1,042,152	1,703,223	1,796,248	1,835,771	1,880,405
	816,038	1,056,305	1,203,563	1,237,449	1,205,675	1,202,806
	-	-	-	592,435	8,196	1,320
	2,373,486	-	-	274,140	19,578	-
	<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>5,154,862</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>	<u>12,424,546</u>

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

(Concluded)	Fiscal Year			
	2005	2006	2007	2008
NET (EXPENSE)/REVENUE				
Governmental Activities	\$ (7,433,024)	\$ (9,348,675)	\$ (9,402,387)	\$ (10,387,030)
Business-Type Activities	(311,348)	(239,919)	133,624	152,094
Total Primary Government Net Expense	\$ (7,744,372)	\$ (9,588,594)	\$ (9,268,763)	\$ (10,234,936)
GENERAL REVENUES AND OTHER CHANGES IN NET POSITION				
Governmental Activities:				
Taxes:				
Sales Taxes	\$ 4,390,874	\$ 4,740,475	\$ 5,006,857	\$ 5,095,143
Property Taxes	410,706	448,571	465,726	462,232
Franchise Taxes	253,182	261,809	322,308	349,444
Unrestricted Grants and Contributions	3,089,912	-	-	49,612
State Revenue Sharing	-	1,765,690	2,002,854	2,448,141
State Sales Tax Revenue Sharing	-	1,729,948	1,634,497	1,580,288
Auto Lieu Tax Revenue Sharing	-	791,931	789,900	845,030
Payments in Lieu of Taxes	713,727	-	-	-
Gain (Loss) on Sale of Capital Assets	-	-	-	-
Investment Income	170,524	229,305	311,744	280,685
Other	25	1,802	1,119	1,697
Special Item	-	-	-	-
Transfers	5,656	118,235	63,387	(323,514)
Total Governmental Activities	9,034,606	10,087,766	10,598,392	10,788,758
Business-Type Activities:				
Sales Tax	98,995	91,380	91,380	224,968
Investment Income (Loss)	50,159	88,960	106,626	99,267
Transfers	(5,656)	(118,235)	(63,387)	323,514
Total Business-Type Activities	143,498	62,105	134,619	647,749
Total Primary Government	\$ 9,178,104	\$ 10,149,871	\$ 10,733,011	\$ 11,436,507
CHANGE IN NET POSITION				
Governmental Activities	\$ 1,601,582	\$ 739,091	\$ 1,196,005	\$ 401,728
Business-Type Activities	(167,850)	(177,814)	268,243	799,843
Total Primary Government	\$ 1,433,732	\$ 561,277	\$ 1,464,248	\$ 1,201,571

Fiscal Year

2009	2010	2011	2012	2013	2014
\$ (10,774,996)	\$ (11,570,304)	\$ (11,158,274)	\$ (6,224,030)	\$ (11,733,409)	\$ (11,235,940)
2,444,682	654,148	1,428,197	2,122,382	1,331,900	820,154
<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>	<u>\$ (10,415,786)</u>
\$ 6,151,531	\$ 5,808,108	\$ 5,953,998	\$ 5,825,402	\$ 5,364,312	\$ 5,533,351
532,028	531,489	545,995	533,742	563,698	578,759
341,702	351,635	337,029	334,074	314,080	311,019
18,467	30,274	39,082	42,590	70,074	41,950
2,608,244	2,245,322	1,687,895	1,466,716	1,775,125	1,976,038
1,368,088	1,261,862	1,316,667	1,357,922	1,419,048	1,545,589
793,358	732,787	762,824	803,452	757,402	736,085
-	-	-	-	-	-
-	-	-	6,769	-	-
16,212	107,495	67,493	44,626	39,423	30,607
322,889	238,124	258,705	356,342	596,739	281,915
-	-	-	-	-	(5,352,178)
132,432	115,998	358,411	477,751	162,208	269,143
<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>	<u>5,952,278</u>
77,114	-	-	-	-	-
21,628	(1,769)	980	8,052	23,470	22,077
(132,432)	(115,998)	(358,411)	(477,751)	(162,208)	(269,143)
<u>(33,690)</u>	<u>(117,767)</u>	<u>(357,431)</u>	<u>(469,699)</u>	<u>(138,738)</u>	<u>(247,066)</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>	<u>\$ 5,705,212</u>
\$ 1,509,955	\$ (147,210)	\$ 169,825	\$ 5,025,356	\$ (671,300)	\$ (5,283,662)
2,410,992	536,381	1,070,766	1,652,683	1,193,162	573,088
<u>\$ 3,920,947</u>	<u>\$ 389,171</u>	<u>\$ 1,240,591</u>	<u>\$ 6,678,039</u>	<u>\$ 521,862</u>	<u>\$ (4,710,574)</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>
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
2014	5,533,351	578,759	311,019	6,423,129

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				
	2005	2006	2007	2008	2009
General Fund:					
Reserved	\$ 1,285	\$ -	\$ 5,878	\$ 78,239	\$ 68,239
Unreserved	3,328,604	3,788,373	4,076,080	3,735,584	3,962,160
Non-spendable	-	-	-	-	-
Unassigned	-	-	-	-	-
Total General Fund	<u>\$ 3,329,889</u>	<u>\$ 3,788,373</u>	<u>\$ 4,081,958</u>	<u>\$ 3,813,823</u>	<u>\$ 4,030,399</u>
All Other Governmental Funds:					
Reserved	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
Unreserved, Reported in:					
Special Revenue Funds	2,897,657	2,597,332	2,643,920	4,854,098	5,335,420
Capital Projects Funds	15,184	-	3,143	(68,512)	(7,499)
Debt Service Funds	-	300	-	-	-
Restricted	-	-	-	-	-
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
Total All Other Governmental Funds	<u>\$ 2,922,841</u>	<u>\$ 2,607,632</u>	<u>\$ 2,657,063</u>	<u>\$ 4,795,586</u>	<u>\$ 5,337,921</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				
2010	2011	2012	2013	2014
\$ -	\$ -	\$ -	\$ -	\$ -
4,174,438	-	-	-	-
-	58,493	652,189	686,488	720,416
-	4,683,978	4,108,952	4,260,979	4,790,887
<u>\$ 4,174,438</u>	<u>\$ 4,742,471</u>	<u>\$ 4,761,141</u>	<u>\$ 4,947,467</u>	<u>\$ 5,511,303</u>
\$ 15,453	\$ -	\$ -	\$ -	\$ -
4,065,860	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	2,220,530	871,510	1,174,505	1,218,198
-	-	-	-	1,033,237
-	-	228,340	224,190	320,290
-	(29,857)	-	-	-
<u>\$ 4,081,313</u>	<u>\$ 2,190,673</u>	<u>\$ 1,099,850</u>	<u>\$ 1,398,695</u>	<u>\$ 2,571,725</u>

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

	Fiscal Year			
	2005	2006	2007	2008
REVENUES				
Taxes	\$ 5,060,906	\$ 5,464,419	\$ 5,782,276	\$ 5,914,743
Intergovernmental	6,439,570	7,169,720	7,507,537	7,805,787
Fines and Forfeitures	206,150	185,754	199,420	141,232
Licenses and Permits	223,484	262,858	270,278	169,697
Charges for Services	972,483	1,040,529	1,012,858	1,059,989
Rents and Royalties	-	45,000	45,000	36,000
Special Assessments	18,000	-	-	-
Investment Income	170,524	229,305	311,744	280,685
Other	681,111	661,749	324,140	307,449
Total Revenues	<u>13,772,228</u>	<u>15,059,334</u>	<u>15,453,253</u>	<u>15,715,582</u>
EXPENDITURES				
General Government	3,579,484	3,477,225	3,801,423	5,169,854
Public Safety	4,989,254	5,764,769	5,992,153	6,078,350
Highways and Streets	2,700,498	3,166,478	2,551,227	2,413,444
Culture and Recreation	1,671,445	1,767,630	2,266,214	1,863,014
Redevelopment and Housing	20,744	281,392	25,159	132,857
Capital Outlay	-	38,999	-	896,225
Debt Service				
Principal Retirement	390,742	413,349	418,837	429,669
Interest on Long-Term Debt	145,630	124,452	118,611	133,267
Total Expenditures	<u>13,497,797</u>	<u>15,034,294</u>	<u>15,173,624</u>	<u>17,116,680</u>
Excess of Revenues				
Over (Under) Expenditures	274,431	25,040	279,629	(1,401,098)
OTHER FINANCING SOURCES				
(USES)				
Transfers In	1,161,277	1,374,466	1,380,037	1,553,137
Transfers Out	(1,155,621)	(1,256,231)	(1,316,650)	(1,876,651)
Issuance of Long-Term Debt	-	-	-	3,000,000
Proceeds from Capital Leases	114,509	-	-	595,000
Proceeds from Sale of Capital Assets	-	-	-	-
Total Other Financing Sources (Uses)	<u>120,165</u>	<u>118,235</u>	<u>63,387</u>	<u>3,271,486</u>
Net Change in Fund Balance	<u>\$ 394,596</u>	<u>\$ 143,275</u>	<u>\$ 343,016</u>	<u>\$ 1,870,388</u>
Debt Service as a Percentage of Noncapital Expenditures	3.97%	3.59%	3.54%	4.05%

Source: The City's Finance Department.

Fiscal Year

	2009	2010	2011	2012	2013	2014
\$	7,012,223	\$ 6,689,354	\$ 6,831,876	\$ 6,707,653	\$ 6,234,848	\$ 6,399,692
	8,372,584	7,184,648	7,083,337	6,783,653	8,031,863	8,455,635
	195,644	189,333	201,361	319,294	273,475	311,448
	126,224	192,309	172,602	196,385	162,571	201,227
	1,386,022	1,410,391	1,745,359	1,759,653	1,605,657	1,763,797
	538,928	733,549	755,328	758,436	768,418	819,022
	-	-	-	-	-	-
	16,212	107,495	67,493	44,626	39,423	30,607
	322,889	238,124	258,705	356,342	596,739	281,915
	<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>	<u>18,263,343</u>
	13,462,021	3,961,316	3,910,726	3,555,255	3,469,997	3,407,238
	6,579,669	6,554,551	6,275,426	6,709,042	7,139,134	7,295,712
	2,626,696	2,660,654	1,975,991	2,093,297	1,779,871	1,685,298
	1,750,997	1,513,127	1,409,501	1,361,590	1,407,089	1,513,927
	497,600	53,973	51,599	-	1,035,816	1,058,347
	817,482	728,862	2,007,704	2,620,504	2,007,665	1,806,890
	656,965	2,228,723	1,611,006	1,636,402	1,627,585	1,464,848
	686,598	719,162	663,544	623,553	551,097	501,922
	<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>	<u>18,734,182</u>
	(9,107,302)	(1,675,165)	(789,436)	(1,673,601)	(1,305,260)	(470,839)
	1,020,458	1,303,871	2,837,907	2,923,356	2,480,730	2,354,892
	(888,026)	(1,002,494)	(2,479,496)	(2,445,605)	(2,318,522)	(2,085,749)
	9,000,000	400,000	-	-	-	-
	595,000	-	75,413	71,676	1,205,911	1,041,474
	-	-	-	52,021	-	897,088
	<u>9,727,432</u>	<u>701,377</u>	<u>433,824</u>	<u>601,448</u>	<u>1,368,119</u>	<u>2,207,705</u>
\$	<u>620,130</u>	<u>(973,788)</u>	<u>(355,612)</u>	<u>(1,072,153)</u>	<u>62,859</u>	<u>1,736,866</u>
	9.80%	18.09%	14.02%	14.27%	12.65%	11.68%

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

Sales Category:	Fiscal Year			
	2005	2006	2007	2008
Mining	\$ 788,852	\$ 499,539	\$ 466,247	\$ 510,450
Communications and Utilities	9,522,557	10,008,146	15,039,614	23,876,918
Transportation & Warehousing	118,643	47,034	40,313	15,283
Construction	5,509,385	9,952,326	8,593,952	7,578,438
Manufacturing	3,669,492	3,246,085	3,375,254	4,144,993
Wholesale Trade	3,853,589	4,063,304	3,994,393	4,093,177
Retail Trade	133,948,362	141,390,374	145,310,162	146,386,134
Finance and Insurance	105,986	94,754	84,995	194,035
Real Estate, Rental and Leases	5,231,069	7,666,144	6,656,980	5,664,318
Restaurants and Bars	11,927,045	12,864,527	12,923,634	12,932,385
Accommodations	1,971,777	2,286,598	2,600,819	2,277,339
Public Administration	241,021	130,215	108,890	100,106
Services	1,851,152	1,785,624	2,714,689	3,342,416
Arts & Entertainment	15,673	23,100	8,285	-
Other	2,417,236	2,393,080	2,532,122	3,121,725
Total	<u>\$ 181,171,839</u>	<u>\$ 196,450,850</u>	<u>\$ 204,450,349</u>	<u>\$ 214,237,717</u>
City Sales Tax Rate	2.50%	2.50%	2.50%	2.50%

Source: Arizona Department of Revenue.

Fiscal Year

2009	2010	2011	2012	2013	2014
\$ 2,318,215	\$ 2,318,215	\$ 301,452	\$ 6,606	\$ 4,715	\$ 2,626
22,195,363	22,195,363	23,550,249	21,998,591	20,996,222	20,874,694
48,456	48,456	66,060	36,614	34,024	7,558
15,965,933	15,965,933	19,963,998	18,615,619	4,980,458	7,161,065
3,945,094	3,945,094	986,650	-	-	-
3,884,491	3,884,491	1,226,017	-	-	-
144,710,942	144,710,942	147,664,164	136,449,566	137,243,931	138,881,604
93,629	93,629	33,753	-	-	-
6,249,386	6,249,386	8,690,896	8,369,967	7,812,435	8,037,675
12,500,240	12,500,240	14,153,836	15,215,328	14,682,935	14,404,604
2,363,017	2,363,017	3,652,951	4,552,670	3,855,249	3,792,273
294,021	294,021	-	-	-	-
3,242,519	3,242,519	1,018,073	1,224,696	1,152,749	1,385,854
56,562	56,562	410,600	758,552	642,019	477,238
2,921,447	2,921,447	2,599,103	276,830	196,727	173,041
<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>	<u>\$ 195,198,232</u>
2.50%	2.80%	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>
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
2014	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				
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
2014	59,500	3,585	9,685	53,400	11.64	494,935	10.789

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	
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
2014	1.15	2.63	2.03	5.83	11.64	0.87	0.55	13.06

Source: The Cochise County Treasurer.

**CITY OF DOUGLAS, ARIZONA
PRINCIPAL PROPERTY TAXPAYERS
JUNE 30, 2014 AND 2005
(UNAUDITED)**

Taxpayer	2014			2005		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Wal-Mart	\$ 2,106,671	1	4.18 %	\$ 1,925,604	1	4.87 %
Arizona Public Service	1,852,035	2	3.67	1,604,236	2	4.06
Phelps Dodge Corporation	722,866	3	1.43	-	-	-
DHD LLC	602,983	4	1.20	-	-	-
B-Y 90 Fifth Street LLC	504,917	5	1.00	-	-	-
Southwest Gas Corporation	457,250	6	0.91	751,156	6	1.90
SFP Pool Five Shopping Centers	451,231	7	0.90	-	-	-
BH Properties LLC	429,400	8	0.85	-	-	-
Qwest Corporation	388,658	9	0.77	1,013,067	3	2.56
Douglas Custom LLC	379,253	10	0.75	932,851	4	2.36
J C Penny Co Inc	-	-	-	471,347	8	1.19
Safeway Inc.	-	-	-	739,432	5	1.87
FAE Holdings 356216R LLC	-	-	-	682,500	7	1.73
Newhall Douglas LTD PRT	-	-	-	294,042	9	0.74
Accotel Property Investors LLC	-	-	-	292,017	10	0.74
	<u>\$ 7,895,264</u>		15.66 %	<u>\$ 8,706,252</u>		22.02 %

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>
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	51,265	540,772	99.61
2010	546,719	477,007	87.25	67,098	544,105	99.52
2011	555,804	504,613	90.79	47,964	552,577	99.42
2012	538,029	490,427	91.15	43,333	533,760	99.21
2013	552,411	501,212	90.73	45,317	546,529	98.94
2014	562,460	498,462	88.62	-	498,462	88.62

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
2,106	0.39
2,614	0.48
3,227	0.58
4,269	0.79
5,882	1.06
63,998	11.38

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			
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
2014	468,602	7,725,000	1,911,683	5,095,574	440,727	15,641,586	6.68	893

Source: The City's Finance Department.

CITY OF DOUGLAS, ARIZONA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
JUNE 30, 2014
(UNAUDITED)

Governmental Unit	Outstanding Debt	Estimated Percentage Applicable (1)	Estimated Share of Overlapping Debt
Debt Repaid with Property Taxes			
Cochise County	\$ 3,097,433	4.86%	\$ 150,380
Cochise County Community College District	21,090,000	4.86%	1,023,920
Douglas Unified School District No. 27	6,785,000	100.00%	6,785,000
Subtotal, Overlapping Debt			<u>7,959,300</u>
City of Douglas, Arizona direct debt	10,105,285	100.00%	10,105,285
Total Direct and Overlapping Debt			<u><u>\$ 18,064,585</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 2013-14.

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

	Fiscal Year				
	2005	2006	2007	2008	2009
20% Debt Limit	\$ 7,442,536	\$ 8,283,788	\$ 9,938,245	\$ 10,378,721	\$ 10,890,226
Total Applicable to Limit	-	-	-	-	-
Legal Debt Margin	<u>\$ 7,442,536</u>	<u>\$ 8,283,788</u>	<u>\$ 9,938,245</u>	<u>\$ 10,378,721</u>	<u>\$ 10,890,226</u>
Total Net Debt Applicable to the Limit as a Percentage of the Debt Limit	-	-	-	-	-

	Fiscal Year				
	2005	2006	2007	2008	2009
6% Debt Limit	\$ 2,232,761	\$ 2,485,137	\$ 2,981,474	\$ 3,113,616	\$ 3,267,068
Total Applicable to Limit	-	-	-	-	-
Legal Debt Margin	<u>\$ 2,232,761</u>	<u>\$ 2,485,137</u>	<u>\$ 2,981,474</u>	<u>\$ 3,113,616</u>	<u>\$ 3,267,068</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				
2010	2011	2012	2013	2014
\$ 11,240,800	\$ 11,387,094	\$ 11,237,561	\$ 10,978,476	\$ 10,679,957
-	-	-	-	-
<u>\$ 11,240,800</u>	<u>\$ 11,387,094</u>	<u>\$ 11,237,561</u>	<u>\$ 10,978,476</u>	<u>\$ 10,679,957</u>

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Fiscal Year				
2010	2011	2012	2013	2014
\$ 3,372,240	\$ 3,416,128	\$ 3,371,268	\$ 3,293,543	\$ 3,203,987
-	-	-	-	-
<u>\$ 3,372,240</u>	<u>\$ 3,416,128</u>	<u>\$ 3,371,268</u>	<u>\$ 3,293,543</u>	<u>\$ 3,203,987</u>

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CITY OF DOUGLAS, ARIZONA
CALCULATION OF LEGAL DEBT MARGIN
JUNE 30, 2014
(UNAUDITED)

Net Secondary Assessed Value		<u>\$ 53,399,786</u>
<u>Water, Sewer, Light, Parks, Open Space and Recreational Facility Bonds</u>		
Debt Limit - 20% of Net Secondary Assessed Value		10,679,957
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>10,679,957</u>
<u>All Other General Obligation Bonds</u>		
Debt Limit - 6% of Net Secondary Assessed Value		3,203,987
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>3,203,987</u>
Total Legal Debt Margin		<u>\$ 13,883,944</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
	Pledged Revenue	Less: Operating Expenses	Net Available Revenue	Debt Service Principal	Debt Service Interest		
2005	\$ 10,231,006	\$ -	\$ 3,518,881	\$ 250,000	\$ 122,136	945.59 %	
2006	11,102,447	-	3,796,816	360,000	111,472	805.31	
2007	11,573,296	-	4,012,867	365,000	104,838	854.10	
2008	11,942,651	-	4,067,101	375,000	97,238	861.24	
2009	12,666,703	-	12,666,703	390,000	97,237	1045.72	
2010	11,803,431	-	11,803,431	400,000	80,476	1208.82	
2011	11,458,594	-	11,458,594	415,000	71,077	1224.90	
2012	11,017,679	-	11,017,679	425,000	59,457	1202.46	
2013	10,896,218	-	10,896,218	440,000	46,106	1103.53	
2014	11,462,981	-	11,462,981	455,000	31,806	1136.66	

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

GADA Loan

Fiscal Year	Less:		Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage
	Pledged Revenue	Operating Expenses				
2005	\$ -	\$ -	\$ -	\$ -	\$ -	N/A
2006	-	-	-	-	-	N/A
2007	-	-	-	-	-	N/A
2008	9,968,602	-	9,968,602	-	24,369	40906.90%
2009	10,921,221	-	10,921,221	-	147,935	7382.45%
2010	10,048,079	-	10,048,079	170,000	142,812	3212.18%
2011	9,721,384	-	9,721,384	110,000	128,638	4073.69%
2012	9,453,492	-	9,453,492	110,000	123,775	4043.84%
2013	9,315,887	-	9,315,887	115,000	121,264	3943.00%
2014	9,791,063	-	9,791,063	120,000	114,974	4166.87%

Call Center Loan

Fiscal Year	Less:		Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage
	City Sales Tax and Lease Revenue	Operating Expenses				
2005	\$ -	\$ -	\$ -	\$ -	\$ -	N/A
2006	-	-	-	-	-	N/A
2007	-	-	-	-	-	N/A
2008	-	-	-	-	-	N/A
2009	10,286,049	-	10,286,049	-	239,925	4287.19%
2010	9,254,791	-	704,620	1,260,000	451,849	41.16%
2011	8,996,669	-	8,996,669	675,000	431,325	813.20%
2012	8,735,260	-	8,735,260	700,000	391,310	800.44%
2013	8,593,517	-	1,215,652	740,000	356,805	110.84%
2014	9,069,283	-	9,069,283	375,000	321,086	1302.90%

WIFA Loan

Fiscal Year	Less:		Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage
	Water/Sewer Revenues	Operating Expenses				
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%
2014	3,916,977	3,252,197	664,780	480,756	114,104	111.75%

**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>
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
2014	17,509	234,200,384	13,376	32.20	12.1

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	2014			2005		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Arizona Department of Corrections	615	1	9.77 %	674	2	11.59 %
Douglas Unified School District	505	2	7.58	513	3	8.83
Advance Call Center Technologies	260	3	3.75	-	-	-
Wal-Mart Stores, Inc.	249	4	3.96	408	4	7.02
City of Douglas	188	5	3.08	235	6	4.04
Cochise College	175	6	3.00	327	5	5.63
Cochise Private Industry Council	103	7	1.59	-	-	-
Cochise Regional Hospital	74	8	1.38	104	8	1.79
Chiricahua Community Health Center	72	9	0.92	-	-	-
Basha's Inc.	56	10	0.84	110	7	1.89
Copper Queen Community Hospital	-	-	-	46	1	0.79
Velcro USA Inc	-	-	-	84	9	1.45
Arizona Public Service	-	-	-	70	10	1.20
	<u>2,297</u>		35.87 %	<u>2,571</u>		44.23 %

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									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Government										
Management Services:										
Administration	5	5	7	7	5	5	5	5	5	5
Human resources	3	3	4	4	4	3	3	3	3	3
Court	2	1	3	3	3	2	2	2	2	2
MIS	2	2	2	3	3	3	4	4	3	4
Finance	3	4	6	7	6	6	6	6	6	9
Economic Development	-	1	1	1	1	-	-	-	-	-
Visitor Parking Center	-	-	5	5	4	-	4	4	1	1
Total Mgmt Services	15	16	28	30	26	19	24	24	20	24
Housing	4	4	4	4	5	4	8	9	7	7
Police										
Officers	32	35	29	31	37	34	32	32	32	31
Civilians	13	13	15	16	14	14	14	14	15	12
Total Police	45	48	44	47	51	48	46	46	47	43
Fire										
Firefighters and Officers	22	21	26	24	25	23	25	23	24	23
Civilians	2	2	2	2	1	1	1	2	2	2
Total Fire	24	23	28	26	26	24	26	25	26	25
Public Works										
Engineering (PW Adm)	2	2	4	4	6	4	4	4	2	2
Planning & Zoning	2	2	2	3	2	2	2	2	1	2
Construction	4	4	4	4	4	4	6	6	6	5
Refuse Collections	7	8	10	7	5	4	6	5	7	8
Mechanics	5	4	4	4	4	4	3	2	3	3
Streets	10	10	12	11	8	6	7	6	8	7
Street Maintenance	5	5	5	4	4	4	4	4	-	-
Airport	-	-	-	-	-	-	-	-	-	1
Water Field	7	7	10	9	8	4	7	7	8	8
Water CIP	3	1	6	8	7	4	4	4	2	2
Water Billing	4	4	4	4	4	4	3	3	-	-
Wastewater	5	7	7	8	7	7	6	5	6	6
Total Public Works	54	54	68	66	59	47	52	48	43	44
Parks and Recreation										
Comm Dev Admin	2	2	3	3	2	1	1	1	1	-
Aquatics	3	3	16	14	12	2	11	11	13	12
Cemetery	4	4	4	4	2	2	1	2	3	3
Parks	10	9	9	10	10	10	11	10	9	9
Recreation	2	1	7	9	5	1	6	7	6	6
Golf Course	1	1	4	6	8	-	11	10	8	6
Library	5	5	8	8	7	5	8	7	7	7
Transit	-	-	-	-	-	-	-	-	6	7
Total P&R	27	25	51	54	46	21	49	48	53	50
Total	169	170	223	227	213	163	205	200	196	193

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

Function	Fiscal Year				
	2005	2006	2007	2008	2009
General Government					
Building Permits Issued	48	258	262	338	354
Building Inspection Conducted	1,440	1,085	1,100	858	400
Police					
Physical Arrests	1,804	1,725	1,615	1,475	1,917
Parking Violations	2,208	1,640	1,919	1,562	648
Traffic Violations	3,283	4,134	4,590	3,814	4,569
Fire					
Emergency Responses	2,670	2,540	2,336	2,200	2,030
Fires Extinguished	289	17	187	201	216
Inspections	105	122	62	80	80
Refuse Collection					
Refuse Collections (Tons/Day)	17.0	17.0	23.9	30.0	30.0
Recyclables Collected (Tons/Day)	1.0	1.0	0.5	0.5	0.5
Other Public Works					
Street Resurfacing (Miles)	-	-	1.0	1.4	1.5
Potholes Repaired	273	175	143	152	195
Parks and Recreation					
Athletic Field Permits Issued	26	40	120	117	120
Community Center Admissions	13,743	9,724	16,535	14,660	9,071
Aquatic Center Admissions	11,925	21,852	26,990	28,369	36,761
Library					
Volumes in Collection	47,302	49,141	52,824	56,961	60,856
Total Volumes Borrowed	91,623	94,147	83,018	94,955	85,595
Water					
New Connections	-	-	60	28	68
Water Main Breaks	6	7	8	18	5
Average Daily Consumption (Thousands of Gallons)	2,602,839	3,167,934	2,579,831	3,660,000	2,638,660
Peak Daily Consumption (Thousands of Gallons)	-	-	4,385,713	5,380,000	3,613,013
Wastewater					
Average Daily Sewage Treatment (Thousands of Gallons)	2.8	2.6	1.8	2.1	1.6

Source: The City of Douglas' internal records.

Fiscal Year

2010	2011	2012	2013	2014
305	198	221	264	202
344	305	778	695	704
1,795	1,564	554	1,332	1,348
646	745	545	252	183
4,300	4,211	3,888	4,158	3,220
2,312	2,829	2,437	2,459	2,560
198	61	55	231	457
101	150	200	161	367
16.3	23.5	26.5	27.5	22.9
-	-	-	-	-
2.1	1.0	0.5	2.1	0.8
680	1,360	2,100	1,600	1,763
119	122	125	93	83
10,036	11,021	8,812	10,199	16,051
31,408	14,808	21,301	16,685	17,792
59,649	57,684	56,715	47,157	59,033
86,098	74,141	63,180	61,256	64,843
10	16	10	11	11
2	9	8	12	7
3,662,519	3,500,000	3,177,000	3,216,045	3,321,000
148,101,000	5,023,000	4,725,000	4,716,136	4,384,000
1.5	1.7	1.7	2.0	2.1

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

Function	Fiscal Year				
	2005	2006	2007	2008	2009
Police					
Stations	1	1	1	1	1
Patrol Units	-	25	21	20	27
Fire Stations	1	1	1	1	1
Refuse Collection					
Collection Trucks	-	4	5	5	5
Other Public Works					
Streets (Miles)	95	110	110	110	110
Streetlights	2,083	1,192	1,192	1,194	1,194
Traffic Signals	-	13	13	14	14
Parks and Recreation					
Acreage	62	92	92	92	92
Playgrounds	-	5	5	5	5
Baseball and Softball Diamonds	-	6	6	6	6
Soccer/Football Fields	-	13	13	13	13
Aquatic Centers	2	2	2	2	2
Community Centers	1	1	1	1	1
Water					
Water Mains (Miles)	80	81	81	83	83
Fire hydrants	338	445	445	526	526
Storage Capacity (Thousands of Gallons)	500,900	500,900	500,900	500,900	500,900
Wastewater					
Sanitary Sewers (Miles)	75	75	75	78	78
Storm Sewers (Miles)	2	2	2	2	2
Maximum Treatment Capacity (Thousands of Gallons)	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000

Source: The City of Douglas' internal records.

Fiscal Year				
2010	2011	2012	2013	2014
1	1	1	1	1
22	21	23	22	21
1	1	1	1	1
5	5	5	3	3
112	110	110	110	110
1,194	1,194	1,194	1,194	1,189
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
84	100	100	100	100
535	540	545	458	560
500,900	500,900	500,900	500,900	500,900
80	85	85	86	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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