



COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2017

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CITY OF DOUGLAS, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2017

Robert Uribe
Mayor

Councilmembers

Danny Morales

Ken Nelson

Donald Huish

Patricia Lopez

Ivan Huish

Fernando Betancourt

Jim Russell
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

December 21, 2017

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

The Arizona Auditor General Office requires all local government entities to file a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with the generally accepted auditing standards by a licensed certified public accounting firm with their office by March 31st of each year. 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, 2017.

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 the City of Douglas' 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' 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, 2017 are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amount 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' financial statements for the Fiscal-Year-Ended June 30, 2017, 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' MD&A can be found immediately following the reports of the independent auditors.

The City of Douglas, Arizona is required to undergo an annual single audit in conformity with the provisions of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance). 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 for each major federal program required by the Uniform Guidance 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 and cultural events. In addition to general government activities, the City of Douglas, Arizona reports one business-type discretely presented component unit Rancho La Perilla Apartments. Additionally, the City reports the golf course Municipal Property Corporation as a blended component unit of the City.

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 16,897 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/she 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 is very strong 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 Customs and Border Protection, Arizona State Prison Complex, Douglas Unified School District, Cochise College and the City of Douglas. Private and major employers in our City include Advanced Call Center Technologies and Wal-Mart Stores. According to the Cochise College for Economic Research the City's unemployment rate at the end of June 2017 was at 7.2%, which is above the national and state unemployment rates of 4.9% and 5.2% respectively.

Major Initiatives

The City Mayor and Council continue to pursue the development of a new commercial port of entry. The existing port of entry lacks the processing capacity for the existing demand. The existing infrastructure is also inefficient to process commercial trucks. By building a new commercial port at a separate location outside of City traffic, commercial trucks can more securely cross their products, while at the same time increasing the personal traffic processing in the existing port once commercial operations are moved. The City along with the assistance of its binational consultant have made great strides in the development of a new port as well as bringing much needed security improvements and modernization to the existing port. This year, Congresswoman Martha McSally helped to secure funding for a feasibility study at the port, where the awarded firm will recommend upgrades and possible expansion of the facility. The building in Douglas was built in 1933 with most recent renovations done in 1993. In addition, the City has garnered support throughout the region supporting a two port solution that included the Mexican authorities, our County and State government and of course our Mayor and Council along with local business groups.

This year the City made approximately \$2 million in capital improvements. Most notably, the City began its paving projects with the assistance of CDBG grant funding at the old railroad addition area. The City chip-sealed various streets and added curbing and sidewalk for total investment of \$518,684. The parks division also received a lift with the addition of LED lighting at the Airport Park soccer field. The lighting allows leagues to set up games day or night and grants the opportunity for tournaments that can be hosted in our City. Total investment for the lights was \$172,337. There was also \$738,478 investment in City vehicles. Fire obtained two ambulances and a wildland vehicle, police acquired 3 new patrols, transit acquired a new 30 passenger bus and a supervisor vehicle and streets obtained a bucket truck, chip spreader and a dump truck. The rest of the capital improvements came from smaller equipment purchases and building improvements.

With the stand alone Emergency Department now open in Douglas, our EMS division developed an interfacility division that transports patients from our ER to higher level of care in the area. The addition of the ER was crucial as it gives residents the care within our City as opposed to having to travel to Bisbee, about 23 miles away. In order to accomplish this, EMS added two new ambulance units this year and will be adding additional personnel to accomplish more transports through the interfacility division. The Fire division also added a Type 6 wildland vehicle that can help assist the state with resources to nearby fires and receive full reimbursement for our costs. Along with \$121,433 in additional capital equipment added the Fire and EMS division placed into service two new gurneys, new jaws of life, SCBA system, cardiac monitors and new hazmat equipment.

The transit division known as Douglas Rides continues to grow its program. Starting in August of 2017 transit launched a new route that will connect Douglas, Bisbee, Sierra Vista and eventually Benson. The City partnered with SEAGO and the Legacy Foundation to develop this route, by first initiating a study revealing a great need in Cochise County for transportation around the area for educational, medical and job related needs. The City added a new 30 passenger bus for this route and also added a supervisor van to the fleet. The City also installed new benches and shelters throughout the City adding to the existing stops and replacing old and worn out shelters.

With a fresh new logo, the City revamped its marketing strategy, beginning with its website. The website was newly designed with a fresh new look that reflects a community that is family oriented, vibrant and culturally diverse. The site is easy to navigate and is able to inform and serve community needs with the click of a mouse. The City also heavily established its social media presence and is being followed by more than 1,400 users. A lot of residents have reported that they feel more informed with the City posting information almost daily.

This year the City added two new events that included a Christmas Lighting event, and a Jazz Festival. Both of these events were successful and in line with the Mayor and Council's direction to bring more community oriented events to the City. These events will now hosted by the City on an annual basis.

Upcoming Year

It's expected that the City will begin construction of the expansion of its wastewater treatment plant in early 2018. The expansion is Phase II of this project to increase its treatment capacity from 2.0MGD to 2.6MGD. The City is able to do this in partnership with the Border Environment Cooperation Commission/NADBank and the Water Infrastructure Finance Authority. The City obtained a \$7.4 million dollar grant from the NADBank and also a \$5,500,000 loan from WIFA. Once the expansion is completed, the City, with the assistance of a \$6.4 million dollar grant from USDA, will begin to install sewer in the Bay Acres Colonia, which is a development that is located northeast right outside the City's limits. Doing so will eliminate failing septic tanks within the area and avoid environmental concerns as well as add more customers to the expanded treatment plant.

The Sanitation division is set to begin Phase I in January 2018, their conversion to automated garbage pickup. The Mayor and Council approved this system that allows the City to provide service in a more cost efficient manner while also protecting our valued City employees from the hardships of manual pickups. Once the City is fully automated, we intend to pursue out of City limits customers that currently lack a garbage pickup service as well as service more commercial customers in the area.

Long-Term Financial Planning

With the establishment of written financial policies, the City has set financial goals and measures. We established reserve levels and are currently meeting all required levels at this time. The GF fund balance reserve requirement is 30% of revenues and we are currently exceeding that at 50%. We are also meeting 45 days of expense operations reserve, the 10% of average revenues for the past five years, capital (pay-as-you-go) reserve and debt reserve of one year of general government debt service obligations.

Although the U.S. economy is slowly growing, our local economy has seen some regression. Local sales taxes decreased this year by 5%. The strength of the dollar has made the peso weaker, and as a result purchasing power for our visitors coming to shop from Mexico is reduced.

We are also concerned about the state of our public safety retirement plan. Although new laws have passed this year that would place new hires in a more sustainable retirement plan, our current beneficiaries are seriously underfunded. Our current police unfunded liability is at 33% for police and 28% for fire as of June 30, 2016. The City's self-funded health insurance plan did not have a good year. This year the City paid out \$227,788 more in excess claims than budgeted. This is due to large claims paid out as well as overall rising health care costs. This result will affect our budgets for next year and also the coverage options offered to our employees.

Although our fund balance is currently healthy, our revenues are struggling. The City has carefully managed expenses and property sales has brought in one time revenue. However, in order to continue on a path of financial sustainability we must continue to control our costs as well as enhance consistent revenues by fostering growth and job creation.

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

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 and funding capital needs without the need for new debt.

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, 2016. 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,

A handwritten signature in blue ink, appearing to read "Jim Russell", written over a horizontal line.

Jim Russell
City Manager

A handwritten signature in blue ink, appearing to read "Luis Pedroza", written over a horizontal line.

Luis Pedroza
Finance Director/City Treasurer

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**CITY OF DOUGLAS, ARIZONA
LIST OF PRINCIPAL OFFICIALS
YEAR ENDED JUNE 30, 2017**

ELECTED OFFICIALS

Mayor	Robert Uribe
Councilmember	Danny Morales
Councilmember	Ken Nelson
Councilmember	Donald Huish
Councilmember	Patricia Lopez
Councilmember	Ivan Huish
Councilmember	Fernando Betancourt

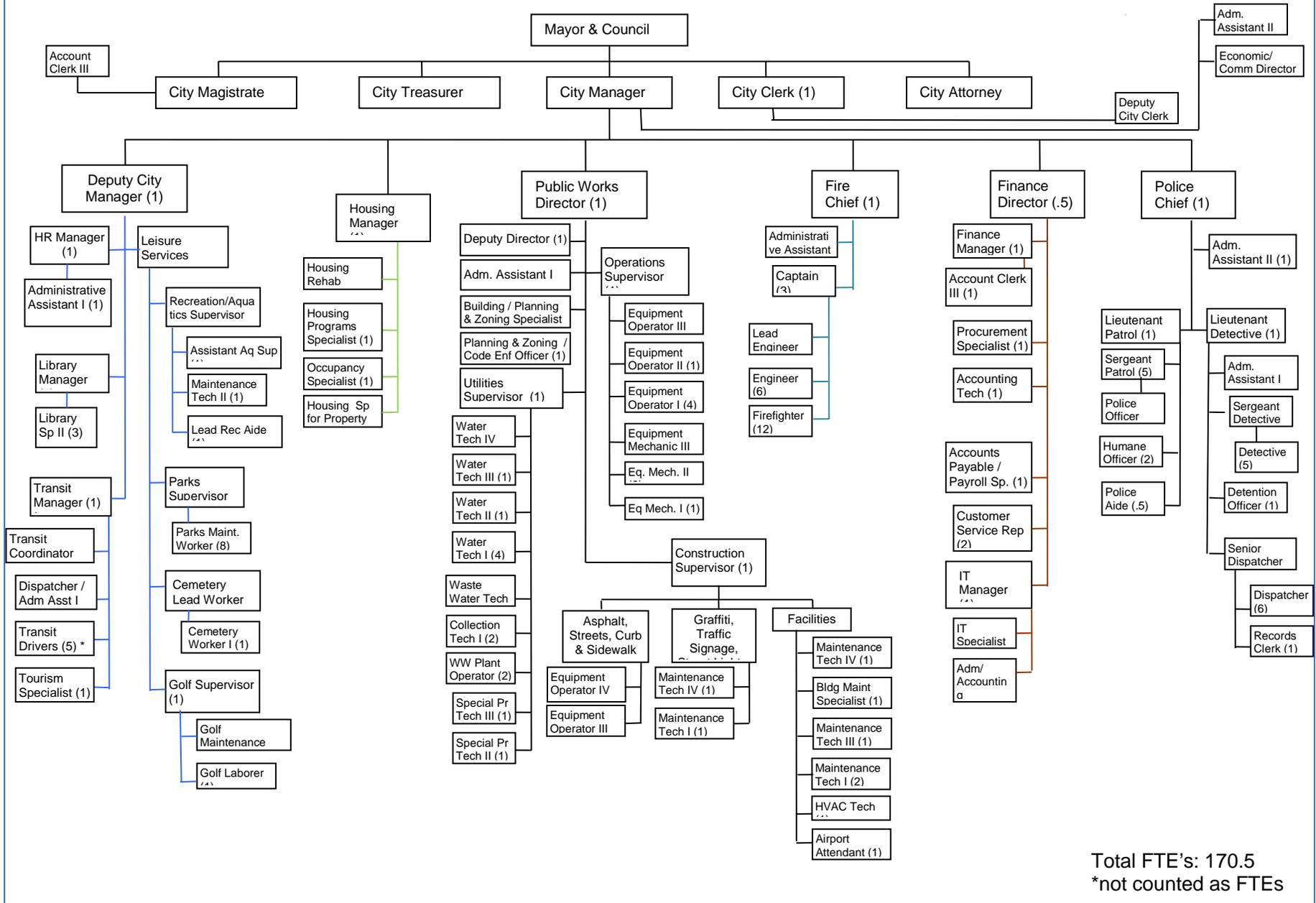
APPOINTED OFFICIALS

City Manager	Vacant
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	Lynn Kartchner
Police Chief	Kraig Fullen
Fire Chief	Mario Novoa
Deputy City Manager	Ana Urquijo
Housing Manager	Xenia Gonzalez

City of Douglas Organizational Chart Fiscal Year 2016-2017



Total FTE's: 170.5
*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, 2016

Christopher P. Morill

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 unit, 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, 2017, 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 Community Housing Corporation (Rancho La Perilla Apartments). 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 report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Proprietary Component Unit, is based solely on the report 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 report 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 unit, each major fund, and the aggregate remaining fund information of the City of Douglas, Arizona as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 5 to the financial statements, the City has elected to change its method of accounting for self-insurance claims and has created an internal service fund for the fiscal year ending June 30, 2017. A restatement was recorded for this change in accounting principle. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension schedules, agent OPEB funding progress, and the General Fund Budget and Actual Statement as listed on the table of contents 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 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

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

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 December 21, 2017, 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 solely 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 the effectiveness of the City of Douglas, Arizona's 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.



CliftonLarsonAllen LLP

Phoenix, Arizona
December 21, 2017

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REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

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, 2017. We encourage readers to consider the information presented here in conjunction with additional information presented in the financial statements.

FINANCIAL HIGHLIGHTS

- ◆ The assets and deferred outflows of resources of the City at the close of the most recent fiscal year exceed liabilities and deferred inflows of resources by \$19.2 million (net position). Unrestricted net position is a deficit \$15.7 million due to the recognition of the City's net pension liability and related pension inflows and outflows.
- ◆ Total net position decreased by \$0.4 million during the fiscal year.
- ◆ As of June 30, 2017, the City's governmental funds reported a combined ending fund balance of \$9.1 million. Of this amount, 62% 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 \$5.7 million or 39.2% of the total General Fund expenditures of \$14.5 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, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference 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, 2017**

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 a legally separate non-profit corporation - proprietary component unit. The proprietary component unit is the Douglas Municipal Housing Corporation market rate apartment complex known as Rancho La Perilla. Although legally separate from the City, the component unit is discretely presented because of its financial relationship to the City.

Separate financial statements for Rancho La Parilla 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 23 - 26 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 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.

The City of Douglas, Arizona maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be the only major fund. Data from the other nine 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.

**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

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 LTAF, Golf Course MPC and Public Housing Funds.

Proprietary Funds – The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for the operations of the water services, sewer services and sanitation services. The *Internal service fund* is an accounting device used to accumulate and allocate costs among the City's various functions. The City uses an internal service fund to account for insurance services. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements, with a portion of the change in net position being allocated to the *business type activities*.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Sewer, Water, and Solid Waste, which are considered to be major funds of the City. The internal service fund is presented in the proprietary fund financial statements as a separate column.

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 35 - 74 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 pension and other post employment benefit plans and the budgetary schedule of the General Fund. Required supplementary information may be found on pages 75 – 84 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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$19.2 million.

**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

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

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
ASSETS						
Current and Other Assets	\$ 10,468,143	\$ 11,124,887	\$ 8,473,716	\$ 7,371,868	\$ 18,941,859	\$ 18,496,755
Capital Assets:						
Non-Depreciable	1,109,474	1,586,806	1,053,409	1,009,596	2,162,883	2,596,402
Depreciable (Net)	22,007,235	22,431,805	19,724,048	20,765,031	41,731,283	43,196,836
Total Assets	<u>33,584,852</u>	<u>35,143,498</u>	<u>29,251,173</u>	<u>29,146,495</u>	<u>62,836,025</u>	<u>64,289,993</u>
DEFERRED OUTFLOWS	6,855,268	5,607,546	323,174	154,649	7,178,442	5,762,195
LIABILITIES						
Current and Other Liabilities	1,316,255	1,013,546	240,228	408,496	1,556,483	1,422,042
Non-Current Liabilities:						
Due Within One Year	1,660,261	1,571,865	508,897	538,045	2,169,158	2,109,910
Due in More Than One Year	37,826,018	38,117,699	6,421,886	6,747,114	44,247,904	44,864,813
Total Liabilities	<u>40,802,534</u>	<u>40,703,110</u>	<u>7,171,011</u>	<u>7,693,655</u>	<u>47,973,545</u>	<u>48,396,765</u>
DEFERRED INFLOWS	<u>2,546,802</u>	<u>1,769,863</u>	<u>327,068</u>	<u>269,822</u>	<u>2,873,870</u>	<u>2,039,685</u>
NET POSITION						
Net Investment in Capital Assets	16,107,618	16,236,005	15,748,934	16,301,425	31,856,552	32,537,430
Restricted	2,385,205	2,087,831	615,334	893,708	3,000,539	2,981,539
Unrestricted	(21,402,039)	(20,045,765)	5,712,000	4,142,534	(15,690,039)	(15,903,231)
Total Net Position	<u>\$ (2,909,216)</u>	<u>\$ (1,721,929)</u>	<u>\$ 22,076,268</u>	<u>\$ 21,337,667</u>	<u>\$ 19,167,052</u>	<u>\$ 19,615,738</u>

The largest portion of the City's net position (166%) 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.

As of June 30, 2017 the City of Douglas, Arizona reported \$31.9 million as the net investment in capital assets. Another \$3.0 million of the resources are subject to external restrictions on how they may be used. Unrestricted net position is a deficit \$15.7 million due to the recognition of the City's net pension liability.

The City's net position decreased approximately \$0.4 million over the prior fiscal year. Net investment in capital assets decrease \$0.7 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 were approximately \$1.4 million (including payments on capital leases).

**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

Changes in Net Position

As described above, the City's net position overall decreased by \$0.4 million during the current fiscal year. The change in the governmental activities and business-type activities are discussed on the following pages.

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

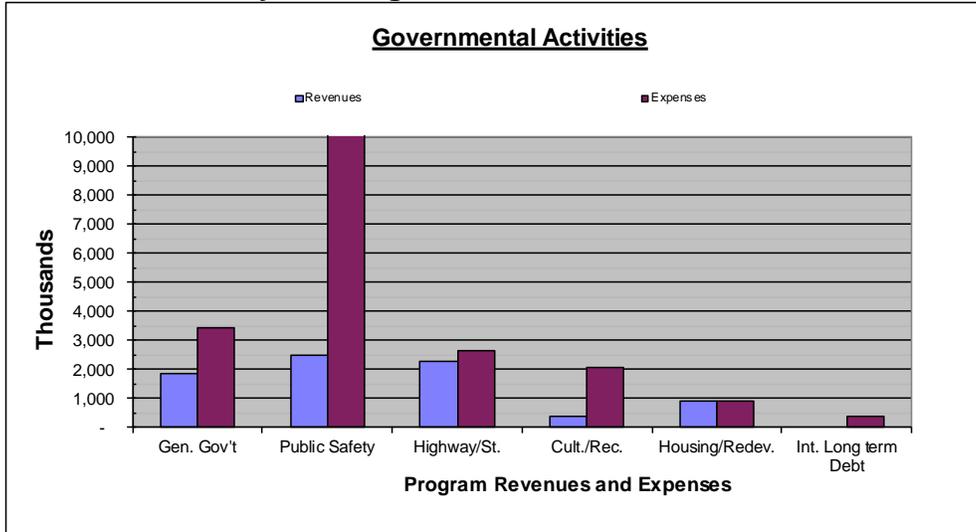
	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
REVENUES						
Program Revenues:						
Fees, Fines and Charges for Services	\$ 3,466,181	\$ 3,455,517	\$ 5,173,231	\$ 5,150,992	\$ 8,639,412	\$ 8,606,509
Operating Grants and Contributions	4,084,183	3,661,814	-	400,000	4,084,183	4,061,814
Capital Grants and Contributions	383,742	2,996,541	-	-	383,742	2,996,541
General Revenues:						
Property Taxes	595,284	585,960	-	-	595,284	585,960
Local Taxes	5,392,733	5,674,723	-	-	5,392,733	5,674,723
State Shared Revenues	4,367,940	4,565,056	-	-	4,367,940	4,565,056
Grants and Contributions Not Restricted to Specific Programs	38,171	37,610	-	-	38,171	37,610
Investment Income	73,269	39,738	37,228	31,585	110,497	71,323
Gain on Sale of Asset	69,902	(11,611)	-	-	69,902	(11,611)
Other	106,863	188,576	-	-	106,863	188,576
Total Revenues	<u>18,578,268</u>	<u>21,193,924</u>	<u>5,210,459</u>	<u>5,582,577</u>	<u>23,788,727</u>	<u>26,776,501</u>
EXPENSES						
General Government	3,463,981	3,336,212	-	-	3,463,981	3,336,212
Public Safety	10,479,931	9,678,626	-	-	10,479,931	9,678,626
Highways and Streets	2,649,507	2,597,146	-	-	2,649,507	2,597,146
Culture and Recreation	2,100,889	2,057,077	-	-	2,100,889	2,057,077
Redevelopment and Housing	924,901	922,816	-	-	924,901	922,816
Interest on Long-Term Debt	379,124	414,014	-	-	379,124	414,014
Water	-	-	1,902,651	1,654,307	1,902,651	1,654,307
Sewer	-	-	1,344,495	1,353,423	1,344,495	1,353,423
Solid Waste	-	-	991,934	1,134,665	991,934	1,134,665
Total Expenses	<u>19,998,333</u>	<u>19,005,891</u>	<u>4,239,080</u>	<u>4,142,395</u>	<u>24,237,413</u>	<u>23,148,286</u>
CHANGE IN NET POSITION BEFORE TRANSFERS	(1,420,065)	2,188,033	971,379	1,440,182	(448,686)	3,628,215
Transfers	<u>232,778</u>	<u>243,898</u>	<u>(232,778)</u>	<u>(243,898)</u>	-	-
CHANGE IN NET POSITION	(1,187,287)	2,431,931	738,601	1,196,284	(448,686)	3,628,215
Net Position - Beginning of Year	<u>(1,721,929)</u>	<u>(4,153,860)</u>	<u>21,337,667</u>	<u>20,141,383</u>	<u>19,615,738</u>	<u>15,987,523</u>
NET POSITION - END OF YEAR	<u>\$ (2,909,216)</u>	<u>\$ (1,721,929)</u>	<u>\$ 22,076,268</u>	<u>\$ 21,337,667</u>	<u>\$ 19,167,052</u>	<u>\$ 19,615,738</u>

Governmental Activities – Governmental activities decreased the City's net position by \$1.2 million. Key factors of the overall decrease in net position are as follows:

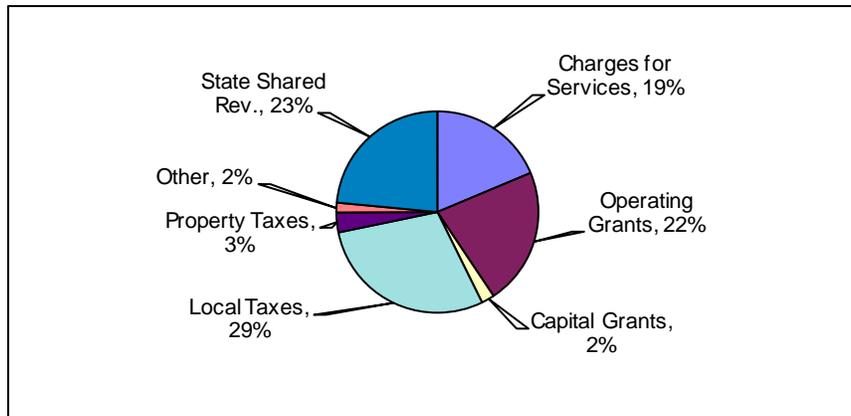
- ◆ Decrease in local sales taxes compared to last year. The \$0.3 million decrease was largely due to the local economy.
- ◆ Decrease in the City's capital grants and contributions from prior year. The decrease was largely due to a prior year \$2.8 million asset donation related to the Chino Road extension that did not reoccur in the current fiscal year.
- ◆ Public Safety expenses increased due to a \$0.4 million refund paid to eligible employees contributing to the PSPRS retirement system as a result of the State of Arizona's Parker-Hall lawsuit. Additionally, the City's PSPRS pension expense increased from prior year.

**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

City of Douglas – Fiscal Year 2016/17



**City of Douglas Revenue by Source
Governmental Activities Fiscal Year 2016/17**



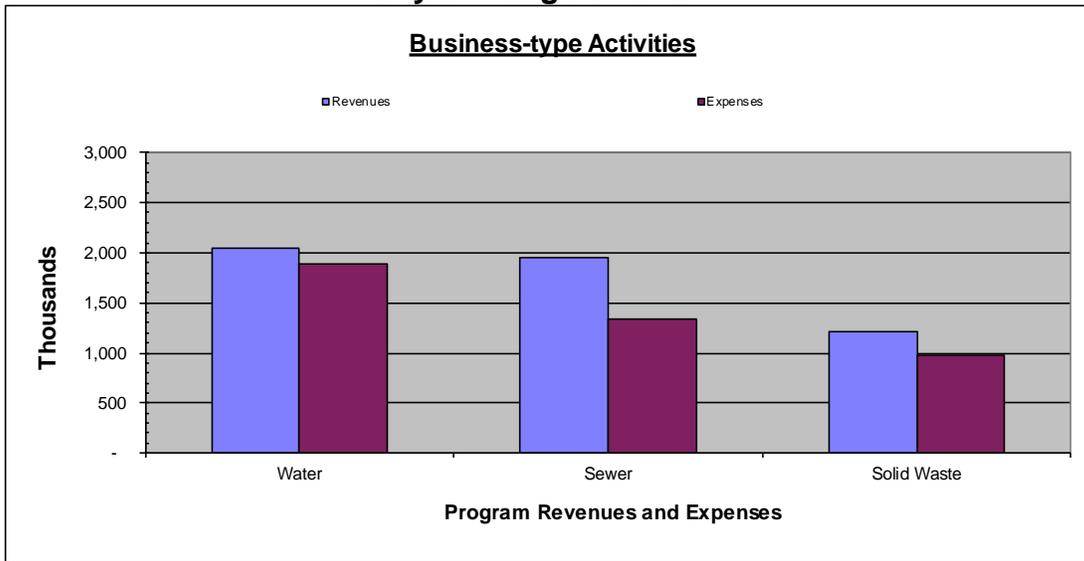
The charts above illustrate the City's governmental expenses and revenues by function and the City's revenues by source. As shown, Public Safety (police, fire, and emergency medical services) is the largest function in expenses (50%), followed by General Government (20%), Highway/Streets (13%), Culture/Recreation (11%), Redevelopment and Housing (5%) 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 (29%) followed by state shared revenues (23%) as illustrated in the chart above.

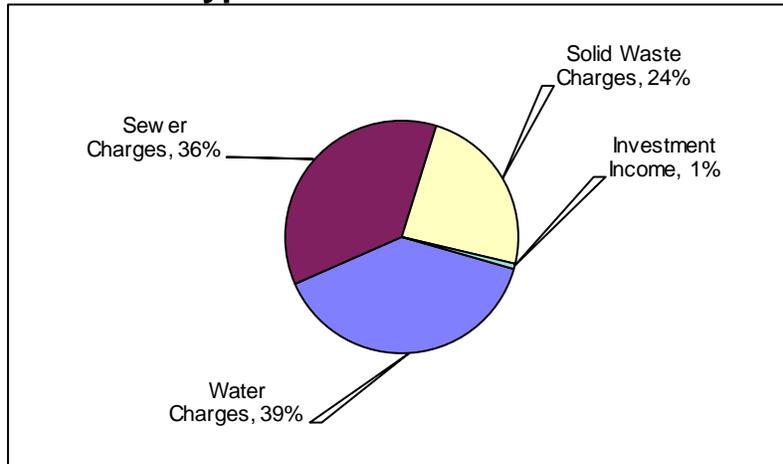
**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

Business-Type Activities – Business-type activities increased the City's net position by \$0.7 million. The increase in net position was primarily the result of salary savings on vacant positions in the water, sewer and sanitation funds, as well as the rate increases for utilities.

City of Douglas 2016/17



**City of Douglas Revenue by Source
Business-type Activities Fiscal Year 2016/17**



As shown in the chart above, the largest of the City's business-type activities are water and sewer utilities. Sewer Fund operating expenses were \$1.3 million, with Water operating expenses at \$1.9 million, followed by Solid Waste at approximately \$1.0 million. For this fiscal year, the change in net position in the Water Fund was a positive \$52,315 while the change in net position in the Sewer Fund was a positive \$533,887 and the Solid Waste Fund was a positive \$194,957. The positive change in net position in the Enterprise Funds was due to revenues exceeding expenses. Revenues are budgeted to exceed expenses as the utility rate includes a capital replacement component.

**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

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 \$9.1 million, a slight decrease of \$0.7 million from the prior year.

Revenues for governmental funds overall totaled approximately \$18.4 million for the fiscal year ended June 30, 2017 which represents an increase of less than 1% from the prior fiscal year. This increase is primarily due to increases in intergovernmental revenues, offset with a decrease in sales tax as a result of a decline in economic factors, including the strength of the dollar making the peso weaker. As a result, purchasing power for visitors coming from Mexico is reduced.

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 \$5.7 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 39.2% of the total General Fund expenditures of \$14.5 million.

The fund balance of the City's General Fund decreased by \$0.5 million. The decrease was largely due to decreased local sales taxes as compared to prior year, the PSPSRS refund paid out to eligible plan participants, and transfer for debt service payments.

The Nonmajor Governmental Funds decrease of \$0.2 million was largely due to the Capital Projects Fund spending a large portion of its carryover funds offset by highway user revenues exceeding current year expenditures.

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 \$3.0 million, Sewer \$1.5 million, and Solid Waste \$1.2 million. The total increase in net position for the enterprise funds was \$0.8 million largely due to revenues exceeding expenses as the utility rate includes a capital replacement component. Expenses increased in all three funds due to an increased pension expense for the Arizona State Retirement System.

**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

GENERAL FUND BUDGETARY HIGHLIGHTS

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

Actual revenues were less than the budget by \$0.2 million and actual expenditures were more than budget by \$0.4 million. The actual revenues were less than budget largely due to local sales tax collections and state sales tax not coming in as projected offset by more than expected charges for service revenues related to increased fire response reimbursements

The City exceeded the expenditures budget due to over expenditures in the Airport, Fire, and Emergency Medical Service expenditures. The Fire deficit was largely due to PSPRS retirement refunds paid to eligible participants and additional overtime expenses required for new emergency room transports. The Airport deficit was largely due to significant expenditures of a State of Arizona grant for airport improvements. The Emergency Medical Service departments had a deficit due to additional overtime expenses for ER transports to Bisbee the first half of the year and the interfacility transports the second half when the new ER in Douglas was installed.

Golf course operations exceeded budget largely due to the City making purchases for needed chemicals and seed for the golf course's annual seeding program. It also funded the MPC's annual liability and worker's compensation insurance amounts. Although the MPC has control of the golf course operations, it is still unable to fully fund the entire operating expenses of the course.

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. The City maintains reserves for any expenditures in excess of the total General Fund budget. The reserves are monitored by City Council and the City Manager.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2017 amount to \$43.9 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	
	2017	2016	2017	2016	2017	2016
Land and Land Improvements	\$ 2,723,139	\$ 2,857,921	\$ -	\$ -	\$ 2,723,139	\$ 2,857,921
Streets and Storm Drains	9,150,256	9,303,781	-	-	9,150,256	9,303,781
Buildings and Improvements	7,948,950	8,229,020	4,652,897	4,823,654	12,601,847	13,052,674
Water System	-	-	6,303,660	6,704,901	6,303,660	6,704,901
Wastewater System	-	-	8,231,290	8,571,463	8,231,290	8,571,463
Machinery, Equipment and Vehicles	3,250,200	3,106,393	536,201	665,013	3,786,401	3,771,406
Construction In Progress	44,164	521,496	1,053,409	1,009,596	1,097,573	1,531,092
Total Capital Assets	\$ 23,116,709	\$ 24,018,611	\$ 20,777,457	\$ 21,774,627	\$ 43,894,166	\$ 45,793,238

**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

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

Governmental Activities

- ◆ Completion of the railroad curb and draining project of \$519,000. .
- ◆ Purchase of 2 ambulances for \$274,000.
- ◆ Purchase of a 30 passenger bus for \$145,000. .
- ◆ Sulpher Springs building improvement totaling \$166,000.

Business-type Activities

- ◆ Wastewater treatment plant phase II construction for \$49,000.

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 48 - 50 of this report.

Debt Administration

At the end of the fiscal year, the City of Douglas, Arizona had total long-term obligations outstanding of \$12.0 million. The current year decrease was the net result of required principal due on outstanding debt, offset by additional loans drawn for a solar panel project.

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, 2017 is \$3.0 million in the 6% capacity and \$10.0 million in the 20% capacity.

**Table A-4
Outstanding Debt**

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Loans Payable	\$ 6,110,000	\$ 6,620,000	\$ 4,937,620	\$ 5,263,184	\$ 11,047,620	\$ 11,883,184
Capital Lease	899,091	1,162,606	90,903	210,018	989,994	1,372,624
Total Outstanding Debt	<u>\$ 7,009,091</u>	<u>\$ 7,782,606</u>	<u>\$ 5,028,523</u>	<u>\$ 5,473,202</u>	<u>\$ 12,037,614</u>	<u>\$ 13,255,808</u>

Additional information on the City's debt can be found in Note 3.E. on pages 53 - 55.

**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The following factors were considered when preparing the 2017-18 budgets:

- ◆ A conservative economic forecast and limited revenue growth. An almost \$1 million increase in revenue in the GF due to \$0.4 million in one time revenue from an expected property sale and a \$0.6 million increase in ambulance revenue due to the expansion into interfacility transports from the Douglas ER to higher level of care facilities.
- ◆ Initiate the wastewater treatment plant expansion project for a budgeted amount of \$7,475,697.
- ◆ Budget almost \$1.3 million in streets work.
- ◆ Implement a sanitation automated service system picking up trash curbside instead of the alleys.
- ◆ Consolidate our Municipal Court and partner with the County Justice Court to service all City court services.
- ◆ Increased contributions for Public Safety Retirement for police and fire.

Direction from Mayor and Council continues to be the expansion of our port of entry with a two port solution. The City has a consultant on our budget to assist with binational relations with different government and private agencies and try and to gain support for our project. Our streets will be addressed this year with approximately \$1.3 million investment. Mayor and Council recognize that much more is needed to address all streets, but this investment will help preserve our arterial streets and address poor conditioned streets as well. Starting in January 2018 the City will implement an automated garbage pickup program that will bring efficiencies and cost savings to our program. The Public Safety retirement system will require a small increase in our annual contributions, but also this year is the beginning of the new tiered retirement program for officers that are hired after July 1, 2017 that in the future will bring much needed relief to the fund. The Mayor and Council's direction is to continue to market our City as a safe place to visit and a community oriented place where we enjoy a pleasant climate and great place to live. This marketing plan is geared to grow our City population and our business sector as well.

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

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BASIC FINANCIAL STATEMENTS

**CITY OF DOUGLAS, ARIZONA
STATEMENT OF NET POSITION
JUNE 30, 2017**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 7,513,487	\$ 7,274,451	\$ 14,787,938
Receivables, Net:			
Accounts Receivable	401,519	508,173	909,692
Taxes Receivable	866,152	-	866,152
Intergovernmental Receivables	873,551	-	873,551
Due from Component Unit	719,637	-	719,637
Internal Balances	(75,758)	75,758	-
Inventories	38,638	-	38,638
Prepaid Items	100,013	-	100,013
Other Assets	-	-	-
Restricted Assets	30,904	615,334	646,238
Capital Assets:			
Non-Depreciable	1,109,474	1,053,409	2,162,883
Depreciable (Net)	22,007,235	19,724,048	41,731,283
Total Assets	<u>33,584,852</u>	<u>29,251,173</u>	<u>62,836,025</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related	6,855,268	323,174	7,178,442
LIABILITIES			
Accounts Payable	518,405	94,046	612,451
Accrued Wages and Benefits	436,090	10,512	446,602
Insurance Claims Payable	238,590	-	238,590
Interest Payable	-	55,483	55,483
Intergovernmental Payable	51	-	51
Customer Deposits Payable	32,187	80,187	112,374
Unearned Revenue	90,932	-	90,932
Due to Primary Government	-	-	-
Noncurrent Liabilities			
Due Within One Year	1,660,261	508,897	2,169,158
Due in More Than One Year	6,693,347	4,631,950	11,325,297
Net Pension Liability	31,132,671	1,789,936	32,922,607
Total Liabilities	<u>40,802,534</u>	<u>7,171,011</u>	<u>47,973,545</u>
DEFERRED INFLOWS OF RESOURCES			
Pension Related	2,546,802	327,068	2,873,870
NET POSITION			
Net Investment in Capital Assets	16,107,618	15,748,934	31,856,552
Restricted for:			
Firefighters Injured in Line of Duty	138,488	-	138,488
Transit - Making the Connection Program	20,000	-	20,000
Other Federal and State Grants	142,306	-	142,306
Court Administration	18,109	-	18,109
Public Safety	134,902	-	134,902
Highways, Streets and Local Transportation	1,297,041	-	1,297,041
Redevelopment and Housing	634,359	-	634,359
Debt Service	-	481,243	481,243
Repair and Replacement	-	134,091	134,091
Unrestricted	(21,402,039)	5,712,000	(15,690,039)
Total Net Position	<u>\$ (2,909,216)</u>	<u>\$ 22,076,268</u>	<u>\$ 19,167,052</u>

See accompanying Notes to Basic Financial Statements.

<u>Component Unit</u>	<u>Proprietary Type</u>	<u>Component Unit</u>
\$	21,781	
	508	
	-	
	-	
	-	
	-	
	22,744	
	14,212	
	367,114	
	265,000	
	<u>3,087,703</u>	
	3,779,062	
	-	
	72,630	
	2,489	
	15,230	
	14,635	
	-	
	20,745	
	19,901	
	719,637	
	57,916	
	4,806,766	
	-	
	<u>5,729,949</u>	
	-	
	(1,511,979)	
	-	
	-	
	-	
	-	
	-	
	-	
	-	
	(438,908)	
\$	<u><u>(1,950,887)</u></u>	

**CITY OF DOUGLAS, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

Functions/Programs	Expenses	Program Revenues		
		Fee, Fines and Charges for Services	Operating Grants Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
General Government	\$ 3,463,981	\$ 1,538,549	\$ 199,005	\$ 130,827
Public Safety	10,479,931	1,603,762	859,416	19,615
Highways and Streets	2,649,507	21,666	2,109,292	148,757
Culture and Recreation	2,100,889	302,204	-	84,543
Redevelopment and Housing	924,901	-	916,470	-
Interest and Fiscal Charges	379,124	-	-	-
Total Governmental Activities	19,998,333	3,466,181	4,084,183	383,742
Business-Type Activities:				
Water	1,902,651	2,031,524	-	-
Sewer	1,344,495	1,941,864	-	-
Solid Waste	991,934	1,199,843	-	-
Total Business-Type Activities	4,239,080	5,173,231	-	-
Total Primary Government	\$ 24,237,413	\$ 8,639,412	\$ 4,084,183	\$ 383,742
Component Units:				
Proprietary Type Component Units	\$ 690,946	\$ 518,273	\$ -	\$ -
	\$ 690,946	\$ 518,273	\$ -	\$ -

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
Gain on Sale of Asset
Other
Transfers
Total General Revenues 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 Unit
Governmental Activities	Business-Type Activities	Total	Proprietary Type Component Unit
\$ (1,595,600)		\$ (1,595,600)	
(7,997,138)		(7,997,138)	
(369,792)		(369,792)	
(1,714,142)		(1,714,142)	
(8,431)		(8,431)	
(379,124)		(379,124)	
<u>(12,064,227)</u>		<u>(12,064,227)</u>	
	\$ 128,873	128,873	
	597,369	597,369	
	207,909	207,909	
	<u>934,151</u>	<u>934,151</u>	
(12,064,227)	934,151	(11,130,076)	
			<u>(172,673)</u>
			(172,673)
5,097,699	-	5,097,699	-
595,284	-	595,284	-
295,034	-	295,034	-
2,029,912	-	2,029,912	-
1,518,751	-	1,518,751	-
819,277	-	819,277	-
38,171	-	38,171	-
73,269	37,228	110,497	193
69,902	-	69,902	-
106,863	-	106,863	24,007
232,778	(232,778)	-	-
<u>10,876,940</u>	<u>(195,550)</u>	<u>10,681,390</u>	<u>24,200</u>
(1,187,287)	738,601	(448,686)	(148,473)
(1,721,929)	21,337,667	19,615,738	(1,802,414)
<u>\$ (2,909,216)</u>	<u>\$ 22,076,268</u>	<u>\$ 19,167,052</u>	<u>\$ (1,950,887)</u>

**CITY OF DOUGLAS, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017**

	General Fund	Nonmajor Governmental Funds	Totals
ASSETS			
Cash and Investments	\$ 4,809,534	\$ 2,416,284	\$ 7,225,818
Receivables:			
Accounts Receivable	394,776	6,743	401,519
Taxes Receivable	864,114	2,038	866,152
Intergovernmental Receivables	491,473	382,078	873,551
Due from Component Unit	719,637	-	719,637
Due from Other Funds	10,360	-	10,360
Inventory	38,638	-	38,638
Prepaid Items	100,013	-	100,013
Restricted Assets	-	30,904	30,904
Total Assets	<u>\$ 7,428,545</u>	<u>\$ 2,838,047</u>	<u>\$ 10,266,592</u>
LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 158,979	\$ 359,426	\$ 518,405
Accrued Wages and Benefits	409,204	26,886	436,090
Intergovernmental Payable	51	-	51
Due to Other Funds	-	10,360	10,360
Unearned Revenue	90,932	-	90,932
Customer Deposits Payable	-	32,187	32,187
Total Liabilities	<u>659,166</u>	<u>428,859</u>	<u>1,088,025</u>
Deferred Inflows of Resources			
Unavailable Revenue	<u>71,754</u>	<u>24,010</u>	<u>95,764</u>
Fund Balances			
Nonspendable	858,288	-	858,288
Restricted	158,488	2,204,745	2,363,233
Committed	-	195,001	195,001
Unassigned	5,680,849	(14,568)	5,666,281
Total Fund Balances	<u>6,697,625</u>	<u>2,385,178</u>	<u>9,082,803</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances			
	<u>\$ 7,428,545</u>	<u>\$ 2,838,047</u>	<u>\$ 10,266,592</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, 2017**

Total Fund Balances for Governmental Funds \$ 9,082,803

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

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

Land	\$ 1,065,310	
Construction in Progress	44,164	
Land Improvements	4,880,657	
Streets and Storm Drains	21,736,374	
Buildings and Improvements	15,769,331	
Machinery, Equipment and Vehicles	19,114,967	
Total Capital Assets	62,610,803	
Less: Accumulated Depreciation	(39,494,094)	23,116,709

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. 73,792

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 governmental-wide financial statements. 21,972

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore are not reported in the funds.

Deferred outflows of resources related to pensions		6,855,268
Deferred inflows of resources related to pensions		(2,546,802)

Long-term liabilities that pertain to governmental funds, including bonds payable and net pension liabilities, 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	(6,110,000)	
Net Pension Liability	(31,132,671)	
Capital Lease Payable	(899,091)	
Compensated Absence Payable	(1,344,517)	(39,486,279)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the internal service funds are included in governmental activities in the statement of net position.

Internal Service Fund Net Position	49,079	
Less: Amount Attributed to the Business-Type Activities	(75,758)	(26,679)
Total Net Position of Governmental Activities	(2,909,216)	\$ (2,909,216)

See accompanying Notes to Basic Financial Statements.

CITY OF DOUGLAS, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017

	General Fund	Nonmajor Governmental Funds	Totals
REVENUES			
Taxes:			
Sales Taxes	\$ 5,097,988	\$ 151	\$ 5,098,139
Property Taxes	603,407	-	603,407
Franchise Taxes	295,034	-	295,034
Intergovernmental Revenues	5,441,339	3,309,186	8,750,525
Fines and Forfeitures	153,441	3,618	157,059
Licenses and Permits	151,967	-	151,967
Charges for Services	2,072,475	263,270	2,335,745
Rents and Royalties	821,410	-	821,410
Contributions and Donations	-	-	-
Investment Income	62,094	11,177	73,271
Other	83,825	23,038	106,863
Total Revenues	14,782,980	3,610,440	18,393,420
EXPENDITURES			
Current:			
General Government	2,810,185	28,540	2,838,725
Public Safety	9,416,417	36,866	9,453,283
Highways and Streets	527,120	1,634,771	2,161,891
Culture and Recreation	1,436,990	307,483	1,744,473
Redevelopment and Housing	-	920,658	920,658
Debt Service:			
Principal Retirement	16,037	897,960	913,997
Interest on Long-Term Debt	3,005	376,119	379,124
Capital Outlay	248,247	876,530	1,124,777
Total Expenditures	14,458,001	5,078,927	19,536,928
Excess (Deficiency) of Revenues Over Expenditures	324,979	(1,468,487)	(1,143,508)
OTHER FINANCING SOURCES (USES)			
Transfers In	205,432	1,352,879	1,558,311
Transfers Out	(1,270,822)	(54,711)	(1,325,533)
Proceeds from Sale of Capital Assets	69,902	-	69,902
Issuance of Capital Leases	140,482	-	140,482
Total Other Financing Sources (Uses)	(855,006)	1,298,168	443,162
Net Change in Fund Balances	(530,027)	(170,319)	(700,346)
FUND BALANCES			
Beginning of Year, As Restated	7,227,652	2,555,497	9,783,149
End of Year	\$ 6,697,625	\$ 2,385,178	\$ 9,082,803

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, 2017**

Net Change in Fund Balances-Total Governmental Funds		\$ (700,346)
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	\$ 1,474,235	
Depreciation Expense	<u>(2,502,186)</u>	(1,027,951)
Contributions of capital assets are not current financial resources and are not reflected in the governmental funds.		
		130,827
The statement of activities reports losses arising from the disposal of existing capital assets. Conversely, governmental funds only report a gain for proceeds received on the sale of capital assets, but do not report a loss on the disposal of capital assets.		
		(4,778)
Loan receivable recorded as revenue in the government-wide statement of net position, but not yet available.		
Intergovernmental Receivables - June 30, 2016	29,288	
Intergovernmental Receivables - June 30, 2017	<u>21,972</u>	(7,316)
Governmental funds report City pension contributions as expenditures when made. However, in the statement of activities pension expense is the cost of benefits earned, adjusted for member contributions, the recognition of changes in deferred outflows and inflows of resources related to pensions, and the investment experience.		
Pension Contributions		2,774,652
Pension Expense		<u>(2,809,137)</u>
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:		
Proceeds from Capital Leases	(140,482)	
Repayment of Long-Term Debt	<u>913,997</u>	773,515
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, 2016	82,355	
Unavailable Revenue - June 30, 2017	<u>73,792</u>	(8,563)
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).		
		(64,962)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net loss of the internal service fund is reported with governmental activities.		
Net Losses of the Internal Service Fund	(285,786)	
Less: Amount Attributable to the Business-Type Activities	<u>42,558</u>	(243,228)
Change in Net Position of Governmental Activities		<u>\$ (1,187,287)</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF DOUGLAS, ARIZONA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017**

	Business-Type Activities				Governmental Activities
	Water	Sewer	Solid Waste	Totals	Internal Service Fund
ASSETS					
Current Assets:					
Cash and Cash Equivalents	\$ 3,626,194	\$ 1,931,045	\$ 1,717,212	\$ 7,274,451	\$ 287,669
Receivables, Net:					
Accounts Receivable	226,252	173,109	108,812	508,173	-
Total Current Assets	3,852,446	2,104,154	1,826,024	7,782,624	287,669
Noncurrent Assets:					
Restricted Cash and Cash Equivalents	178,376	436,958	-	615,334	-
Capital Assets:					
Non-Depreciable	977	1,052,432	-	1,053,409	-
Depreciable (Net)	6,343,075	13,177,558	203,415	19,724,048	-
Total Noncurrent Assets	6,522,428	14,666,948	203,415	21,392,791	-
Total Assets	10,374,874	16,771,102	2,029,439	29,175,415	287,669
DEFERRED OUTFLOWS OF RESOURCES					
Pension Related	133,700	85,470	104,004	323,174	-
LIABILITIES					
Current Liabilities:					
Accounts Payable	44,445	14,236	35,365	94,046	-
Accrued Wages and Benefits	8,526	881	1,105	10,512	-
Insurance Claims Payable	-	-	-	-	238,590
Interest Payable	14,121	41,362	-	55,483	-
Customer Deposits Payable	29,429	25,900	24,858	80,187	-
Compensated Absences	45,252	23,468	21,153	89,873	-
Capital Leases Payable	-	49,815	41,088	90,903	-
Loans Payable	79,113	249,008	-	328,121	-
Total Current Liabilities	220,886	404,670	123,569	749,125	238,590
Noncurrent Liabilities:					
Compensated Absences Payable	8,408	14,043	-	22,451	-
Loans Payable	924,491	3,685,008	-	4,609,499	-
Net Pension Liability	740,513	473,386	576,037	1,789,936	-
Total Noncurrent Liabilities	1,673,412	4,172,437	576,037	6,421,886	-
Total Liabilities	1,894,298	4,577,107	699,606	7,171,011	238,590
DEFERRED INFLOWS OF RESOURCES					
Pension Related	135,311	86,500	105,257	327,068	-
NET POSITION					
Net Investment in Capital Assets	5,340,448	10,246,159	162,327	15,748,934	-
Restricted for:					
Debt Service	99,098	382,145	-	481,243	-
Repair and Replacement	79,278	54,813	-	134,091	-
Unrestricted	2,960,141	1,509,848	1,166,253	5,636,242	49,079
Total Net Position	\$ 8,478,965	\$ 12,192,965	\$ 1,328,580	22,000,510	\$ 49,079
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				75,758	
Net position of business-type activities				\$ 22,076,268	

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, 2017

	Business-Type Activities				Governmental Activities
	Water	Sewer	Solid Waste	Totals	Internal Service Fund
OPERATING REVENUES					
Charges for Services	\$ 1,953,677	\$ 1,827,101	\$ 1,199,661	\$ 4,980,439	\$ 778,921
Total Operating Revenue	<u>1,953,677</u>	<u>1,827,101</u>	<u>1,199,661</u>	<u>4,980,439</u>	<u>778,921</u>
OPERATING EXPENSES					
Cost of Sales and Services	1,380,872	691,990	908,183	2,981,045	-
Insurance Claims	-	-	-	-	1,065,674
Depreciation	476,198	581,048	65,520	1,122,766	-
Total Operating Expenses	<u>1,857,070</u>	<u>1,273,038</u>	<u>973,703</u>	<u>4,103,811</u>	<u>1,065,674</u>
Operating Income / (Loss)	96,607	554,063	225,958	876,628	(286,753)
NONOPERATING REVENUES (EXPENSE)					
Impact Fees	34,478	39,518	-	73,996	-
Intergovernmental Revenue	-	-	-	-	-
Investment Income	18,293	10,847	8,088	37,228	967
Interest Expense	(28,242)	(62,830)	(1,639)	(92,711)	-
Miscellaneous Nonoperating Revenues	43,369	75,245	182	118,796	-
Total Nonoperating Revenues	<u>67,898</u>	<u>62,780</u>	<u>6,631</u>	<u>137,309</u>	<u>967</u>
Income / (Loss) Before Transfers	164,505	616,843	232,589	1,013,937	(285,786)
Transfers Out	<u>(112,190)</u>	<u>(82,956)</u>	<u>(37,632)</u>	<u>(232,778)</u>	<u>-</u>
Change in Net Position	52,315	533,887	194,957	781,159	(285,786)
Total Net Position - Beginning of Year (As Restated)	<u>8,426,650</u>	<u>11,659,078</u>	<u>1,133,623</u>		<u>334,865</u>
TOTAL NET POSITION - END OF YEAR	<u>\$ 8,478,965</u>	<u>\$ 12,192,965</u>	<u>\$ 1,328,580</u>		<u>\$ 49,079</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				(42,558)	
Change in net position of business-type activities				<u>\$ 738,601</u>	

See accompanying Notes to Basic Financial Statements.

**CITY OF DOUGLAS, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2017**

	Business-type Activities - Enterprise Funds				Governmental Activities Internal Service Fund
	Water	Sewer	Solid Waste	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers	\$ 1,934,596	\$ 1,836,073	\$ 1,194,582	\$ 4,965,251	\$ 778,921
Payments to Suppliers	(835,338)	(481,030)	(562,481)	(1,852,911)	-
Payments to Employees	(465,528)	(330,811)	(379,317)	(1,175,656)	-
Payment for Contributions to Internal Service Customer Deposits	(55,251) 6,925	(30,480) 6,094	(53,596) 5,849	(165,265) 18,868	(827,084) -
Other Receipts	43,369	75,245	182	118,796	-
Net Cash Flows Provided by Operating Activities	628,773	1,075,091	205,219	1,909,083	(48,163)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers Out	(112,190)	(82,956)	(37,632)	(232,778)	-
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES					
Impact Fees	34,478	39,518	-	73,996	-
Purchases of Capital Assets	(51,845)	(73,751)	-	(125,596)	-
Issuance of Long-Term Debt	-	-	-	-	-
Principal Paid on Capital Debt	(76,948)	(327,595)	(40,136)	(444,679)	-
Interest Paid on Capital Debt	(29,325)	(57,072)	(1,639)	(88,036)	-
Net Cash Flows Used by Capital and Related Financing Activities	(123,640)	(418,900)	(41,775)	(584,315)	-
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment Income	18,293	10,847	8,088	37,228	967
NET CHANGE IN CASH AND CASH EQUIVALENTS	411,236	584,082	133,900	1,129,218	(47,196)
Cash and Cash Equivalents - Beginning of Year	3,393,334	1,783,921	1,583,312	6,760,567	334,865
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 3,804,570</u>	<u>\$ 2,368,003</u>	<u>\$ 1,717,212</u>	<u>\$ 7,889,785</u>	<u>\$ 287,669</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION					
Cash and Cash Equivalents	\$ 3,626,194	\$ 1,931,045	\$ 1,717,212	\$ 7,274,451	\$ 287,669
Restricted Cash and Cash Equivalents	178,376	436,958	-	615,334	-
Total Cash and Cash Equivalents	<u>\$ 3,804,570</u>	<u>\$ 2,368,003</u>	<u>\$ 1,717,212</u>	<u>\$ 7,889,785</u>	<u>\$ 287,669</u>

(Continued)

**CITY OF DOUGLAS, ARIZONA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2017**

	Business-type Activities - Enterprise Funds				Governmental Activities Internal
	Water	Sewer	Solid Waste	Totals	Service Fund
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating Income (Loss)	\$ 96,607	\$ 554,063	\$ 225,958	\$ 876,628	\$ (286,753)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation	476,198	581,048	65,520	1,122,766	-
Adjustment for Pension Expense	73,449	(46,414)	(53,162)	(26,127)	-
Miscellaneous Nonoperating Revenues	43,369	75,245	182	118,796	-
Change in Assets/Liabilities:					
Receivables, Net	(19,081)	8,972	(5,079)	(15,188)	-
Accounts Payable	(16,732)	(66,035)	(1,414)	(84,181)	-
Accrued Wages and Benefits	(28,327)	(28,425)	(26,910)	(83,662)	-
Insurance Claims Payable	(8,152)	(7,291)	(8,525)	(23,968)	238,590
Customer Deposits Payable	6,925	6,094	5,849	18,868	-
Compensated Absences	4,517	(2,166)	2,800	5,151	-
Net Cash Provided by Operating Activities	\$ 628,773	\$ 1,075,091	\$ 205,219	\$ 1,909,083	\$ (48,163)

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NOTES TO BASIC FINANCIAL STATEMENTS

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CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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 business-type discretely presented 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 Public Facility Municipal Property Corporation – The Douglas Public Facility 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 the management of the Douglas Golf Course. The DMPC operates the day-to-day operations of the golf course and receives subsidies from the City to operate. All capital assets and related debt are held by the City. The DMPC provides a service directly to the City by providing management of day-to-day operations. All related receivables and payables between the City and the DMPC have been eliminated. Separate financial statements for the Douglas Public Facility Property Municipal Property Corporation are not prepared.

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

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

Discretely presented component units:

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 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, 2017

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

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.

The City reports the following major proprietary funds:

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

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

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

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Additionally, the City reports the following fund types:

The *Internal Service Funds* account for the City's limited risk, self-insurance program for employee and dependent medical care.

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.

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.

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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)

1. Deposits and Investments (Continued)

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 business-type component unit invests cash and investments in local financial institutions.

2. Accounts and Property Tax 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 \$15,939.

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 amounts due from other government agencies and include Highway User Revenue fuel tax (\$123,869), State sales tax (\$130,446), auto lieu (\$32,561), federal transit grant (\$85,617), community development block grant (\$45,454) homeland security grant (\$157,079), rehabilitation revolving loans (\$21,972), state airport and roads grants (\$121,728) and other federal and state grants (\$154,825) in the governmental funds and governmental activities column of the government-wide financial statements.

4. Due From Component Unit

Due from component unit recorded in the governmental activities column of the government-wide financial statements represents a loan due from Rancho LaParilla Housing Corporation, a discretely presented component unit of the City. Rancho La Parilla Housing Corporation reports an offsetting due to primary government.

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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)

5. Interfund Receivables and Payables

The City reports due to and due from other funds to eliminate deficit cash in individual funds through a short-term borrowing.

6. 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 an expenditure in the governmental funds and as an expense 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. Prepays are expensed when the benefit is received.

7. 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.

8. 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.

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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)

8. Capital Assets (Continued)

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at acquisition 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

9. Deferred Outflows of Resources

The City recognizes the consumption of net position that is applicable to a future reporting period as deferred outflows of resources. Reported amounts are related to the requirements of accounting and financial reporting for pensions under GASB 68.

10. Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary fund financial 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. A liability for compensated absences are only recorded in the governmental funds to the extent they will be paid with current financial resources for employee resignations or retirement.

11. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Arizona State Retirement System (ASRS) and Public Safety Personnel Retirement System (PSPRS) and additions to/deductions from ASRS/PSPRS's fiduciary net position have been determined on the same basis as they are reported by ASRS/PSPRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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. 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.

13. Deferred Inflows of Resources

The deferred inflows of resources reported in the governmental fund financial statements represent resources that are not available to the City as of June 30, 2017 or within 60 days of fiscal year end. The deferred inflows of resources represent a reconciling item between the governmental fund financial statements and the government-wide financial statements.

The deferred inflows of resources in the government-wide financial statements represent the acquisition of net position that is applicable to a future reporting period. Reported amounts are related to the requirements of accounting and financial reporting for pensions under GASB 68.

14. 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 accounts for the portion 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, 2017

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)

15. 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 other classifications. The general fund is the only fund that reports a positive unassigned fund balance and 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, 2017

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, Special Revenue, Debt Service and Capital Projects Funds on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures. No budget was appropriated for the LTAF, Golf Course MPC and Public Housing Funds 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.

B. Deficit Net Position

At June 30, 2017, the City reported a deficit net position in the governmental activities of \$2,909,216. The deficit was due to recording the net pension liability for the City's proportionate share of the Arizona State Retirement System and the Public Safety Retirement Plan. The City does not anticipate recovering the deficit in the near-term; however, the unfunded pension liability will be reduced through future contributions to the plans.

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

B. Deficit Net Position (Continued)

The Golf Course MPC nonmajor governmental fund reported a deficit fund balance of \$14,568. The deficit is expected to be recovered through operations and General Fund subsidies.

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Deposits and investments at June 30, 2017 consist of the following:

Deposits:	
Cash on Hand	\$ 3,600
Cash in Bank	5,084,638
Cash on Deposit with County Attorney	279,306
Investments:	
State Treasurer's Investment Pool	10,066,632
Total Cash and Investments	<u>15,434,176</u>
Less Restricted Assets	<u>(646,238)</u>
Cash and Investments - Statement of Net Position	<u>\$ 14,787,938</u>

Deposits

The carrying value of the City's deposits at June 30, 2017 was \$5,084,638 and the bank balance was \$5,410,859. Of the bank balance, \$3,776,611 was covered by federal depository insurance, \$1,634,248 was covered by collateral held by the City's custodial bank in the City's name and cash on deposit with the county attorney was 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.

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, 2017**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

The City's investments at June 30, 2017 consist of the following:

Investment Type	Amount	Maturity in Years	
		Less than 1	1-2
State Treasurer's Investment Pool 5	\$ 9,352,904	\$ 9,352,904	\$ -
State Treasurer's Investment Pool 500	713,728	-	713,728
	<u>\$ 10,066,632</u>	<u>\$ 9,352,904</u>	<u>\$ 713,728</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, 2017 consist of:

Deposits:	
Cash on Hand	\$ 100
Cash in Bank	21,681
Investments:	
Funds Held by Mortgage	367,114
Restricted Assets	<u>(367,114)</u>
Total Cash and Cash Equivalents	<u>\$ 21,781</u>

The carrying value of the component unit's deposits at June 30, 2017 was \$21,681 which was entirely covered by federal depository insurance.

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

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, 2017 consisted of the following:

	Governmental Activities	Business-Type Activities		Total
		Water Fund	Sewer Fund	
Loan Debt Service Reserve Requirement	\$ -	\$ 178,376	\$ 436,958	\$ 615,334
Customer Deposits	9,666	-	-	9,666
Grantor Reserve Requirement	21,238	-	-	21,238
Total	<u>\$ 30,904</u>	<u>\$ 178,376</u>	<u>\$ 436,958</u>	<u>\$ 646,238</u>

Restricted assets of the discretely presented component units at June 30, 2017 consisted of the following:

Funds Held by Mortgage	<u>\$ 367,114</u>
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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 unearned revenues in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unavailable revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent Property Taxes Receivable: (General Fund)	\$ 54,763	\$ -
Unavailable Grant Revenue: (Nonmajor Governmental Funds)	21,972	-
Sales Tax Audit Receivable: (General Fund)	16,991	-
(Nonmajor Governmental Funds)	2,038	-
Unearned Revenue: (General Fund)	-	90,000
Unearned Grant Revenue: (General Fund)	-	932
	<u>\$ 95,764</u>	<u>\$ 90,932</u>

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,065,310	\$ -	\$ -	\$ 1,065,310
Construction in Progress	521,496	716,401	(1,193,733)	44,164
Total Capital Assets, Not Being Depreciated	1,586,806	716,401	(1,193,733)	1,109,474
Capital Assets, Being Depreciated:				
Land Improvements	4,815,648	65,009	-	4,880,657
Streets and Storm Drains	21,121,318	615,056	-	21,736,374
Buildings and Improvements	15,533,606	235,725	-	15,769,331
Machinery and Equipment	12,729,700	428,125	(71,677)	13,086,148
Vehicles	5,441,263	738,479	(150,923)	6,028,819
Total Capital Assets, Being Depreciated	59,641,535	2,082,394	(222,600)	61,501,329
Accumulated Depreciation for:				
Land Improvements	(3,023,037)	(199,791)	-	(3,222,828)
Streets and Storm Drains	(11,817,537)	(768,581)	-	(12,586,118)
Buildings and Improvements	(7,304,586)	(515,795)	-	(7,820,381)
Machinery and Equipment	(10,974,335)	(520,376)	66,899	(11,427,812)
Vehicles	(4,090,235)	(497,643)	150,923	(4,436,955)
Total Accumulated Depreciation	(37,209,730)	(2,502,186)	217,822	(39,494,094)
Total Capital Assets, Being Depreciated, Net	22,431,805	(419,792)	(4,778)	22,007,235
Governmental Activities Capital Assets, Net	<u>\$ 24,018,611</u>	<u>\$ 296,609</u>	<u>\$ (1,198,511)</u>	<u>\$ 23,116,709</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General Government	\$ 647,074
Public Safety	607,908
Highways and Streets	821,086
Culture and Recreation	421,875
Redevelopment and Housing	4,243
Total Depreciation Expense, Governmental Activities	<u>\$ 2,502,186</u>

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Construction in Progress	\$ 1,009,596	\$ 43,813	\$ -	\$ 1,053,409
Capital Assets, Being Depreciated:				
Buildings and Improvements	7,908,940	4,996	-	7,913,936
Water System	16,000,514	51,845	-	16,052,359
Wastewater System	14,848,511	-	-	14,848,511
Machinery, Equipment, and Vehicles	2,933,170	24,942	-	2,958,112
Total Capital Assets, Being Depreciated	41,691,135	81,783	-	41,772,918
Accumulated Depreciation for:				
Buildings and Improvements	(3,085,286)	(175,753)	-	(3,261,039)
Water System	(9,295,613)	(453,086)	-	(9,748,699)
Wastewater System	(6,277,048)	(340,173)	-	(6,617,221)
Machinery, Equipment, and Vehicles	(2,268,157)	(153,754)	-	(2,421,911)
Total Accumulated Depreciation	(20,926,104)	(1,122,766)	-	(22,048,870)
Total Capital Assets, Being Depreciated, Net	20,765,031	(1,040,983)	-	19,724,048
Business-Type Activities Capital Assets, Net	\$ 21,774,627	\$ (997,170)	\$ -	\$ 20,777,457

Depreciation expense was charged to functions/programs as follows:

Business-Type Activities:	
Water	\$ 476,198
Sewer	581,048
Solid Waste	65,520
Total Depreciation Expense, Business-Type Activities	<u>\$ 1,122,766</u>

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets (Continued)

Capital asset activity for the business-type discretely presented component units for the year ended June 30, 2017 were as follows:

Business-Type Discretely Presented Component Unit	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	26,278	-	-	26,278
Total Capital Assets, Being Depreciated	5,233,842	-	-	5,233,842
Accumulated Depreciation for:				
Buildings and Improvements	(1,994,474)	(130,189)	-	(2,124,663)
Furniture and Equipment	(20,718)	(758)	-	(21,476)
Total Accumulated Depreciation	(2,015,192)	(130,947)	-	(2,146,139)
Total Capital Assets, Being Depreciated, Net	3,218,650	(130,947)	-	3,087,703
Business-Type Activities				
Capital Assets, Net	<u>\$ 3,483,650</u>	<u>\$ (130,947)</u>	<u>\$ -</u>	<u>\$ 3,352,703</u>

Depreciation expense was charged to functions/programs as follows:

Business-type Activities:	
Rancho La Perilla	<u>\$ 130,947</u>

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Receivables, Payables and Transfers

Interfund receivables and payables at June 30, 2017 were recorded to eliminate a deficit cash balance in the LTAF Fund and consisted of the following:

Due To	Due From Nonmajor Governmental
General Fund	\$ 10,360

Cash was received subsequent to year end to cover the deficit.

Interfund transfers for the year ended June 30, 2017 consisted of the following:

Transfers Out	General Fund	Transfers In Nonmajor Governmental Funds	Total
General Fund	\$ -	\$ 1,270,822	\$ 1,270,822
Nonmajor Governmental Funds	41,119	13,592	54,711
Water Fund	64,113	48,077	112,190
Sewer Fund	69,364	13,592	82,956
Solid Waste Fund	30,836	6,796	37,632
	\$ 205,432	\$ 1,352,879	\$ 1,558,311

Transfers were used 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 costs for the use of certain facilities owned and operated by the General Fund.

C. Obligations Under Capital Leases

The City acquired furniture, equipment and vehicles under the provisions of long-term lease agreements classified as capital leases. Accordingly, the principal amount of the assets totaling \$2,603,018 and \$583,553 are capitalized as governmental activities and business-type activities, respectively.

The assets acquired through capital leases are as follows:

	Governmental Activities	Business-Type Activities
Asset:		
Furniture, Equipment and Vehicles	\$ 2,603,018	\$ 583,553
Less: Accumulated Depreciation	(1,369,642)	(256,514)
Total	\$ 1,233,376	\$ 327,039

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Obligations Under Capital Leases (Continued)

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

Future principal and interest payments due on capital leases are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2018	\$ 427,406	\$ 17,990	\$ 90,903	\$ 1,344
2019	208,098	10,584	-	-
2020	205,437	5,675	-	-
2021	28,740	1,189	-	-
2022	29,410	515	-	-
Total	<u>\$ 899,091</u>	<u>\$ 35,953</u>	<u>\$ 90,903</u>	<u>\$ 1,344</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 \$669,266 during the current fiscal year. Future minimum lease payments related to the call center lease are as follows:

Year Ending June 30,	Amount
2018	\$ 647,076
2019	623,964
2020	600,852
2021	600,852
2022	600,852
2023-2024	901,278
	<u>\$ 3,974,874</u>

The City leases land to various third parties. Annual rental revenues from the lease agreements are recognized in the General Fund. Payments on the leases totaled \$122,161. The future minimum lease payments required under the leases at June 30, 2017 are as follows:

Year Ending June 30,	Amount
2018	\$ 93,120
2019	31,923
2020	1,320
2021	1,320
2022	1,320
Thereafter	35,640
	<u>\$ 164,643</u>

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations

The City has 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 loans:

Description	Maturity	Interest Rate (%)	Outstanding at June 30, 2017
Governmental Activities			
Loans Payable:			
Greater Arizona Development Authority, Series 2008A; original issue \$3,000,000	8/1/17-28	4.00-5.25%	\$ 1,985,000
Call Center Purchase Agreement; collateralized by the building and equipment acquired with the debt; original issue \$9,000,000	7/31/17-28	4.29-5.63%	4,125,000
Total Governmental Loans Payable			<u>\$ 6,110,000</u>
Business-Type Activities			
Water Infrastructure Finance Authority of Arizona Issued 2009-2010; Authorized Loan \$9,000,000	7/1/17-29	2.00%	\$ 3,105,437
Water Infrastructure Finance Authority of Arizona Issued 2015-2016, Authorized Loan \$900,000	7/1/17-34	2.00%	828,579
Water Infrastructure Finance Authority of Arizona Issued 2009-2010; Authorized Loan \$1,500,000	7/1/17-27	2.814%	1,003,604
Water Infrastructure Finance Authority of Arizona Issued 2016-2017; Authorized Loan \$3,000,000	7/1/17-37	1.89%	-
Total Business-Type Loans Payable			<u>\$ 4,937,620</u>

The City has pledged future state shared revenue and City excise taxes, transaction privilege tax and other miscellaneous revenues to repay \$2.0 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 2% of pledged revenues. The total principal and interest remaining to be paid on the loan is \$2,552,494. Principal and interest paid for the current year and total excise taxes and shared revenues were \$233,725 and \$8,646,362, respectively.

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

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% 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 June 30, 2013. 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 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 \$5,519,293. Principal and interest paid for the current year was \$631,869 and the City sales tax and lease revenues were \$8,683,759 and \$669,266, respectively.

The City has four loans through the Water Infrastructure Financing Authority of Arizona (WIFA). In June 2017, the City acquired a \$3,000,000 loan from WIFA for the expansion and rehabilitation of its wastewater treatment plant. The loans are structured where the City draws on the loans as funds are needed. To-date, the City has drawn down \$0-, \$1.5 million, \$5.5 million and \$900,000 from the total authorized loan of \$3.0 million, \$1.5 million, \$9.0 million and \$900,000, 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 2034.

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% of net available revenue. The total principal and interest remaining to be paid on the loans are \$5,779,564. Principal and interest paid for the current year and total pledged revenues were \$408,287 and \$872,420.

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

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

Changes in long-term obligations for the year ended June 30, 2017 are as follows:

	Beginning of Year	Additions	Retirements	End of Year	Due within One Year
Governmental Activities:					
Loans Payable	\$ 6,620,000	\$ -	\$ (510,000)	\$ 6,110,000	\$ 520,000
Other Liabilities:					
Capital Leases	1,162,606	140,482	(403,997)	899,091	427,406
Compensated Absences	1,279,555	757,052	(692,090)	1,344,517	712,855
Total Governmental Activities	<u>\$ 9,062,161</u>	<u>\$ 897,534</u>	<u>\$ (1,606,087)</u>	<u>\$ 8,353,608</u>	<u>\$ 1,660,261</u>
Business-Type Activities:					
Loans Payable	\$ 5,263,184	\$ -	\$ (325,564)	\$ 4,937,620	\$ 328,121
Other Liabilities:					
Capital Lease	210,018	-	(119,115)	90,903	90,903
Compensated Absences	107,173	94,770	(89,619)	112,324	89,873
Total Business-Type Activities	<u>\$ 5,580,375</u>	<u>\$ 94,770</u>	<u>\$ (534,298)</u>	<u>\$ 5,140,847</u>	<u>\$ 508,897</u>
Business-Type Component Units:					
Notes Payable	<u>\$ 5,019,698</u>	<u>\$ -</u>	<u>\$ (155,016)</u>	<u>\$ 4,864,682</u>	<u>\$ 57,916</u>

Debt service requirements on long-term debt at June 30, 2017 are as follows:

Years	Primary Government				Component Units
	Governmental Activities		Business-Type Activities		Business-type Activities
	Principal	Interest	Principal	Interest	Principal
2018	\$ 520,000	\$ 321,938	\$ 328,122	\$ 108,065	\$ 57,916
2019	525,000	294,106	335,509	100,678	60,306
2020	530,000	267,127	343,066	93,120	690,494
2021	540,000	238,591	350,798	85,388	65,385
2022	545,000	209,044	358,709	77,477	68,083
2023-2027	2,850,000	604,180	1,918,752	262,180	-
2028-2032	600,000	26,801	1,137,947	106,772	-
2033-2037	-	-	164,717	8,264	-
2038-2042	-	-	-	-	-
2043-2047	-	-	-	-	3,922,498
Totals	<u>\$ 6,110,000</u>	<u>\$ 1,961,787</u>	<u>\$ 4,937,620</u>	<u>\$ 841,944</u>	<u>\$ 4,864,682</u>

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

F. Fund Balance Classifications of Governmental Funds

The City has classified its fund balances as follows:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balances:			
Nonspendable:			
Inventory	\$ 38,638	\$ -	\$ 38,638
Prepaid Items	100,013	-	100,013
Due from Component Unit	719,637	-	719,637
Total Nonspendable	<u>858,288</u>	<u>-</u>	<u>858,288</u>
Restricted:			
Firefighters Injured in Line of Duty	138,488	-	138,488
Transit - Making the Connection Program	20,000	-	20,000
Federal and State Grant Programs	-	378,797	378,797
Court Administration	-	18,109	18,109
Law Enforcement Operations	-	134,902	134,902
Local Transportation	-	123,496	123,496
Highways and Streets by A.R.S. 28-6533	-	1,173,545	1,173,545
Housing and Redevelopment	-	375,896	375,896
Total Restricted	<u>158,488</u>	<u>2,204,745</u>	<u>2,363,233</u>
Committed:			
Capital Projects	-	195,001	195,001
Unassigned:	<u>5,680,849</u>	<u>(14,568)</u>	<u>5,666,281</u>
Total Fund Balances	<u>\$ 6,697,625</u>	<u>\$ 2,385,178</u>	<u>\$ 9,082,803</u>

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.

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4 OTHER INFORMATION (CONTINUED)

A. Risk Management (Continued)

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 as an internal service fund. The City allocates the cost of claims by charging a premium to each fund based on a percentage of each fund's 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, 2017, the self-insured benefit claims payable reported within the internal service fund, including amounts incurred, but not yet reported totaled \$238,590.

As of June 30, 2017 and 2016, unpaid claims were as follows:

	2017	2016
Beginning unpaid claims	\$ 156,446	\$ 118,388
Claims incurred and changes in estimates	1,065,674	738,285
Payments made	(983,530)	(700,227)
Ending unpaid claims	\$ 238,590	\$ 156,446

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.

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans

Cost-Sharing and Agent Multiple Employer Pension Plans

The City contributes to the Arizona State Retirement System (ASRS) and the Public Safety Personnel Retirement System (PSPRS) for police officers and firefighters. The plans are component units of the State of Arizona.

At June 30, 2017, the City reported the following aggregate amounts related to pensions for all plans to which it contributes:

Statement of Net Position and Statement of Activities	Governmental Activities	Business-Type Activities	Total
Net Pension Liabilities	\$ 31,132,671	\$ 1,789,936	\$ 32,922,607
Deferred Outflows of Resources	6,855,268	323,174	7,178,442
Deferred Inflows of Resources	2,546,802	327,068	2,873,870
Pension Expense	2,809,137	114,087	2,923,224

The City reported accrued payroll and employee benefits of \$51,015 for outstanding pension contribution amounts payable to all pension plans for the year ended June 30, 2017. Also, the City reported \$2,774,652 of pension expenditures in the governmental funds related to all pension plans to which it contributes.

Arizona State Retirement System

Plan Descriptions – City employees not covered by the other pension plans described on the following pages participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health insurance premium benefit (OPEB); and a cost-sharing, multiple-employer defined benefit long-term disability (OPEB). The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its Web site at www.azasrs.gov.

Benefits Provided – The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as presented on the following page.

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

	Retirement	
	Initial Membership Date	
	Before July 1, 2011	On or After July 1, 2011
Years of Service and Age Required to Receive Benefit	Sum of Years and Age Equals 80 10 Years Age 62 5 Year Age 50* any Years Age 65	30 Years Age 55 25 Years Age 60 10 Years Age 62 5 Years Age 50* any Years Age 65
Final Average Salary is Based on	Highest 36 Consecutive Months of Last 120 Months	Highest 60 Consecutive Months of Last 120 Months
Benefit Percentage Per Year of Service	2.1% to 2.3%	2.1% to 2.3%

* With Actuarially Reduced Benefits

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earnings. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

Contributions – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2017, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.48% (11.34% for retirement and 0.14 percent for long-term disability) of the members' annual covered payroll, and the City was required by statute to contribute at the actuarially determined rate of 11.48% (10.78% for retirement, 0.56% for the health insurance premium benefit, and 0.14% for long-term disability) of the active members' annual covered payroll.

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

In addition, the City was required by statute to contribute at the actuarially determined rate of 9.47% (9.17% for retirement, 0.21 percent for health insurance premium benefit, and 0.09 percent for long-term disability) of annual covered payroll of retired members who worked for the City in positions that would typically be filled by an employee who contributes to the ASRS. The City's contributions to the pension plan, health benefit supplement and long-term disability for the year ended June 30, 2017, totaled \$499,158. The City's contributions for the current and two preceding years for OPEB, all of which were equal to the required contributions, were as follows:

<u>Year Ending June 30,</u>	Health Benefit Supplement Fund	Long-Term Disability Fund
2017	\$ 24,070	\$ 6,018
2016	20,933	4,970
2015	24,327	4,948

During the fiscal year ended June 30, 2017, the City paid for ASRS pension and OPEB contributions as follows: 60% from the General Fund, 15 percent from nonmajor governmental funds, 10% from the Water Fund, 7 percent from the Sewer Fund and 8% from the Solid Waste Fund.

Pension Liability – At June 30, 2017, the City reported a liability of \$7,095,586 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2015, to the measurement date of June 30, 2016. The total pension liability as of June 30, 2016 reflects a change in actuarial assumption for a decrease in loads for future permanent benefit increases.

The City's reported liability at June 30, 2017, increased by \$13,369 from the City's prior year liability of \$7,082,717 because of changes in the ASRS' net pension liability and the City's proportionate share of that liability. The ASRS' publicly available financial report provides details on the change in the net pension liability.

The City's proportion of the net pension liability was based on the City's fiscal year 2016 pension contributions. The City's proportion measured as of June 30, 2016, was 0.04396 percent, which was a decrease of 0.00151 from its proportion measured as of June 30, 2015.

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2017 the City recognized pension expense for ASRS of \$41,294. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 43,118	\$ 488,125
Changes of assumptions or other inputs	-	375,413
Net difference between projected and actual earnings on pension plan investments	768,925	-
Changes in proportion and differences between City contributions and proportionate share of contributions	-	433,008
City's contributions subsequent to the measurement date	469,070	-
Total	\$ 1,281,113	\$ 1,296,546

The \$469,070 reported as deferred outflows of resources related to ASRS pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year Ending June 30,	Amount
2018	\$ (632,864)
2019	(365,031)
2020	297,790
2021	215,602

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

Actuarial Assumptions – The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial Valuation Date	June 30, 2015
Actuarial Roll Forward Date	June 30, 2016
Actuarial Cost Method	Entry age normal
Investment Rate of Return	8%
Projected Salary Increases	3 - 6.75%
Inflation	3%
Permanent Benefit Increase	Included
Mortality Rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.75% using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Return Arithmetic Basis</u>
Equity	58%	6.73%
Fixed Income	25%	3.70%
Commodities	2%	3.84%
Real estate	10%	4.25%
Multi-asset class	5%	3.41%
Total	<u>100%</u>	

**CITY OF DOUGLAS, ARIZONA
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2017**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

Discount Rate – The discount rate used to measure the ASRS total pension liability was 8%, which is less than the long-term expected rate of return of 8.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statutes. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City’s Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate – The following table presents the City’s proportionate share of the net pension liability calculated using the discount rate of 8%, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7%) or 1 percentage point higher (9%) than the current rate.

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
City’s proportionate share of the net pension liability	\$ 9,047,410	\$ 7,095,586	\$ 5,530,649

Pension Plan Fiduciary Net Position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued ASRS financial report.

Public Safety Personnel Retirement System (PSPRS)

Plan Descriptions— City police employees and City firefighters who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS). The PSPRS administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium benefit (OPEB) plan (agent plans). A nine-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The PSPRS issue publicly available financial reports that include their financial statements and required supplementary information. The reports are available on the PSPRS Web site at www.psprs.com.

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Benefits Provided — The PSPRS provide retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefits terms. Retirement, disability, and survivor benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

PSPRS	Initial Membership Date	
	Before January 1, 2012	On or After January 1, 2012
Retirement and Disability		
Years of Service and Age Required to Receive Benefit	20 Years any Age 15 Years Age 62	25 Years and Age 52.5
Final Average Salary is Based on	Highest 36 Consecutive Months of Last 20 Years	Highest 60 Consecutive Months of Last 20 Years
Benefit Percentage Normal Retirement	50% Less 2.0% for Each Year of Credited Service Less Than 20 Years OR Plus 2.0% to 2.5% for Each Year of Credited Service Over 20 Years, Not to Exceed 80%	2.5% Per Year of Credited Service, Not to Exceed 80%
Accidental Disability Retirement	50% or Normal Retirement, Whichever is Greater	
Catastrophic Disability Retirement	90% for the First 60 Months then Reduced to Either 62.5% or Normal Retirement, Whichever is Greater	
Ordinary Disability Retirement	Normal Retirement Calculated with Actual Years of Credited Service or 20 Years of Credited Service, Whichever is Greater, Multiplied by Years of Credited Service (Not to Exceed 20 Years) Divided by 20	
<u>Survivor Benefit</u>		
Retired Members	80-100% of Retired Member's Pension Benefit	
Active Members	80-100% of Accidental Disability Retirement Benefit or 100% of Average Monthly Compensation if Death was the Result of Injuries Received on the Job	

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earning. In addition, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase's effects on the plan. PSPRS also provides temporary disability benefits of 50% of the member's compensation for up to 12 months.

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Employees Covered by Benefit Terms – At June 30, 2017, the following employees were covered by the agent pension plans' benefit terms:

	<u>PSPRS Police</u>	<u>PSPRS Firefighters</u>
Inactive Employees or Beneficiaries		
Currently Receiving Benefits	30	21
Inactive Employees Entitled to but Not Yet Receiving Benefits	6	8
Active Employees	<u>28</u>	<u>22</u>
Total	<u>64</u>	<u>51</u>

Contributions and Annual OPEB Cost – State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contributions rates for the year ended June 30, 2017, are indicated below. Rates are a percentage of active members' annual covered payroll.

	<u>PSPRS Police</u>	<u>PSPRS Firefighters</u>
Active Members - Pension	7.65%	7.65%
City		
Pension	61.50%	68.82%
Health Insurance Premium Benefit	0.00%	0.00%

For the agent plans, the City's contributions to the pension plan and annual OPEB cost and contributions for the health insurance premium benefit for the year ended June 30, 2017, were:

	<u>PSPRS Police</u>	<u>PSPRS Firefighters</u>
Pension		
Contributions Made	\$ 1,322,559	\$ 1,101,352
Health Insurance Premium Benefit		
Annual OPEB Cost	-	-
Contributions Made	-	-

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Contributions and Annual OPEB Cost (Continued)

During the fiscal year 2017, the City paid for PSPRS pension and OPEB contributions 100% from the General Fund.

Pension Liability – At June 30, 2017, the City reported the following net pension liabilities:

	Net Pension Liability
PSPRS Police	\$ 14,443,151
PSPRS Firefighters	11,383,870

The net pension liabilities were measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liabilities as of June 30, 2016, reflect the following changes of benefit terms and actuarial assumptions.

- In May 2016 voters approved Proposition 124 that authorized certain statutory adjustments to PSPRS' automatic cost-of-living adjustments. The statutory adjustments change the basis of future cost-of-living adjustments from excess investment earnings to the change in the consumer price index, limited to a maximum annual increase of 2%.
- Laws 2016, Chapter 2, changed the benefit formula and contribution requirements for members hired on or after July 1, 2017.
- The investment rate of return actuarial assumption was decreased from 7.85% to 7.50% for the PSPRS plan.

The net pension liabilities measured as of June 30, 2017, will reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The change in the City's net pension liabilities as a result of these changes is not known.

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Pension Actuarial Assumptions – The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial Valuation Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Discount Rate	7.50%
Projected Salary Increases	4.0% - 8.0%
Inflation	4.0%
Permanent Benefit Increase	Included
Mortality Rates	RP-2000 mortality table (adjusted by 105% for both males and females)

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.50% using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

PSPRS	Target	Long-Term Expected
Asset Class	Allocation	Arithmetic Real Rate of Return
Short Term Investments	2%	0.75%
Absolute Return	5%	4.11%
Risk Parity	4%	5.13%
Fixed Income	7%	2.92%
Real Assets	8%	4.77%
GTAA	10%	4.38%
Private Equity	11%	9.50%
Real Estate	10%	4.48%
Credit Opportunities	13%	7.08%
Non-U.S. Equity	14%	8.25%
U.S. Equity	16%	6.23%
Total	<u>100%</u>	

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Pension Discount Rates – The following discount rates were used to measure the total pension liabilities:

	Police	Firefighters
Discount Rates	7.50%	7.50%

At June 30, 2016, the discount rate used to measure the PSPRS total pension liabilities was 7.50%, which was a decrease of 0.35 from the discount rate used as of June 30, 2015. The projection of cash flows used to determine the PSPRS discount rates assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rate and the member rate. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Agent Plans Net Pension Liability – The following tables present changes in the City's net pension liability for the PSPRS – Police, PSPRS – Fire pension plans as follows:

PSPRS - Police	Total Pension Liability (Asset) (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balance - June 30, 2016	\$ 20,371,541	\$ 6,305,443	\$ 14,066,098
Changes for the Year:			
Service Cost	348,598	-	348,598
Interest on the Total Pension Liability	1,555,542	-	1,555,542
Changes of Benefit Terms	(35,698)	-	(35,698)
Differences Between Expected and Actual Experience in the Measurement of the Pension Liability	(895,420)	-	(895,420)
Changes of Assumptions or Other Inputs	776,728	-	776,728
Contributions - Employer	-	1,078,409	(1,078,409)
Contributions - Employee	-	263,157	(263,157)
Net Investment Income	-	36,786	(36,786)
Benefit Payments, Including Refunds of Employee Contributions	(1,460,025)	(1,460,025)	-
Administrative Expenses	-	(5,693)	5,693
Other Changes	-	38	(38)
Net Changes	289,725	(87,328)	377,053
Balance - June 30, 2017	\$ 20,661,266	\$ 6,218,115	\$ 14,443,151

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

PSPRS - Firefighters	Total Pension Liability (Asset) (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balance at June 30, 2016	\$ 14,851,943	\$ 3,668,071	\$ 11,183,872
Changes for the Year:			
Service Cost	300,094	-	300,094
Interest on the Total Pension Liability	1,140,961	-	1,140,961
Changes of Benefit Terms	(16,539)	-	(16,539)
Differences Between Expected and Actual Experience in the Measurement of the Pension Liability	(610,416)	-	(610,416)
Changes of Assumptions or Other Inputs	560,384	-	560,384
Contributions - Employer	-	996,227	(996,227)
Contributions - Employee	-	184,516	(184,516)
Net Investment Income	-	21,858	(21,858)
Benefit Payments, Including Refunds of Employee Contributions	(934,899)	(934,899)	-
Administrative Expenses	-	(3,545)	3,545
Other Changes	-	(24,570)	24,570
Net Changes	439,585	239,587	199,998
Balances as of June 30, 2017	<u>\$ 15,291,528</u>	<u>\$ 3,907,658</u>	<u>\$ 11,383,870</u>

Sensitivity of the City's Net Pension Liability to Changes in the Discount Rate –

The following table presents the City's net pension liabilities calculated using the discount rate of 7.50%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
PSPRS Police			
Rate	6.50%	7.50%	8.50%
Net Pension Liability (Asset)	\$ 17,067,339	\$ 14,443,151	\$ 12,282,959
PSPRS Firefighters			
Rate	6.50%	7.50%	8.50%
Net Pension Liability (Asset)	\$ 13,277,468	\$ 11,383,870	\$ 9,816,501

Pension Plan Fiduciary Net Position – Detailed information about the pension plans' fiduciary net position is available in the separately issued PSPRS financial reports.

Pension Expense – For the year ended June 30, 2017, the City recognized \$1,604,317 and \$1,277,613 in pension expenses for PSPRS Police and PSPRS Firefighters, respectively.

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Pension Deferred Outflows/Inflows of Resources – At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PSPRS - Police	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 991,894
Changes of assumptions or other inputs	1,310,026	-
Net difference between projected and actual earnings on pension plan investments	383,669	-
City contributions subsequent to the measurement date	1,322,559	-
Total	<u><u>\$ 3,016,254</u></u>	<u><u>\$ 991,894</u></u>
PSPRS - Firefighters	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 20,754	\$ 585,430
Changes of assumptions or other inputs	1,525,582	-
Net difference between projected and actual earnings on pension plan investments	233,387	-
City contributions subsequent to the measurement date	1,101,352	-
Total	<u><u>\$ 2,881,075</u></u>	<u><u>\$ 585,430</u></u>

The amounts reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>PSPRS Police</u>	<u>PSPRS Firefighters</u>
2018	\$ 468,551	\$ 294,096
2019	41,357	294,095
2020	104,357	332,784
2021	87,536	300,109
2022	-	(19,542)
Thereafter	-	(7,249)

**CITY OF DOUGLAS, ARIZONA
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2017**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Agent Plan OPEB Actuarial Assumptions – The health insurance premium benefit contribution requirements for the year ended June 30, 2017, were established by the June 30, 2015 actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

Actuarial valuations involve estimates of the reported amounts' value and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made. The required schedule of funding progress for the health insurance premium benefit presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of the plans' assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits are based on (1) the plans as understood by the City and plans' members and include the types of benefits in force at the valuation date, and (2) the pattern of sharing benefit costs between the City and plans' members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used are the same for all PSPRS plans and related benefits (unless noted), and the actuarial methods and assumptions used to establish the fiscal year 2017 contribution requirements, are as follows:

PSPRS - OPEB Contribution Requirements

Actuarial Valuation Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent closed for underfunded actuarial accrued liability, open for excess
Remaining Amortization Period	21 years for unfunded actuarial accrued liability, 20 years for excess
Asset Valuation Method	7-year smoothed market value; 80%/120% market corridor
Actuarial Assumptions:	
Investment Rate of Return	7.85%
Projected Salary Increases	4.0% - 8.0%, including inflation
Wage Growth	4.00%

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Agent Plan OPEB Trend Information – The following table presents the annual OPEB cost information for the health insurance premium benefit for the current and two preceding years:

Year Ended June 30	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
PSPRS Police			
2017	\$ -	100.00%	\$ -
2016	-	100.00%	-
2015	32,639	100.00%	-
PSPRS Firefighters			
2017	\$ -	100.00%	\$ -
2016	-	100.00%	-
2015	18,775	100.00%	-

Agent Plan OPEB Funded Status – The funded status of the health insurance premium benefit plan as of the most recent valuation date, June 30, 2016, is as follows:

	PSPRS Police	PSPRS Firefighters
Actuarial Value of Assets (a)	\$ 577,822	\$ 439,059
Actuarial Accrued Liability (b)	537,943	285,651
Unfunded Actuarial Accrued Liability (Funding Excess) (b) - (a)	(39,879)	(153,408)
Funded Ratio (a) / (b)	107.41%	153.70%
Annual Covered Payroll (c)	1,824,164	1,517,157
Unfunded Actuarial Accrued Liability (Funding Excess) as a Percentage of Covered Payroll (b) - (a) / (c)	-2.19%	-10.11%

The funded status of the all the PSPRS health insurance premium benefit plans in the June 30, 2016 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

PSPRS - OPEB Funded Status

Actuarial Valuation Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent closed for underfunded actuarial accrued liability, open for excess
Remaining Amortization Period	20 years for unfunded actuarial accrued liability, 20 years for excess
Asset Valuation Method	7-year smoothed market value; 80%/120% market corridor
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Projected Salary Increases	4.0% - 8.0%
Wage Growth	4.0%

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 RESTATEMENT DUE TO CHANGE IN ACCOUNTING PRINCIPAL

During the year ended June 30, 2017, the City of Douglas, Arizona adopted an internal service fund to report self-insurance activity. This adoption required a restatement of the June 30, 2016 fund balance of the General Fund, Nonmajor Governmental Funds, and net position of each major proprietary fund, as follows:

Governmental Funds:	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>	
Fund Balance/Net Position at July 1, 2016, as Previously Reported	\$ 7,404,872	\$ 2,594,826	\$ 9,999,698	
Restatement Due to a Change in Accounting Principal:	<u>(177,220)</u>	<u>(39,329)</u>	<u>(216,549)</u>	
Fund Balance/Net Position at July 1, 2016, as Adjusted	<u>\$ 7,227,652</u>	<u>\$ 2,555,497</u>	<u>\$ 9,783,149</u>	
 Proprietary Funds:	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Solid Waste Fund</u>	<u>Total</u>
Net Position at July 1, 2016, as Previously Reported	\$ 8,465,510	\$ 11,679,900	\$ 1,192,257	\$ 21,337,667
Restatement Due to a Change in Accounting Principal:	<u>(38,860)</u>	<u>(20,822)</u>	<u>(58,634)</u>	<u>(118,316)</u>
Net Position at July 1, 2016, as Adjusted	<u>\$ 8,426,650</u>	<u>\$ 11,659,078</u>	<u>\$ 1,133,623</u>	<u>\$ 21,219,351</u>
 Internal Service Funds:	<u>Internal Service Fund</u>			
Net Position at July 1, 2016, as Previously Reported	\$ -			
Restatement Due to a Change in Accounting Principal:	<u>334,865</u>			
Net Position at July 1, 2016, as Adjusted	<u>\$ 334,865</u>			

During the fiscal year ended June 30, 2017, the Douglas Housing Corporation II (Pioneer Village) no longer met the requirements of a discretely presented component unit and therefore has been removed from the government-wide financial statements.

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6 SUSEQUENT EVENTS

Subsequent to June 30, 2017, the City Council authorized a \$2.0 million loan and a \$0.5 million forgivable loan through the Water Infrastructure Finance Authority of Arizona (WIFA). The loan of \$2.0 million and the forgivable loan in the amount of \$0.5 million will be used along with a grant awarded in April 2017 in the amount of \$7.4 million through the North American Development Authority to finance the expansion of the Phase II wastewater treatment plant.

REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF DOUGLAS, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
COST SHARING PENSION PLANS
JUNE 30, 2017**

Arizona State Retirement System

	<u>Reporting Year (Measurement Date)</u>		
	<u>2017 (2016)</u>	<u>2016 (2015)</u>	<u>2015 (2014)</u>
City's Proportion of the Net Pension Liability	0.043960%	0.045470%	0.000494
City's Proportionate Share of the Net Pension Liability	\$ 7,095,586	\$ 7,082,217	\$ 7,309,573
City's Covered Payroll	\$ 4,074,323	\$ 4,108,769	\$ 4,015,976
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	174.15%	172.37%	182.01%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	67.06%	68.35%	69.49%

See accompanying Notes to Pension Schedules.

CITY OF DOUGLAS, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
SCHEDULE OF CHANGES IN THE CITY'S
NET PENSION LIABILITY AND RELATED RATIOS
AGENT PENSION PLANS
JUNE 30, 2017

PSPRS Police

	<u>Reporting Year (Measurement Date)</u>		
	2017 (2016)	2016 (2015)	2015 (2014)
Total Pension Liability			
Service Cost	\$ 348,598	\$ 350,912	\$ 397,560
Interest on the Total Pension Liability	1,555,542	1,536,369	1,299,915
Changes of Benefit Terms	(35,698)	-	572,866
Differences Between Expected and Actual Experience in the Measurement of the Pension Liability	(895,420)	(298,004)	(586,401)
Changes of Assumptions or Other Inputs	776,728	-	2,630,528
Benefit Payments, Including Refunds of Employee Contributions	(1,460,025)	(1,227,722)	(1,330,257)
Net Change in Total Pension Liability	289,725	361,555	2,984,211
Total Pension Liability - Beginning	20,371,541	20,009,986	17,025,775
Total Pension Liability - Ending (a)	20,661,266	20,371,541	20,009,986
Plan Fiduciary Net Position			
Contributions - Employer	1,078,409	730,718	731,085
Contributions - Employee	263,157	211,626	201,922
Net Investment Income	36,786	233,285	814,052
Benefit Payments, Including Refunds of Employee Contributions	(1,460,025)	(1,227,722)	(1,330,257)
Administrative Expenses	(5,693)	(6,060)	(6,556)
Other Changes	38	(53,348)	-
Net Change in Plan Fiduciary Net Position	(87,328)	(111,501)	410,246
Plan Fiduciary Net Position - Beginning	6,305,443	6,416,944	6,006,698
Plan Fiduciary Net Position - Ending (b)	6,218,115	6,305,443	6,416,944
City's Net Pension Liability (Asset) - Ending (a) - (b)	<u>\$ 14,443,151</u>	<u>\$ 14,066,098</u>	<u>\$ 13,593,042</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	30.10%	30.95%	32.07%
Covered Payroll	\$ 1,824,164	\$ 1,799,959	\$ 1,865,210
City's Net Pension Liability (Asset) as a Percentage of Covered Payroll	791.77%	781.46%	728.77%

See accompanying Notes to Pension Schedules.

CITY OF DOUGLAS, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
SCHEDULE OF CHANGES IN THE CITY'S
NET PENSION LIABILITY AND RELATED RATIOS
AGENT PENSION PLANS
JUNE 30, 2017

PSPRS Fire

	<u>Reporting Year (Measurement Date)</u>		
	<u>2017</u> <u>(2016)</u>	<u>2016</u> <u>(2015)</u>	<u>2015</u> <u>(2014)</u>
Total Pension Liability			
Service Cost	\$ 300,094	\$ 258,460	\$ 288,434
Interest on the Total Pension Liability	1,140,961	1,111,551	909,525
Changes of Benefit Terms	(16,539)	-	444,603
Differences Between Expected and Actual Experience in the Measurement of the Pension Liability	(610,416)	(86,876)	36,351
Changes of Assumptions or Other Inputs	560,384	-	1,830,655
Benefit Payments, Including Refunds of Employee Contributions	(934,899)	(923,685)	(918,315)
Net Change in Total Pension Liability	439,585	359,450	2,591,253
Total Pension Liability - Beginning	14,851,943	14,492,493	11,901,240
Total Pension Liability - Ending (a)	15,291,528	14,851,943	14,492,493
Plan Fiduciary Net Position			
Contributions - Employer	996,227	570,035	613,837
Contributions - Employee	184,516	151,481	146,888
Net Investment Income	21,858	133,862	473,107
Benefit Payments, Including Refunds of Employee Contributions	(934,899)	(923,685)	(918,315)
Administrative Expenses	(3,545)	(3,626)	(3,810)
Other Changes	(24,570)	(2,812)	22,909
Net Change in Plan Fiduciary Net Position	239,587	(74,745)	334,616
Plan Fiduciary Net Position - Beginning	3,668,071	3,742,816	3,408,200
Plan Fiduciary Net Position - Ending (b)	3,907,658	3,668,071	3,742,816
City's Net Pension Liability (Asset) - Ending (a) - (b)	<u>\$ 11,383,870</u>	<u>\$11,183,872</u>	<u>\$10,749,677</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	25.55%	24.70%	25.83%
Covered Payroll	\$ 1,517,157	\$ 1,263,573	\$ 1,273,232
City's Net Pension Liability (Asset) as a Percentage of Covered Payroll	750.34%	885.10%	844.28%

See accompanying Notes to Pension Schedules.

CITY OF DOUGLAS, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
SCHEDULE OF CITY PENSION CONTRIBUTIONS
JUNE 30, 2017

Arizona State Retirement System

	Reporting Fiscal Year			
	2017	2016	2015	2014
Statutorily Required Contribution	\$ 469,070	\$ 449,208	\$ 449,025	\$ 476,481
City's Contribution in Relation to the Statutorily Required Contribution	469,070	449,208	449,025	476,481
City's Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
City's Covered Payroll	\$ 4,539,864	\$ 4,074,323	\$ 4,108,769	\$ 4,015,976
City's Contributions as a Percentage of Covered Payroll	10.33%	11.03%	10.93%	11.86%

PSPRS Police

	Reporting Fiscal Year			
	2017	2016	2015	2014
Actuarially Determined Contribution	\$ 1,322,559	\$ 1,084,052	\$ 740,315	\$ 731,085
City's Contribution in Relation to the Actuarially Determined Contribution	1,322,559	1,084,052	740,315	731,085
City's Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
City's Covered Payroll	\$ 2,206,930	\$ 1,824,164	\$ 1,799,959	\$ 1,865,210
City's Contributions as a Percentage of Covered Payroll	59.93%	59.43%	41.13%	39.20%

PSPRS Fire

	Reporting Fiscal Year			
	2017	2016	2015	2014
Actuarially Determined Contribution	\$ 1,101,352	\$ 1,017,407	\$ 579,692	\$ 613,837
City's Contribution in Relation to the Actuarially Determined Contribution	1,101,352	1,017,407	579,692	613,837
City's Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
City's Covered Payroll	\$ 1,619,974	\$ 1,517,157	\$ 1,263,573	\$ 1,273,232
City's Contributions as a Percentage of Covered Payroll	67.99%	67.06%	45.88%	48.21%

See accompanying Notes to Pension Schedules.

**CITY OF DOUGLAS, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
NOTES TO PENSION SCHEDULES
JUNE 30, 2017**

NOTE 1 ACTUARIALLY DETERMINED CONTRIBUTION RATES

Actuarial determined contribution rates for PSPRS are calculated as of June 30 two years prior to the end of the fiscal year in which contributions are made. The actuarial methods and assumptions used to establish the contribution requirements are as follows:

Actuarial Cost Method	Entry age normal
Amortization Level	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining Amortization Period as of the 2015 Actuarial Valuation	21 years for unfunded actuarial accrued liability, 20 years for excess
Asset Valuation Method	7-year smoothed market value; 80%/120% corridor
Actuarial Assumptions:	
Investment Rate of Return	In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Projected Salary Increases	In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%–8.5% to 4.0%–8.0% for PSPRS
Wage Growth	In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0% for PSPRS
Retirement Age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006–June 30, 2011.
Mortality	RP-2000 mortality table (adjusted by 105% for both males and females)

NOTE 2 INFORMATION PRIOR TO THE MEASUREMENT DATE

Ten years of information is required; however, information prior to the measurement date (June 30, 2014) was not available.

**CITY OF DOUGLAS, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
SCHEDULE OF AGENT OPEB PLANS' FUNDING PROGRESS
YEAR ENDED JUNE 30, 2017**

Health Insurance Premium Benefits

Actuarial Valuation Date June 30,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (Funding Excess)	Funded Ratio	Annual Covered Payroll	UAAL (Funding Excess) as a Percentage of Covered Payroll
PSPRS Police						
2016	\$ 577,822	\$ 537,943	\$ (39,879)	107.4%	\$ 1,824,164	(2.2)%
2015	589,842	403,124	(186,718)	146.3%	1,799,959	(10.4)%
2014	557,306	372,417	(184,889)	149.7%	1,865,210	(9.9)%
PSPRS Fire						
2016	\$ 439,059	\$ 285,651	\$ (153,408)	153.7%	\$ 1,517,157	(10.1)%
2015	425,586	246,161	(179,425)	172.9%	1,263,573	(14.2)%
2014	403,836	203,884	(199,952)	198.1%	1,273,232	(15.7)%

See accompanying Notes to Schedule of Agent OPEB Plans' Funding Progress.

**CITY OF DOUGLAS, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
NOTES TO SCHEDULE OF AGENT OPEB PLANS' FUNDING PROGRESS
YEAR ENDED JUNE 30, 2017**

NOTE 1 FACTORS THAT AFFECT THE IDENTIFICATION OF TRENDS

Beginning in fiscal year 2014, PSPRS established separate funds for pension benefits and health insurance premium benefits. Previously, the plans recorded both pension and health insurance premium contributions in the same Pension Fund. During fiscal year 2014, the plans transferred prior-year health insurance premium benefit contributions that exceeded benefit payments from each plan's pension fund to the new health insurance fund.

**CITY OF DOUGLAS, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2017**

	Original and Final Budget	Actual	Variance With Final Budget
REVENUES			
Taxes:			
Sales Taxes	\$ 5,490,814	\$ 5,097,988	\$ (392,826)
Property Taxes	570,000	603,407	33,407
Franchise Taxes	323,000	295,034	(27,966)
Intergovernmental Revenues	5,611,927	5,441,339	(170,588)
Fines and Forfeitures	101,500	153,441	51,941
Licenses and Permits	179,250	151,967	(27,283)
Charges for Services	1,634,091	2,072,475	438,384
Rents and Royalties	813,682	821,410	7,728
Investment Income	10,000	62,094	52,094
Other	225,915	83,825	(142,090)
Total Revenues	<u>14,960,179</u>	<u>14,782,980</u>	<u>(177,199)</u>
EXPENDITURES			
Current:			
General Government:			
Administration	482,327	453,248	29,079
Finance	517,124	485,148	31,976
Personnel	513,987	402,052	111,935
General Government	514,870	219,937	294,933
Management Information Systems	439,745	422,520	17,225
Parking Lot	-	1,078	(1,078)
City Magistrate	-	30,643	(30,643)
Cemetery	137,778	137,788	(10)
Community Development	-	79,133	(79,133)
Golf Course	146,828	164,608	(17,780)
Economic Development	67,710	48,145	19,565
Airport	147,092	325,793	(178,701)
Call Center	48,517	40,092	8,425
Total General Government	<u>3,015,978</u>	<u>2,810,185</u>	<u>205,793</u>
Public Safety:			
Police	5,676,942	5,285,561	391,381
Fire	1,354,021	1,837,111	(483,090)
Emergency Medical Services	1,635,081	2,293,745	(658,664)
Total Public Safety	<u>8,666,044</u>	<u>9,416,417</u>	<u>(750,373)</u>
Highways and Streets:			
Public Works	656,886	527,120	129,766

(Continued)

**CITY OF DOUGLAS, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE (CONTINUED)
GENERAL FUND
YEAR ENDED JUNE 30, 2017**

(Concluded)	Original and Final <u>Budget</u>	<u>Actual</u>	Variance With <u>Final Budget</u>
EXPENDITURES (CONTINUED)			
Culture and Recreation:			
Parks	\$ 515,279	\$ 503,494	\$ 11,785
Recreation	178,872	191,786	(12,914)
Library	414,072	402,063	12,009
Aquatics	282,918	283,492	(574)
Visitor Center	63,926	56,155	7,771
Total Culture and Recreation	<u>1,455,067</u>	<u>1,436,990</u>	<u>18,077</u>
Debt Service:			
Principal Retirement	18,172	16,037	2,135
Interest on Long-Term Debt	-	3,005	(3,005)
Total Debt Service	<u>18,172</u>	<u>19,042</u>	<u>(870)</u>
Capital Outlay	<u>234,700</u>	<u>248,247</u>	<u>(13,547)</u>
Total Expenditures	<u>14,046,847</u>	<u>14,458,001</u>	<u>(411,154)</u>
Excess (Deficiency) of Revenues Over Expenditures	913,332	324,979	(588,353)
OTHER FINANCING SOURCES (USES)			
Transfers In	192,110	205,432	13,322
Transfers Out	(1,227,803)	(1,270,822)	(43,019)
Proceeds from Sale of Capital Assets	10,000	69,902	59,902
Issuance of Capital Leases	125,000	140,482	15,482
Total Other Financing Sources (Uses)	<u>(900,693)</u>	<u>(855,006)</u>	<u>45,687</u>
Net Change in Fund Balance	12,639	(530,027)	(542,666)
FUND BALANCE			
Beginning of Year	<u>4,544,106</u>	<u>7,227,652</u>	<u>2,683,546</u>
End of Year	<u>\$ 4,556,745</u>	<u>\$ 6,697,625</u>	<u>\$ 2,140,880</u>

See accompanying Notes to Budgetary Comparison Schedule.

**CITY OF DOUGLAS, ARIZONA
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
 YEAR ENDED JUNE 30, 2017**

NOTE 1 BASIS OF ACCOUNTING

The General Fund budgetary comparison schedule is prepared on essentially the same modified accrual bases of accounting as the statement of revenues, expenditures and changes in fund balances reported in the basic financial statements.

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 EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Expenditures exceeded appropriations in the following funds:

	<u>Amount of Overexpenditure</u>
General Fund:	
Parking Lot	\$ 1,078
City Magistrate	30,643
Cemetery	10
Community Development	79,133
Golf Course	17,780
Airport	178,701
Fire	483,090
Emergency Medical Services	658,664
Recreation	12,914
Aquatics	574
Debt Service	870
Capital Outlay	13,547

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

**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 federal and state grants received by the City restricted for specific projects and awards.

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

LTAF Fund – accounts for the Local Transportation Assistance of the City. The LTAF receives assistance from the State of Arizona to support the development and operation of transportation programs.

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

Golf Course Municipal Property Corporation (MPC) – accounts for operations of the golf course restricted for use of golf course operations. The MPC operates the golf course; however, the City owns all golf course assets and liabilities.

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, 2017**

	Special Revenue			
	HURF	Grants	Police Grants	LTAF
ASSETS				
Cash and Investments	\$ 1,333,583	\$ 305,830	\$ 140,791	\$ -
Receivables				
Accounts Receivable	-	-	-	2,817
Taxes Receivable	-	-	-	-
Intergovernmental Receivable	123,869	121,941	-	136,268
Restricted Assets	-	-	-	-
Total Assets	\$ 1,457,452	\$ 427,771	\$ 140,791	\$ 139,085
LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 283,207	\$ 27,002	\$ 5,889	\$ 3,991
Accrued Wages and Benefits	700	-	-	1,238
Due to Other Funds	-	-	-	10,360
Customer Deposits Payable	-	-	-	-
Total Liabilities	283,907	27,002	5,889	15,589
Deferred Inflows of Resources				
Unavailable Revenue	-	21,972	-	-
Fund Balances				
Restricted	1,173,545	378,797	134,902	123,496
Committed	-	-	-	-
Unassigned	-	-	-	-
Total Fund Balances	1,173,545	378,797	134,902	123,496
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 1,457,452	\$ 427,771	\$ 140,791	\$ 139,085

Special Revenue

JCEF Restricted Court	Golf Course MPC	Public Housing	Total Special Revenue	Capital Projects	Debt Service	Total Nonmajor Governmental Funds
\$ 26,449	\$ -	\$ 397,923	\$ 2,204,576	\$ 211,708	\$ -	\$ 2,416,284
-	-	3,926	6,743	-	-	6,743
-	-	-	-	2,038	-	2,038
-	-	-	382,078	-	-	382,078
-	-	30,904	30,904	-	-	30,904
<u>\$ 26,449</u>	<u>\$ -</u>	<u>\$ 432,753</u>	<u>\$ 2,624,301</u>	<u>\$ 213,746</u>	<u>\$ -</u>	<u>\$ 2,838,047</u>
\$ 8,340	\$ 10,814	\$ 3,476	\$ 342,719	\$ 16,707	\$ -	359,426
-	3,754	21,194	26,886	-	-	26,886
-	-	-	10,360	-	-	10,360
-	-	32,187	32,187	-	-	32,187
<u>8,340</u>	<u>14,568</u>	<u>56,857</u>	<u>412,152</u>	<u>16,707</u>	<u>-</u>	<u>428,859</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>21,972</u>	<u>2,038</u>	<u>-</u>	<u>24,010</u>
18,109	-	375,896	2,204,745	-	-	2,204,745
-	-	-	-	195,001	-	195,001
-	(14,568)	-	(14,568)	-	-	(14,568)
<u>18,109</u>	<u>(14,568)</u>	<u>375,896</u>	<u>2,190,177</u>	<u>195,001</u>	<u>-</u>	<u>2,385,178</u>
<u>\$ 26,449</u>	<u>\$ -</u>	<u>\$ 432,753</u>	<u>\$ 2,624,301</u>	<u>\$ 213,746</u>	<u>\$ -</u>	<u>\$ 2,838,047</u>

**CITY OF DOUGLAS, ARIZONA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCES
YEAR ENDED JUNE 30, 2017**

	Special Revenue			
	HURF	Grants	Police Grants	LTAF
REVENUES				
Taxes				
Sales Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental Revenues	1,328,216	236,013	48,183	781,076
Fines and Forfeitures	-	-	-	-
Charges for Services	-	-	-	21,666
Investment Income	-	21	3,025	-
Other	10,638	-	-	-
Total Revenues	<u>1,338,854</u>	<u>236,034</u>	<u>51,208</u>	<u>802,742</u>
EXPENDITURES				
Current				
General Government	-	337	-	-
Public Safety	-	5,283	31,583	-
Highways and Streets	869,864	3	-	764,904
Culture and Recreation	-	30,807	-	-
Redevelopment and Housing	-	-	-	-
Debt Service				
Principal Retirement	-	-	-	-
Interest on Long-Term Debt	-	-	-	-
Capital Outlay	87,256	169,950	61,550	-
Total Expenditures	<u>957,120</u>	<u>206,380</u>	<u>93,133</u>	<u>764,904</u>
Excess (Deficiency) of Revenues Over Expenditures	381,734	29,654	(41,925)	37,838
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	-	-
Transfers Out	(43,923)	-	-	-
Total Other Financing Sources (Uses)	<u>(43,923)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	337,811	29,654	(41,925)	37,838
FUND BALANCES				
Beginning of Year, As Restated	835,734	349,143	176,827	85,658
End of Year	<u>\$ 1,173,545</u>	<u>\$ 378,797</u>	<u>\$ 134,902</u>	<u>\$ 123,496</u>

Special Revenue

JCEF Restricted Court	Golf Course MPC	Public Housing	Total Special Revenue	Capital Projects	Debt Service	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 39	\$ 112	\$ 151
-	-	915,698	3,309,186	-	-	3,309,186
3,618	-	-	3,618	-	-	3,618
-	241,604	-	263,270	-	-	263,270
-	-	378	3,424	7,753	-	11,177
-	-	8,900	19,538	3,500	-	23,038
<u>3,618</u>	<u>241,604</u>	<u>924,976</u>	<u>3,599,036</u>	<u>11,292</u>	<u>112</u>	<u>3,610,440</u>
28,203	-	-	28,540	-	-	28,540
-	-	-	36,866	-	-	36,866
-	-	-	1,634,771	-	-	1,634,771
-	276,676	-	307,483	-	-	307,483
-	-	920,658	920,658	-	-	920,658
-	-	-	-	-	897,960	897,960
-	-	-	-	-	376,119	376,119
-	-	-	318,756	557,774	-	876,530
<u>28,203</u>	<u>276,676</u>	<u>920,658</u>	<u>3,247,074</u>	<u>557,774</u>	<u>1,274,079</u>	<u>5,078,927</u>
(24,585)	(35,072)	4,318	351,962	(546,482)	(1,273,967)	(1,468,487)
-	13,500	-	13,500	65,412	1,273,967	1,352,879
-	-	-	(43,923)	(10,788)	-	(54,711)
<u>-</u>	<u>13,500</u>	<u>-</u>	<u>(30,423)</u>	<u>54,624</u>	<u>1,273,967</u>	<u>1,298,168</u>
(24,585)	(21,572)	4,318	321,539	(491,858)	-	(170,319)
42,694	7,004	371,578	1,868,638	686,859	-	2,555,497
<u>\$ 18,109</u>	<u>\$ (14,568)</u>	<u>\$ 375,896</u>	<u>\$ 2,190,177</u>	<u>\$ 195,001</u>	<u>\$ -</u>	<u>\$ 2,385,178</u>

CITY OF DOUGLAS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
HURF FUND
YEAR ENDED JUNE 30, 2017

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
REVENUES			
Intergovernmental Revenues	\$ 1,276,700	\$ 1,328,216	\$ 51,516
Other	<u>35,000</u>	<u>10,638</u>	<u>(24,362)</u>
Total Revenues	1,311,700	1,338,854	27,154
EXPENDITURES			
Current:			
Highways and Streets	1,858,267	869,864	988,403
Capital Outlay	<u>55,000</u>	<u>87,256</u>	<u>(32,256)</u>
Total Expenditures	<u>1,913,267</u>	<u>957,120</u>	<u>956,147</u>
Excess (Deficiency) of Revenues Over Expenditures	(601,567)	381,734	983,301
OTHER FINANCING SOURCES (USES)			
Transfers Out	<u>(48,433)</u>	<u>(43,923)</u>	<u>4,510</u>
Net Change in Fund Balance	(650,000)	337,811	987,811
FUND BALANCE			
Beginning of Year	-	835,734	835,734
End of Year	<u>\$ (650,000)</u>	<u>\$ 1,173,545</u>	<u>\$ 1,823,545</u>

**CITY OF DOUGLAS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GRANTS FUND
YEAR ENDED JUNE 30, 2017**

	Original and Final Budget	Actual	Variance With Final Budget
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Intergovernmental Revenues	\$ 787,357	\$ 236,013	\$ (551,344)
Investment Income	-	21	21
Total Revenues	<u>787,357</u>	<u>236,034</u>	<u>(551,323)</u>
EXPENDITURES			
Current:			
General Government	10,000	337	9,663
Public Safety	11,000	5,283	5,717
Highways and Streets	-	3	(3)
Culture and Recreation	17,500	30,807	(13,307)
Capital Outlay	<u>761,657</u>	<u>169,950</u>	<u>591,707</u>
Total Expenditures	<u>800,157</u>	<u>206,380</u>	<u>593,777</u>
Excess (Deficiency) of Revenues Over Expenditures	(12,800)	29,654	42,454
OTHER FINANCING SOURCES (USES)			
Transfers In	<u>6,300</u>	<u>-</u>	<u>(6,300)</u>
Net Change in Fund Balance	(6,500)	29,654	36,154
FUND BALANCE			
Beginning of Year	-	349,143	349,143
End of Year	<u>\$ (6,500)</u>	<u>\$ 378,797</u>	<u>\$ 385,297</u>

**CITY OF DOUGLAS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
POLICE GRANTS FUND
YEAR ENDED JUNE 30, 2017**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
REVENUES			
Intergovernmental Revenues	\$ 203,276	\$ 48,183	\$ (155,093)
Investment Income	<u>-</u>	<u>3,025</u>	<u>3,025</u>
Total Revenues	203,276	51,208	(152,068)
EXPENDITURES			
Current			
Public Safety	58,000	31,583	26,417
Capital Outlay	<u>145,276</u>	<u>61,550</u>	<u>83,726</u>
Total Expenditures	<u>203,276</u>	<u>93,133</u>	<u>110,143</u>
Excess (Deficiency) of Revenues Over Expenditures	-	(41,925)	(41,925)
FUND BALANCE			
Beginning of Year	<u>-</u>	<u>176,827</u>	<u>176,827</u>
End of Year	<u>\$ -</u>	<u>\$ 134,902</u>	<u>\$ 134,902</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, 2017**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
REVENUES			
Fines and Forfeitures	\$ -	\$ 3,618	\$ 3,618
EXPENDITURES			
Current:			
General Government	<u>30,000</u>	<u>28,203</u>	<u>1,797</u>
Excess (Deficiency) of Revenues Over Expenditures	(30,000)	(24,585)	5,415
FUND BALANCE			
Beginning of Year	-	42,694	42,694
End of Year	<u>\$ (30,000)</u>	<u>\$ 18,109</u>	<u>\$ 48,109</u>

CITY OF DOUGLAS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
CAPITAL PROJECTS FUND
YEAR ENDED JUNE 30, 2017

	Original and Final Budget	Actual	Variance With Final Budget
REVENUES			
Taxes	\$ -	\$ 39	\$ 39
Investment Income	-	7,753	7,753
Other	-	3,500	3,500
Total Revenues	-	11,292	11,292
EXPENDITURES			
Capital Outlay	650,000	557,774	92,226
Excess (Deficiency) of Revenues Over Expenditures	(650,000)	(546,482)	103,518
OTHER FINANCING SOURCES (USES)			
Transfers In	-	65,412	65,412
Transfers Out	-	(10,788)	(10,788)
Total Other Financing Sources (Uses)	-	54,624	54,624
Net Change in Fund Balance	(650,000)	(491,858)	158,142
FUND BALANCE			
Beginning of Year	-	686,859	-
End of Year	\$ (650,000)	\$ 195,001	\$ 158,142

CITY OF DOUGLAS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2017

	Original and Final Budget	Actual	Variance With Final Budget
REVENUES			
Taxes	\$ -	\$ 112	\$ 112
EXPENDITURES			
Debt Service:			
Principal Retirement	921,689	897,960	23,729
Interest on Long-Term Debt	381,871	376,119	5,752
Total Expenditures	<u>1,303,560</u>	<u>1,274,079</u>	<u>29,481</u>
Excess (Deficiency) of Revenues Over Expenditures	(1,303,560)	(1,273,967)	29,593
OTHER FINANCING SOURCES (USES)			
Transfers In	<u>1,303,560</u>	<u>1,273,967</u>	<u>(29,593)</u>
Net Change in Fund Balance	-	-	-
FUND BALANCE			
Beginning of Year	-	-	-
End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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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			
	2008	2009	2010	2011
Governmental Activities:				
Net Investment in Capital Assets	\$ 13,509,453	\$ 12,376,658	\$ 13,775,501	\$ 15,847,448
Restricted	2,939,323	3,634,763	477,084	719,796
Unrestricted	3,491,020	5,438,330	7,049,956	3,938,127
Total Governmental Activities Net Position	<u>\$ 19,939,796</u>	<u>\$ 21,449,751</u>	<u>\$ 21,302,541</u>	<u>\$ 20,505,371</u>
Business-Type Activities:				
Net Investment in Capital Assets	\$ 12,314,881	\$ 15,535,124	\$ 15,872,761	\$ 16,048,928
Restricted	-	-	-	-
Unrestricted	1,815,909	1,006,658	1,205,402	2,100,001
Total Business-Type Activities Net Position	<u>\$ 14,130,790</u>	<u>\$ 16,541,782</u>	<u>\$ 17,078,163</u>	<u>\$ 18,148,929</u>
Primary Government:				
Net Investment in Capital Assets	\$ 25,824,334	\$ 27,911,782	\$ 29,648,262	\$ 31,896,376
Restricted	2,939,323	3,634,763	477,084	719,796
Unrestricted	5,306,929	6,444,988	8,255,358	6,038,128
Total Primary Government Net Position	<u>\$ 34,070,586</u>	<u>\$ 37,991,533</u>	<u>\$ 38,380,704</u>	<u>\$ 38,654,300</u>

Source: The City's Finance Department.

Fiscal Year

2012	2013	2014	2015	2016	2017
\$ 20,735,227	\$ 20,087,841	\$ 13,255,510	\$ 14,659,500	\$ 16,236,005	\$ 16,107,618
871,510	1,234,695	1,261,605	1,632,597	2,087,831	2,385,205
3,923,990	3,991,132	5,512,891	(20,445,957)	(20,045,765)	(21,402,039)
<u>\$ 25,530,727</u>	<u>\$ 25,313,668</u>	<u>\$ 20,030,006</u>	<u>\$ (4,153,860)</u>	<u>\$ (1,721,929)</u>	<u>\$ (2,909,216)</u>
\$ 15,921,451	\$ 16,866,077	\$ 16,491,574	\$ 16,271,458	\$ 16,301,425	\$ 15,748,934
-	443,520	568,237	712,773	893,708	615,334
3,880,161	3,685,177	4,508,051	3,157,152	4,142,534	5,712,000
<u>\$ 19,801,612</u>	<u>\$ 20,994,774</u>	<u>\$ 21,567,862</u>	<u>\$ 20,141,383</u>	<u>\$ 21,337,667</u>	<u>\$ 22,076,268</u>
\$ 36,656,678	\$ 36,953,918	\$ 29,747,084	\$ 30,930,958	\$ 32,537,430	\$ 31,856,552
871,510	1,678,215	1,829,842	2,345,370	2,981,539	3,000,539
7,804,151	7,676,309	10,020,942	(17,288,805)	(15,903,231)	(15,690,039)
<u>\$ 45,332,339</u>	<u>\$ 46,308,442</u>	<u>\$ 41,597,868</u>	<u>\$ 15,987,523</u>	<u>\$ 19,615,738</u>	<u>\$ 19,167,052</u>

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

	Fiscal Year			
	2008	2009	2010	2011
EXPENSES				
Governmental Activities:				
General Government	\$ 4,340,737	\$ 3,999,501	\$ 4,639,733	\$ 5,121,084
Public Safety	6,348,866	6,604,306	6,715,219	6,700,135
Highways and Streets	1,760,251	2,702,979	2,970,829	2,773,973
Culture and Recreation	2,189,769	2,074,291	1,986,674	1,936,579
Redevelopment and Housing	132,857	497,600	53,973	51,599
Interest on Long-Term Debt	180,077	727,564	760,128	704,510
Total Governmental Activities	<u>14,952,557</u>	<u>16,606,241</u>	<u>17,126,556</u>	<u>17,287,880</u>
Business-Type Activities:				
Water	1,455,706	1,344,052	1,261,985	1,367,914
Sewer	952,579	1,385,910	1,337,193	1,320,648
Solid Waste	891,003	707,042	716,047	755,546
Total Business-Type Activities	<u>3,299,288</u>	<u>3,437,004</u>	<u>3,315,225</u>	<u>3,444,108</u>
 Total Primary Government Expenses	 <u>\$ 18,251,845</u>	 <u>\$ 20,043,245</u>	 <u>\$ 20,441,781</u>	 <u>\$ 20,731,988</u>
PROGRAM REVENUES				
Governmental Activities:				
Fines, Fees and Charges for Services:				
General Government	\$ 939,208	\$ 1,387,975	\$ 1,766,509	\$ 1,728,090
Public Safety	642,820	760,669	669,040	972,724
Highways and Streets	2,834	-	-	-
Culture and Recreation	97,949	98,174	90,033	173,836
Operating Grants and Contributions	2,293,564	1,818,551	2,128,442	2,303,776
Capital Grants and Contributions	589,152	1,765,876	902,228	951,180
Total Governmental Activities Program Revenues	<u>4,565,527</u>	<u>5,831,245</u>	<u>5,556,252</u>	<u>6,129,606</u>
Business-Type Activities:				
Charges for Services:				
Water	1,749,040	1,782,320	1,870,916	1,965,519
Sewer	924,045	909,842	1,042,152	1,703,223
Solid Waste	668,023	816,038	1,056,305	1,203,563
Operating Grants and Contributions	-	-	-	-
Capital Grants and Contributions	110,274	2,373,486	-	-
Total Business-Type Activities Program Revenues	<u>3,451,382</u>	<u>5,881,686</u>	<u>3,969,373</u>	<u>4,872,305</u>
 Total Primary Government Program Revenues	 <u>\$ 8,016,909</u>	 <u>\$ 11,712,931</u>	 <u>\$ 9,525,625</u>	 <u>\$ 11,001,911</u>

Source: The City's Finance Department.

Fiscal Year

2012	2013	2014	2015	2016	2017
\$ 4,840,153	\$ 4,989,484	\$ 4,499,732	\$ 3,858,018	\$ 3,336,212	\$ 3,463,981
7,186,954	7,799,983	8,050,797	9,792,922	9,678,626	10,479,931
2,555,331	2,605,395	2,394,792	1,946,662	2,597,146	2,649,507
1,827,388	1,868,116	1,965,397	1,680,063	2,057,077	2,100,889
-	1,041,957	1,064,489	954,039	922,816	924,901
664,519	579,592	530,417	478,120	414,014	379,124
<u>17,074,345</u>	<u>18,884,527</u>	<u>18,505,624</u>	<u>18,709,824</u>	<u>19,005,891</u>	<u>19,998,333</u>
1,698,669	1,666,863	1,839,897	1,884,943	1,654,307	1,902,651
1,313,976	1,310,421	1,538,514	1,472,735	1,353,423	1,344,495
765,647	785,788	956,297	930,769	1,134,665	991,934
<u>3,778,292</u>	<u>3,763,072</u>	<u>4,334,708</u>	<u>4,288,447</u>	<u>4,142,395</u>	<u>4,239,080</u>
<u>\$ 20,852,637</u>	<u>\$ 22,647,599</u>	<u>\$ 22,840,332</u>	<u>\$ 22,998,271</u>	<u>\$ 23,148,286</u>	<u>\$ 24,237,413</u>
\$ 2,035,725	\$ 1,825,479	\$ 1,890,264	\$ 1,699,542	\$ 1,482,688	\$ 1,538,549
924,788	895,111	1,069,174	1,246,153	1,647,339	1,603,762
-	-	-	-	20,537	21,666
73,255	89,531	136,056	94,747	304,953	302,204
2,193,829	3,340,827	3,751,156	3,466,981	3,661,814	4,084,183
5,622,718	1,000,170	423,034	582,348	2,996,541	383,742
<u>10,850,315</u>	<u>7,151,118</u>	<u>7,269,684</u>	<u>7,089,771</u>	<u>10,113,872</u>	<u>7,934,106</u>
2,000,402	2,025,752	2,070,331	1,979,308	1,989,253	2,031,524
1,796,248	1,835,771	1,880,405	1,852,495	1,954,149	1,941,864
1,237,449	1,205,675	1,202,806	1,212,089	1,207,590	1,199,843
592,435	8,196	1,320	-	400,000	-
274,140	19,578	-	-	-	-
<u>5,900,674</u>	<u>5,094,972</u>	<u>5,154,862</u>	<u>5,043,892</u>	<u>5,550,992</u>	<u>5,173,231</u>
<u>\$ 16,750,989</u>	<u>\$ 12,246,090</u>	<u>\$ 12,424,546</u>	<u>\$ 12,133,663</u>	<u>\$ 15,664,864</u>	<u>\$ 13,107,337</u>

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

(Concluded)	Fiscal Year			
	2008	2009	2010	2011
NET (EXPENSE)/REVENUE				
Governmental Activities	\$ (10,387,030)	\$ (10,774,996)	\$ (11,570,304)	\$ (11,158,274)
Business-Type Activities	152,094	2,444,682	654,148	1,428,197
Total Primary Government Net Expense	\$ (10,234,936)	\$ (8,330,314)	\$ (10,916,156)	\$ (9,730,077)
GENERAL REVENUES AND OTHER CHANGES IN NET POSITION				
Governmental Activities:				
Taxes:				
Sales Taxes	\$ 5,095,143	\$ 6,151,531	\$ 5,808,108	\$ 5,953,998
Property Taxes	462,232	532,028	531,489	545,995
Franchise Taxes	349,444	341,702	351,635	337,029
Unrestricted Grants and Contributions	49,612	18,467	30,274	39,082
State Revenue Sharing	2,448,141	2,608,244	2,245,322	1,687,895
State Sales Tax Revenue Sharing	1,580,288	1,368,088	1,261,862	1,316,667
Auto Lieu Tax Revenue Sharing	845,030	793,358	732,787	762,824
Gain on Sale of Capital Assets	-	-	-	-
Investment Income	280,685	16,212	107,495	67,493
Other	1,697	322,889	238,124	258,705
Special Item	-	-	-	-
Transfers	(323,514)	132,432	115,998	358,411
Total Governmental Activities	10,788,758	12,284,951	11,423,094	11,328,099
Business-Type Activities:				
Sales Tax	224,968	77,114	-	-
Investment Income (Loss)	99,267	21,628	(1,769)	980
Transfers	323,514	(132,432)	(115,998)	(358,411)
Total Business-Type Activities	647,749	(33,690)	(117,767)	(357,431)
Total Primary Government	\$ 11,436,507	\$ 12,251,261	\$ 11,305,327	\$ 10,970,668
CHANGE IN NET POSITION				
Governmental Activities	\$ 401,728	\$ 1,509,955	\$ (147,210)	\$ 169,825
Business-Type Activities	799,843	2,410,992	536,381	1,070,766
Total Primary Government	\$ 1,201,571	\$ 3,920,947	\$ 389,171	\$ 1,240,591

Fiscal Year

2012	2013	2014	2015	2016	2017
\$ (6,224,030)	\$ (11,733,409)	\$ (11,235,940)	\$ (11,620,053)	\$ (8,892,019)	\$ (12,064,227)
2,122,382	1,331,900	820,154	755,445	1,408,597	934,151
<u>\$ (4,101,648)</u>	<u>\$ (10,401,509)</u>	<u>\$ (10,415,786)</u>	<u>\$ (10,864,608)</u>	<u>\$ (7,483,422)</u>	<u>\$ (11,130,076)</u>
\$ 5,825,402	\$ 5,364,312	\$ 5,533,351	\$ 5,578,165	\$ 5,361,849	\$ 5,097,699
533,742	563,698	578,759	577,360	585,960	595,284
334,074	314,080	311,019	317,610	312,874	295,034
42,590	70,074	41,950	40,417	37,610	38,171
1,466,716	1,775,125	1,976,038	2,119,573	2,108,081	2,029,912
1,357,922	1,419,048	1,545,589	1,600,126	1,644,426	1,518,751
803,452	757,402	736,085	776,774	812,549	819,277
6,769	-	-	20,480	(11,611)	69,902
44,626	39,423	30,607	26,489	39,738	73,269
356,342	596,739	281,915	265,826	188,576	106,863
-	-	(5,352,178)	-	-	-
477,751	162,208	269,143	245,316	243,898	232,778
<u>11,249,386</u>	<u>11,062,109</u>	<u>5,952,278</u>	<u>11,568,136</u>	<u>11,323,950</u>	<u>10,876,940</u>
-	-	-	-	-	-
8,052	23,470	22,077	18,232	31,585	37,228
(477,751)	(162,208)	(269,143)	(245,316)	(243,898)	(232,778)
<u>(469,699)</u>	<u>(138,738)</u>	<u>(247,066)</u>	<u>(227,084)</u>	<u>(212,313)</u>	<u>(195,550)</u>
<u>\$ 10,779,687</u>	<u>\$ 10,923,371</u>	<u>\$ 5,705,212</u>	<u>\$ 11,341,052</u>	<u>\$ 11,111,637</u>	<u>\$ 10,681,390</u>
\$ 5,025,356	\$ (671,300)	\$ (5,283,662)	\$ (51,917)	\$ 2,431,931	\$ (1,187,287)
1,652,683	1,193,162	573,088	528,361	1,196,284	738,601
<u>\$ 6,678,039</u>	<u>\$ 521,862</u>	<u>\$ (4,710,574)</u>	<u>\$ 476,444</u>	<u>\$ 3,628,215</u>	<u>\$ (448,686)</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>
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
2015	5,578,165	577,360	317,610	6,473,135
2016	5,361,849	585,960	312,874	6,260,683
2017	5,097,699	595,284	295,034	5,988,017

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				
	2008	2009	2010	2011	2012
General Fund:					
Reserved	\$ 78,239	\$ 68,239	\$ -		
Unreserved	3,735,584	3,962,160	4,174,438		
Non-spendable				\$ 58,493	\$ 652,189
Restricted				-	-
Unassigned				4,683,978	4,108,952
Total General Fund	<u>\$ 3,813,823</u>	<u>\$ 4,030,399</u>	<u>\$ 4,174,438</u>	<u>\$ 4,742,471</u>	<u>\$ 4,761,141</u>
All Other Governmental Funds:					
Reserved	\$ 10,000	\$ 10,000	\$ 15,453		
Unreserved, Reported in:					
Special Revenue Funds	4,854,098	5,335,420	4,065,860		
Capital Projects Funds	(68,512)	(7,499)	-		
Debt Service Funds	-	-	-		
Restricted				\$ 2,220,530	\$ 871,510
Committed				-	-
Assigned					228,340
Unassigned				(29,857)	-
Total All Other Governmental Funds	<u>\$ 4,795,586</u>	<u>\$ 5,337,921</u>	<u>\$ 4,081,313</u>	<u>\$ 2,190,673</u>	<u>\$ 1,099,850</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

2013	2014	2015	2016	2017
\$ 686,488	\$ 720,416	\$ 723,641	\$ 734,543	\$ 858,288
-	-	156,889	157,580	158,488
4,260,979	4,790,887	5,613,427	6,512,749	5,680,849
<u>\$ 4,947,467</u>	<u>\$ 5,511,303</u>	<u>\$ 6,493,957</u>	<u>\$ 7,404,872</u>	<u>\$ 6,697,625</u>
\$ 1,174,505	\$ 1,218,198	\$ 1,439,415	\$ 1,900,963	\$ 2,204,745
-	1,033,237	779,693	693,863	195,001
224,190	320,290	-	-	-
-	-	-	-	(14,568)
<u>\$ 1,398,695</u>	<u>\$ 2,571,725</u>	<u>\$ 2,219,108</u>	<u>\$ 2,594,826</u>	<u>\$ 2,385,178</u>

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

	Fiscal Year			
	2008	2009	2010	2011
REVENUES				
Taxes	\$ 5,914,743	\$ 7,012,223	\$ 6,689,354	\$ 6,831,876
Intergovernmental	7,805,787	8,372,584	7,184,648	7,083,337
Fines and Forfeitures	141,232	195,644	189,333	201,361
Licenses and Permits	169,697	126,224	192,309	172,602
Charges for Services	1,059,989	1,386,022	1,410,391	1,745,359
Rents and Royalties	36,000	538,928	733,549	755,328
Contributions and Donations	-	-	-	-
Investment Income	280,685	16,212	107,495	67,493
Other	307,449	322,889	238,124	258,705
Total Revenues	<u>15,715,582</u>	<u>17,970,726</u>	<u>16,745,203</u>	<u>17,116,061</u>
EXPENDITURES				
General Government	5,169,854	13,462,021	3,961,316	3,910,726
Public Safety	6,078,350	6,579,669	6,554,551	6,275,426
Highways and Streets	2,413,444	2,626,696	2,660,654	1,975,991
Culture and Recreation	1,863,014	1,750,997	1,513,127	1,409,501
Redevelopment and Housing	132,857	497,600	53,973	51,599
Capital Outlay	896,225	817,482	728,862	2,007,704
Debt Service				
Principal Retirement	429,669	656,965	2,228,723	1,611,006
Interest on Long-Term Debt	133,267	686,598	719,162	663,544
Total Expenditures	<u>17,116,680</u>	<u>27,078,028</u>	<u>18,420,368</u>	<u>17,905,497</u>
Excess of Revenues				
Over (Under) Expenditures	(1,401,098)	(9,107,302)	(1,675,165)	(789,436)
OTHER FINANCING SOURCES				
(USES)				
Transfers In	1,553,137	1,020,458	1,303,871	2,837,907
Transfers Out	(1,876,651)	(888,026)	(1,002,494)	(2,479,496)
Issuance of Long-Term Debt	3,000,000	9,000,000	400,000	-
Proceeds from Capital Leases	595,000	595,000	-	75,413
Proceeds from Sale of Capital Assets	-	-	-	-
Total Other Financing	<u>3,271,486</u>	<u>9,727,432</u>	<u>701,377</u>	<u>433,824</u>
Sources (Uses)				
Net Change in Fund Balance	<u>\$ 1,870,388</u>	<u>\$ 620,130</u>	<u>\$ (973,788)</u>	<u>\$ (355,612)</u>
Debt Service as a Percentage of				
Noncapital Expenditures	4.05%	9.80%	18.09%	14.02%

Source: The City's Finance Department.

Fiscal Year

	2012	2013	2014	2015	2016	2017
\$	6,707,653	\$ 6,234,848	\$ 6,399,692	\$ 6,476,819	\$ 6,252,364	\$ 5,996,580
	6,783,653	8,031,863	8,455,635	8,035,692	8,446,141	8,750,525
	319,294	273,475	311,448	160,870	202,116	157,059
	196,385	162,571	201,227	165,004	152,482	151,967
	1,759,653	1,605,657	1,763,797	1,895,749	2,282,537	2,335,745
	758,436	768,418	819,022	818,819	818,382	821,410
	-	-	-	136,718	-	-
	44,626	39,423	30,607	26,489	39,738	73,271
	356,342	596,739	281,915	265,826	188,576	106,863
	<u>16,926,042</u>	<u>17,712,994</u>	<u>18,263,343</u>	<u>17,981,986</u>	<u>18,382,336</u>	<u>18,393,420</u>
	3,555,255	3,469,997	3,407,238	3,203,318	2,863,112	2,838,725
	6,709,042	7,139,134	7,295,712	7,030,010	8,395,922	9,453,283
	2,093,297	1,779,871	1,685,298	1,276,388	1,909,520	2,161,891
	1,361,590	1,407,089	1,513,927	1,337,577	1,694,211	1,744,473
	-	1,035,816	1,058,347	947,866	916,674	920,658
	2,620,504	2,007,665	1,806,890	1,923,777	521,648	1,124,777
	1,636,402	1,627,585	1,464,848	1,474,930	907,502	913,997
	623,553	551,097	501,922	423,879	414,014	379,124
	<u>18,599,643</u>	<u>19,018,254</u>	<u>18,734,182</u>	<u>17,617,745</u>	<u>17,622,603</u>	<u>19,536,928</u>
	(1,673,601)	(1,305,260)	(470,839)	364,241	759,733	(1,143,508)
	2,923,356	2,480,730	2,354,892	2,557,063	1,633,133	1,558,311
	(2,445,605)	(2,318,522)	(2,085,749)	(2,311,747)	(1,389,235)	(1,325,533)
	-	-	-	-	-	-
	71,676	1,205,911	1,041,474	-	67,277	140,482
	52,021	-	897,088	20,480	215,725	69,902
	<u>601,448</u>	<u>1,368,119</u>	<u>2,207,705</u>	<u>265,796</u>	<u>526,900</u>	<u>443,162</u>
\$	<u>(1,072,153)</u>	<u>\$ 62,859</u>	<u>\$ 1,736,866</u>	<u>\$ 630,037</u>	<u>\$ 1,286,633</u>	<u>\$ (700,346)</u>

14.27%

12.65%

11.68%

12.10%

7.87%

7.16%

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

Sales Category:	Fiscal Year			
	2008	2009	2010	2011
Mining	\$ 510,450	\$ 2,318,215	\$ 2,318,215	\$ 301,452
Communications and Utilities	23,876,918	22,195,363	22,195,363	23,550,249
Transportation & Warehousing	15,283	48,456	48,456	66,060
Construction	7,578,438	15,965,933	15,965,933	19,963,998
Manufacturing	4,144,993	3,945,094	3,945,094	986,650
Wholesale Trade	4,093,177	3,884,491	3,884,491	1,226,017
Retail Trade	146,386,134	144,710,942	144,710,942	147,664,164
Finance and Insurance	194,035	93,629	93,629	33,753
Real Estate, Rental and Leases	5,664,318	6,249,386	6,249,386	8,690,896
Restaurants and Bars	12,932,385	12,500,240	12,500,240	14,153,836
Accommodations	2,277,339	2,363,017	2,363,017	3,652,951
Public Administration	100,106	294,021	294,021	-
Services	3,342,416	3,242,519	3,242,519	1,018,073
Arts & Entertainment	-	56,562	56,562	410,600
Other	3,121,725	2,921,447	2,921,447	2,599,103
Total	<u>\$ 214,237,717</u>	<u>\$ 220,789,315</u>	<u>\$ 220,789,315</u>	<u>\$ 224,317,802</u>
City Sales Tax Rate	2.50%	2.50%	2.80%	2.80%

Source: Arizona Department of Revenue.

Fiscal Year

2012	2013	2014	2015	2016	2017
\$ 6,606	\$ 4,715	\$ 2,626	\$ 2,891	\$ -	\$ -
21,998,591	20,996,222	20,874,694	20,725,169	20,056,514	17,469,469
36,614	34,024	7,558	32,657	23,200	7,646
18,615,619	4,980,458	7,161,065	10,778,758	7,836,315	7,855,430
-	-	-	-	-	-
-	-	-	-	-	-
136,449,566	137,243,931	138,881,604	141,407,356	134,525,779	124,098,318
-	-	-	-	-	-
8,369,967	7,812,435	8,037,675	8,143,356	8,776,313	8,341,499
15,215,328	14,682,935	14,404,604	14,634,276	14,629,652	14,290,984
4,552,670	3,855,249	3,792,273	2,848,778	2,685,332	2,646,883
-	-	-	-	-	-
1,224,696	1,152,749	1,385,854	1,102,206	709,281	2,318,353
758,552	642,019	477,238	377,338	342,208	588,899
276,830	196,727	173,041	262,025	177,197	195,312
<u>\$ 207,505,039</u>	<u>\$ 191,601,464</u>	<u>\$ 195,198,232</u>	<u>\$ 200,314,810</u>	<u>\$ 189,761,791</u>	<u>\$ 177,812,793</u>
2.80%	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>
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
2015	2.80	6.10
2016	2.80	6.10
2017	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				
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
2015	56,289	3,718	9,531	50,476	13.79	468,243	10.780
2016	55,812	3,782	9,709	49,885	13.90	468,189	10.655
2017	55,327	3,784	9,140	49,971	13.53	478,522	10.443

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	
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
2015	1.18	2.63	2.18	7.80	13.79	0.89	0.55	15.23
2016	1.19	2.63	2.29	7.79	13.90	1.13	0.55	15.58
2017	1.19	2.67	2.37	7.29	13.53	1.14	0.55	15.23

Source: The Cochise County Treasurer.

**CITY OF DOUGLAS, ARIZONA
 PRINCIPAL PROPERTY TAXPAYERS
 JUNE 30, 2017 AND 2008
 (UNAUDITED)**

Taxpayer	2017			2008		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Wal-Mart Stores Inc.	\$ 2,009,437	1	4.02 %	\$ 3,568,212	1	6.43 %
Arizona Public Service	1,932,562	2	3.87	1,827,341	2	3.29
Phelps Dodge Corp	651,850	3	1.30			-
DHD LLC	571,247	4	1.14			-
BH Properties LLC	517,192	5	1.03			-
Southwest Gas Corporation	484,583	6	0.97	789,575	4	1.42
SFP Pool Five Shopping Centers	427,482	7	0.86			-
UIRC-GSA V Douglas AZ LLC	359,293	8	0.72			-
Qwest Corporation	336,940	9	0.67	752,421	5	1.36
J C Penney Co Inc	306,721	10	0.61			
Safeway Inc.	-	-	-	785,794	3	1.42
FAE Holdings 356216R LLC	-	-	-	519,800	8	0.94
MT Development LLC	-	-	-	574,380	7	1.03
Phelps Dodge Corporation	-	-	-	582,355	6	1.05
JC Penney Co., Inc.	-	-	-	505,931	9	0.91
SFP Pool Five Shopping Centers	-	-	-	483,171	10	0.87
	<u>\$ 7,597,307</u>		15.23 %	<u>\$ 10,388,980</u>		18.71 %

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>
2008	\$ 485,584	\$ 440,446	90.70	\$ 42,194	\$ 482,640	99.39
2009	542,878	489,507	90.17	51,173	540,680	99.60
2010	546,719	477,007	87.25	67,359	544,366	99.57
2011	555,804	504,613	90.79	48,402	553,015	99.50
2012	538,029	490,427	91.15	44,058	534,485	99.34
2013	552,411	501,212	90.73	47,006	548,218	99.24
2014	562,460	498,462	88.62	59,021	557,483	99.12
2015	565,710	515,897	91.19	44,910	560,807	99.13
2016	586,193	523,764	89.35	52,158	523,764	89.35
2017	587,758	536,145	91.22	-	536,145	91.22

Source: The Cochise County Treasurer.

Outstanding Delinquent Taxes	Ratio of Delinquent Taxes to Tax Levy
\$ 2,944	0.61
2,198	0.40
2,353	0.43
2,789	0.50
3,544	0.66
4,193	0.76
4,977	0.88
4,903	0.87
10,271	1.75
51,613	8.78

**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			
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
2015	-	7,125,000	1,506,753	4,604,627	326,606	13,562,986	5.79	798
2016	-	6,620,000	1,162,606	5,263,184	210,018	13,255,808	5.66	757
2017	-	6,110,000	899,091	4,937,620	90,903	12,037,614	5.15	709

Source: The City's Finance Department.

CITY OF DOUGLAS, ARIZONA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
JUNE 30, 2017
(UNAUDITED)

Governmental Unit	Outstanding Debt	Estimated Percentage Applicable (1)	Estimated Share of Overlapping Debt
Debt Repaid with Property Taxes			
Cochise County	\$ 1,292,712	5.43%	\$ 70,168
Cochise County Community College District	23,900,000	5.43%	1,297,292
Douglas Unified School District No. 27	5,450,000	100.00%	<u>5,450,000</u>
Subtotal, Overlapping Debt			<u>6,817,460</u>
City of Douglas, Arizona direct debt	7,009,091	100.00%	<u>7,009,091</u>
Total Direct and Overlapping Debt			<u><u>\$ 13,826,551</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 2015-16.

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

	Fiscal Year				
	2008	2009	2010	2011	2012
20% Debt Limit	\$ 10,378,721	\$ 10,890,226	\$ 11,240,800	\$ 11,387,094	\$ 11,237,561
Total Applicable to Limit	-	-	-	-	-
Legal Debt Margin	<u>\$ 10,378,721</u>	<u>\$ 10,890,226</u>	<u>\$ 11,240,800</u>	<u>\$ 11,387,094</u>	<u>\$ 11,237,561</u>
Total Net Debt Applicable to the Limit as a Percentage of the Debt Limit	-	-	-	-	-

	Fiscal Year				
	2008	2009	2010	2011	2012
6% Debt Limit	\$ 3,113,616	\$ 3,267,068	\$ 3,372,240	\$ 3,416,128	\$ 3,371,268
Total Applicable to Limit	-	-	-	-	-
Legal Debt Margin	<u>\$ 3,113,616</u>	<u>\$ 3,267,068</u>	<u>\$ 3,372,240</u>	<u>\$ 3,416,128</u>	<u>\$ 3,371,268</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				
2013	2014	2015	2016	2017
\$ 10,978,476	\$ 10,679,957	\$ 10,095,268	\$ 9,977,035	\$ 9,994,192
-	-	-	-	-
<u>\$ 10,978,476</u>	<u>\$ 10,679,957</u>	<u>\$ 10,095,268</u>	<u>\$ 9,977,035</u>	<u>\$ 9,994,192</u>

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Fiscal Year				
2013	2014	2015	2016	2017
\$ 3,293,543	\$ 3,203,987	\$ 3,028,580	\$ 2,993,111	\$ 2,998,257
-	-	-	-	-
<u>\$ 3,293,543</u>	<u>\$ 3,203,987</u>	<u>\$ 3,028,580</u>	<u>\$ 2,993,111</u>	<u>\$ 2,998,257</u>

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CITY OF DOUGLAS, ARIZONA
CALCULATION OF LEGAL DEBT MARGIN
JUNE 30, 2017
(UNAUDITED)

Net Secondary Assessed Value		<u>\$ 49,970,958</u>
<u>Water, Sewer, Light, Parks, Open Space and Recreational Facility Bonds</u>		
Debt Limit - 20% of Net Secondary Assessed Value		9,994,192
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>9,994,192</u>
<u>All Other General Obligation Bonds</u>		
Debt Limit - 6% of Net Secondary Assessed Value		2,998,257
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>2,998,257</u>
Total Legal Debt Margin		<u>\$ 12,992,449</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)**

Revenue Bonds							
Fiscal Year	Pledged Revenue	Less: Operating Expenses	Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage	
2008	\$ 11,942,651	\$ -	\$ 4,067,101	\$ 375,000	\$ 97,238	2528.94	
2009	12,666,703	-	12,666,703	390,000	97,237	2599.70	
2010	11,803,431	-	11,803,431	400,000	80,476	2456.61	
2011	11,458,594	-	11,458,594	415,000	71,077	2357.36	
2012	11,017,679	-	11,017,679	425,000	59,457	2274.23	
2013	10,896,218	-	10,896,218	440,000	46,106	2241.53	
2014	11,462,981	-	11,462,981	455,000	31,806	2354.73	
2015	11,792,995	-	11,792,995	470,000	16,451	2424.29	
2016	-	-	-	-	-	-	-
2017	-	-	-	-	-	-	-

Source: The City of Douglas' internal records.

Note 1: The City's bonds are secured by City sales tax revenues. Sales tax revenues are applied first to the bonds and therefore no operating expenses are presented.

Note 2: Revenue bonds were paid off in fiscal year 2015.

Note 3: The GADA loan is secured by state shared revenues, state sales tax, and City sales tax.

Note 4: The Call Center loan is secured by state shared revenues, state sales tax, City sales tax and lease revenue received on the lease.

GADA Loan

Fiscal Year	Pledged Revenue	Less:		Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage
		Operating Expenses					
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%
2015	10,074,638	-		10,074,638	125,000	110,172	4283.94%
2016	8,650,701	-		8,650,701	130,000	103,922	3698.11%
2017	8,646,362	-		8,646,362	135,000	98,725	3699.37%

Call Center Loan

Fiscal Year	City Sales Tax and Lease Revenue	Less:		Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage
		Operating Expenses					
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%
2015	9,353,016	-		9,353,016	375,000	299,680	1386.29%
2016	9,129,585	-		9,129,585	375,000	279,037	1395.88%
2017	8,683,759	-		8,683,759	375,000	256,869	1374.30%

WIFA Loan

Fiscal Year	Water/Sewer Revenues	Less:		Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage
		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%
2015	3,846,928	3,250,667		596,261	490,947	98,597	101.14%
2016	3,969,670	2,924,914		1,044,756	536,634	96,238	165.08%
2017	4,002,528	3,130,108		872,420	325,564	82,723	213.68%

**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>
2008	18,996	\$ 277,987,464	\$ 14,634	30.50	8.6 %
2009	18,500	282,199,000	15,254	31.00	11.2
2010	20,061	308,277,387	15,367	31.10	10.6
2011	20,122	294,364,738	14,629	32.20	10.8
2012	19,772	262,236,036	13,263	32.20	10.1
2013	17,378	227,252,106	13,077	32.20	10.2
2014	17,509	234,200,384	13,376	32.20	9.6
2015	16,989	233,785,629	13,761	32.20	7.8
2016	16,592	223,046,256	13,443	32.20	7.7
2017	16,897	239,667,048	14,184	32.20	7.20

**CITY OF DOUGLAS, ARIZONA
PRINCIPAL EMPLOYERS
JUNE 30, 2016 AND EIGHT YEARS AGO
(UNAUDITED)**

Employer	2016			2008		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Arizona Department of Corrections	615	1	12.48 %	761	1	12.54 %
Douglas Unified School District	492	2	9.98	546	2	9.00
Advanced Call Center Technologies	248	3	5.03			-
City of Douglas	179	4	3.63	223	4	3.67
Cochise College	165	5	3.35	248	5	4.09
Chiricahua Community Health Center	116	6	2.35			-
Cochise Private Industry Council	90	7	1.83			-
Cochise County	48	8	0.97	54	9	0.89
Copper Queen Community Hospital	37	9	0.75			-
Wal-Mart Stores, Inc	-	-	-	350	3	5.77
Southeast Arizona Medical Center	-	-	-	171	6	2.82
Basha's	-	-	-	67	7	1.10
Infinia at Douglas	-	-	-	56	8	0.92
Gadsden Hotel	-	-	-	52	10	0.86
	1,990		40.37 %	2,528		41.66 %

Source: Cochise College Center for Economic Research

Note: 2016 was most recent year available and only Top 9 employers were available in 2016

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

Function	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Government										
Management Services:										
Administration	7.0	5.0	5.0	5.0	5.0	5.0	4.5	4.5	4.0	5.0
Human resources	3.5	3.5	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Court	2.5	2.5	2.0	2.0	1.5	1.5	1.5	1.5	1.5	-
MIS	3.0	3.0	4.0	4.5	3.5	3.0	4.0	4.0	4.0	4.0
Finance	6.5	6.0	6.0	9.0	8.5	8.5	9.0	9.0	7.0	8.0
Economic Development	1.0	1.0	-	-	-	-	-	-	-	-
Visitor Parking Center	4.5	3.5	3.0	3.5	3.5	1.0	1.0	1.0	0.5	0.5
Total Mgmt Services	<u>28.0</u>	<u>24.5</u>	<u>23.0</u>	<u>27.0</u>	<u>25.0</u>	<u>22.0</u>	<u>23.0</u>	<u>23.0</u>	<u>20.0</u>	<u>20.5</u>
Housing	4.0	5.0	5.0	7.5	8.5	6.5	6.5	3.5	3.5	3.5
Police										
Officers	31.0	37.0	34.0	32.0	32.0	32.0	31.0	31.0	29.0	34.0
Civilians	16.0	14.0	14.0	14.0	14.0	15.0	11.5	13.0	13.0	13.5
Total Police	<u>47.0</u>	<u>51.0</u>	<u>48.0</u>	<u>46.0</u>	<u>46.0</u>	<u>47.0</u>	<u>42.5</u>	<u>44.0</u>	<u>42.0</u>	<u>47.5</u>
Fire										
Firefighters and Officers	24.0	25.0	25.0	25.0	23.0	24.0	23.0	25.0	27.0	27.5
Civilians	2.0	1.0	1.0	1.5	1.5	2.0	2.0	2.0	2.0	2.5
Total Fire	<u>26.0</u>	<u>26.0</u>	<u>26.0</u>	<u>26.5</u>	<u>24.5</u>	<u>26.0</u>	<u>25.0</u>	<u>27.0</u>	<u>29.0</u>	<u>30.0</u>
Public Works										
Engineering (PW Adm)	4.0	6.0	4.0	3.5	4.0	2.0	2.0	1.0		2.0
Planning & Zoning	3.0	2.0	2.0	2.0	2.0	1.0	2.0	2.0	1.5	2.0
Construction	4.0	4.0	6.0	7.0	6.0	6.0	5.0	5.0	5.0	5.0
Refuse Collections	7.0	5.0	6.0	6.0	5.0	7.0	8.0	9.0	8.0	7.5
Mechanics	4.0	4.0	4.0	3.0	2.0	2.5	3.0	3.0	3.0	3.0
Streets	11.0	8.0	7.0	7.0	6.0	8.0	7.0	5.0	5.0	8.0
Street Maintenance	4.0	4.0	4.0	4.0	4.0	-	-	-		
Airport	-	-	-	-	-	1.0	1.0	1.0	0.5	1.0
Water Field	9.0	8.0	6.0	7.0	7.0	7.5	7.5	7.5	7.5	9.5
Water CIP	8.0	7.0	6.0	4.0	4.0	2.0	2.0	2.0	2.0	
Water Billing	4.0	4.0	4.0	-	-	-	-	-		
Wastewater	8.0	7.0	7.0	6.0	5.0	5.5	5.5	5.5	5.5	5.5
Total Public Works	<u>66.0</u>	<u>59.0</u>	<u>56.0</u>	<u>49.5</u>	<u>45.0</u>	<u>42.5</u>	<u>43.0</u>	<u>41.0</u>	<u>38.0</u>	<u>43.5</u>
Parks and Recreation										
Comm Dev Admin	3.0	2.0	1.0	1.0	1.0	1.0	-	-	-	-
Aquatics	13.5	11.5	11.0	11.5	10.5	12.5	12.0	10.5	10.5	11.5
Cemetery	4.0	2.0	2.0	1.0	2.0	3.0	3.0	2.0	2.0	2.0
Parks	10.0	10.0	10.0	10.5	9.5	8.5	9.0	9.0	8.5	7.5
Recreation	8.5	4.5	5.0	5.5	6.5	5.5	5.5	6.5	6.0	8.0
Golf Course	5.5	8.0	8.0	10.5	9.5	7.5	5.5	2.5	-	-
Library	7.5	7.0	8.0	8.0	7.0	6.5	6.5	8.0	7.5	7.5
Transit	-	-	-	-	-	5.5	6.5	6.0	12.0	11.5
Total P&R	<u>52.0</u>	<u>45.0</u>	<u>45.0</u>	<u>48.0</u>	<u>46.0</u>	<u>50.0</u>	<u>48.0</u>	<u>44.5</u>	<u>46.5</u>	<u>48.0</u>
Total	<u>223.0</u>	<u>210.5</u>	<u>203.0</u>	<u>204.5</u>	<u>195.0</u>	<u>194.0</u>	<u>188.0</u>	<u>183.0</u>	<u>179.0</u>	<u>193.0</u>

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

Function	Fiscal Year				
	2008	2009	2010	2011	2012
General Government					
Building Permits Issued	338	354	305	198	221
Building Inspection Conducted	858	400	344	305	778
Police					
Physical Arrests	1,475	1,917	1,795	1,564	554
Parking Violations	1,562	648	646	745	545
Traffic Violations	3,814	4,569	4,300	4,211	3,888
Fire					
Emergency Responses	2,200	2,030	2,312	2,829	2,437
Fires Extinguished	201	216	198	61	55
Inspections	80	80	101	150	200
Refuse Collection					
Refuse Collections (Tons/Day)	30.0	30.0	16.3	23.5	26.5
Recyclables Collected (Tons/Day)	0.5	0.5	-	-	-
Other Public Works					
Street Resurfacing (Miles)	1.4	1.5	2.1	1.0	0.5
Potholes Repaired	152	195	680	1,360	2,100
Parks and Recreation					
Athletic Field Permits Issued	117	120	119	122	125
Community Center Admissions	14,660	9,071	10,036	11,021	8,812
Aquatic Center Admissions	28,369	36,761	31,408	14,808	21,301
Library					
Volumes in Collection	56,961	60,856	59,649	57,684	56,715
Total Volumes Borrowed	94,955	85,595	86,098	74,141	63,180
Transit					
Riders	-	-	-	-	-
Miles	-	-	-	-	-
Water					
New Connections	28	68	10	16	10
Water Main Breaks	18	5	2	9	8
Average Daily Consumption (Thousands of Gallons)	3,660,000	2,638,660	3,662,519	3,500,000	3,177,000
Peak Daily Consumption (Thousands of Gallons)	5,380,000	3,613,013	4,101,000	5,023,000	4,725,000
Wastewater					
Average Daily Sewage Treatment (Thousands of Gallons)	2.1	1.6	1.5	1.7	1.7

Source: The City of Douglas' internal records.

Fiscal Year

2013	2014	2015	2016	2017
264	202	188	205	329
695	704	229	277	
1,332	1,348	1,164	1,317	937
252	183	158	140	85
4,158	3,220	2,981	2,490	2,973
2,459	2,560	2,900	3,479	3,295
231	457	52	196	178
161	367	261	108	
27.5	22.9	33.4	24.6	22.0
-	-	-	-	-
2.1	0.8	6.0	6.2	2.0
1,600	1,763	2,385	4,500	6,500
93	83	105	56	68
10,199	16,051	7,954	3,384	1,749
16,685	17,792	14,674	11,631	15,005
47,157	59,033	53,887	63,930	52,543
61,256	64,843	53,181	59,737	38,089
-	56,400	68,777	55,770	56,262
-	106,795	105,615	105,158	120,453
11	11	5	5	8
12	7	8	6	5
3,216,045	3,321,000	2,971,544	2,725,146	3,054,914
4,716,136	4,384,000	3,984,848	3,366,799	4,050,528
2.0	2.1	1.9	1.9	1.8

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

Function	Fiscal Year				
	2008	2009	2010	2011	2012
Police					
Stations	1	1	1	1	1
Patrol Units	20	27	22	21	23
Fire Stations	1	1	1	1	1
Refuse Collection					
Collection Trucks	5	5	5	5	5
Other Public Works					
Streets (Miles)	110	110	112	110	110
Streetlights	2,693	2,693	2,693	2,693	2,693
Traffic Signals	14	14	14	14	14
Parks and Recreation					
Acreage	92	92	92	92	92
Playgrounds	5	5	5	5	5
Baseball and Softball Diamonds	6	6	6	6	6
Soccer/Football Fields	13	13	13	13	13
Aquatic Centers	2	2	2	2	2
Community Centers	1	1	1	1	1
Water					
Water Mains (Miles)	83	83	84	100	100
Fire hydrants	526	526	535	540	545
Storage Capacity (Thousands of Gallons)	500,900	500,900	500,900	500,900	500,900
Wastewater					
Sanitary Sewers (Miles)	78	78	80	85	85
Storm Sewers (Miles)	9	9	9	9	9
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

2013	2014	2015	2016	2017
1	1	1	1	1
22	21	23	23	21
1	1	1	1	1
4	4	4	4	4
110	110	110	110	110
2,693	2,693	2,693	2,693	2,697
14	14	14	12	13
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
100	100	100	100	100
458	560	567	570	573
500,900	500,900	590,000	590,000	590,000
86	86	86	86	87
9	9	9	9	9
2,000,000	2,000,000	2,000,000	2,000,000	2,000,000

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