

CITY OF DOUGLAS, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2010

Dr. Michael Gomez
Mayor

Councilmembers

Robert Fernandez

Margaret Morales

Mitchell Lindemann

Ray Shelton

Ivan Huish

Rudy Quinonez

Curtis Shook
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) 805-4484 Fax (520) 805-5511

FINANCE DEPARTMENT

January 27, 2011

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

The Arizona Auditor General Office requires all local government entities to file with their office by January 31 of each year, 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 firm licensed certified public accountants. 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, 2010.

The report consists of management's representations concerning the finances of the City of Douglas, Arizona. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Douglas, Arizona has established a comprehensive internal control framework that is designed both to protect the government assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of City of Douglas's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not outweigh their benefits, City of Douglas's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The financial statements contained herein have been audited by LarsonAllen 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, 2010 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 auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion of City of Douglas's financial statements for the Fiscal-Year-Ended June 30, 2009, and that they are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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. City of Douglas's MD&A can be found immediately following the reports of the independent auditors.

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

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

This report includes all funds of the City of Douglas, Arizona. The City of Douglas, Arizona provides a full range of services that includes police and fire protection; emergency medical services; water, sewer and sanitation services; the construction and maintenance of highways, streets, and infrastructure; recreational activities including an aquatic center, library, visitor center and cultural events. In addition to general government activities, the City of Douglas, Arizona reports three governmental components units: Douglas Housing Authority, Casa de Esperanza, and Pioneer Village and one Enterprise component unit Rancho La Perilla Apartments and, therefore, these activities are included in the reporting entity.

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 18,996 people, it serves a commercial market of approximately 160,000. Agua Prieta, Sonora, Mexico (just across the international border from Douglas) is a part of our market and has a population of approximately 125,000. Our two cities share an interdependent economy and culture.

Government Structure

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

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

Economic Condition and Outlook

The City's economy is based on the commercial exchange with Mexico. The Douglas/Agua Prieta connection continues to strengthen with the coordinated efforts of both local governments for the expansion of the existing and development of a new commercial port of entry.

The Douglas community continues to show signs of growth during a recession economy. Through the leadership of Douglas's 27th mayor, Dr. Michael Gomez, and Council, Douglas is investing in infrastructure, developing partnerships and economic strategies to create a progressive and sustainable community. These economic development efforts and expansion of the Douglas Port of Entry will be key to the development of a new Douglas.

Major Initiatives

In 2008, Advanced Call Center Technologies (ACCT) continued their expansion of services, increasing their staff by 126 positions, increasing to almost 480 employees.

2010 has seen new commercial developments that include a 1,000 square foot Little Caesars, a 800 square foot Caffeinos Coffee Shop both generating an average of 20 positions.

Another economic development project in the works is the Government Plaza, which will occupy the old Phelps Dodge Mercantile Building. In the previous year, the City received \$3,005,000 from GADA (Greater Arizona Development Authority) which has been used to upgrade and renovate the current building as well as cover the purchase of two lots east of City Hall that will be used as parking space. Demolition of the building occupying the space has been completed, as well as architectural and engineering. Construction is set to continue through the 2011 Fiscal Year.

The City received several grants mostly to improve infrastructure. A CDBG grants for Water Reservoir Repair in the amount of \$300,000, and another one to add curbing and drainage to the Sunnyside area for \$327,000. An EECBG grant for \$85,000 was received to implement lighting retrofits and energy efficient improvements to water pumps.

Upcoming Year

The expansion and configuration of the Douglas Port of Entry will continue to be a major project for Douglas and the region in the years to come. As of September 2007 the feasibility study by the General Service Administration had been completed. The current schedule calls for port design in 2012 and construction of \$60 million of infrastructure for 2014. The new Douglas International Port Authority has been formed to serve as the leading agency for port infrastructure development. DIPA, a nonprofit public/private entity is the representative of the Douglas-Agua Prieta port users, City of Douglas and Cochise County.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in financial Reporting to the City of Douglas for its comprehensive annual financial report for the fiscal year ended June 30th, 2009. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

Acknowledgement

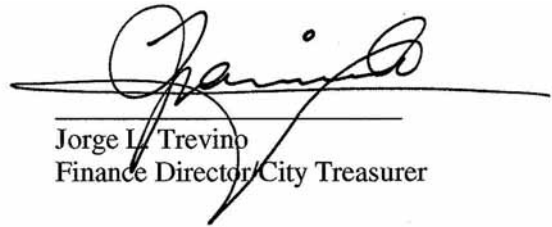
We would like to express our appreciation to each member of the Finance Department who has assisted in the preparation of this report. We are thankful for having the finance committee of the City of Douglas providing their support and having them evaluate this report. And also, thanks to our independent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



Curtis A. Shook
City Manager



Jorge L. Trevino
Finance Director / City Treasurer

**CITY OF DOUGLAS, ARIZONA
LIST OF PRINCIPAL OFFICIALS
YEAR ENDED JUNE 30, 2010**

ELECTED OFFICIALS

Mayor	Dr. Michael Gomez
Councilmember	Margaret Morales
Councilmember	Mitchell Lindemann
Councilmember	Robert Fernandez
Councilmember	Ray Shelton
Councilmember	Ivan Huish
Councilmember	Rudy Quinonez

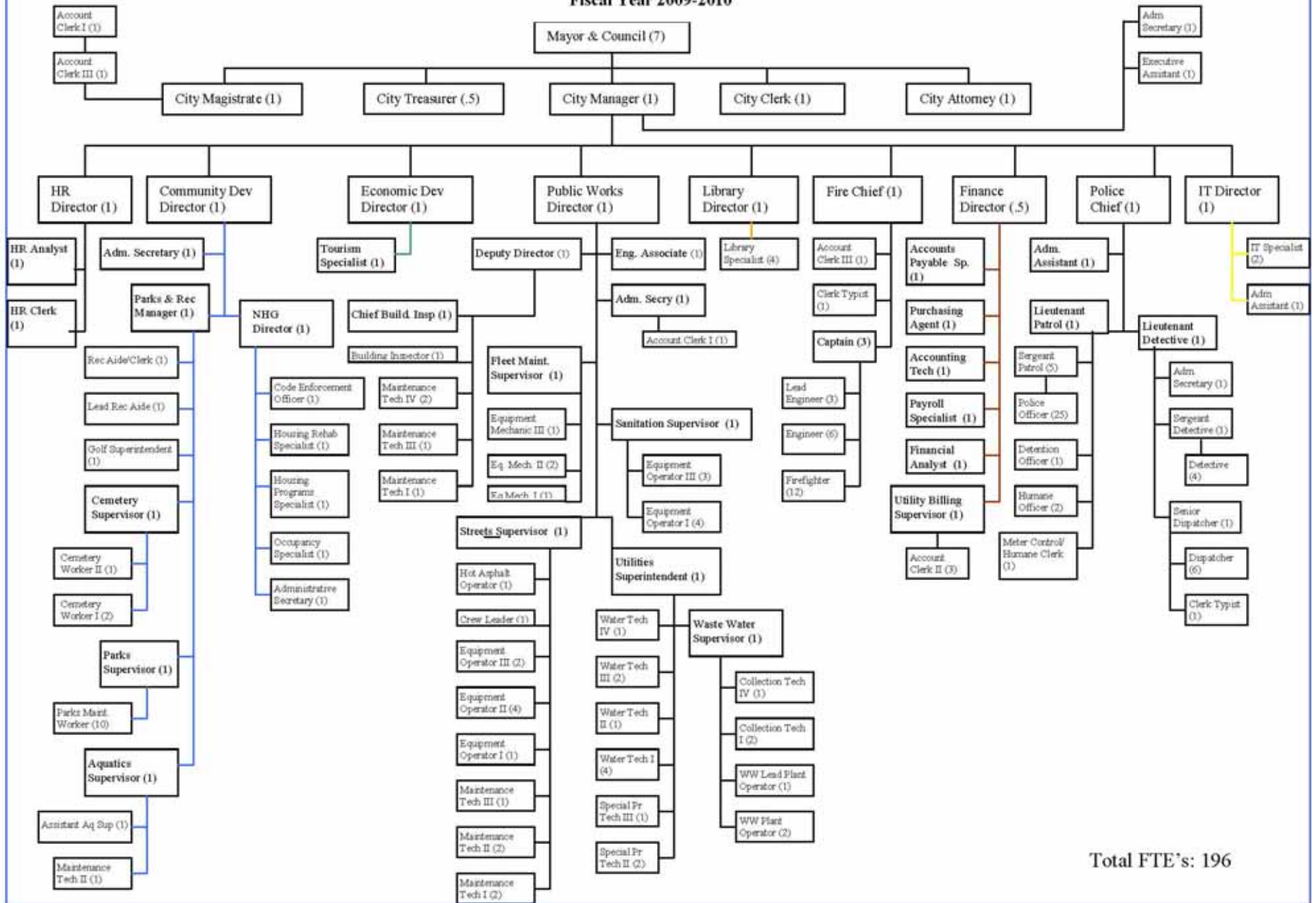
APPOINTED OFFICIALS

City Manager	Curtis A. Shook
City Clerk	Brenda Aguilar
City Attorney	Juan Pablo Flores
City Treasurer	Jorge L. Trevino
City Magistrate	Alma Vildosola

DEPARTMENT DIRECTORS

Public Works/City Engineer	Carlos De La Torre
Human Resources	Ana Urquijo
Information Technology	Andrew Dym
Economic Development	Vacant
Police Chief	Alberto Melis
Fire Chief	Mario Novoa
Librarian	Victoria Yarbrough
Housing Neighborhood Service Director	Christina Gomez

City of Douglas Organizational Chart Fiscal Year 2009-2010



Total FTE's: 196

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, 2009

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



A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

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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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Douglas, Arizona (City), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Douglas Housing Corporation I (Casa de Esperanza), Douglas Housing Corporation II (Pioneer Village) and the Douglas Community Housing Corporation (Rancho La Parilla Apartments). The Douglas Housing Corporation I and II are presented as Governmental Component Units and those assets comprise 54% and 34% of the total Governmental Component Unit assets, 13% and 5% of total operating revenues and a negative 186% and 81% of total net assets of the Governmental Component Unit revenues, respectively. Rancho La Parilla comprises 100% of the assets and operating revenues reported in the Proprietary Component Unit. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for the Governmental Component Units and Proprietary Component Unit, is based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our 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 units, each major fund, and the aggregate remaining fund information of the City of Douglas, Arizona, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General, Special Projects, Grants and Police Grants Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

A prior period adjustment was recorded, as described in Note 3.F., to restate the governmental activities beginning net assets and the Special Projects Governmental Fund financial statements for an error in the previously issued financial statements related to a loss on investments incurred in the prior fiscal year.

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

The management's discussion and analysis on pages 10 - 22 and the Public Safety Personnel Retirement System Schedule of Funding Progress on page 71 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund financial statements and schedules and statistical section 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 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

LarsonAllen LLP

LarsonAllen LLP

Mesa, Arizona
January 27, 2011

REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

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, 2009. We encourage readers to consider the information presented here in conjunction with additional information presented in the financial statements.

FINANCIAL HIGHLIGHTS

- ◆ The assets of the City at the close of the most recent fiscal year exceed liabilities by \$38.4 million (net assets). Of this amount, \$8.3 million is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.
- ◆ Total net assets increased by \$.04 million during the fiscal year.
- ◆ As of June 30, 2010, the City's governmental funds reported a combined ending fund balance of \$8.3 million. Almost all of this amount is unreserved fund balance and available for spending at the government's discretion.
- ◆ At the close of the current fiscal year, unreserved fund balance for the General Fund was \$4.2 million or 34.7% of the total General Fund expenditures of \$12.0 million.
- ◆ The City drew down \$3.2 million of an authorized \$6.0 in loans financed by the Water Infrastructure Authority of Arizona.

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 the private sector business.

The statement of net assets presents information on all of the City's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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, 2010**

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 four legally separate non-profit corporations - three governmental component units and one proprietary component unit. The governmental units consist of Douglas Housing Authority, Douglas Housing Corporation I - Casa de Esperanza Apartments and Douglas Housing Corporation II - Pioneer Village providing HUD subsidized housing. The proprietary unit is the Douglas Municipal Housing Corporation market rate apartment complex known as Rancho la Perilla. Although legally separate from the City, these component units are discretely presented because of their governance or financial relationships to the City. Separate financial statements for these entities (with the exception of Douglas Housing Authority in which a separate report was not prepared) 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 (business-type) funds.

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

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

**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

The City of Douglas, Arizona maintains eight 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, Special Projects Fund, Grants Fund, Police Grants Fund and the MPC Debt Service Fund, all of which are considered to be major funds. Data from the other three funds are combined into a single aggregate presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of the combining statements elsewhere in this report.

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

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

Notes to Basic Financial Statements

The notes to basic financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements may be found on pages 42 - 70 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information may be found on page 71 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 on pensions.

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 Assets

As noted earlier, net assets may serve as useful indicators of a government's financial position. For the City of Douglas, Arizona, assets exceeded liabilities by \$38.4 million.

**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

The largest portion of the City's net assets (77%) reflects its investment in capital assets (e.g. land, buildings, and equipment), less any debt used to acquire those assets. The City uses these capital assets to provide services to its citizens; therefore, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, resources needed to repay this debt must be provided from other sources since the assets themselves cannot be liquidated for these liabilities.

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

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
		Restated				
ASSETS						
Current and Other Assets	\$ 9,781,691	\$ 11,177,786	\$ 1,802,668	\$ 1,296,209	\$ 11,584,359	\$ 12,473,995
Capital Assets:						
Non-depreciable	3,463,842	3,156,116	5,768,701	1,703,590	9,232,543	4,859,706
Depreciable (net)	24,635,488	25,301,363	13,375,175	13,848,250	38,010,663	39,149,613
Total Assets	37,881,021	39,635,265	20,946,544	16,848,049	58,827,565	56,483,314
LIABILITIES						
Current and Other Liabilities	1,315,729	1,439,893	484,628	130,155	1,800,357	1,570,048
Non-Current Liabilities:						
Due Within One Year	1,233,175	2,099,039	151,802	117,647	1,384,977	2,216,686
Due in More Than One Year	14,029,576	14,646,582	3,231,951	58,465	17,261,527	14,705,047
Total Liabilities	16,578,480	18,185,514	3,868,381	306,267	20,446,861	18,491,781
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	13,775,501	12,376,658	15,872,761	15,535,124	29,648,262	27,911,782
Restricted	477,084	3,634,763	-	-	477,084	3,634,763
Unrestricted	7,049,956	5,438,330	1,205,402	1,006,658	8,255,358	6,444,988
Total Net Assets	\$ 21,302,541	\$ 21,449,751	\$ 17,078,163	\$ 16,541,782	\$ 38,380,704	\$ 37,991,533

As of June 30, 2010 the City of Douglas, Arizona was able to report positive balances in all categories of net assets. As previously discussed, approximately 77% of the resources are invested in capital assets, net of related debt. Another 1% of the resources are subject to external restrictions on how they may be used. The remaining unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors.

The City's net assets increased approximately \$0.4 million over the prior fiscal year. Net assets invested in capital assets, net of related debt increased \$1.7 million due to the net effect of a reduction in current year debt outstanding used to acquire the assets, current year depreciation and current year additions. Current year debt payments (including deferred amounts on refundings and discount) were approximately \$2.2 million (including payments on capital leases). The City drew down \$3.2 million for water and sewer improvements and issued a \$400,000 loan the acquisition of a City building.

**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

Changes in Net Assets

As described above, the City's net assets overall increased by \$0.4 million during the current fiscal year. Also, June 30, 2010 net assets were restated in order to reduce net assets by \$0.1 million due to an unrecorded loss on investment income in the prior fiscal year. The decrease in the governmental activities and the increase in business-type activities are discussed on the following pages.

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

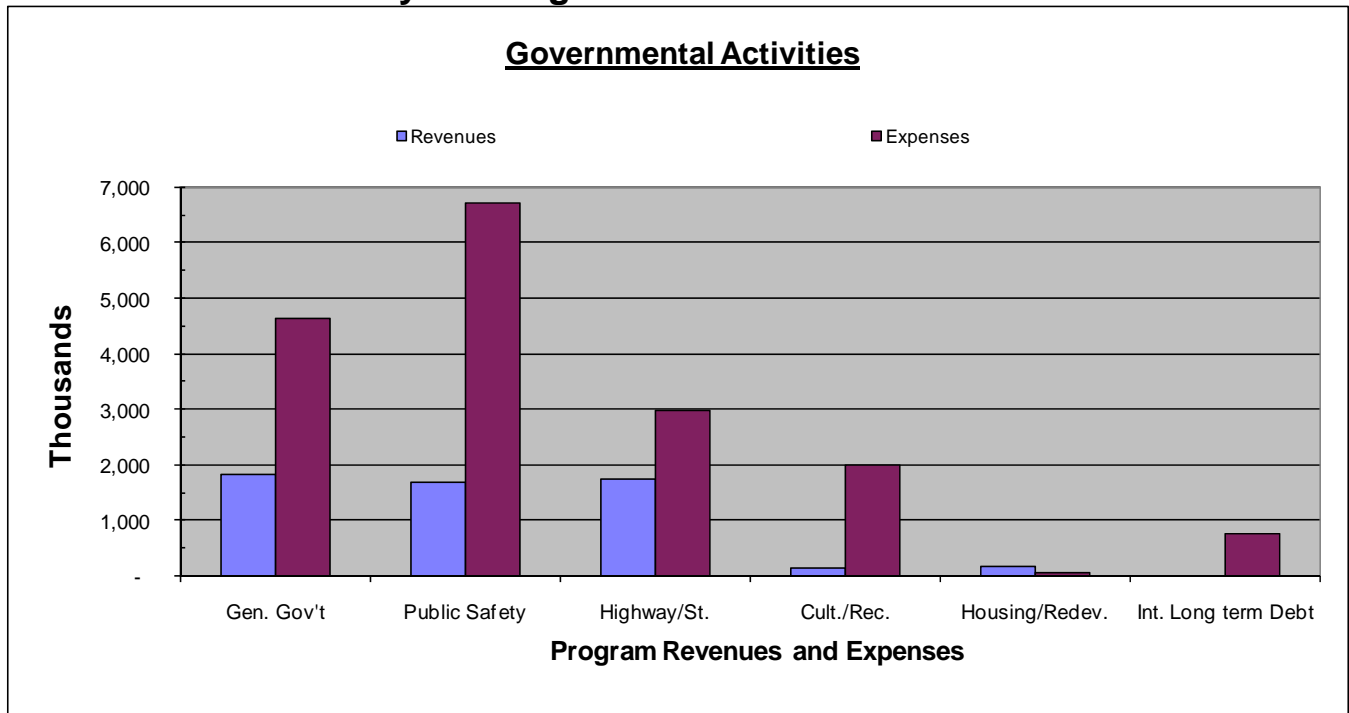
	Governmental Activities		Business-Type Activities		Total	
	2010	2009 Restated	2010	2009	2010	2009 Restated
REVENUES						
Program Revenues:						
Fees, Fines and Charges for Services	\$ 2,525,582	\$ 2,246,818	\$ 3,969,373	\$ 3,508,200	\$ 6,494,955	\$ 5,755,018
Operating Grants and Contributions	2,128,442	1,818,551	-	-	2,128,442	1,818,551
Capital Grants and Contributions	902,228	1,765,876	-	2,373,486	902,228	4,139,362
General Revenues:						
Property Taxes	531,489	532,028	-	-	531,489	532,028
Local Taxes	6,159,743	6,493,233	-	77,114	6,159,743	6,570,347
State Shared Revenues	4,239,971	4,769,690	-	-	4,239,971	4,769,690
Grants and Contributions Not Restricted to Specific Programs	30,274	18,467	-	-	30,274	18,467
Investment Earnings (Loss)	107,495	16,212	(1,769)	21,628	105,726	37,840
Other	238,124	322,889	-	-	238,124	322,889
Total Revenues	<u>16,863,348</u>	<u>17,983,764</u>	<u>3,967,604</u>	<u>5,980,428</u>	<u>20,830,952</u>	<u>23,964,192</u>
EXPENSES						
General Government	4,639,733	3,999,501	-	-	4,639,733	3,999,501
Public Safety	6,715,219	6,604,306	-	-	6,715,219	6,604,306
Highways and Streets	2,970,829	2,702,979	-	-	2,970,829	2,702,979
Culture and Recreation	1,986,674	2,074,291	-	-	1,986,674	2,074,291
Redevelopment and Housing	53,973	497,600	-	-	53,973	497,600
Interest on Long-Term Debt	760,128	727,564	-	-	760,128	727,564
Water	-	-	1,261,985	1,344,052	1,261,985	1,344,052
Sewer	-	-	1,337,193	1,385,910	1,337,193	1,385,910
Solid Waste	-	-	716,047	707,042	716,047	707,042
Total Expenses	<u>17,126,556</u>	<u>16,606,241</u>	<u>3,315,225</u>	<u>3,437,004</u>	<u>20,441,781</u>	<u>20,043,245</u>
CHANGE IN NET ASSETS BEFORE TRANSFERS	(263,208)	1,377,523	652,379	2,543,424	389,171	3,920,947
Transfers	115,998	132,432	(115,998)	(132,432)	-	-
CHANGE IN NET ASSETS	(147,210)	1,509,955	536,381	2,410,992	389,171	3,920,947
Net Assets - Beginning of Year, Restated	21,449,751	19,939,796	16,541,782	14,130,790	37,991,533	34,070,586
NET ASSETS - END OF YEAR	<u>\$ 21,302,541</u>	<u>\$ 21,449,751</u>	<u>\$ 17,078,163</u>	<u>\$ 16,541,782</u>	<u>\$ 38,380,704</u>	<u>\$ 37,991,533</u>

**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

Governmental Activities – Governmental activities decreased the City's net assets by \$0.1 million. Key factors of the overall decrease in net assets are as follows:

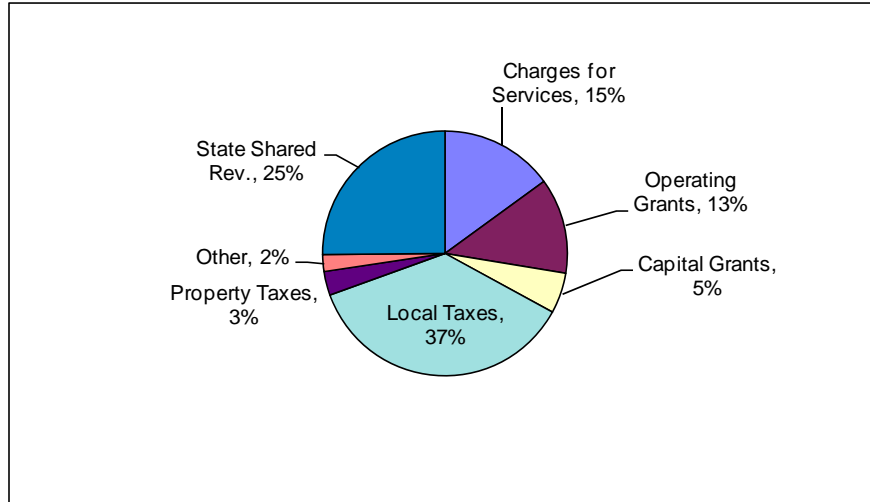
- ◆ Fees, fines and charges for services increased slightly over the prior fiscal year (12%). The increase was largely due to the City's leasing of its new call center. In the prior year, the lease did not include a full year of lease payments, accounting for the variance.
- ◆ Operating grants and contributions increased 17% over the prior fiscal year. The increase was the result of an overall increase in all grants (public safety, highways and streets and redevelopment and housing). The increase did not have a significant impact on net assets as most grants are reimbursement grants and therefore revenues are accrued in the period in which the expense occurred.
- ◆ Capital grants decreased 49%. The decrease was largely due to a decrease in grants for various road projects.
- ◆ State shared revenues and local tax revenues decreased 8% due to decreased consumer spending. Those revenues are expected to decrease in the upcoming fiscal year as well due to the downturn in the economy.
- ◆ Investment income increased 563% during the fiscal 2009/10 due to a loss on investments recorded in the prior year that reduced overall investment income in the prior year.
- ◆ Overall, expenses increased over the prior fiscal year due to increases in streets/highway construction and housing rehabilitation projects, as well as an increase in debt service. The overall increase, however, was offset by a decrease in current year housing projects. The City did significant street projects that were capitalized during the current fiscal year; however, street maintenance was up from the prior year.

City of Douglas – Fiscal Year 2009/10



**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

**City of Douglas Revenue by Source
Governmental Activities Fiscal Year 2008/09**



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 (39%), followed by General Government (27%), Highway/Streets (17%), Culture/Recreation (12%), and the remaining 5% attributable to Redevelopment and Housing and Interest. General revenues such as property taxes, state shared revenues, and sales tax 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 are by far the largest source of funds (37%) followed by state shared revenues (25%) as illustrated in the above chart.

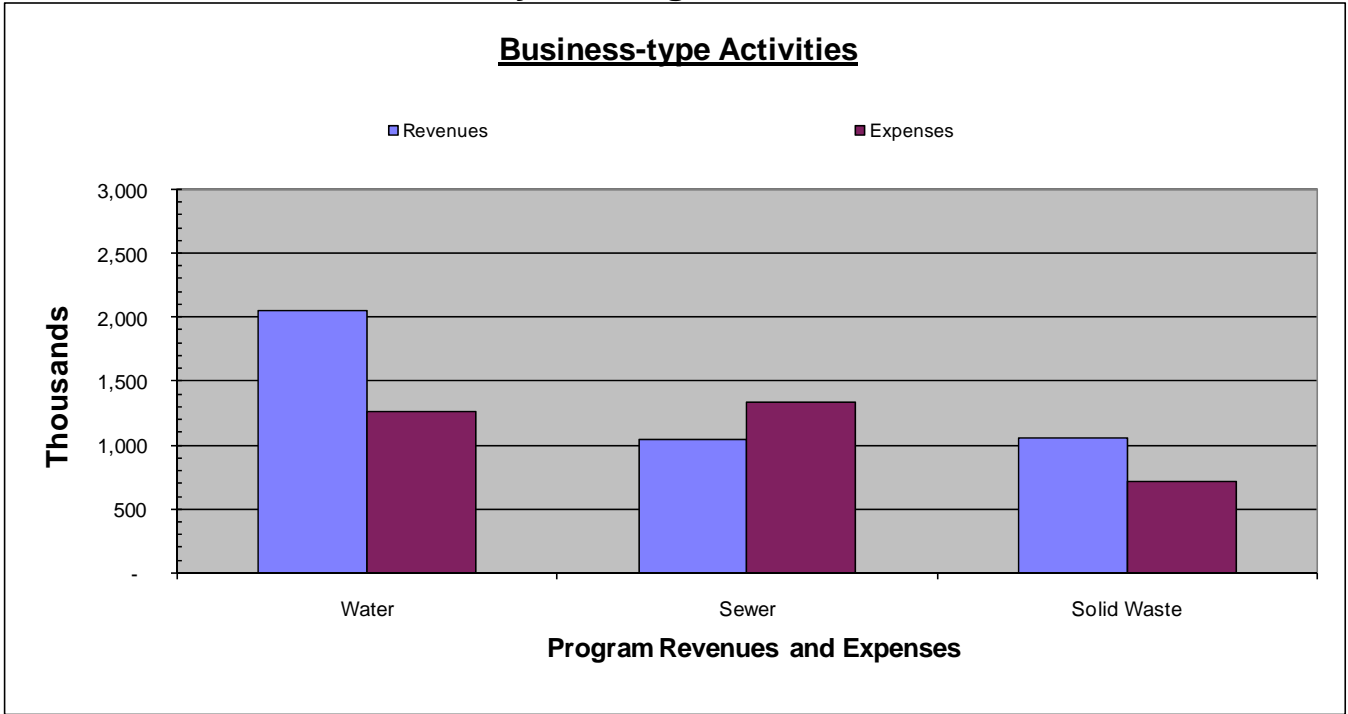
Business-Type Activities – Business-type activities increased the City's net assets by \$0.5 million.

The most significant factor accounting for the increase was a \$0.5 million increase in charges for services, a reduction in current year expenses of \$0.1 million and a transfer to the governmental funds for \$0.1 million to allocate administrative overhead costs incurred by the governmental funds.

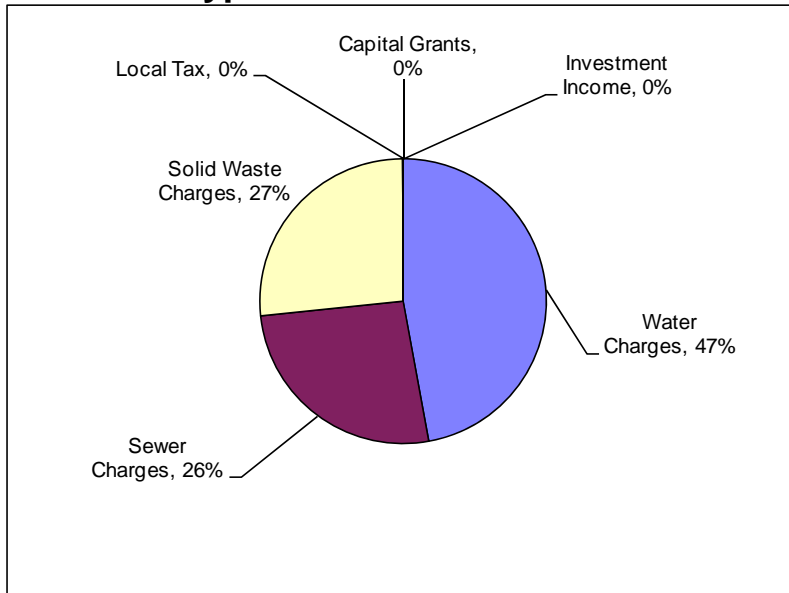
The City's Sewer Fund operated at a loss during the current fiscal year. Water and Solid Waste reported operating income due to the reduction of costs previously discussed and an increase in rates. In prior years, the utilities have relied on subsidies from the General Fund for operations. However, it is the City's intention to analyze the cost of providing these services, as well as the current fee structure to develop a master plan for the utilities to operate independently of the general government functions.

**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

City of Douglas 2008/09



**City of Douglas Revenue by Source
Business-type Activities Fiscal Year 2008/09**



**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

As shown in the charts above, the largest of the City's business-type activities are water and sewer utilities. Sewer Fund expenses were just over \$1.3 million, with Water expenses at approximately the same level followed by Solid Waste at approximately \$0.7 million. For this fiscal year, the change in net assets in the Sewer Fund was a positive \$0.3 million while changes in net assets in the Water Fund was a positive \$0.7 million and the Solid Waste Fund was a positive \$0.2 million. The positive change in net assets in the Water and Solid Waste Fund was due to the City increasing rates to cover operating costs. The City will continue to evaluate Sewer rates over the next year to determine whether rate increases are necessary.

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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Fund.

As of the end of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$8.3 million, a decrease of \$1.0 million from the prior year. This decrease is primarily due to \$0.9 million of Special Projects carryover used for financing outstanding debt.

Revenues for governmental funds overall totaled approximately \$16.8 million for the fiscal year ended June 30, 2010 which represents a decrease of 8% or approximately \$1.4 million from the prior fiscal year. The reduction was largely the result of decreased sales and state shared revenues recorded in the General Fund, due to the economic downturn and reduced consumer spending. Expenditures for governmental functions totaled \$18.0 million an decrease of 33% (\$9.1 million) from the prior fiscal year. The decrease was largely due to the \$9.0 million call center acquisition in the prior fiscal year. Excluding the \$9.0 million call center loan from the prior year, expenditures were within \$0.1 million of the prior fiscal year.

The General Fund is the chief operating fund of the City. At the end of the fiscal year, the unreserved fund balance of the General Fund was \$4.2 million. As a measure of the General Fund's liquidity, it may be useful to compare the fund balance to total fund expenditures. Unreserved General Fund balance represents 34.7% of the total General Fund expenditures of \$12.0 million.

The fund balance in the City's General Fund increased by \$0.1 million. Although revenues of the General Fund was significantly reduced in the current fiscal year (down \$1.0 million from the prior year) due to a reduction in local and state shared sales tax, the City managed its General Fund fund balance by reducing operational costs through a reduction in workforce and other cost saving measures.

The Special Projects Fund reported a net decrease in fund balance. The decrease is largely due to increased debt service requirements as a result of the prior year \$9.0 million debt issuance for the acquisition of the call center.

**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

The Grants Fund decreased by \$72k over the prior year. Most grants are reimbursement type grants and have no effect on fund balance. The increase was due to \$30k earned on housing loans and \$22k in interest earnings during the year. Overall grants decreased \$200k due to a reduction of grants for road and street improvements.

The Police Grants Fund accounts for federal and state seizures and the revenues generated from auction of that seized property. The City does not directly participate in the seizures or the subsequent auctions, but receives funding through an intergovernmental agreement. The fund reported a deficit fund balance at the beginning of the year and the deficit increased approximately 16% in the current year due to the timing of the seized money granted to the City. The City borrows from the General Fund to acquire assets for the police department until funding is available.

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

The Nonmajor Governmental Funds decreased \$0.2 million largely due to a decrease in Highway User Revenue Fund fuel tax. The decrease was due to a downturn in the economy.

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 assets for the Water Fund were \$1.8million, Sewer a deficit \$0.9 million, and Solid Waste \$0.3 million. The total increase in net assets for the enterprise funds was \$0.5 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

Actual revenues were less than the budget by \$117 thousand and actual expenditures were less than budget by \$1.1 million dollars. The actual expenditures were less than budget largely due to unspent contingency funds in the general government department. Several departments reported overexpenditures as a result of the City not revising the budget in the current fiscal year. Most years, the City revises the budget during the year to reflect a more accurate reflection of budgetary comparisons. Although the legal level of budgetary control is at the departmental level in the General Fund, the City Council monitors the General Fund as a whole as the City Manager has the authority to make transfers between departments of the General Fund as long as the General Fund in total does not exceed the budget.

**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2010 amount to \$47.2 million (net of accumulated depreciation). Capital assets include land and improvements, infrastructure, buildings and improvements, machinery equipment, and vehicles, and construction in progress.

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

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land and Improvements	\$ 3,268,122	\$ 3,179,362	\$ -	\$ -	\$ 3,268,122	\$ 3,179,362
Streets and Storm Drains	6,607,447	6,855,937	-	-	6,607,447	6,855,937
Buildings and Improvements	9,853,729	10,272,437	574,612	638,822	10,428,341	10,911,259
Water System	-	-	4,607,003	4,836,893	4,607,003	4,836,893
Wastewater System	-	-	7,290,197	7,532,918	7,290,197	7,532,918
Machinery, Equipment and Vehicles	6,016,752	5,835,689	903,363	839,617	6,920,115	6,675,306
Construction In Progress	2,353,280	2,314,054	5,768,701	1,703,590	8,121,981	4,017,644
Total Capital Assets	\$ 28,099,330	\$ 28,457,479	\$ 19,143,876	\$ 15,551,840	\$ 47,243,206	\$ 44,009,319

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

Governmental Activities

- ◆ \$189k in costs for the City-wide information technology upgrade.
- ◆ \$481k in cost for the Governmental Plaza project, currently included in construction in progress.
- ◆ City Hall improvements recorded in construction in progress in the amount of \$198k.
- ◆ Street enhancement projects, including curb and drainage recorded as construction in progress in the amount of \$641k.
- ◆ Acquisition of an ambulance in the amount of \$189k.

Business-type Activities

- ◆ Construction of the Bonita intercept at 3rd and 19th in the amount \$0.6 million.
- ◆ Construction in progress of a new water well and waste water treatment plant improvements phase I for a combined cost of \$3.3 million.

For government-wide financial statement purposes, capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures. Additional information on the City of Douglas, Arizona's capital assets may be found in the Notes to the Basic Financial Statements in note 3.A.4. on pages 55 -68 of this report.

**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

Debt Administration

At the end of the fiscal year, the City of Douglas, Arizona had total long-term obligations outstanding of \$18.8 million. The City drew down \$3.2 million from an available \$6.0 million loan financed by the Water Infrastructure Authority of Arizona for water and wastewater improvements during the current fiscal year. The current year increase was the result of the issuance offset by the repayment of other debt.

The State constitution imposes certain debt limits on the issuance of General Obligation Bonds at six percent (6%) and twenty percent (20%) of the secondary assessed valuation of the City. The City has not issued any general obligation bonds. Therefore, the City's available debt margin at June 30, 2010 is \$3,372,240 in the 6% capacity and \$11,240,800 in the 20% capacity.

**Table A-4
Outstanding Debt**

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Loans Payable	\$ 10,890,000	\$ 12,000,000	\$ 3,239,489	\$ -	\$ 14,129,489	\$ 12,000,000
Revenue Bonds	2,205,000	2,605,000	-	-	2,205,000	2,605,000
Capital Lease	957,050	1,275,773	31,626	61,716	988,676	1,337,489
Compensated Absences	1,338,922	1,021,564	112,638	114,396	1,451,560	1,135,960
Total Outstanding Debt	<u>\$ 15,390,972</u>	<u>\$ 16,902,337</u>	<u>\$ 3,383,753</u>	<u>\$ 176,112</u>	<u>\$ 18,774,725</u>	<u>\$ 17,078,449</u>

Additional information on the City's debt can be found in Note 3.E. on pages 61 - 65.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The following factors were considered when preparing the 2010-11 budget:

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

Both Water and Sewer rates increased in the 2005 fiscal year by five dollars per month for each service. This increase was part of a "pay-as-you-go" capital improvement plan implemented in September 1999 with the five dollar increase to each service over a five year period (August 2004). This capital improvement surcharge allows for much needed improvement to aging infrastructure as well as funding provided from the Water Infrastructure Authority of Arizona. The solid waste fund also enacted an increase on January 2009 of 5 dollars to current residential rates and an additional increase in 2010. Also, increases in sewer rates will be implemented to cover raising operating costs and to cover necessary capital improvements to the sewer system.

**CITY OF DOUGLAS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

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) 805-4484

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BASIC FINANCIAL STATEMENTS

CITY OF DOUGLAS, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 5,515,505	\$ 2,003,931	\$ 7,519,436
Receivables, Net:			
Accounts Receivable	119,151	454,849	574,000
Taxes Receivable	88,875	-	88,875
Intergovernmental Receivables	1,858,800	-	1,858,800
Due from Component Unit	1,427,198	-	1,427,198
Internal Balances	656,112	(656,112)	-
Inventories	44,483	-	44,483
Prepaid Items	15,453	-	15,453
Deferred Charges	56,114	-	56,114
Restricted Assets	-	-	-
Capital Assets:			
Non-Depreciable	3,463,842	5,768,701	9,232,543
Depreciable (net)	24,635,488	13,375,175	38,010,663
Total Assets	<u>37,881,021</u>	<u>20,946,544</u>	<u>58,827,565</u>
LIABILITIES			
Accounts Payable	521,414	400,055	921,469
Accrued Wages and Benefits	262,669	71,948	334,617
Interest Payable	40,238	12,625	52,863
Intergovernmental Payable	6,411	-	6,411
Customer Deposits Payable	13,134	-	13,134
Unearned Revenue	71,863	-	71,863
Due to Primary Government	-	-	-
Prepaid Rents	-	-	-
Matured Debt Principal Payable	400,000	-	400,000
Noncurrent Liabilities			
Due Within One Year	1,233,175	151,802	1,384,977
Due in More Than One Year	14,029,576	3,231,951	17,261,527
Total Liabilities	<u>16,578,480</u>	<u>3,868,381</u>	<u>20,446,861</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	13,775,501	15,872,761	29,648,262
Restricted for:			
Highways and Streets	352,266	-	352,266
Culture and Recreation	8,009	-	8,009
Redevelopment and Housing	29,769	-	29,769
Special Projects	87,040	-	87,040
Unrestricted	7,049,956	1,205,402	8,255,358
Total Net Assets	<u>\$ 21,302,541</u>	<u>\$ 17,078,163</u>	<u>\$ 38,380,704</u>

See accompanying Notes to Basic Financial Statements.

Component Unit	
Governmental Component Units	Proprietary Type Component Units
\$ 547,389	\$ 18,222
38,632	758
-	-
-	-
-	-
-	-
18,102	16,937
304,532	383,143
314,813	106,731
91,149	265,000
<u>1,354,772</u>	<u>3,996,775</u>
2,669,389	4,787,566
24,087	32,851
48,639	3,127
66,322	22,696
-	20,073
21,454	17,581
-	16,765
-	1,427,198
2,222	-
-	-
16,214	45,716
<u>2,695,976</u>	<u>4,253,445</u>
<u>2,874,914</u>	<u>5,839,452</u>
(1,266,269)	(1,464,584)
-	-
-	-
-	-
-	-
1,060,744	412,698
<u>\$ (205,525)</u>	<u>\$ (1,051,886)</u>

**CITY OF DOUGLAS, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010**

Functions/Programs	Expenses	Program Revenues		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
General Government	\$ 4,639,733	\$ 1,766,509	\$ 34,311	\$ 18,500
Public Safety	6,715,219	669,040	740,990	275,179
Highways and Streets	2,970,829	-	1,255,374	482,491
Culture and Recreation	1,986,674	90,033	-	66,335
Redevelopment and Housing	53,973	-	97,767	59,723
Interest and Fiscal Charges	760,128	-	-	-
Total Governmental Activities	17,126,556	2,525,582	2,128,442	902,228
Business-Type Activities:				
Water	1,261,985	1,870,916	-	-
Sewer	1,337,193	1,042,152	-	-
Solid Waste	716,047	1,056,305	-	-
Total Business-Type Activities	3,315,225	3,969,373	-	-
Total Primary Government	\$ 20,441,781	\$ 6,494,955	\$ 2,128,442	\$ 902,228
Component Units:				
Governmental Component Units	\$ 2,552,606	\$ 116,964	\$ 2,516,254	\$ -
Proprietary Type Component Units	821,153	618,563	-	-
	\$ 3,373,759	\$ 735,527	\$ 2,516,254	\$ -

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 (Loss)
Other
Transfers
Total General Revenues and Transfers
Change in Net Assets
Net Assets - Beginning, as Restated
Net Assets - Ending

See accompanying Notes to Basic Financial Statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	Governmental Component Units	Proprietary Type Component Units
\$ (2,820,413)	\$ -	\$ (2,820,413)		
(5,030,010)	-	(5,030,010)		
(1,232,964)	-	(1,232,964)		
(1,830,306)	-	(1,830,306)		
103,517	-	103,517		
(760,128)	-	(760,128)		
(11,570,304)	-	(11,570,304)		
-	608,931	608,931		
-	(295,041)	(295,041)		
-	340,258	340,258		
-	654,148	654,148		
(11,570,304)	654,148	(10,916,156)		
			\$ 80,612	\$ -
			-	(202,590)
			80,612	(202,590)
5,808,108	-	5,808,108	-	-
531,489	-	531,489	-	-
351,635	-	351,635	-	-
2,245,322	-	2,245,322	-	-
1,261,862	-	1,261,862	-	-
732,787	-	732,787	-	-
30,274	-	30,274	-	-
107,495	(1,769)	105,726	1,328	298
238,124	-	238,124	17,764	93,215
115,998	(115,998)	-	-	-
11,423,094	(117,767)	11,305,327	19,092	93,513
(147,210)	536,381	389,171	99,704	(109,077)
21,449,751	16,541,782	37,991,533	(305,229)	(942,809)
\$ 21,302,541	\$ 17,078,163	\$ 38,380,704	\$ (205,525)	\$ (1,051,886)

**CITY OF DOUGLAS, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010**

	General Fund	Special Projects	Grants	Police Grants
ASSETS				
Cash and Investments	\$ 2,115,339	\$ 2,520,172	\$ -	\$ -
Receivables:				
Accounts Receivable	119,151	-	-	-
Taxes Receivable	88,875	-	-	-
Intergovernmental Receivables	1,037,923	160,797	523,498	26,206
Due from Component Unit	-	1,427,198	-	-
Due from Other Funds	1,254,372	-	-	-
Inventories	44,483	-	-	-
Prepaid Items	-	15,453	-	-
Total Assets	<u>\$ 4,660,143</u>	<u>\$ 4,123,620</u>	<u>\$ 523,498</u>	<u>\$ 26,206</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts Payable	\$ 174,788	\$ 147,368	\$ 184,364	\$ -
Accrued Wages and Benefits	247,244	-	-	-
Interest Payable	-	-	-	-
Intergovernmental Payable	6,411	-	-	-
Due to Other Funds	-	-	47,387	425,540
Deferred Revenue	57,262	-	168,698	-
Customer Deposits Payable	-	13,134	-	-
Matured Debt Principal Payable	-	-	-	-
Total Liabilities	<u>485,705</u>	<u>160,502</u>	<u>400,449</u>	<u>425,540</u>
Fund Balance:				
Reserved for Prepaid Items	-	15,453	-	-
Unreserved	4,174,438	3,947,665	123,049	(399,334)
Unreserved; Reporting in Nonmajor:				
Special Revenue Funds	-	-	-	-
Total Fund Balance	<u>4,174,438</u>	<u>3,963,118</u>	<u>123,049</u>	<u>(399,334)</u>
Total Liabilities and Balance	<u>\$ 4,660,143</u>	<u>\$ 4,123,620</u>	<u>\$ 523,498</u>	<u>\$ 26,206</u>

See accompanying Notes to Basic Financial Statements.

MPC Debt Service	Nonmajor	Totals
\$ 440,238	\$ 439,756	\$ 5,515,505
-	-	119,151
-	-	88,875
-	110,376	1,858,800
-	-	1,427,198
-	-	1,254,372
-	-	44,483
-	-	15,453
<u>\$ 440,238</u>	<u>\$ 550,132</u>	<u>\$ 10,323,837</u>
\$ -	\$ 14,894	\$ 521,414
-	15,425	262,669
40,238	-	40,238
-	-	6,411
-	125,333	598,260
-	-	225,960
-	-	13,134
<u>400,000</u>	<u>-</u>	<u>400,000</u>
440,238	155,652	2,068,086
-	-	15,453
-	-	7,845,818
<u>-</u>	<u>394,480</u>	<u>394,480</u>
<u>-</u>	<u>394,480</u>	<u>8,255,751</u>
<u>\$ 440,238</u>	<u>\$ 550,132</u>	<u>\$ 10,323,837</u>

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**CITY OF DOUGLAS, ARIZONA
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
JUNE 30, 2010**

Total Fund Balances for Governmental Funds \$ 8,255,751

Total net assets reported for governmental activities in the statement of net assets 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	\$ 1,110,562	
Construction in Progress	2,353,280	
Land Improvements	4,078,554	
Streets and Storm Drains	14,697,707	
Buildings and Improvements	14,042,541	
Equipment and Furniture	<u>12,748,076</u>	
Total Capital Assets	49,030,720	
Less: Accumulated Depreciation	<u>(20,931,390)</u>	28,099,330

Some of the City's property taxes and special assessments will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as deferred revenue in the governmental funds. 56,330

Some loans receivable through the City's housing rehabilitation program are recorded as a receivable and deferred revenue in the City's Governmental Fund financial statements, but are recognized as revenue in the government-wide financial statements. 97,767

Bond issuance costs are reported as expenditures in the governmental funds and are shown net of accumulated amortization on the statement of net assets. 56,114

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

Loans Payable	(10,890,000)	
Revenue Bonds	(2,205,000)	
Deferred Amount on Refunding	115,615	
Deferred Amount on Discount	12,606	
Capital Lease Payable	(957,050)	
Compensated Absence Payable	<u>(1,338,922)</u>	<u>(15,262,751)</u>

Total Net Assets of Governmental Activities \$ 21,302,541

CITY OF DOUGLAS, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010

	General Fund	Special Projects	Grants	Police Grants
REVENUES				
Taxes:				
Sales Taxes	\$ 4,158,329	\$ 1,649,779	\$ -	\$ -
Property Taxes	529,611	-	-	-
Franchise Taxes	351,635	-	-	-
Intergovernmental Revenues	4,871,421	-	1,032,586	-
Fines and Forfeits	182,405	-	-	-
Licenses and Permits	192,309	-	-	-
Charges for Services	1,357,603	52,788	-	-
Rents and Royalties	29,535	704,014	-	-
Investment Earnings (Loss)	(12,896)	90,480	22,943	570
Other	124,795	-	75,507	-
Total Revenues	<u>11,784,747</u>	<u>2,497,061</u>	<u>1,131,036</u>	<u>570</u>
EXPENDITURES				
Current:				
General Government	3,243,885	695,848	13,768	-
Public Safety	6,086,428	-	411,810	56,313
Highways and Streets	1,105,528	99,974	397,181	-
Culture and Recreation	1,509,809	-	3,318	-
Redevelopment and Housing	-	-	53,973	-
Debt Service:				
Principal Retirement	-	1,803,569	-	-
Interest on Long-Term Debt	-	636,594	-	-
Capital Outlay	80,686	357,600	-	-
Total Expenditures	<u>12,026,336</u>	<u>3,593,585</u>	<u>880,050</u>	<u>56,313</u>
Excess (Deficiency) of Revenues Over Expenditures	(241,589)	(1,096,524)	250,986	(55,743)
OTHER FINANCING SOURCES (USES)				
Transfers In	511,873	173,400	17,021	-
Transfers Out	(126,245)	(414,463)	(195,965)	-
Issuance of Long-Term Debt	-	400,000	-	-
Total Other Financing Sources (Uses)	<u>385,628</u>	<u>158,937</u>	<u>(178,944)</u>	<u>-</u>
Net Change in Fund Balance	144,039	(937,587)	72,042	(55,743)
FUND BALANCE				
Beginning of Year, As Originally Stated	4,030,399	5,039,486	51,007	(343,591)
Prior Period Adjustment	-	(138,781)	-	-
Beginning of Year, As Restated	<u>4,030,399</u>	<u>4,900,705</u>	<u>51,007</u>	<u>(343,591)</u>
End of Year	<u>\$ 4,174,438</u>	<u>\$ 3,963,118</u>	<u>\$ 123,049</u>	<u>\$ (399,334)</u>

See accompanying Notes to Basic Financial Statements.

MPC Debt Service	Nonmajor	Totals
\$ -	\$ -	\$ 5,808,108
-	-	529,611
-	-	351,635
-	1,280,641	7,184,648
-	6,928	189,333
-	-	192,309
-	-	1,410,391
-	-	733,549
6,398	-	107,495
-	37,822	238,124
<u>6,398</u>	<u>1,325,391</u>	<u>16,745,203</u>
-	7,815	3,961,316
-	-	6,554,551
-	1,057,971	2,660,654
-	-	1,513,127
-	-	53,973
400,000	25,154	2,228,723
80,476	2,092	719,162
-	290,576	728,862
<u>480,476</u>	<u>1,383,608</u>	<u>18,420,368</u>
(474,078)	(58,217)	(1,675,165)
481,577	120,000	1,303,871
-	(265,821)	(1,002,494)
-	-	400,000
<u>481,577</u>	<u>(145,821)</u>	<u>701,377</u>
7,499	(204,038)	(973,788)
(7,499)	598,518	9,368,320
-	-	(138,781)
<u>(7,499)</u>	<u>598,518</u>	<u>9,229,539</u>
<u>\$ -</u>	<u>\$ 394,480</u>	<u>\$ 8,255,751</u>

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**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, 2010**

Net Change in Fund Balances-Total Governmental Funds \$ (973,788)

Amounts reported for governmental activities in the statement of activities are

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	\$ 2,122,136	
Depreciation Expense	<u>(2,480,285)</u>	(358,149)

Intergovernmental receivables recorded as revenue in the government-wide statement of net assets, but not yet available.

Intergovernmental Receivables - June 30, 2009	385,317	
Intergovernmental Receivables - June 30, 2010	<u>-</u>	(385,317)

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

Issuance of Long-Term Debt	(400,000)	
Amortization of Deferred Amounts on the Refunding	(25,693)	
Amortization of Deferred Amount on the Discount	(2,802)	
Repayment of Long-Term Debt	2,228,723	
Amortization of Issuance Costs	<u>(12,471)</u>	1,787,757

Delinquent and deferred property taxes and special assessments receivable will be collected subsequent to year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the governmental

Deferred Revenue - June 30, 2009	54,452	
Deferred Revenue - June 30, 2010	<u>154,097</u>	99,645

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).

(317,358)

Change in Net Assets of Governmental Activities \$ (147,210)

CITY OF DOUGLAS, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2010

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
REVENUES			
Taxes:			
Sales Taxes	\$ 4,350,000	\$ 4,158,329	\$ (191,671)
Property Taxes	505,000	529,611	24,611
Franchise Taxes	350,000	351,635	1,635
Intergovernmental Revenues	4,892,948	4,871,421	(21,527)
Fines and Forfeits	214,000	182,405	(31,595)
Licenses and Permits	128,500	192,309	63,809
Charges for Services	1,352,300	1,357,603	5,303
Rents and Royalties	13,700	29,535	15,835
Investment Income (Loss)	30,000	(12,896)	(42,896)
Other	65,500	124,795	59,295
Total Revenues	<u>11,901,948</u>	<u>11,784,747</u>	<u>(117,201)</u>
EXPENDITURES			
Current:			
General Government:			
Administration	441,128	439,028	2,100
Finance	418,141	438,229	(20,088)
Personnel	613,941	453,800	160,141
General Government	950,657	336,170	614,487
Management Information Systems	630,693	622,584	8,109
City Magistrate	113,640	105,732	7,908
Cemetery	114,796	110,613	4,183
Community Development	104,309	90,269	14,040
Golf Course	414,172	360,570	53,602
Economic Development	108,148	105,122	3,026
Airport	125,200	181,768	(56,568)
Total General Government	<u>4,034,825</u>	<u>3,243,885</u>	<u>790,940</u>
Public Safety:			
Police	4,077,694	4,010,623	67,071
Fire	1,052,606	987,300	65,306
Emergency Medical Services	1,043,225	1,088,505	(45,280)
Total Public Safety	<u>6,173,525</u>	<u>6,086,428</u>	<u>87,097</u>
Highways and Streets:			
Public Works	1,119,470	1,105,528	13,942

(Continued)

CITY OF DOUGLAS, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND (CONTINUED)
YEAR ENDED JUNE 30, 2010

(Concluded)	Original and Final Budget	Actual	Variance With Final Budget
EXPENDITURES (CONTINUED)			
Culture and Recreation:			
Parks	\$ 588,356	\$ 572,019	\$ 16,337
Recreation	167,934	129,719	38,215
Library	351,449	412,126	(60,677)
Aquatics	306,051	306,120	(69)
Visitor Center	131,161	89,825	41,336
Total Culture and Recreation	<u>1,544,951</u>	<u>1,509,809</u>	<u>35,142</u>
Capital Outlay	231,744	80,686	151,058
Total Expenditures	<u>13,104,515</u>	<u>12,026,336</u>	<u>1,078,179</u>
Excess (Deficiency) of Revenues Over Expenditures	(1,202,567)	(241,589)	960,978
OTHER FINANCING SOURCES (USES)			
Transfers In	1,117,567	511,873	(605,694)
Transfers Out	-	(126,245)	(126,245)
Total Other Financing Sources (Uses)	<u>1,117,567</u>	<u>385,628</u>	<u>(731,939)</u>
Net Change in Fund Balance	(85,000)	144,039	229,039
FUND BALANCE			
Beginning of Year	-	4,030,399	4,030,399
End of Year	<u>\$ (85,000)</u>	<u>\$ 4,174,438</u>	<u>\$ 4,259,438</u>

See accompanying Notes to Basic Financial Statements.

CITY OF DOUGLAS, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
SPECIAL PROJECTS FUND
YEAR ENDED JUNE 30, 2010

	Original and Final Budget	Actual	Variance With Final Budget
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Taxes	\$ 1,742,000	\$ 1,649,779	\$ (92,221)
Intergovernmental Revenues	550,000	-	(550,000)
Charges for Services	-	52,788	52,788
Rents and Royalties	693,288	704,014	10,726
Investment Earnings	42,548	90,480	47,932
Other	4,800	-	(4,800)
Total Revenues	<u>3,032,636</u>	<u>2,497,061</u>	<u>(535,575)</u>
EXPENDITURES			
Current:			
General Government	1,914,948	695,848	1,219,100
Highways and Streets	603,250	99,974	503,276
Debt Service:			
Principal Retirement	1,803,569	1,803,569	-
Interest on Long-Term Debt	121,784	636,594	(514,810)
Capital Outlay	-	357,600	(357,600)
Total Expenditures	<u>4,443,551</u>	<u>3,593,585</u>	<u>849,966</u>
Excess (Deficiency) of Revenues Over Expenditures	(1,410,915)	(1,096,524)	314,391
OTHER FINANCING SOURCES (USES)			
Transfers In	-	173,400	173,400
Transfers Out	(439,085)	(414,463)	24,622
Issuance of Long-Term Debt	1,600,000	400,000	(1,200,000)
Total Other Financing Sources (Uses)	<u>1,160,915</u>	<u>158,937</u>	<u>(1,001,978)</u>
Net Change in Fund Balance	(250,000)	(937,587)	(687,587)
FUND BALANCE			
Beginning of Year, As Originally Stated	-	5,039,486	5,039,486
Prior Period Adjustment	-	(138,781)	-
Beginning of Year, As Restated	<u>-</u>	<u>4,900,705</u>	<u>5,039,486</u>
End of Year	<u>\$ (250,000)</u>	<u>\$ 3,963,118</u>	<u>\$ 4,351,899</u>

See accompanying Notes to Basic Financial Statements.

CITY OF DOUGLAS, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GRANTS FUND
YEAR ENDED JUNE 30, 2010

	Original and Final Budget	Actual	Variance With Final Budget
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Intergovernmental Revenues	\$ 11,379,841	\$ 1,032,586	\$ (10,347,255)
Investment Earnings	-	22,943	22,943
Other	-	75,507	75,507
Total Revenues	<u>11,379,841</u>	<u>1,131,036</u>	<u>(10,248,805)</u>
EXPENDITURES			
Current:			
General Government	159,179	13,768	145,411
Public Safety	6,160,421	411,810	5,748,611
Highways and Streets	3,516,882	397,181	3,119,701
Culture and Recreation	5,666	3,318	2,348
Redevelopment and Housing	1,537,693	53,973	1,483,720
Total Expenditures	<u>11,379,841</u>	<u>880,050</u>	<u>10,499,791</u>
Excess (Deficiency) of Revenues Over Expenditures	-	250,986	250,986
OTHER FINANCING SOURCES (USES)			
Transfers In	-	17,021	17,021
Transfers Out	-	(195,965)	(195,965)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(178,944)</u>	<u>(178,944)</u>
Net Change in Fund Balance	-	72,042	72,042
FUND BALANCE			
Beginning of Year	-	51,007	51,007
End of Year	<u>\$ -</u>	<u>\$ 123,049</u>	<u>\$ 123,049</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF DOUGLAS, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
POLICE GRANTS FUND
YEAR ENDED JUNE 30, 2010**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
REVENUES			
Intergovernmental Revenues	\$ 573,000	\$ -	\$ (573,000)
Investment Earnings	<u>-</u>	<u>570</u>	<u>570</u>
Total Revenues	573,000	570	(572,430)
EXPENDITURES			
Current			
Public Safety	<u>573,000</u>	<u>56,313</u>	<u>516,687</u>
Excess (Deficiency) of Revenues Over Expenditures	-	(55,743)	(55,743)
FUND BALANCE			
Beginning of Year	-	(343,591)	(343,591)
End of Year	<u>\$ -</u>	<u>\$ (399,334)</u>	<u>\$ (399,334)</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF DOUGLAS, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2010**

	Business-Type Activities			
	Water	Sewer	Solid Waste	Totals
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 1,739,301	\$ -	\$ 264,630	\$ 2,003,931
Receivables, Net:				
Accounts Receivable	224,532	116,345	113,972	454,849
Total Current Assets	<u>1,963,833</u>	<u>116,345</u>	<u>378,602</u>	<u>2,458,780</u>
Noncurrent Assets:				
Capital Assets:				
Non-Depreciable	1,365,391	4,403,310	-	5,768,701
Depreciable (Net)	5,218,099	7,960,679	196,397	13,375,175
Total Noncurrent Assets	<u>6,583,490</u>	<u>12,363,989</u>	<u>196,397</u>	<u>19,143,876</u>
Total Assets	<u>8,547,323</u>	<u>12,480,334</u>	<u>574,999</u>	<u>21,602,656</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable	111,758	260,453	27,844	400,055
Accrued Wages and Benefits	14,095	47,764	10,089	71,948
Due to Other Funds	-	656,112	-	656,112
Interest Payable	5,342	7,283	-	12,625
Compensated Absences	32,194	16,659	6,178	55,031
Capital Leases Payable	-	-	31,626	31,626
Loans Payable	65,145	-	-	65,145
Total Current Liabilities	<u>228,534</u>	<u>988,271</u>	<u>75,737</u>	<u>1,292,542</u>
Noncurrent Liabilities:				
Compensated Absences Payable	16,754	31,104	9,749	57,607
Loans Payable	799,979	2,374,365	-	3,174,344
Total Noncurrent Liabilities	<u>816,733</u>	<u>2,405,469</u>	<u>9,749</u>	<u>3,231,951</u>
Total Liabilities	<u>1,045,267</u>	<u>3,393,740</u>	<u>85,486</u>	<u>4,524,493</u>
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	5,718,366	9,989,624	164,771	15,872,761
Unrestricted	1,783,690	(903,030)	324,742	1,205,402
Total Net Assets	<u>\$ 7,502,056</u>	<u>\$ 9,086,594</u>	<u>\$ 489,513</u>	<u>\$ 17,078,163</u>

See accompanying Notes to Basic Financial Statements.

CITY OF DOUGLAS, ARIZONA
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010

	Business-Type Activities			Totals
	Water	Sewer	Solid Waste	
OPERATING REVENUES				
Charges for Services	\$ 1,746,570	\$ 1,003,127	\$ 1,055,330	\$ 3,805,027
OPERATING EXPENSES				
Cost of Sales and Services	958,063	1,010,095	651,395	2,619,553
Depreciation	298,580	319,815	61,916	680,311
Total Operating Expenses	<u>1,256,643</u>	<u>1,329,910</u>	<u>713,311</u>	<u>3,299,864</u>
Operating Income (Loss)	489,927	(326,783)	342,019	505,163
NONOPERATING REVENUES (EXPENSE)				
Impact Fees	34,767	36,878	-	71,645
Investment Earnings (Loss)	(3,579)	2,263	(453)	(1,769)
Interest Expense	(5,342)	(7,283)	(2,736)	(15,361)
Miscellaneous Nonoperating Revenues	89,579	2,147	975	92,701
Total Nonoperating Revenues (Expenses)	<u>115,425</u>	<u>34,005</u>	<u>(2,214)</u>	<u>147,216</u>
Income (Loss) Before Contributions and Transfers	605,352	(292,778)	339,805	652,379
Capital Contributions	185,379	-	-	185,379
Transfers Out	<u>(85,148)</u>	<u>(34,532)</u>	<u>(181,697)</u>	<u>(301,377)</u>
Change in Net Assets	705,583	(327,310)	158,108	536,381
Total Net Assets - Beginning of Year	<u>6,796,473</u>	<u>9,413,904</u>	<u>331,405</u>	<u>16,541,782</u>
TOTAL NET ASSETS - END OF YEAR	<u><u>\$ 7,502,056</u></u>	<u><u>\$ 9,086,594</u></u>	<u><u>\$ 489,513</u></u>	<u><u>\$ 17,078,163</u></u>

See accompanying Notes to Basic Financial Statements.

**CITY OF DOUGLAS, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010**

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Solid Waste	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	\$ 1,766,827	\$ 975,143	\$ 1,037,139	\$ 3,779,109
Payments to Suppliers	(543,343)	(134,676)	(330,854)	(1,008,873)
Payments to Employees	(379,229)	(793,380)	(283,427)	(1,456,036)
Other Receipts (Expenses)	89,579	2,147	975	92,701
Net Cash Flows from Operating Activities	<u>933,834</u>	<u>49,234</u>	<u>423,833</u>	<u>1,406,901</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Cash Received from (Paid to) Other Funds for Interfund Borrowing	-	(683,340)	-	(683,340)
Transfers Out	(85,148)	(34,532)	(181,697)	(301,377)
Net Cash Flows from Noncapital Financing Activities	<u>(85,148)</u>	<u>(717,872)</u>	<u>(181,697)</u>	<u>(984,717)</u>
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES				
Capital Contributions	-	1,570,190	-	1,570,190
Impact Fees	34,767	36,878	-	71,645
Purchases of Capital Assets	(586,464)	(3,315,058)	-	(3,901,522)
Issuance of Long-Term Debt	865,124	2,374,365	-	3,239,489
Principal Paid on Capital Debt	-	-	(30,090)	(30,090)
Interest Paid on Capital Debt	-	-	(2,736)	(2,736)
Net Cash Flows from Capital and Related Financing Activities	<u>313,427</u>	<u>666,375</u>	<u>(32,826)</u>	<u>946,976</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment Earnings (Loss)	(3,579)	2,263	(453)	(1,769)
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,158,534	-	208,857	1,367,391
Cash and Cash Equivalents - Beginning of Year	<u>580,767</u>	<u>-</u>	<u>55,773</u>	<u>636,540</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,739,301</u>	<u>\$ -</u>	<u>\$ 264,630</u>	<u>\$ 2,003,931</u>

(Continued)

**CITY OF DOUGLAS, ARIZONA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010**

	Business-type Activities - Enterprise Fund			
	Water	Sewer	Solid Waste	Totals
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ 489,927	\$ (326,783)	\$ 342,019	\$ 505,163
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	298,580	319,815	61,916	680,311
Miscellaneous Nonoperating Revenues	89,579	2,147	975	92,701
Change in Assets/Liabilities:				
Receivables, Net	20,257	(27,984)	(18,191)	(25,918)
Accounts Payable	38,269	47,273	26,889	112,431
Accrued Wages and Benefits	2,812	34,844	6,315	43,971
Compensated Absences	(5,590)	(78)	3,910	(1,758)
Net Cash Provided (Used) for Operating Activities	<u>\$ 933,834</u>	<u>\$ 49,234</u>	<u>\$ 423,833</u>	<u>\$ 1,406,901</u>

Non-cash and investing activities

The City acquired \$185,379 in capital assets contributed from the governmental funds during the fiscal year.

NOTES TO BASIC FINANCIAL STATEMENTS

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CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The City is a municipal government that is governed by a separately elected governing body. It is legally separate from and fiscally independent of other state and local governments. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations. The governmental component units are combined into one column in the government-wide financial statements and are presented as combining statements following the notes to the financial statements. The business-type component unit consists of only Rancho La Perilla and is presented in one column of the government-wide financial statements. See the descriptions below of each of the blended and discretely presented component units.

Blended component unit:

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

Discretely presented component units:

Douglas Housing Authority – The Douglas Housing Authority is a public benefit corporation created by the City to eliminate the financial burden on the City to provide subsidized public housing in accordance with federal legislation. The Mayor appoints members of the Governing Board for staggered terms; they, in turn, elect a chairman. The Governing Board employs executives, authorizes contracts of subsidy with the U.S. Department of Housing and Urban Development pursuant to the latter agency's regulations and statutory authorizations, and causes the corporation to construct, 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, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

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

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

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

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

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets 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.

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.

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

The City reports the following major governmental funds:

Major Governmental Funds

General Fund

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

Special Projects Fund

The Special Projects Fund accounts for the activity of the City's special projects.

Grants Fund

The Grants Fund accounts for the activity of the City's grants.

Police Grants Fund

The Police Grants Fund accounts for the activity of grants received by the City's Police Department.

MPC Debt Service Fund

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

The City reports the following major proprietary funds:

Major Proprietary Funds

Water Fund

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

Sewer Fund

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

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Solid Waste Fund

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for the business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The primary government and component units 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.

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

1. Deposits and Investments (Continued)

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

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

2. Receivables

All trade and property taxes receivables are shown net of an allowance for uncollectibles.

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

3. Intergovernmental Receivables

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

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

4. Short-Term Interfund Receivables/Payables

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

5. Inventories and Prepaid Items

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

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

6. Restricted Assets

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.

7. Capital Assets

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

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

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

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

7. Capital Assets (Continued)

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

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

8. Compensated Absences

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

9. Long-Term Obligations

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

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.

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

10. Net Assets

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

11. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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).

**CITY OF DOUGLAS, ARIZONA
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2010**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

A. Budgetary Information (Continued)

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 may at any time transfer any unencumbered appropriation balance or portion thereof between a department or activity.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures. No budget was appropriated for the MPC Debt Service Fund during the fiscal year.

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

No supplementary budgetary appropriations were necessary during the year.

B. Excess of Expenditures Over Appropriations

Expenditures exceeded appropriations in the following funds:

	<u>Amount of Overexpenditure</u>
General Fund:	
Finance	\$ 20,088
Airport	56,568
Emergency Medical Services	45,280
Library	60,677
Aquatics	69
Nonmajor Governmental Funds	
LTAF Fund	13,488

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

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

C. Deficit Fund Equity

A deficit fund balance in the amount of \$399,334 and \$44,826 was reported in the Police Grants and Highway User Revenue Funds, respectively. Funds were received following the fiscal year-end to cover the deficit in the HURF Fund. The City expects to recover the Police Grants deficit through transfers in future years.

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Deposits and investments at June 30, 2010 consist of the following:

Deposits:	
Cash on Hand	\$ 2,216
Cash in Bank	4,693,467
Cash on Deposit with County Attorney	53,460
Investments:	
State Treasurer's Investment Pool	2,330,055
Cash on Deposit with Trustee	440,238
Total Cash and Investments	<u><u>\$ 7,519,436</u></u>

Deposits

The carrying value of the City's deposits at June 30, 2010 was \$4,693,467 and the bank balance was \$5,145,890. Of the bank balance, \$4,462,973 was covered by federal depository insurance, \$390,063 was covered by collateral held by the City's custodial bank in the City's name, and \$292,844 was uninsured and uncollateralized. The deposits held by the trustee were insured by federal depository insurance or were collateralized by securities held by the pledging financial institution in the trustee's name.

Investments

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

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

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

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 to maturities of less than one year.

The City’s investments at June 30, 2010 consist of the following:

Investment Type	Amount	Interest - Risk: Maturity in Years		
		Less than 1	1-2	2-3
State Treasurer's Investment Pool 5	\$ 2,330,055	\$ 2,330,055	\$ -	\$ -

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

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

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

Cash and investments of the component unit’s at June 30, 2010 consist of the following:

Deposits:	
Cash on Hand	\$ 100
Cash in Bank	603,769
Investments:	
Local Government Investment Pool	9
Funds Held by Mortgage	383,277
Restricted Assets	(421,544)
Total Cash and Cash Equivalents	<u>\$ 565,611</u>

The carrying value of the component unit’s deposits at June 30, 2010 was \$398,493 which was entirely covered by federal depository insurance.

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Restricted Assets

Restricted assets of the discretely presented component units at June 30, 2010 consisted of the following:

Funds Held by Mortgage	\$	383,277
Tenant Deposits		38,267
Total Restricted Assets of the Component Units	\$	<u>421,544</u>

3. Receivables

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

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent Property Taxes Receivable: (General Fund)	\$ 56,330	\$ 932
Unearned Grant Revenue: (Grants Fund)	97,767	70,931
	<u>\$ 154,097</u>	<u>\$ 71,863</u>

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 842,062	\$ 268,500	\$ -	\$ 1,110,562
Construction in progress	2,314,054	1,279,772	(1,240,546)	2,353,280
Total Capital Assets, Not Being Depreciated	3,156,116	1,548,272	(1,240,546)	3,463,842
Capital Assets, Being Depreciated:				
Land Improvements	4,078,554	-	-	4,078,554
Streets and Storm Drains	14,374,912	322,795	-	14,697,707
Buildings and Improvements	14,008,232	34,309	-	14,042,541
Machinery and Equipment	8,778,160	1,216,652	-	9,994,812
Vehicles	2,512,610	240,654	-	2,753,264
Total Capital Assets, Being Depreciated	43,752,468	1,814,410	-	45,566,878
Accumulated Depreciation for:				
Land Improvements	(1,741,254)	(179,740)	-	(1,920,994)
Streets and Storm Drains	(7,518,975)	(571,285)	-	(8,090,260)
Buildings and Improvements	(3,735,795)	(453,017)	-	(4,188,812)
Machinery and Equipment	(3,694,904)	(1,087,740)	-	(4,782,644)
Vehicles	(1,760,177)	(188,503)	-	(1,948,680)
Total Accumulated Depreciation	(18,451,105)	(2,480,285)	-	(20,931,390)
Total Capital Assets, Being Depreciated, Net	25,301,363	(665,875)	-	24,635,488
Governmental Activities Capital Assets, Net	<u>\$ 28,457,479</u>	<u>\$ 882,397</u>	<u>\$ (1,240,546)</u>	<u>\$ 28,099,330</u>

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Construction in Progress	\$ 1,703,590	\$ 4,065,111	\$ -	\$ 5,768,701
Capital Assets, Being Depreciated:				
Buildings and Improvements	2,770,729	-	-	2,770,729
Water System	10,961,421	16,620	-	10,978,041
Wastewater System	11,916,867	-	-	11,916,867
Machinery, Equipment, and Vehicles	2,716,915	190,616	-	2,907,531
Total Capital Assets, Being Depreciated	28,365,932	207,236	-	28,573,168
Accumulated Depreciation for:				
Buildings and Improvements	(2,131,907)	(64,210)	-	(2,196,117)
Water System	(6,124,528)	(246,510)	-	(6,371,038)
Wastewater System	(4,383,949)	(242,721)	-	(4,626,670)
Machinery, Equipment, and Vehicles	(1,877,298)	(126,870)	-	(2,004,168)
Total Accumulated Depreciation	(14,517,682)	(680,311)	-	(15,197,993)
Total Capital Assets, Being Depreciated, Net	13,848,250	(473,075)	-	13,375,175
Business-Type Activities Capital Assets, Net	\$ 15,551,840	\$ 3,592,036	\$ -	\$ 19,143,876

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets (Continued)

The activity for the governmental component units for the year ended June 30, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated:				
Land	\$ 91,149	\$ -	\$ -	\$ 91,149
Capital Assets, Being Depreciated:				
Buildings and Improvements	3,410,065	32,606	-	3,442,671
Furniture and Equipment	175,240	3,501	-	178,741
Total Capital Assets, Being Depreciated	3,585,305	36,107	-	3,621,412
Accumulated Depreciation for:				
Accumulated Depreciation	(2,136,772)	(129,868)	-	(2,266,640)
Total Capital Assets, Being Depreciated, Net	1,448,533	(93,761)	-	1,354,772
Business-Type Activities				
Capital Assets, Net	<u>\$ 1,539,682</u>	<u>\$ (93,761)</u>	<u>\$ -</u>	<u>\$ 1,445,921</u>

The activity for the business-type component units for the year ended June 30, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated:				
Land	\$ 265,000	\$ -	\$ -	\$ 265,000
Capital Assets, Being Depreciated:				
Buildings and Improvements	5,207,564	-	-	5,207,564
Furniture and Equipment	24,021	-	-	24,021
Total Capital Assets, Being Depreciated	5,231,585	-	-	5,231,585
Accumulated Depreciation for:				
Buildings and Improvements	(1,083,151)	(130,189)	-	(1,213,340)
Furniture and Equipment	(20,108)	(1,362)	-	(21,470)
Total Accumulated Depreciation	(1,103,259)	(131,551)	-	(1,234,810)
Total Capital Assets, Being Depreciated, Net	4,128,326	(131,551)	-	3,996,775
Business-Type Activities				
Capital Assets, Net	<u>\$ 4,393,326</u>	<u>\$ (131,551)</u>	<u>\$ -</u>	<u>\$ 4,261,775</u>

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets (Continued)

Depreciation expense was charged to functions/programs as follows:

Primary Government

Governmental Activities:

General Government	\$ 1,020,529
Public Safety	381,412
Highways and Streets	636,680
Culture and Recreation	<u>441,664</u>
Total Depreciation Expense, Governmental Activities	<u><u>\$ 2,480,285</u></u>

Business-Type Activities:

Water	\$ 298,580
Wastewater	319,815
Solid Waste	<u>61,916</u>
Total Depreciation Expense, Business-Type Activities	<u><u>\$ 680,311</u></u>

Component Units

Governmental Activities:

Casa de Esperanza	\$ 91,882
Pioneer Village	<u>37,986</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 129,868</u></u>

Business-type Activities:

Rancho La Perilla	<u><u>\$ 131,551</u></u>
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**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

5. Construction Commitments

The City has active construction projects at June 30, 2010. The projects include various infrastructure and site improvements. At fiscal year end, the City's commitments were as follows:

Project	Governmental	
	Spent-to-Date	Remaining Commitment
Public Works Facility Sulphur Springs	\$ 150,905	\$ 187,390
Government Plaza Project	1,051,130	448,870
Third Street Expansion	6,217	550,000
City Hall Improvements	528,021	972,279
A Avenue Transportation Enhancement	94,925	525,111
ADOT Paseio Armistad Enhancement	129,020	346,091
Curb and Drainage Project	146,358	134,917
	<u>\$ 2,106,576</u>	<u>\$ 3,164,658</u>

B. Interfund Receivables, Payables and Transfers

As of June 30, 2010 interfund receivable and payables were as follows:

Due From	Due To
	General Fund
Grants Fund	\$ 47,387
Police Grants Fund	425,540
Nonmajor Governmental Funds	125,333
Sewer Fund	656,112
	<u>\$ 1,254,372</u>

The above interfund receivables and payables were recorded to cover a cash deficit at year-end. Funds were received subsequent to June 30, 2010 to cover the deficit.

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Receivables, Payables and Transfers (Continued)

Interfund transfers for the year ended June 30, 2010 consisted of the following:

Transfers Out	Transfers In					Total
	General Fund	Special Projects Fund	Grants Fund	MPC Debt Service Fund	Nonmajor Governmental Funds	
General Fund	\$ -	\$ -	\$ 6,245	\$ -	\$ 120,000	\$ 126,245
Special Projects Fund	133,520	-	10,776	270,167	-	414,463
Grants Fund	43,246	152,719	-	-	-	195,965
Nonmajor Governmental Funds	54,411	-	-	211,410	-	265,821
Water Fund	70,108	15,040	-	-	-	85,148
Sewer Fund	32,025	2,507	-	-	-	34,532
Solid Waste Fund	178,563	3,134	-	-	-	181,697
	<u>\$ 511,873</u>	<u>\$ 173,400</u>	<u>\$ 17,021</u>	<u>\$ 481,577</u>	<u>\$ 120,000</u>	<u>\$ 1,303,871</u>

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

C. Obligations Under Capital Leases

The City has acquired fire equipment, communication equipment, three trucks, a refuse vehicle, meter readers, and a bursting machine under the provisions of long-term lease agreements classified as capital leases. Accordingly, the principal amount of the assets totaling \$1,917,200 and \$143,500 are capitalized in the Governmental Activities and Business-type Activities, respectively.

The assets acquired through capital leases are as follows:

	Governmental Activities	Business-type Activities
Asset:		
Buildings and Improvements	\$ 505,000	\$ -
Furniture, Equipment and Vehicles	1,412,200	143,500
Less: Accumulated Depreciation	(554,545)	(114,800)
Total	<u>\$ 1,362,655</u>	<u>\$ 28,700</u>

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

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Obligations Under Capital Leases (Continued)

The future minimum lease payments under the capital leases, together with the present value of the net minimum lease payments as of June 30, 2010, were as follows:

Year Ended June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2011	319,086	34,740	31,626	1,200
2012	300,673	21,819	-	-
2013	267,246	10,475	-	-
2014	70,045	1,366	-	-
Total	<u>\$ 957,050</u>	<u>\$ 68,400</u>	<u>\$ 31,626</u>	<u>\$ 1,200</u>

D. Call Center Lease Revenue

During fiscal year 2009, the City established a lease agreement for the City's new call center. Revenue related to this lease totaled \$704,620 during this fiscal year. Future minimum lease payments related to the call center lease are as follows:

Year Ended June 30,	Amount
2011	\$ 693,288
2012	693,288
2013	693,288
2014	670,182
2015	647,076
2016 - 2020	3,166,044
2021 - 2023	2,102,982
	<u>\$ 8,666,148</u>

E. Long-Term Obligations

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

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

Description	Maturity	Interest Rate (%)	Outstanding at June 30, 2010
Revenue Bonds			
Municipal Property Corporation Excise Tax Refunding Bond, Series 2004; original issue \$4,165,000	7/1/10-15	2.00-3.50%	<u>\$ 2,205,000</u>

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

The City has pledged future excise taxes to repay \$4.2 million in governmental excise tax refunding bonds issued in 2004. Proceeds of the bonds were used to refund and refinance the outstanding excise tax revenue bonds, series 1995 and highways and streets revenue bonds, Series 1996. The bonds are payable solely from excise taxes and are payable through 2015. Annual principal and interest payments on the bonds are expected to require approximately 12 percent of excise tax revenues recorded in the HURF and Special Projects Funds. The total principal and interest remaining to be paid on the bonds is \$2,428,694. Principal and interest paid for the current year and total excise taxes were \$480,476 and \$5,808,108, respectively.

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

Description	Maturity	Interest Rate (%)	Outstanding at June 30, 2010
Governmental Activities			
Loans Payable:			
Greater Arizona Development Authority, Series 2008A; original issue \$3,000,000	8/1/10-28	4.00-5.25%	\$ 2,830,000
The Industrial Development Authority of the City of Douglas, Arizona. Series 2008A; original issue \$3,000,000	7/1/10-14	0%	320,000
Call Center Purchase Agreement; collateralized by the building and equipment acquired with the debt; original issue \$9,000,000	7/31/10-28	4.29-5.63%	<u>7,740,000</u>
Total Governmental Loans Payable			<u>\$ 10,890,000</u>
Business-Type Activities			
Water Infrastructure Finance Authority of Arizona Issued 2009-2010	7/1/10-29	2.00%	\$ 2,374,365
Water Infrastructure Finance Authority of Arizona Issued 2009-2010	7/1/10-27	2.814%	<u>865,124</u>
Total Business-Type Loans Payable			<u>\$ 3,239,489</u>

The City has pledged future state shared revenue tax, state shared sales tax, City sales tax, transaction privilege tax and other miscellaneous revenues to repay \$3.0 million in GADA loans, Series 2008A. Proceeds of the loan provided financing for the development center project, including the purchase and renovation of buildings, land purchase, and upgrades and renovations to the existing City Hall. The loan is payable solely from pledged revenues discussed previously and are payable through 2029. Annual principal and interest payments on the bonds are expected to require less than 3 percent of pledged revenues. The total principal and interest remaining to be paid on the loan is \$4,179,694. Principal and interest paid for the current year and total excise taxes were \$312,812 and \$9,545,898.

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

In 2009, the City issued loans totaling \$9,000,000 for the acquisition and construction of a call center. The loan is payable from lease revenues received on the lease agreement with a third party. The lease of the call center is a 13 year lease with annual payments of \$693,288 plus taxes and utilities. The loan is payable from lease revenues and other general revenues of the City through 2029. Annual principal and interest payments on the loans are expected to require more than 100 percent of lease revenues through the fiscal year 2016. For fiscal years 2017 through 2023, the annual principal and interest payments on the loans are expected to require approximately 86 percent of lease revenues. The call center lease agreement expires fiscal year 2023 and therefore lease revenues are not available to cover payments from 2024 through 2029. The total principal and interest remaining to be paid on the loan is \$10,075,033. Principal and interest paid for the current year and total lease revenue were \$2,135,087 and \$704,620.

In 2009, the City issued loans totaling \$1.5 million and \$2.1 million for the acquisition and construction of water and sewer facilities and improvements. The loans are payable from water and sewer charges for services through the fiscal year 2025. The City draws the loan as funds are utilized and pays interest on the outstanding principal balance. Annual principal and interest payments on the bonds are expected to require approximately 65-75% percent of net available revenue. The total principal and interest remaining to be paid on the loan is \$3,737,874. Principal and interest paid for the current year and total lease revenue were \$12,625 and \$163,144.

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, 2010

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

Changes in long-term obligations for the year ended June 30, 2010 are as follows:

	Beginning of Year	Additions	Retirements	End of Year	Due within One Year
Governmental Activities:					
Loans Payable	\$ 12,000,000	\$ 400,000	\$ (1,510,000)	\$ 10,890,000	\$ 80,000
Revenue Bonds	2,605,000	-	(400,000)	2,205,000	415,000
Deferred Amounts:					
On refunding	(141,308)	-	25,693	(115,615)	-
Discount	(15,408)	-	2,802	(12,606)	-
Total Bonds and Loans	<u>14,448,284</u>	<u>400,000</u>	<u>(1,881,505)</u>	<u>12,966,779</u>	<u>495,000</u>
Other Liabilities:					
Capital Leases	1,275,773	-	(318,723)	957,050	319,086
Compensated Absences	1,021,564	662,350	(344,992)	1,338,922	419,089
Total Governmental Activities	<u>\$ 16,745,621</u>	<u>\$ 1,062,350</u>	<u>\$ (2,545,220)</u>	<u>\$ 15,262,751</u>	<u>\$ 1,233,175</u>
Business-Type Activities:					
Loans Payable	\$ -	\$ 3,239,489	\$ -	\$ 3,239,489	\$ 65,145
Other Liabilities:					
Capital Lease	61,716	-	(30,090)	31,626	31,626
Compensated Absences	114,396	70,440	(72,198)	112,638	55,031
Total Business-Type Activities	<u>\$ 176,112</u>	<u>\$ 3,309,929</u>	<u>\$ (102,288)</u>	<u>\$ 3,383,753</u>	<u>\$ 151,802</u>
Governmental Component Units:					
Notes Payable	<u>\$ 2,734,874</u>	<u>\$ -</u>	<u>\$ (22,684)</u>	<u>\$ 2,712,190</u>	<u>\$ 16,214</u>
Business-Type Component Units:					
Notes Payable	<u>\$ 4,342,077</u>	<u>\$ -</u>	<u>\$ (42,916)</u>	<u>\$ 4,299,161</u>	<u>\$ 45,716</u>

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

Debt service requirements on long-term debt at June 30, 2010 are as follows:

Years	Primary Government				Component Units	
	Governmental Activities		Business-Type Activities		Governmental Activities	Business-type Activities
	Principal	Interest	Principal	Interest	Principal	Principal
2011	\$ 495,000	\$ 348,393	\$ 65,145	\$ 91,231	\$ 16,214	\$ 45,716
2012	1,290,000	575,597	460,014	90,336	14,515	48,700
2013	1,330,000	523,009	470,780	80,358	15,503	51,879
2014	1,390,000	472,558	480,765	70,166	15,948	55,266
2015	965,000	429,047	490,947	59,754	12,708	58,873
2016-2020	2,560,000	1,655,741	1,146,173	105,451		
2021-2025	2,725,000	951,218	125,665	1,090		
2026-2030	2,340,000	213,272	-	-		
2031-2035	-	-	-	-		
2036-2040	-	-	-	-		
2041-2042	-	-	-	-		
Thereafter					2,637,302	4,038,728
Totals	<u>\$ 13,095,000</u>	<u>\$ 5,168,835</u>	<u>\$ 3,239,489</u>	<u>\$ 498,386</u>	<u>\$ 2,712,190</u>	<u>\$ 4,299,162</u>

F. Net Assets Restatement

A prior period adjustment was required in the Special Projects Governmental Fund and the Government-wide financial statements to correct an error in the previously issued financial statements. The City overstated interest revenue in the prior year due to the LGIP Pool incurring a loss during the previous fiscal year. The City did not reduce its investments and record the loss in the statement of revenues, expenditures and changes in fund balance of the governmental funds or record the loss in the statement of activities in the government-wide financial statements; therefore the following adjustment was necessary to properly state beginning fund balance and net assets:

	Net Assets/ Fund Balance, Beginning of Year	Restatement	Net Assets / Fund Balance, as Restated
Governmental Activities	<u>\$ 2,158,832</u>	<u>\$ (138,781)</u>	<u>\$ 21,449,751</u>
Governmental Funds			
General Fund	\$ 4,030,399	\$ -	\$ 4,030,399
Special Projects Fund	5,039,486	(138,781)	4,900,705
Grants Fund	51,007	-	51,007
Police Grants Fund	(343,591)	-	(343,591)
MPC Debt Service Fund	(7,499)	-	(7,499)
Nonmajor Governmental Funds	598,518	-	598,518
Total Governmental Funds	<u>\$ 9,368,320</u>	<u>\$ (138,781)</u>	<u>\$ 9,229,539</u>

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 4 OTHER INFORMATION

A. Risk Management

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

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

B. Contingent Liabilities

Lawsuits

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

C. Commitments

The City has two committed projects that will be funded through the Water Infrastructure Authority of Arizona (WIFA) in the amount of \$1.5 million and \$4.5 million. The projects are for drinkwater and wastewater, respectively. As of June 30, 2010, the City had no construction commitments related to either project, but spent and drew down \$3.2 million; the WIFA funds, negotiated as a loan, are available in the amount of \$0.6 million and \$2.1 million. Annual principal and semi-annual interest payment will be due through 2027 when the City begins to draw upon the loan.

Subsequent to June 30, 2010, the City entered into a loan agreement in the amount of \$400,000 to fund the acquisition of the Hidden Treasurers RV Park. The City has not drawn on the available \$400,000; however, principal and interest will be due on any outstanding balance drawn by the City.

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Retirement Plans

Arizona State Retirement System

Plan Descriptions

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

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

Funding Policy

The Arizona State Legislature establishes and may amend active plan members' and the City of Douglas, Arizona's contribution rates. For the year ended June 30, 2009, active plan members were required by statute to contribute at the actuarially determined rate of 9.40 percent (9.0 percent for retirement and 0.40 percent for long-term disability) of the members' annual covered payroll and the City of Douglas, Arizona was required by statute to contribute at the actuarially determined rate of 9.40 percent (7.95 percent for retirement, 1.05 percent for health insurance premium, and 0.40 percent for long-term disability) of the members' annual covered payroll. The City's contributions to the ASRS for the years ended June 30, 2010, 2009, and 2008, which were equal to 100 percent of the required contributions for each year, were as follows:

<u>Year Ended June 30,</u>	<u>Retirement Fund</u>	<u>Health Benefit Supplement Fund</u>	<u>Long-Term Disability Fund</u>
2010	\$ 387,508	\$ 50,559	\$ 24,078
2009	436,760	56,985	27,139
2008	442,032	57,672	27,466

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS)

Plan Description

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

Funding Policy

Covered employees are required to contribute 7.65 percent of their annual salary to the PSPRS. The City is required to contribute the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The current rate is 27.61 and 33.09 percent of annual covered payroll for Police and Fire, respectively.

Annual Pension Cost

During the year ended June 30, 2009 the most recent actuarial valuation, the City of Douglas, Arizona's annual pension cost of \$429,158 for police and \$439,214 for fire was equal to the City of Douglas, Arizona's required and actual contributions.

The required contribution was determined as part of the June 30, 2008 actuarial valuation using an entry age actuarial funding method. Significant actuarial assumptions used in determining the entry age actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.5% per year compounded annually, (b) projected salary increases of 6.5% (including inflation at 5.0%) per year compounded annually, and (c) additional projected salary increases of 0.0% to 3.0% per year attributable to seniority/merit.

Funded Status and Funding Progress

As of June 30, 2009, the most recent actuarial valuation date, the plan for police was 59.8 percent funded and the plan for fire was 51.4 percent funded. The actuarial accrued liability for benefits was \$12.4 million and \$9.9 million for police and fire, respectively; and the actuarial value of assets was \$7.4 million and \$5.1 million, respectively; resulting in an unfunded actuarial accrued liability (UAAL) of \$5.0 million and \$4.8 million, respectively. The covered payroll (annual payroll of active employees covered by the plan) for police and fire was \$1.6 million and \$1.1 million, and the ratio of the UAAL to the covered payroll was 304.8 percent and 409.7 percent, respectively.

CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Funded Status and Funding Progress (Continued)

As of June 30, 2009, the most recent actuarial valuation date, the OBEB plan for police and fire was 0.0 percent funded. The actuarial accrued liability for benefits was \$0.3 million and \$0.2 million for police and fire, respectively; and the actuarial value of assets was \$0.0 million for police and fire; resulting in an unfunded actuarial accrued liability (UAAL) of \$0.3 million and \$0.2 million, respectively. The covered payroll (annual payroll of active employees covered by the plan) for police and fire was \$1.6 million and \$1.1 million, and the ratio of the UAAL to the covered payroll was 19.8 percent and 18.4 percent, respectively.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The actuarial value of the City of Douglas, Arizona's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The City of Douglas, Arizona's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2009, was 20 years.

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

**CITY OF DOUGLAS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

**Three-Year Trend Information
Police**

Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percent Contributed	Net Pension Obligation
2007	\$ 227,572	100%	\$ -
2008	279,441	100%	-
2009	429,158	100%	-

Fiscal Year Ended June 30,	Annual OBEB Cost	Percent Contributed	OBEB Benefit Obligation
2007	\$ 33,782	100%	\$ -
2008	25,298	100%	-
2009	31,981	100%	-

**Three-Year Trend Information
Fire**

Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percent Contributed	Net Pension Obligation
2007	\$ 235,258	100%	\$ -
2008	296,470	100%	-
2009	439,214	100%	-

Fiscal Year Ended June 30,	Annual OBEB Cost	Percent Contributed	OBEB Benefit Obligation
2007	\$ 26,169	100%	\$ -
2008	20,678	100%	-
2009	18,740	100%	-

Additional historical trend information for the City's PSPRS is disclosed on page 71.

Historical trend information is presented in order for the reader to assess the progress made in accumulating sufficient assets to pay pension benefits as they become payable.

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REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF DOUGLAS, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS**

Douglas Police

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Over (Under) Funded AAL	Annual Covered Payroll	Under Funded AAL as a Percentage of Covered Payroll
2007	\$ 6,954,792	\$ 11,488,986	60.5%	\$ (4,534,194)	\$ 1,481,989	306.0%
2008	6,930,015	11,283,869	61.4	(4,353,854)	1,542,544	282.3
2009	7,443,158	12,447,256	59.8	(5,004,098)	1,641,897	304.8

Other Post Employment Benefits (Health Insurance Subsidy)

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Over (Under) Funded AAL	Annual Covered Payroll	Under Funded AAL as a Percentage of Covered Payroll
2007	\$ -	\$ 438,131	0.0%	\$ (438,131)	\$ 1,481,989	29.6%
2008	-	344,850	0.0	(344,850)	1,542,544	22.4
2009	-	325,382	0.0	(325,382)	1,641,897	19.8

Douglas Fire

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Over (Under) Funded AAL	Annual Covered Payroll	Under Funded AAL as a Percentage of Covered Payroll
2007	\$ 5,114,278	\$ 9,423,043	54.3%	\$ (4,308,765)	\$ 928,544	464.0%
2008	5,042,492	9,359,112	53.9	(4,316,620)	1,168,259	369.5
2009	5,067,134	9,857,596	51.4	(4,790,462)	1,169,246	409.7

Other Post Employment Benefits (Health Insurance Subsidy)

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Over (Under) Funded AAL	Annual Covered Payroll	Under Funded AAL as a Percentage of Covered Payroll
2007	\$ -	\$ 310,677	0.0%	\$ (310,677)	\$ 928,544	33.5%
2008	-	309,059	0.0	(309,059)	1,168,259	26.5
2009	-	214,858	0.0	(214,858)	1,169,246	18.4

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**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

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

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

**CITY OF DOUGLAS, ARIZONA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2010**

	Special Revenue			Total Special Revenue
	HURF	LTAF	JCEF Restricted Court	
ASSETS				
Cash and Cash Equivalents	\$ -	\$ 352,266	\$ 87,490	\$ 439,756
Receivables				
Intergovernmental Receivable	110,376	-	-	110,376
Total Assets	\$ 110,376	\$ 352,266	\$ 87,490	\$ 550,132
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts Payable	\$ 14,444	\$ -	\$ 450	\$ 14,894
Accrued Wages and Benefits	15,425	-	-	15,425
Due to Other Funds	125,333	-	-	125,333
Total Liabilities	155,202	-	450	155,652
Fund Balance:				
Unreserved	(44,826)	352,266	87,040	394,480
Total Liabilities and Balance	\$ 110,376	\$ 352,266	\$ 87,490	\$ 550,132

**CITY OF DOUGLAS, ARIZONA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCES
YEAR ENDED JUNE 30, 2010**

	Special Revenue			Total Special Revenue
	HURF	LTAF	JCEF Restricted Court	
REVENUES				
Intergovernmental Revenues	\$ 1,211,409	\$ 69,232	\$ -	\$ 1,280,641
Fines and Forfeitures	-	-	6,928	6,928
Other	37,822	-	-	37,822
Total Revenues	1,249,231	69,232	6,928	1,325,391
EXPENDITURES				
Current				
General Government	-	-	7,815	7,815
Highways and Streets	1,035,203	22,768	-	1,057,971
Debt Service				
Principal Retirement	25,154	-	-	25,154
Interest on Long-Term Debt	2,092	-	-	2,092
Capital Outlay	217,435	73,141	-	290,576
Total Expenditures	1,279,884	95,909	7,815	1,383,608
Excess (Deficiency) of Revenues Over Expenditures	(30,653)	(26,677)	(887)	(58,217)
OTHER FINANCING SOURCES (USES)				
Transfers In	120,000	-	-	120,000
Transfers Out	(253,821)	(12,000)	-	(265,821)
Total Other Financing Sources (Uses)	(133,821)	(12,000)	-	(145,821)
Net Change in Fund Balance	(164,474)	(38,677)	(887)	(204,038)
FUND BALANCE				
Beginning of Year	119,648	390,943	87,927	598,518
End of Year	\$ (44,826)	\$ 352,266	\$ 87,040	\$ 394,480

CITY OF DOUGLAS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
HURF FUND
YEAR ENDED JUNE 30, 2010

	Original and Final Budget	Actual	Variance With Final Budget
REVENUES			
Intergovernmental Revenues	\$ 1,304,910	\$ 1,211,409	\$ (93,501)
Other	50,000	37,822	(12,178)
Total Revenues	1,354,910	1,249,231	(105,679)
EXPENDITURES			
Current:			
Highways and Streets	1,120,172	1,035,203	84,969
Debt Service:			
Principal Retirement	157,925	25,154	132,771
Interest on Long-Term Debt	44,456	2,092	42,364
Capital Outlay	117,732	217,435	99,703
Total Expenditures	1,440,285	1,279,884	359,807
Excess (Deficiency) of Revenues Over Expenditures	(85,375)	(30,653)	54,722
OTHER FINANCING SOURCES (USES)			
Transfers In	120,000	120,000	-
Transfers Out	(34,625)	(253,821)	(219,196)
Total Other Financing Sources (Uses)	85,375	(133,821)	(219,196)
Net Change in Fund Balance	-	(164,474)	(164,474)
FUND BALANCE			
Beginning of Year	-	119,648	119,648
End of Year	\$ -	\$ (44,826)	\$ (44,826)

CITY OF DOUGLAS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
LTAFF FUND
YEAR ENDED JUNE 30, 2010

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
REVENUES			
Intergovernmental Revenues	\$ 94,421	\$ 69,232	\$ (25,189)
EXPENDITURES			
Current:			
Highways and Streets	19,500	22,768	(3,268)
Capital Outlay	<u>62,921</u>	<u>73,141</u>	<u>(10,220)</u>
Total Expenditures	<u>82,421</u>	<u>95,909</u>	<u>(13,488)</u>
Excess (Deficiency) of Revenues Over Expenditures	12,000	(26,677)	(38,677)
OTHER FINANCING SOURCES (USES)			
Transfers Out	<u>(12,000)</u>	<u>(12,000)</u>	<u>-</u>
Net Change in Fund Balance	-	(38,677)	(38,677)
FUND BALANCE			
Beginning of Year	-	390,943	390,943
End of Year	<u>\$ -</u>	<u>\$ 352,266</u>	<u>\$ 352,266</u>

CITY OF DOUGLAS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
JCEF FUND
YEAR ENDED JUNE 30, 2010

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
REVENUES			
Fines and Forfeits	\$ 9,500	\$ 6,928	\$ (2,572)
EXPENDITURES			
Current:			
General Government	<u>9,500</u>	<u>7,815</u>	<u>1,685</u>
Excess (Deficiency) of Revenues Over Expenditures	-	(887)	(887)
OTHER FINANCING SOURCES (USES)			
Transfers Out	<u>(16,500)</u>	<u>-</u>	<u>16,500</u>
Net Change in Fund Balance	(16,500)	(887)	15,613
FUND BALANCE			
Beginning of Year	-	87,927	87,927
End of Year	<u>\$ (16,500)</u>	<u>\$ 87,040</u>	<u>\$ 103,540</u>

GOVERNMENTAL DISCRETELY PRESENTED COMPONENT UNITS

Douglas Housing Authority – The Douglas Housing Authority is a public benefit corporation created by the City to eliminate the financial burden on the City to provide subsidized public housing in accordance with federal legislation.

Douglas Housing Corporation I (Casa De Esperanza Apartments) – The Douglas Housing Corporation I is a non-profit corporation created by the City to eliminate the financial burden on the City to provide financing for the construction of a low-income apartment complex.

Douglas Housing Corporation II (Pioneer Village) – The Douglas Housing Corporation II is a non-profit corporation created by the City to eliminate the financial burden on the City to provide financing for the construction of a low-income apartment complex.

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**CITY OF DOUGLAS, ARIZONA
GOVERNMENTAL DISCRETELY PRESENTED
COMPONENT UNITS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2010**

	Douglas Housing Authority	Casa De Esperanza	Pioneer Village	Totals
Accounts:				
Current Assets:				
Cash and Equivalents	\$ 394,458	\$ 112,996	\$ 39,935	\$ 547,389
Accounts Receivable	5,227	19,634	13,771	38,632
Prepaid Items	-	10,583	7,519	18,102
Deferred Charges	-	108,587	195,945	304,532
Restricted Assets	10,986	134,219	169,608	314,813
Capital Assets				
Non-depreciable	-	74,695	16,454	91,149
Depreciable (Net)	-	926,046	428,726	1,354,772
Total Assets	<u>410,671</u>	<u>1,386,760</u>	<u>871,958</u>	<u>2,669,389</u>
Liabilities:				
Current Liabilities:				
Accounts Payable	6,989	11,993	5,105	24,087
Accrued Wages and Benefits	48,639	-	-	48,639
Interest Payable	-	21,451	44,871	66,322
Prepaid Rent	-	2,222	-	2,222
Customer Deposits Payable	10,986	6,708	3,760	21,454
Notes Payable	-	12,399	3,815	16,214
Noncurrent Liabilities:				
Notes Payable	-	1,715,103	980,873	2,695,976
Total Liabilities	<u>66,614</u>	<u>1,769,876</u>	<u>1,038,424</u>	<u>2,874,914</u>
Net Assets:				
Invested in Capital Assets, Net of Related Debt	-	(726,761)	(539,508)	(1,266,269)
Unrestricted	344,057	343,645	373,042	1,060,744
Total Net Assets	<u>\$ 344,057</u>	<u>\$ (383,116)</u>	<u>\$ (166,466)</u>	<u>\$ (205,525)</u>

**CITY OF DOUGLAS, ARIZONA
GOVERNMENTAL DISCRETELY PRESENTED
COMPONENT UNITS
COMBINING STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2010**

	Douglas Housing Authority	Casa De Esperanza	Pioneer Village	Totals
Expenses:				
Current:				
Redevelopment and Housing	\$ 2,003,636	\$ 213,360	\$ 122,372	\$ 2,339,368
Depreciation	-	91,882	37,986	129,868
Debt Service:				
Interest on Long-Term Debt	-	57,940	25,430	83,370
Total Expenses	<u>2,003,636</u>	<u>363,182</u>	<u>185,788</u>	<u>2,552,606</u>
Program Revenues:				
Operating Grants and				
Contributions	2,141,080	278,605	96,569	2,516,254
Charges for Services	-	69,044	47,920	116,964
Total Program Revenues	<u>2,141,080</u>	<u>347,649</u>	<u>144,489</u>	<u>2,633,218</u>
Net Program (Expense)	137,444	(15,533)	(41,299)	80,612
General Revenues:				
Investment Income	625	299	404	1,328
Other	3,375	9,864	4,525	17,764
Total General Revenues	<u>4,000</u>	<u>10,163</u>	<u>4,929</u>	<u>19,092</u>
Change in Net Assets	141,444	(5,370)	(36,370)	99,704
Net Assets, Beginning of Year	<u>202,613</u>	<u>(377,746)</u>	<u>(130,096)</u>	<u>(305,229)</u>
Net Assets, End of Year	<u>\$ 344,057</u>	<u>\$ (383,116)</u>	<u>\$ (166,466)</u>	<u>\$ (205,525)</u>

STATISTICAL SECTION (UNAUDITED)

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

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

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

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

	Fiscal Year			
	2003	2004	2005	2006
Governmental Activities:				
Invested in Capital Assets, Net of				
Related Debt	\$ 2,222,567	\$ 4,663,850	\$ 5,862,693	\$ 6,617,585
Restricted	2,231,109	2,762,253	3,233,910	3,008,022
Unrestricted	<u>1,751,785</u>	<u>3,445,457</u>	<u>3,376,539</u>	<u>3,586,626</u>
Total Governmental Activities				
Net Assets	<u>\$ 6,205,461</u>	<u>\$ 10,871,560</u>	<u>\$ 12,473,142</u>	<u>\$ 13,212,233</u>
Business-Type Activities:				
Invested in Capital Assets, Net of				
Related Debt	\$ 11,730,762	\$ 11,497,904	\$ 11,354,586	\$ 11,052,102
Unrestricted	<u>1,497,359</u>	<u>1,910,464</u>	<u>1,885,932</u>	<u>2,010,602</u>
Total Business-Type Activities				
Net Assets	<u>\$ 13,228,121</u>	<u>\$ 13,408,368</u>	<u>\$ 13,240,518</u>	<u>\$ 13,062,704</u>
Primary Government:				
Invested in Capital Assets, Net of				
Related Debt	\$ 13,953,329	\$ 16,161,754	\$ 17,217,279	\$ 17,669,687
Restricted	2,231,109	2,762,253	3,233,910	3,008,022
Unrestricted	<u>3,249,144</u>	<u>5,355,921</u>	<u>5,262,471</u>	<u>5,597,228</u>
Total Primary Government				
Net Assets	<u>\$ 19,433,582</u>	<u>\$ 24,279,928</u>	<u>\$ 25,713,660</u>	<u>\$ 26,274,937</u>

Source: The City's Finance Department.

Note: 2003 was the City's first year to prepare government-wide financial statements.

Fiscal Year

2007	2008	2009	2010
\$ 14,111,791	\$ 13,509,453	\$ 12,376,658	\$ 13,775,501
2,756,736	2,939,323	3,634,763	477,084
<u>3,951,726</u>	<u>3,491,020</u>	<u>5,438,330</u>	<u>7,049,956</u>
<u>\$ 20,820,253</u>	<u>\$ 19,939,796</u>	<u>\$ 21,449,751</u>	<u>\$ 21,302,541</u>
\$ 11,744,198	\$ 12,314,881	\$ 15,535,124	\$ 15,872,761
1,586,749	1,815,909	1,006,658	1,205,402
<u>\$ 13,330,947</u>	<u>\$ 14,130,790</u>	<u>\$ 16,541,782</u>	<u>\$ 17,078,163</u>
\$ 25,855,989	\$ 25,824,334	\$ 27,911,782	\$ 29,648,262
2,756,736	2,939,323	3,634,763	477,084
5,538,475	5,306,929	6,444,988	8,255,358
<u>\$ 34,151,200</u>	<u>\$ 34,070,586</u>	<u>\$ 37,991,533</u>	<u>\$ 38,380,704</u>

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

	Fiscal Year			
	2003	2004	2005	2006
EXPENSES				
Governmental Activities:				
General Government	\$ 2,174,349	\$ 2,446,006	\$ 2,989,561	\$ 3,406,989
Public Safety	4,371,219	4,840,034	4,985,627	5,720,526
Highways and Streets	1,761,503	1,794,385	2,144,672	2,938,401
Culture and Recreation	1,342,237	1,676,356	1,792,405	1,771,149
Redevelopment and Housing	123,297	202,831	20,744	281,392
Interest on Long-Term Debt	283,444	227,622	186,596	165,418
Total Governmental Activities	<u>10,056,049</u>	<u>11,187,234</u>	<u>12,119,605</u>	<u>14,283,875</u>
Business-Type Activities:				
Water	1,598,625	1,649,980	1,758,738	1,774,516
Sewer	935,498	808,261	902,247	861,899
Solid Waste	718,440	659,918	814,419	842,263
Total Business-Type Activities	<u>3,252,563</u>	<u>3,118,159</u>	<u>3,475,404</u>	<u>3,478,678</u>
Total Primary Government Expenses	<u>\$ 13,308,612</u>	<u>\$ 14,305,393</u>	<u>\$ 15,595,009</u>	<u>\$ 17,762,553</u>
PROGRAM REVENUES				
Governmental Activities:				
Fines, Fees and Charges for Services:				
General Government	\$ 579,567	\$ 1,636,724	\$ 1,334,218	\$ 1,359,062
Public Safety	405,047	598,003	556,022	586,562
Highways and Streets	60,978	-	2,750	3,256
Culture and Recreation	48,130	104,814	157,660	104,169
Operating Grants and Contributions	1,978,386	2,628,305	1,826,751	2,326,620
Capital Grants and Contributions	570,302	1,982,658	809,180	555,531
Total Governmental Activities	<u>3,642,410</u>	<u>6,950,504</u>	<u>4,686,581</u>	<u>4,935,200</u>
Business-Type Activities:				
Charges for Services:				
Water	1,496,424	1,673,639	1,586,261	1,597,155
Sewer	797,768	912,736	903,830	911,694
Solid Waste	662,747	662,740	673,965	643,107
Capital Grants and Contributions	-	-	-	86,803
Total Business-Type Activities	<u>2,956,939</u>	<u>3,249,115</u>	<u>3,164,056</u>	<u>3,238,759</u>
Total Primary Government	<u>\$ 6,599,349</u>	<u>\$ 10,199,619</u>	<u>\$ 7,850,637</u>	<u>\$ 8,173,959</u>

Source: The City's Finance Department.

Note: 2003 was the City's first year to prepare government-wide financial statements.

Fiscal Year

2007	2008	2009	2010
\$ 3,725,063	\$ 4,340,737	\$ 3,999,501	\$ 4,639,733
6,043,744	6,348,866	6,604,306	6,715,219
2,271,480	1,760,251	2,702,979	2,970,829
1,983,227	2,189,769	2,074,291	1,986,674
25,159	132,857	497,600	53,973
159,577	180,077	727,564	760,128
<u>14,208,250</u>	<u>14,952,557</u>	<u>16,606,241</u>	<u>17,126,556</u>
1,838,462	1,455,706	1,344,052	1,261,985
938,588	952,579	1,385,910	1,337,193
872,341	891,003	707,042	716,047
<u>3,649,391</u>	<u>3,299,288</u>	<u>3,437,004</u>	<u>3,315,225</u>
<u>\$ 17,857,641</u>	<u>\$ 18,251,845</u>	<u>\$ 20,043,245</u>	<u>\$ 20,441,781</u>
\$ 1,031,216	\$ 939,208	\$ 1,387,975	\$ 1,766,509
591,610	642,820	760,669	669,040
62	2,834	-	-
102,689	97,949	98,174	90,033
2,428,909	2,293,564	1,818,551	2,128,442
651,377	589,152	1,765,876	902,228
<u>4,805,863</u>	<u>4,565,527</u>	<u>5,831,245</u>	<u>5,556,252</u>
1,618,744	1,749,040	1,782,320	1,870,916
916,597	924,045	909,842	1,042,152
667,241	668,023	816,038	1,056,305
580,433	110,274	2,373,486	-
<u>3,783,015</u>	<u>3,451,382</u>	<u>5,881,686</u>	<u>3,969,373</u>
<u>\$ 8,588,878</u>	<u>\$ 8,016,909</u>	<u>\$ 11,712,931</u>	<u>\$ 9,525,625</u>

(Continued)

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

(Concluded)	Fiscal Year			
	2003	2004	2005	2006
NET (EXPENSE)/REVENUE				
Governmental Activities	\$ (6,413,639)	\$ (4,236,730)	\$ (7,433,024)	\$ (9,348,675)
Business-Type Activities	(295,624)	130,956	(311,348)	(239,919)
Total Primary Government Net Expense	\$ (6,709,263)	\$ (4,105,774)	\$ (7,744,372)	\$ (9,588,594)
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS				
Governmental Activities:				
Taxes:				
Sales Taxes	\$ 4,038,242	\$ 4,432,493	\$ 4,390,874	\$ 4,740,475
Property Taxes	386,952	369,912	410,706	448,571
Franchise Taxes	260,267	242,164	253,182	261,809
Unrestricted Grants and Contributions	2,759,997	2,901,935	3,089,912	-
State Revenue Sharing	-	-	-	1,765,690
State Sales Tax Revenue Sharing	-	-	-	1,729,948
Auto Lieu Tax Revenue Sharing	-	-	-	791,931
Payments in Lieu of Taxes	635,636	685,970	713,727	-
Loss on Sale of Capital Assets	(115,214)	-	-	-
Investment Income (Loss)	(31,955)	202,299	170,524	229,305
Other	1,729	992	25	1,802
Transfers	73,960	67,064	5,656	118,235
Total Governmental Activities	8,009,614	8,902,829	9,034,606	10,087,766
Business-Type Activities:				
Sales Tax	84,480	91,380	98,995	91,380
Investment Income (Loss)	(21,770)	24,975	50,159	88,960
Transfers	(73,960)	(67,064)	(5,656)	(118,235)
Total Business-Type Activities	(11,250)	49,291	143,498	62,105
Total Primary Government	\$ 7,998,364	\$ 8,952,120	\$ 9,178,104	\$ 10,149,871
CHANGE IN NET ASSETS				
Governmental Activities	\$ 1,595,975	\$ 4,666,099	\$ 1,601,582	\$ 739,091
Business-Type Activities	(306,874)	180,247	(167,850)	(177,814)
Total Primary Government	\$ 1,289,101	\$ 4,846,346	\$ 1,433,732	\$ 561,277

Fiscal Year

2007	2008	2009	2010
\$ (9,402,387)	\$ (10,387,030)	\$ (10,774,996)	\$ (11,570,304)
<u>133,624</u>	<u>152,094</u>	<u>2,444,682</u>	<u>654,148</u>
<u>\$ (9,268,763)</u>	<u>\$ (10,234,936)</u>	<u>\$ (8,330,314)</u>	<u>\$ (10,916,156)</u>
\$ 5,006,857	\$ 5,095,143	\$ 6,151,531	\$ 5,808,108
465,726	462,232	532,028	531,489
322,308	349,444	341,702	351,635
-	49,612	18,467	30,274
2,002,854	2,448,141	2,608,244	2,245,322
1,634,497	1,580,288	1,368,088	1,261,862
789,900	845,030	793,358	732,787
-	-	-	-
-	-	-	-
311,744	280,685	16,212	107,495
1,119	1,697	322,889	238,124
<u>63,387</u>	<u>(323,514)</u>	<u>132,432</u>	<u>115,998</u>
<u>10,598,392</u>	<u>10,788,758</u>	<u>12,284,951</u>	<u>11,423,094</u>
91,380	224,968	77,114	-
106,626	99,267	21,628	(1,769)
<u>(63,387)</u>	<u>323,514</u>	<u>(132,432)</u>	<u>(115,998)</u>
<u>134,619</u>	<u>647,749</u>	<u>(33,690)</u>	<u>(117,767)</u>
<u>\$ 10,733,011</u>	<u>\$ 11,436,507</u>	<u>\$ 12,251,261</u>	<u>\$ 11,305,327</u>
\$ 1,196,005	\$ 401,728	\$ 1,509,955	\$ (147,210)
<u>268,243</u>	<u>799,843</u>	<u>2,410,992</u>	<u>536,381</u>
<u>\$ 1,464,248</u>	<u>\$ 1,201,571</u>	<u>\$ 3,920,947</u>	<u>\$ 389,171</u>

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CITY OF DOUGLAS, ARIZONA
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
LAST NINE 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>
2002	\$ 4,100,575	\$ 369,841	\$ 376,194	\$ 4,846,610
2003	4,038,242	370,411	260,267	4,668,920
2004	4,432,493	330,022	242,164	5,004,679
2005	4,390,874	416,850	253,182	5,060,906
2006	4,740,475	448,571	261,809	5,450,855
2007	5,006,857	465,726	322,308	5,794,891
2008	5,095,143	462,232	349,444	5,906,819
2009	6,228,645	532,028	341,702	7,102,375
2010	5,808,108	531,489	351,635	6,691,232

Source: The City's Finance Department.

Note: Information was not available prior to fiscal year 2002.

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

	Fiscal Year				
	2001	2002	2003	2004	2005
General Fund:					
Reserved	\$ -	\$ -	\$ 207	\$ 60,472	\$ 1,285
Unreserved	1,522,444	2,143,925	2,272,689	3,035,409	3,328,604
Total General Fund	<u>1,522,444</u>	<u>2,143,925</u>	<u>2,272,896</u>	<u>3,095,881</u>	<u>3,329,889</u>
All Other Governmental Funds:					
Reserved	\$ -	\$ -	\$ 10,000	\$ 14,780	\$ 10,000
Unreserved, Reported in:					
Special Revenue Funds	1,893,906	1,879,015	2,199,864	2,733,028	2,897,657
Capital Projects Funds	11,539	16,230	13,893	14,445	15,184
Debt Service Funds	-	-	-	-	-
Total All Other Governmental Funds	<u>\$ 1,905,445</u>	<u>\$ 1,895,245</u>	<u>\$ 2,223,757</u>	<u>\$ 2,762,253</u>	<u>\$ 2,922,841</u>

Source: The City's Finance Department.

Fiscal Year				
2006	2007	2008	2009	2010
\$ -	\$ 5,878	\$ 78,239	\$ 68,239	\$ -
3,788,373	4,076,080	3,735,584	3,962,160	4,174,438
<u>3,788,373</u>	<u>4,081,958</u>	<u>3,813,823</u>	<u>4,030,399</u>	<u>4,174,438</u>
\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 15,453
2,597,332	2,643,920	4,854,098	5,335,420	4,065,860
-	3,143	(68,512)	(7,499)	-
300	-	-	-	-
<u>\$ 2,607,632</u>	<u>\$ 2,657,063</u>	<u>\$ 4,795,586</u>	<u>\$ 5,337,921</u>	<u>\$ 4,081,313</u>

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

	Fiscal Year				
	2001	2002	2003	2004	2005
REVENUES					
Taxes	\$ 4,849,223	\$ 4,846,610	\$ 4,668,920	\$ 5,004,679	\$ 5,060,906
Intergovernmental	5,803,328	5,663,708	5,944,321	6,773,955	6,439,570
Fines and Forfeitures	865,334	579,443	171,725	177,795	206,150
Licenses and Permits	159,119	163,918	164,255	318,126	223,484
Charges for Services	508,175	493,080	563,409	834,821	972,483
Rents and Royalties	-	-	-	-	-
Special Assessments	24,000	97,653	-	15,600	18,000
Investment Income (Loss)	127,389	136,604	(31,955)	202,299	170,524
Other	539,078	341,030	196,062	262,423	681,111
Total Revenues	<u>12,875,646</u>	<u>12,322,046</u>	<u>11,676,737</u>	<u>13,589,698</u>	<u>13,772,228</u>
EXPENDITURES					
General Government	2,149,912	2,720,582	2,221,633	2,381,289	3,579,484
Public Safety	4,661,536	4,608,191	4,479,468	5,047,690	4,989,254
Highways and Streets	3,396,655	2,629,823	2,471,570	2,135,963	2,700,498
Culture and Recreation	1,364,292	1,701,768	1,733,215	1,486,634	1,671,445
Redevelopment and Housing	-	-	123,297	202,831	20,744
Capital Outlay	84,485	250,692	177,751	489,038	-
Debt Service					
Principal Retirement	225,000	230,000	273,081	304,083	390,742
Interest on Long-Term Debt	277,056	264,346	262,649	207,138	145,630
Issuance Costs	-	-	-	137,176	-
Total Expenditures	<u>12,158,936</u>	<u>12,405,402</u>	<u>11,742,664</u>	<u>12,391,842</u>	<u>13,497,797</u>
Excess of Revenues Over (Under) Expenditures	716,710	(83,356)	(65,927)	1,197,856	274,431
OTHER FINANCING SOURCES (USES)					
Transfers In	716,951	917,824	858,865	833,301	1,161,277
Transfers Out	(821,251)	(828,925)	(784,905)	(766,237)	(1,155,621)
Issuance of Refunding Debt	-	-	-	4,134,181	-
Issuance of Long-Term Debt	-	-	-	-	-
Payment to Refunded Debt					
Escrow agent	-	-	-	(4,037,620)	-
Proceeds from Capital Leases	71,650	550,133	449,450	-	114,509
Other	86,376	55,605	-	-	-
Total Other Financing Sources (Uses)	<u>53,726</u>	<u>694,637</u>	<u>523,410</u>	<u>163,625</u>	<u>120,165</u>
Net Change in Fund Balance	<u>\$ 770,436</u>	<u>\$ 611,281</u>	<u>\$ 457,483</u>	<u>\$ 1,361,481</u>	<u>\$ 394,596</u>
Debt Service as a Percentage of Noncapital Expenditures	4.16%	4.07%	4.63%	5.45%	3.97%

Source: The City's Finance Department.

Fiscal Year				
2006	2007	2008	2009	2010
\$ 5,464,419	\$ 5,782,276	\$ 5,914,743	\$ 7,012,223	\$ 6,689,354
7,169,720	7,507,537	7,805,787	8,372,584	7,184,648
185,754	199,420	141,232	195,644	189,333
262,858	270,278	169,697	126,224	192,309
1,040,529	1,012,858	1,059,989	1,386,022	1,410,391
45,000	45,000	36,000	538,928	733,549
-	-	-	-	-
229,305	311,744	280,685	16,212	107,495
661,749	324,140	307,449	322,889	238,124
<u>15,059,334</u>	<u>15,453,253</u>	<u>15,715,582</u>	<u>17,970,726</u>	<u>16,745,203</u>
3,477,225	3,801,423	5,169,854	13,462,021	3,961,316
5,764,769	5,992,153	6,078,350	6,579,669	6,554,551
3,166,478	2,551,227	2,413,444	2,626,696	2,660,654
1,767,630	2,266,214	1,863,014	1,750,997	1,513,127
281,392	25,159	132,857	497,600	53,973
38,999	-	896,225	817,482	728,862
413,349	418,837	429,669	656,965	2,228,723
124,452	118,611	133,267	686,598	719,162
-	-	-	-	-
<u>15,034,294</u>	<u>15,173,624</u>	<u>17,116,680</u>	<u>27,078,028</u>	<u>18,420,368</u>
25,040	279,629	(1,401,098)	(9,107,302)	(1,675,165)
1,374,466	1,380,037	1,553,137	1,020,458	1,303,871
(1,256,231)	(1,316,650)	(1,876,651)	(888,026)	(1,002,494)
-	-	-	-	-
-	-	3,000,000	9,000,000	400,000
-	-	-	-	-
-	-	595,000	595,000	-
-	-	-	-	-
<u>118,235</u>	<u>63,387</u>	<u>3,271,486</u>	<u>9,727,432</u>	<u>701,377</u>
<u>\$ 143,275</u>	<u>\$ 343,016</u>	<u>\$ 1,870,388</u>	<u>\$ 620,130</u>	<u>\$ (973,788)</u>
3.59%	3.54%	4.05%	9.80%	22.08%

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

Sales Category:	Fiscal Year			
	2003	2004	2005	2006
Mining	\$ 528,965	\$ 505,885	\$ 788,852	\$ 499,539
Communications and Utilities	9,397,466	9,284,375	9,522,557	10,008,146
Transportation & Warehousing	191,785	144,228	118,643	47,034
Construction	7,809,960	17,584,695	5,509,385	9,952,326
Manufacturing	816,481	3,070,108	3,669,492	3,246,085
Wholesale Trade	2,432,668	4,388,768	3,853,589	4,063,304
Retail Trade	120,612,404	120,347,438	133,948,362	141,390,374
Finance and Insurance	181,505	211,112	105,986	94,754
Real Estate, Rental and Leases	4,356,126	5,319,960	5,231,069	7,666,144
Restaurants and Bars	11,281,768	12,705,315	11,927,045	12,864,527
Accommodations	2,133,543	2,237,920	1,971,777	2,286,598
Public Administration	-	626	241,021	130,215
Services	3,912,560	2,571,763	1,851,152	1,785,624
Arts & Entertainment	-	8,912	15,673	23,100
Other	754,200	2,432,757	2,417,236	2,393,080
Total	<u>\$ 164,409,431</u>	<u>\$ 180,813,862</u>	<u>\$ 181,171,839</u>	<u>\$ 196,450,850</u>
City Sales Tax Rate	2.50%	2.50%	2.50%	2.50%

Source: Arizona Department of Revenue.

Note: Information prior to 2003 was not available.

Fiscal Year

2007	2008	2009	2010
\$ 466,247	\$ 510,450	\$ 2,318,215	\$ 2,318,215
15,039,614	23,876,918	22,195,363	22,195,363
40,313	15,283	48,456	48,456
8,593,952	7,578,438	15,965,933	15,965,933
3,375,254	4,144,993	3,945,094	3,945,094
3,994,393	4,093,177	3,884,491	3,884,491
145,310,162	146,386,134	144,710,942	144,710,942
84,995	194,035	93,629	93,629
6,656,980	5,664,318	6,249,386	6,249,386
12,923,634	12,932,385	12,500,240	12,500,240
2,600,819	2,277,339	2,363,017	2,363,017
108,890	100,106	294,021	294,021
2,714,689	3,342,416	3,242,519	3,242,519
8,285	-	56,562	56,562
2,532,122	3,121,725	2,921,447	2,921,447
<u>\$ 204,450,349</u>	<u>\$ 214,237,717</u>	<u>\$ 220,789,315</u>	<u>\$ 220,789,315</u>
2.50%	2.50%	2.50%	2.50%

**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>
2001	2.50 %	6.10 %
2002	2.50	6.10
2003	2.50	6.10
2004	2.50	6.10
2005	2.50	6.10
2006	2.50	6.10
2007	2.50	6.10
2008	2.50	6.10
2009	2.80	6.10
2010	2.80	6.10

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				
2001	\$ 33,565	\$ 3,188	\$ 3,892	\$ 32,861	11.26	\$ 37,105	88.562%
2002	33,537	4,438	3,925	34,050	11.23	38,877	87.584
2003	34,586	4,770	3,921	35,435	11.21	39,795	89.044
2004	37,278	3,473	4,207	36,544	11.20	37,213	98.202
2005	39,514	5,087	4,443	40,158	11.14	41,419	96.956
2006	41,500	4,385	4,466	41,419	10.70	45,885	90.267
2007	54,948	2,925	5,980	51,893	8.70	57,522	90.214
2008	55,520	1,506	4,205	52,821	8.87	63,614	83.034
2009	54,903	1,448	1,899	54,452	10.55	58,250	93.480
2010	63,201	1,508	8,505	56,204	13.07	73,214	76.767

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	
2001	1.09	3.45	1.74	4.99	11.27	2.81	0.51	14.59
2002	1.09	3.43	1.74	4.97	11.23	2.56	0.51	14.30
2003	1.09	3.43	1.79	4.90	11.21	2.30	0.51	14.02
2004	1.09	3.39	1.79	4.93	11.20	1.90	0.51	13.61
2005	1.09	2.94	1.79	5.33	11.15	0.83	0.51	12.49
2006	1.05	2.92	1.79	4.94	10.70	1.58	0.51	12.79
2007	0.99	2.87	1.74	3.10	8.70	1.72	0.40	10.82
2008	1.02	2.68	1.66	3.51	8.87	1.78	0.40	11.05
2009	1.00	2.64	1.61	5.30	10.55	0.96	0.40	11.91
2010	0.98	2.63	1.60	7.86	13.07	1.07	0.34	14.48

Source: The Cochise County Treasurer.

**CITY OF DOUGLAS, ARIZONA
PRINCIPAL PROPERTY TAXPAYERS
JUNE 30, 2009 AND 2000
(UNAUDITED)**

Taxpayer	2009			2000		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Wal-Mart	\$ 3,544,970	1	6.51 %	\$ 1,262,670	2	3.96 %
Arizona Public Service	1,908,113	2	3.50	-	-	-
Southwest Gas Corporation	780,032	3	1.43	697,975	5	2.19
Qwest Corporation	760,433	4	1.40	-	-	-
Safeway Inc.	751,630	5	1.38	1,564,949	1	4.91
Phelps Dodge Corporation	582,015	6	1.07	332,394	8	1.04
SFP Pool Five Shopping Center	509,469	7	0.94	-	-	-
FAE Holdings 356216R, LLC	497,200	8	0.91	-	-	-
JC Penney Co., Inc.	483,935	9	0.89	454,017	6	1.42
Douglas Customs LLC	440,000	10	0.81	-	-	-
Newhall Douglas LTD PRT.	-	-	-	910,667	3	2.85
US West	-	-	-	773,123	4	2.42
K-Mart	-	-	-	431,848	7	1.35
Kamin, Daniel G.	-	-	-	230,191	9	0.72
T & W Properties	-	-	-	202,342	10	0.63
	<u>\$10,257,797</u>		20.02 %	<u>\$ 6,860,176</u>		21.50 %

Source: The Cochise County Assessor's Office

Note: 2009 and 2000 were the most recent information available.

**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>
2001	\$ 352,360	\$ 321,262	91.17 %	\$ 30,618	\$ 351,880	99.86 %
2002	359,044	324,722	90.44	33,957	358,679	99.90
2003	372,024	333,408	89.62	37,864	371,272	99.80
2004	387,160	359,258	92.79	27,100	386,358	99.79
2005	399,279	242,065	60.63	156,423	398,488	99.80
2006	442,229	411,452	93.04	29,834	441,286	99.79
2007	468,748	423,146	90.27	43,885	467,031	99.63
2008	485,584	440,446	90.70	42,290	482,736	99.41
2009	542,878	489,507	90.17	43,610	533,117	98.20
2010	546,719	477,007	87.25	-	477,007	87.25

Source: The Cochise County Treasurer.

Outstanding Delinquent Taxes	Ratio of Delinquent Taxes to Tax Levy
\$ 480	0.00 %
365	0.10
752	0.20
802	0.21
791	0.20
943	0.21
1,717	0.37
2,848	0.59
9,761	1.80
69,712	12.75

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

Fiscal Year	Governmental Activities			Business-Type Activities		Total Primary Government	Percentage of Personal Income
	Revenue Bonds	Loans Payable	Capital Leases	Loans Payable	Capital Leases		
2002	\$ 4,530,000	\$ -	\$ 575,186	\$ -	\$ 305,626	\$ 5,410,812	3.22 %
2003	4,285,000	-	925,407	-	254,777	5,465,184	3.22
2004	4,435,000	-	785,356	-	341,697	5,562,053	2.93
2005	4,095,000	-	771,477	-	258,035	5,124,512	2.31
2006	3,735,000	-	623,828	-	314,761	4,673,589	1.99
2007	3,370,000	-	483,879	-	198,842	4,052,721	1.57
2008	2,995,000	3,000,000	947,738	-	109,353	7,052,091	2.73
2009	2,605,000	12,000,000	1,275,773	-	61,716	15,942,489	5.65
2010	2,205,000	10,890,000	957,050	3,239,489	31,626	17,323,165	5.62

Source: The City's Finance Department.

Note: Information prior to 2002 was not available.

CITY OF DOUGLAS, ARIZONA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
JUNE 30, 2010
(UNAUDITED)

Governmental Unit	Outstanding Debt	Estimated Percentage Applicable (1)	Estimated Share of Overlapping Debt
Debt Repaid with Property Taxes			
Cochise County	\$ 986,677,834	7.30%	\$ 1,419,720
Cochise County Community College District	986,677,834	7.30%	1,419,720
Douglas Unified School District No. 27	740,000	100.00%	2,770,000
Subtotal, Overlapping Debt			<u>5,609,440</u>
City of Douglas, Arizona direct debt	17,323,165	100.00%	-
Total Direct and Overlapping Debt			<u><u>\$ 5,609,440</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 2008-09.

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

	Fiscal Year				
	2001	2002	2003	2004	2005
20% Debt Limit	\$ 6,627,146	\$ 6,640,262	\$ 6,987,807	\$ 7,173,258	\$ 7,442,536
Total Applicable to Limit	-	-	-	-	-
Legal Debt Margin	<u>\$ 6,627,146</u>	<u>\$ 6,640,262</u>	<u>\$ 6,987,807</u>	<u>\$ 7,173,258</u>	<u>\$ 7,442,536</u>
Total Net Debt Applicable to the Limit as a Percentage of the Debt Limit	-	-	-	-	-

	Fiscal Year				
	2001	2002	2003	2004	2005
6% Debt Limit	\$ 1,988,144	\$ 1,992,079	\$ 2,096,342	\$ 2,151,977	\$ 2,232,761
Total Applicable to Limit	-	-	-	-	-
Legal Debt Margin	<u>\$ 1,988,144</u>	<u>\$ 1,992,079</u>	<u>\$ 2,096,342</u>	<u>\$ 2,151,977</u>	<u>\$ 2,232,761</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				
2006	2007	2008	2009	2010
\$ 8,283,788	\$ 9,938,245	\$ 10,378,721	\$ 10,890,226	\$ 11,240,800
-	-	-	-	-
<u>\$ 8,283,788</u>	<u>\$ 9,938,245</u>	<u>\$ 10,378,721</u>	<u>\$ 10,890,226</u>	<u>\$ 11,240,800</u>

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Fiscal Year				
2006	2007	2008	2009	2010
\$ 2,485,137	\$ 2,981,474	\$ 3,113,616	\$ 3,267,068	\$ 3,372,240
-	-	-	-	-
<u>\$ 2,485,137</u>	<u>\$ 2,981,474</u>	<u>\$ 3,113,616</u>	<u>\$ 3,267,068</u>	<u>\$ 3,372,240</u>

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**CITY OF DOUGLAS, ARIZONA
CALCULATION OF LEGAL DEBT MARGIN
JUNE 30, 2010
(UNAUDITED)**

Net Secondary Assessed Value		\$ 56,204,000
Water, Sewer, Light, Parks, Open Space and Recreational Facility Bonds		
Debt Limit - 20% of Net Secondary Assessed Value		\$ 11,240,800
Debt Applicable to Limit		
General Obligation Bonds Outstanding	\$ -	
Less: Amount Set Aside for Repayment of Debt	-	
Net Debt Applicable to Limit	-	-
20% Legal Debt Margin		\$ 11,240,800
All Other General Obligation Bonds		
Debt Limit - 6% of Net Secondary Assessed Value		\$ 3,372,240
Debt Applicable to Limit		
General Obligation Bonds Outstanding	\$ -	
Less: Amount Set Aside for Repayment of Debt	-	
Net Debt Applicable to Limit	-	-
All Other General Obligation Bonds debt Margin		\$ 3,372,240
Total Legal Debt Margin		\$ 14,613,040

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 NINE FISCAL YEARS
 (UNAUDITED)**

Fiscal Year	Revenue Bonds						Coverage
	Excise Tax	Less: Operating Expenses	Net Available Revenue	Debt Service Principal	Debt Service Interest		
2002	\$ 3,469,897	\$ -	\$ 3,469,897	\$ 155,000	\$ 173,718	1055.58 %	
2003	3,236,937	-	3,236,937	165,000	166,435	976.64	
2004	3,552,034	-	3,552,034	175,000	135,204	1145.06	
2005	3,518,881	-	3,518,881	250,000	122,136	945.59	
2006	3,796,816	-	3,796,816	360,000	111,472	805.31	
2007	4,012,867	-	4,012,867	365,000	104,838	854.10	
2008	4,067,101	-	4,067,101	375,000	97,238	861.24	
2009	5,095,143	-	5,095,143	390,000	97,237	1045.72	
2010	5,808,108	-	5,808,108	400,000	80,476	1208.82	

Source: The City of Douglas' internal records.

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

Information prior to June 30, 2002 was not available.

GADA Loan

Fiscal Year	Less:		Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage
	Excise Tax	Operating Expenses				
2002	\$ -	\$ -	\$ -	\$ -	\$ -	N/A
2003	-	-	-	-	-	N/A
2004	-	-	-	-	-	N/A
2005	-	-	-	-	-	N/A
2006	-	-	-	-	-	N/A
2007	-	-	-	-	-	N/A
2008	10,217,630	-	10,217,630	-	24,369	41928.80%
2009	11,456,914	-	11,456,914	-	147,935	7744.56%
2010	9,545,898	-	9,545,898	170,000	142,812	3051.64%

Call Center Loan

Fiscal Year	Less:		Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage
	Lease Revenue	Operating Expenses				
2002	\$ -	\$ -	\$ -	\$ -	\$ -	N/A
2003	-	-	-	-	-	N/A
2004	-	-	-	-	-	N/A
2005	-	-	-	-	-	N/A
2006	-	-	-	-	-	N/A
2007	-	-	-	-	-	N/A
2008	-	-	-	-	-	N/A
2009	483,499	-	483,499	-	239,925	201.52%
2010	704,620	-	704,620	1,260,000	451,849	41.16%

WIFA Loan

Fiscal Year	Less:		Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage
	Water/Sewer Revenues	Operating				
2010	\$ 2,749,697	\$ 2,586,553	\$ 163,144	\$ -	\$ 12,625	1292.23%

**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>
2001	\$ 16,585	\$ 169,697,720	\$ 10,232	30.50	7.5 %
2002	16,441	168,224,312	10,232	30.50	9.1
2003	16,585	169,697,720	10,232	30.50	8.8
2004	17,035	190,042,460	11,156	30.50	7.7
2005	17,195	222,142,205	12,919	30.50	7.6
2006	17,468	235,241,556	13,467	30.50	7.2
2007	18,411	258,453,618	14,038	30.50	6.8
2008	18,996	277,987,464	14,634	30.50	6.8
2009	18,500	282,199,000	15,254	31.00	9.1
2010	20,061	308,277,387	15,367	31.10	9.2

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

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

Employer	2010			2002 (1)		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Arizona Department of Corrections	621	1	9.61 %	659	3	11.85 %
Douglas Unified School District	527	2	8.15	561	4	10.09
Advance Call Center Technologies	423	3	6.54	-	-	-
Wal-Mart Stores, Inc.	320	4	4.95	-	-	-
Cochise College	255	5	3.94	796	2	14.31
City of Douglas	214	6	3.31	169	5	3.04
Southeast Arizona Medical Center	148	7	2.29	160	6	2.88
Basha's Inc.	67	8	1.04	-	-	-
Infinia at Douglas	-	-	-	61	9	1.10
Cochise County	61	9	0.94	65	8	1.17
La Sola Rehab	59	10	0.91	-	-	-
Homeland Security: U.S. Border	-	-	-	800	1	14.39
Homeland Security: U.S. Customs	-	-	-	89	7	1.60
	<u>2,695</u>		41.68 %	<u>3,360</u>		60.42 %

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

(1) The fiscal year 2002 was the most recent information available.

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

Function	Full-Time Equivalent Employees									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Government										
Management Services:										
Administration	4	4	4	5	5	5	7	7	5	5
Human resources	3	3	3	3	3	3	4	4	4	3
Court	2	2	2	2	2	1	3	3	3	2
MIS	2	2	2	2	2	2	2	3	3	3
Finance	4	4	4	3	3	4	6	7	6	6
Economic Development	-	-	-	1	-	1	1	1	1	-
Visitor Parking Center	-	-	-	-	-	-	5	5	4	-
Building (Housing)	4	5	4	4	4	4	4	4	5	4
Police										
Officers	37	32	31	30	32	35	29	31	37	34
Civilians	13	11	13	14	13	13	15	16	14	14
Fire										
Firefighters and Officers	24	24	21	22	22	21	26	24	25	23
Civilians	2	2	2	2	2	2	2	2	1	1
Public Works										
Engineering (PW Adm)	4	4	4	2	2	2	4	4	6	4
Refuse Collections	7	8	7	8	7	8	10	7	5	4
Mechanics	4	4	3	4	5	4	4	4	4	4
Streets	10	11	10	10	10	10	12	11	8	6
Street Maintenance	9	9	8	4	5	5	5	4	4	4
Parks and Recreation										
Comm Dev Admin	2	1	2	2	2	2	3	3	2	1
Planning & Zoning	2	2	2	2	2	2	2	3	2	2
Aquatics	2	2	2	3	3	3	16	14	12	2
Construction	-	-	-	4	4	4	4	4	4	4
Cemetery	4	4	4	4	4	4	4	4	2	2
Parks	7	7	8	9	10	9	9	10	10	10
Recreation	3	2	1	2	2	1	7	9	5	1
Golf Course	1	1	1	1	1	1	4	6	8	-
Library	5	5	5	5	5	5	8	8	7	5
Water										
Field	9	8	8	7	7	7	10	9	8	4
CIP	-	3	3	3	3	1	6	8	7	4
Billing	4	4	4	4	4	4	4	4	4	4
Wastewater	7	5	5	6	5	7	7	8	7	7
Total	175	169	163	168	169	170	223	227	213	163

Source: The City of Douglas's Internal Records.
Information prior to June 30, 2000 was not available.

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

Function	Fiscal Year				
	2001	2002	2003	2004	2005
General Government					
Building Permits Issued	43	32	63	60	48
Building Inspection Conducted	600	600	800	1,000	1,440
Police					
Physical Arrests	1,651	1,728	1,765	1,657	1,804
Parking Violations	1,216	2,174	1,606	1,463	2,208
Traffic Violations	7,119	4,935	3,522	4,051	3,283
Fire					
Emergency Responses	2,300	2,202	2,305	2,565	2,670
Fires Extinguished	204	210	178	219	289
Inspections	94	100	115	68	105
Refuse Collection					
Refuse Collections (Tons/Day)	18.0	16.0	16.0	18.0	17.0
Recyclables Collected (Tons/Day)	1.0	1.0	1.0	1.0	1.0
Other Public Works					
Street Resurfacing (Miles)	-	-	-	-	-
Potholes Repaired	-	-	-	-	273
Parks and Recreation					
Athletic Field Permits Issued	-	-	-	25	26
Community Center Admissions	-	4,501	11,490	7,610	13,743
Aquatic Center Admissions	-	-	-	10,178	11,925
Library					
Volumes in Collection	35,972	37,871	39,912	41,517	47,302
Total Volumes Borrowed	65,883	67,410	72,302	71,833	91,623
Water					
New Connections	-	-	-	-	-
Water Main Breaks	-	2	2	9	6
Average Daily Consumption (Thousands of Gallons)	-	1,845,038	1,601,153	6,852,381	2,602,839
Peak Daily Consumption (Thousands of Gallons)	-	-	-	-	-
Wastewater					
Average Daily Sewage Treatment (Thousands of Gallons)	1.6	2.4	2.8	3.1	2.8

Source: The City of Douglas

Fiscal Year				
2006	2007	2008	2009	2010
258	262	338	354	305
1,085	1,100	858	400	344
1,725	1,615	1,475	1,917	1,795
1,640	1,919	1,562	648	646
4,134	4,590	3,814	4,569	4,300
2,540	2,336	2,200	2,030	2,312
17	187	201	216	198
122	62	80	80	101
17.0	23.9	30.0	30.0	16.3
1.0	0.5	0.5	0.5	-
-	1.0	1.4	1.5	2.1
175	143	152	195	680
40	120	117	120	119
9,724	16,535	14,660	9,071	10,036
21,852	26,990	28,369	36,761	31,408
49,141	52,824	56,961	60,856	59,649
94,147	83,018	94,955	85,595	86,098
-	60	28	68	10
7	8	18	5	2
3,167,934	2,579,831	3,660,000	2,638,660	3,662,519
-	4,385,713	5,380,000	3,613,013	148,101,000
2.6	1.8	2.1	1.6	1.5

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

Function	Fiscal Year				
	2001	2002	2003	2004	2005
Police					
Stations	1	1	1	1	1
Patrol Units	-	-	-	-	-
Fire Stations	1	1	1	1	1
Refuse Collection					
Collection Trucks	-	-	-	-	-
Other Public Works					
Streets (Miles)	-	79	79	79	95
Streetlights	-	1,840	1,840	1,959	2,083
Traffic Signals	-	-	-	-	-
Parks and Recreation					
Acreage	-	42	42	42	62
Playgrounds	-	-	-	-	-
Baseball and Softball Diamonds	-	-	-	-	-
Soccer/Football Fields	-	-	-	-	-
Aquatic Centers	2	2	2	2	2
Community Centers	-	1	1	1	1
Water					
Water Mains (Miles)	-	65	65	65	80
Fire hydrants	-	338	338	338	338
Storage Capacity (Thousands of Gallons)	-	500,900	500,900	500,900	500,900
Wastewater					
Sanitary Sewers (Miles)	-	69	69	69	75
Storm Sewers (Miles)	-	2	2	2	2
Maximum Daily Treatment Capacity (Thousands of Gallons)	-	1,800,000	1,800,000	1,800,000	2,000,000

Source: The City of Douglas's Internal Records

Fiscal Year				
2006	2007	2008	2009	2010
1	1	1	1	1
25	21	20	27	22
1	1	1	1	1
4	5	5	5	5
110	110	110	110	112
1,192	1,192	1,194	1,194	1,194
13	13	14	14	14
92	92	92	92	92
5	5	5	5	5
6	6	6	6	6
13	13	13	13	13
2	2	2	2	2
1	1	1	1	1
81	81	83	83	84
445	445	526	526	535
500,900	500,900	500,900	500,900	500,900
75	75	78	78	80
2	2	2	2	2
2,000,000	2,000,000	2,000,000	2,000,000	2,000,000

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