

THE CITY OF DOTHAN, ALABAMA

POPULAR ANNUAL FINANCIAL REPORT

Fiscal Year Ending September 30, 2013



Mike Schmitz, Mayor

DISTRICT COMMISSIONERS

- | | |
|--------------------|--------------------|
| 1. Kevin Dorsey | 4. John Ferguson |
| 2. Amos Newsome | 5. Taylor Barbaree |
| 3. Albert Kirkland | 6. Hamp Baxley |

Michael K. West, City Manager

Office of the Mayor



THE CITY OF DOTHAN, ALABAMA

POST OFFICE BOX 2128 • DOTHAN, ALABAMA 36302 • 334-615-3000



To the Citizens of Dothan!

Understanding today's governmental financial statements can prove to be difficult. In an effort to provide our citizens with an easy to read financial report of the City of Dothan's finances, we are pleased to present the Popular Annual Financial Report (PAFR) for fiscal year ending September 30, 2013. This report represents Dothan's ongoing commitment to increase our level of operational productivity and accountability. As we strive to keep citizens informed about the City's financial position, we understand the importance of being accountable for the receipt and expenditure of public funds.

Through easier, more user friendly financial reporting, the PAFR is another example of our commitment to improve communication with our citizens and increase public confidence in the governing body for the City of Dothan. I want to congratulate Angela Palmer, Director of Finance, and our financial reporting staff for their work in providing citizens with an understandable general overview of the City's finances.

On behalf of the Dothan City Commission and the City Manager, I thank you for taking a moment to read our financial report. We are proud to serve the citizens of Dothan and we thank you for your support as we seek to further enhance the level of financial accountability to our taxpayers. Questions, comments and feedback on this report are welcomed and encouraged, so please feel free to contact me at (334) 615-3111.

Sincerely,

Mike Schmitz
Mike Schmitz, Mayor



INTRODUCTION

In the 1830's, a fort existed on the Barber Plantation, ten or twelve miles east of Poplar Head, named for the poplar trees that encircled the glade where the cool water, or "head" (as springs were often called) welled from the earth. This was where the settlers from the surrounding areas could go when they felt threatened by the Indians. By 1840, the Indian wars in Alabama were over and the fort soon disappeared. By 1885, the hamlet had grown into a village. The settlers realized that if the community's growth was to be sustained, they needed a governing body and local law enforcement. On November 10, 1885, the people of Poplar Head voted to incorporate and named the town Dothan.

The City of Dothan is located in the southeastern part of the State of Alabama approximately twenty miles west of the Georgia state line and eighteen miles north of the State of Florida.

Dothan currently operates under a Mayor/Commission/City Manager form of government. The Mayor is elected at-large, and the six (6) Commissioners are elected from six (6) single member districts, for concurrent terms of four (4) years. This Board of Commissioners serves part-time and is responsible for adopting all legislative ordinances and establishing policies to guide the

various City departments in providing services to citizens, including the appropriation of all monies.

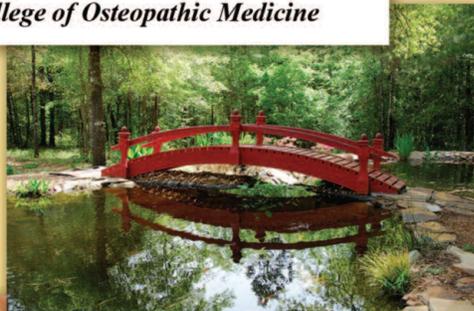
The Mayor, who is a member of the Board of Commissioners, is the City's chief executive officer. The City Manager is the administrative head of the City government and is responsible for directing and managing the daily activities of the City and implementing the policies of the Board of Commissioners. The City's departments include: General Administrative (Mayor, Commissioners, City Manager, City Clerk, EEO, Public Relations, Internal Analyst & Legal), Information Technology, Judicial, Finance (Accounting, Purchasing, Utility Services/Meter Reading & Utility Collections), Personnel (Human Resources), Police, Fire, Public Works (Engineering, Street & Environmental Services), Planning & Development (Permitting, Business License, Inspections & Zoning), Leisure Services, Performing Arts, General Services (Liability & Workers' Compensation Insurance, Facility & Fleet) and Dothan Utilities (Electric, Water & Sewer). There are 1,236 authorized positions (1,021 full time, 55 part time and 160 seasonal) of which 1,110 are currently filled (944 full time, 43 part time and 123 seasonal) and those employees staff the departments, producing high quality and cost-effective public services.



Alabama College of Osteopathic Medicine



National Peanut Festival Fair



The Dothan Botanical Gardens



The Dothan Civic Center



The Peanut Capital of the World



Flowers Hospital (One of Two Local Hospitals)

ABOUT THIS FINANCIAL REPORT

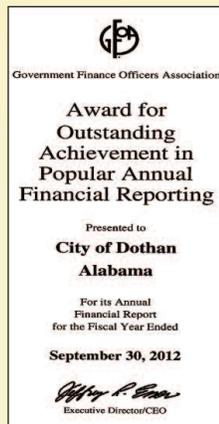
As part of our continuous effort to keep you informed of how your tax dollars are being spent, we are pleased to present the 2013 Popular Annual Financial Report (PAFR). The PAFR is a summary of the financial activities of the City's governmental funds and was drawn from information found in the Comprehensive Annual Financial Report (CAFR). The CAFR was prepared in conformance with generally accepted accounting principles (GAAP) and includes financial statements audited by McClintock, Nelson & Associates, P.C.

Unlike the CAFR, the PAFR is unaudited and presented on a non-GAAP basis. The GAAP basis presentation in the CAFR includes the City's component units and the presentation of individual funds, as well as, full disclosure of all material events, financial and non-financial, in the notes to the financial statements. Dothan's CAFR can be viewed by the public at City Hall, at the Public Library and online at <http://www.dothan.org/DocumentCenter/View/1815>.

AWARDS

The City received the following awards (valid for one year only) from the Government Finance Officers Association (GFOA):

- Certificate of Achievement for Excellence in Financial Reporting for the CAFR for the year ended September 30, 2012 (thirty consecutive years, 1983 - 2012).
- Award for Outstanding Achievement in Popular Annual Financial Reporting for the PAFR for the year ended September 30, 2012 (nine consecutive years, 2004 - 2012).



FINANCIAL HIGHLIGHTS

- The City's **combined** net position (difference between assets and liabilities in governmental and business-type activities) at September 30, 2013, totaled \$196,823,590 as follows: \$137,339,984 in net investment in capital assets (difference between the capital asset and the outstanding debt incurred to finance those capital assets), \$883,855 restricted (resources that are constrained by legislation to a particular purpose) and \$58,599,751 unrestricted (can be used to meet the government's ongoing obligations to the citizens and creditors).
- Total revenues for all governmental funds were \$86,153,837 and total spending was \$88,586,391. The fund balances (the excess of what is owned over what is owed ~ assets minus liabilities/debt) for these funds were \$46,195,810 in FY 2013 compared to \$41,696,860 in FY 2012.
- Total revenues for business-type activities (Utility and E-911) at the end of FY 2013 were \$112,992,891 and total spending was \$96,794,533. Total net position was \$111,798,816 as compared to \$102,531,962 in FY 2012.

- The City of Dothan adopts a biennial operating budget for its general, debt service, capital projects, school and utility funds. In addition, a capital or supplemental budget is adopted no later than April 15th of each year.

GENERAL FINANCIAL INFORMATION

Most City services and projects are accounted for in a general category referred to as Governmental Funds. These concise descriptions should provide you with a better understanding of the accounts.

GOVERNMENTAL FUNDS

- **General Fund** – Accounts for revenues and expenditures associated with the general operations of the City that are not required to be accounted for in separate funds.
- **Special Revenue Funds** – Account for proceeds of specific revenue sources that are legally restricted for specific purposes (e.g. street paving and schools).
- **Debt Service Funds** – Account for the payment of principal, interest and related costs on general long-term debt.
- **Capital Projects Funds** – Account for the financial resources used for the construction and/or acquisition of major capital facilities.

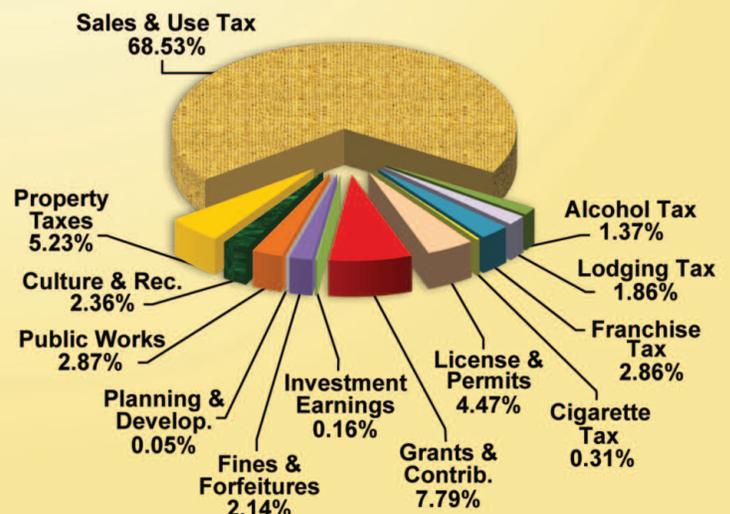
PROPRIETARY FUNDS

Proprietary Funds account for activities the City operates similar to private businesses. The City of Dothan has two proprietary funds: the Utility Fund (Electric, Water and Sewer) and the E-911 Fund.

The PAFR focuses on the City's two largest funds, (General and Utility) which are of most interest to citizens.

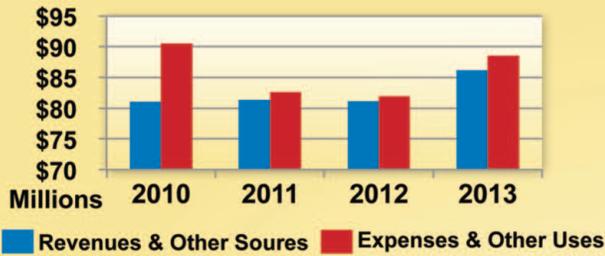
GOVERNMENTAL FUNDS' FINANCIAL ACTIVITIES

At September 30, 2013, the City's governmental funds reflected a combined fund balance of \$46,195,810, a \$4,498,950 increase from the previous year at \$41,696,860. These financial activities comprise the major changes in governmental fund balances:



GOVERNMENTAL REVENUES

Total revenues for the governmental funds (\$86,153,837) showed an increase of \$5,045,146 or 6.22% over the prior year (\$81,108,691).



Key elements in the change of net position are as follows:

- In fiscal year 2013, sales tax collections totaled \$59,091,229 which was \$1,825,631 (3.19%) over the 2012 fiscal year amount of \$57,265,598. Dothan’s metro area services an estimated 525,000 people within a 50 mile radius and is a hub for dining, shopping, recreation, industry and medical services for surrounding towns and rural areas.

CITY OF DOTHAN SALES & USE TAX



- Dothan strives to maintain an aggressive grant application strategy. Contributions and grants (\$4,117,180) reflected an increase of \$745,546 (22.11%) from 2012 (\$3,371,634).

GOVERNMENTAL EXPENDITURES

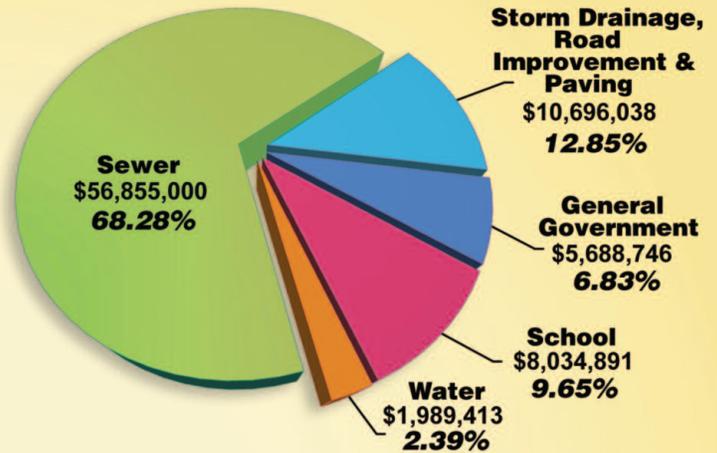
Total governmental expenditures increased by \$6,640,711 (8.10%) in fiscal year 2013 (\$88,586,391) from 2012 (\$81,945,680). The major contributing factors include:

- City departments experienced a \$3,484,185 increase as follows: (Police) creation of a new community service division; (Fire) station alerting software, maintenance and construction at the Eastside Fire Station and matching portion on breathing apparatuses; (Public Works) street resurfacing design, road repair, and a roadway for the Osteopathic Medicine College; dozer with landfill package; (Performing Arts) civic center roofing; (Leisure Services) renovation of Doug Tew Park and design work on James Oates Park and Andrew Belle and Westgate pools.
- Insurance department increased \$475,967 which was primarily due to a reversal of accrued self-insurance claims and a reduction in attorney fees and miscellaneous claims payable.
- Health and welfare increased \$1,008,848 because an additional \$1,000,000 was appropriated to the Houston-Love Memorial Library for operating expenditures and library construction.

LONG-TERM DEBT

As of the fiscal year end, the City had \$83,264,088 in long-term debt outstanding compared to \$85,238,578 in 2012 (\$1,974,490 or 2.32%). This decrease is comprised of debt service payments totaling \$7,974,490 which were reduced by \$6,000,000 in general obligation (G/O) debt let by the Dothan Regional Airport Authority for extensive renovations to provide an aircraft maintenance facility for Commercial Jet Services, LLC. Biannual payments will be paid by the City over ten years at 2.8%.

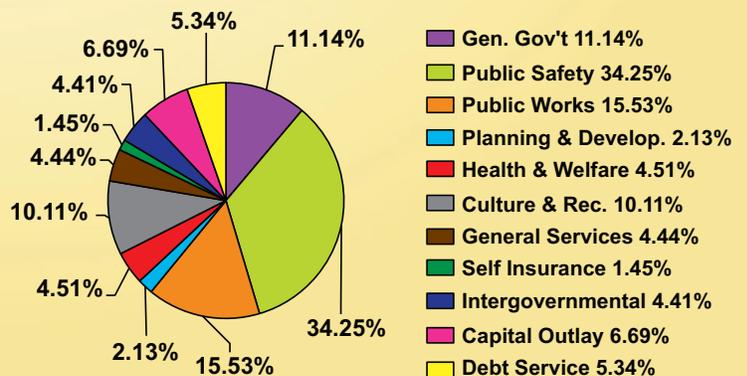
OUTSTANDING DEBT BY TYPE



Principal payment on debt will (a) reduce current assets and reduce long-term debt and (b) reduce unrestricted net assets and increase net investment in capital assets.

- Capital outlay increased by \$1,615,811 with the majority of the funds being spent in Public Works for (3) garbage trucks, (2) knucklebooms, a roll-off container, and a baler, hopper, conveyor and carts/bins for recycling.
- Principal retirement, interest and fiscal charges on long-term debt increased \$44,204. Intergovernmental increased by \$11,696.

FY 2013 GOVERNMENTAL FUND EXPENDITURES

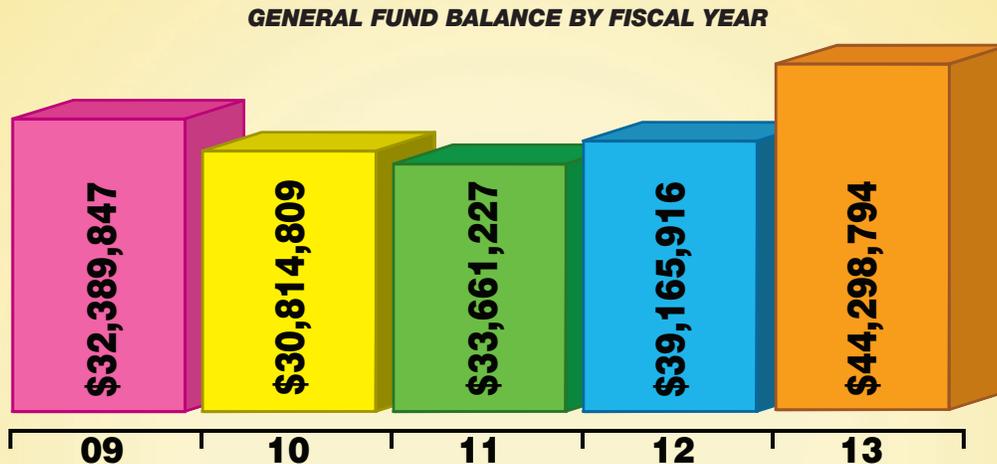


GENERAL FUND

FUND BALANCE

Fund balance is the excess of what is owned (assets) over what is owed (debts or liabilities). The City Manager set a goal for maintaining the unassigned fund balance in the General Fund at not less than 8% of the budgeted expenditures. The City has consistently exceeded this goal. The General Fund reported a fund balance at September 30, 2013, of \$44,298,794, an increase of \$5,132,878 (13.11%) in comparison with the prior year which totaled \$39,165,916. Governmental Funds' combined ending fund balances were \$46,195,810 compared to 2012 at \$41,696,860 producing a \$4,498,950 (10.79%) increase. Of this fund balance, \$11,423,170 constitutes the unassigned fund balance, which is available for spending at the government's discretion (referred to as *unassigned fund balance*). The City additionally maintains an 8% utility fund reserve to be utilized in the event of a natural disaster or unexpected economic decline.

The chart below provides fund balance comparisons:



GENERAL FUND EXPENDITURES

General Fund expenditures totaling \$79,278,883 increased 8.52% from 2012 (\$73,055,754). The City made a conscious effort to live within the constraints of available revenues by delaying some critical items. The downturn in the economy necessitated guarded filling of vacated staff positions on a case by case basis and expenditures were closely monitored. The City cautiously purchased essential vehicles and equipment and addressed the most pressing building or facility maintenance/repair needs.

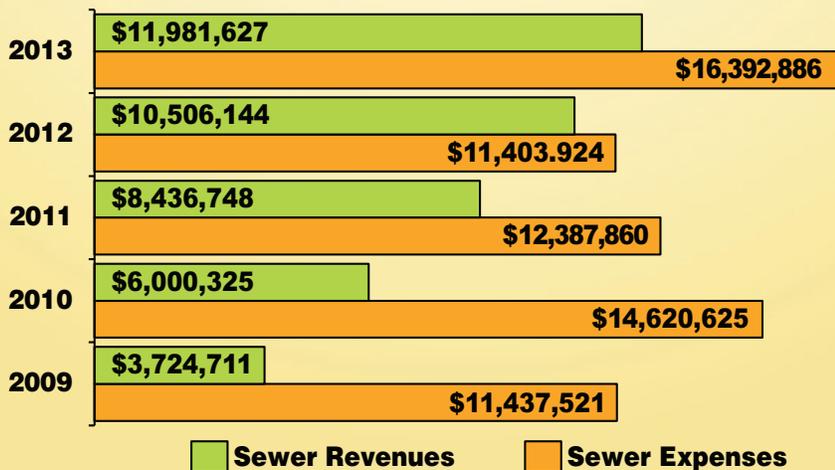
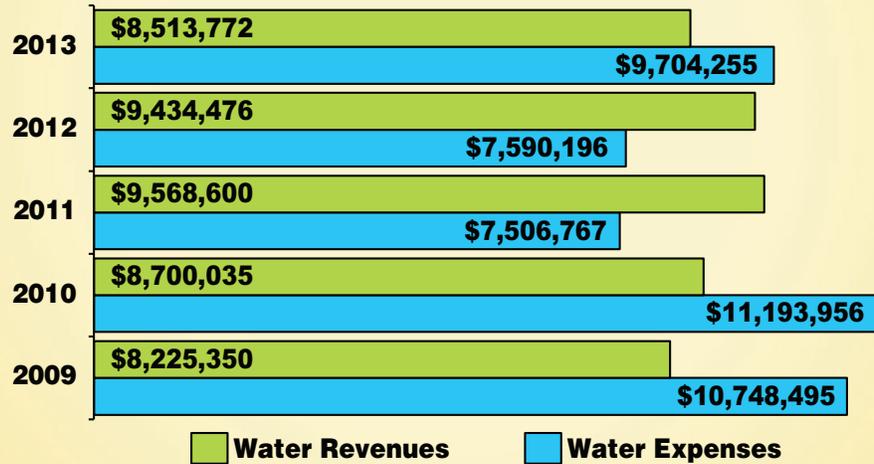
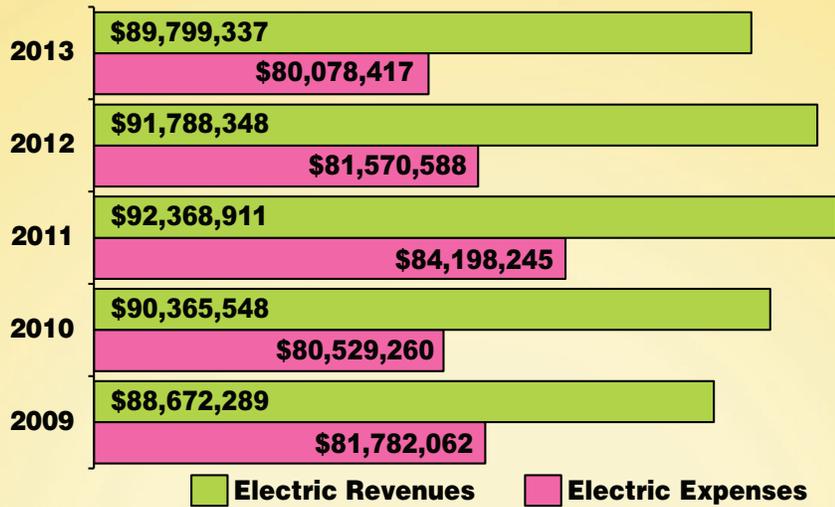
Increases or decreases for major functions are as follows:

Major Functions	Amount	Percent of Total	Increase (Decrease) over 2012
General Government	\$ 9,869,973	12.45%	\$ 714,509
Public Safety	30,344,582	38.28%	1,030,370
Public Works	13,086,076	16.50%	596,802
Planning & Development	1,882,260	2.37%	59,781
Health & Welfare	3,995,997	5.04%	1,008,848
Culture & Recreation	8,960,502	11.30%	679,813
General Services	3,930,479	4.96%	41,228
Self Insurance	1,280,974	1.62%	475,967
Capital Outlay	5,928,040	7.48%	1,615,811
Total	\$ 79,278,883	100.00%	\$ 6,223,129

UTILITY FUND

The City's Utility Fund has experienced steady growth and the customer base has grown to approximately 36,866 electric, water and sewer customers. The largest utility revenue source comes from electric power sales. The gross income on electric sales for FY 2013 totaled \$20,653,201 compared to last year's amount of \$20,413,502. FY 2013's net income from electric sales totaled \$9,720,920.

Electric, water, and sewer operations are reflected as follows:



BOND RATING

The City of Dothan maintains the following ratings for general obligation debt which reflects excellent financial security:

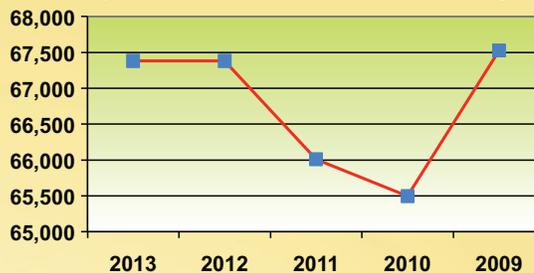
- Standard & Poor's Rating Service ~ "AA-"
- Moody's Investors Service ~ "Aa2"

RATING CATEGORIES		
SECURE RANGE:		
Moody's	S & P	
Aaa	AAA	PRIME: Superior financial security. Highest safety.
Aa1 Aa2 Aa3	AA+ AA AA-	HIGH GRADE: Excellent financial security. Highly safe.
A1 A2 A3	A+ A A-	UPPER MEDIUM GRADE: Good financial security. More susceptible to economic changes than highly rated companies.
Baa1 Baa2 Baa3	BBB+ BBB BBB-	LOWER MEDIUM GRADE: Adequate financial security. More vulnerable to economic changes than highly rated companies.
VULNERABLE RANGE:		
Ba1 Ba2 Ba3	BB+ BB BB-	NON INVESTMENT GRADE: Speculative. Capacity to meet long-term policies is vulnerable.
B1 B2 B3	B+ B B-	HIGHLY SPECULATIVE: Vulnerable financial security.
<i>Any rating below a "B" rating is extremely vulnerable and possibly in default status with little prospect for recovery and questionable ability to meet obligations.</i>		

TREND DATA

Population Trends

(Estimates Obtained from U.S. Census Bureau)



Unemployment Rate

(Obtained from AL Dept of Industrial Relations)



ECONOMIC GROWTH

The City relies on taxes (sales, property, gasoline, etc.), fees (license, permits), and fines (public safety) for their governmental activities. In the business-type and certain governmental activities (electric, water, sewer, recreational programs, etc.), the user pays a related fee/charge associated with the service. Revenue sources have a direct bearing on the City's ability to (a) annex additional land into its corporate limits and (b) encourage development (office, retail, residential and industrial) to choose to be located in the jurisdiction. The City places significant emphasis on both annexation and economic development.

The economic downturn has had a significant impact on Dothan and the local economy. However, 2012 and 2013 provided signs of recovery. The City's major tax source, sales tax, showed proof

of improvement and unemployment decreased by 1.9%. Principal employers are as follows:

PRINCIPAL EMPLOYERS

- 1) Southeast Alabama Medical Center
- 2) Dothan (City) & Houston Co. Schools
- 3) Flowers Hospital
- 4) City of Dothan
- 5) Southern Nuclear (Farley)
- 6) Wayne Farms, LLC
- 7) Michelin Tire
- 8) AAA Cooper Transportation
- 9) Houston County Government
- 10) Twitchell Corporation

The City has made an effort to live within the constraints of available revenue and addressed the most pressing needs. Major construction projects in 2013 were as follows: Beaver Creek Basin and Sewer Rehabilitation; Little Choctawhatchee Treatment Plant Upgrade; Pinhook Creek

Sanitary Sewer Line; Denton Road Widening; North Foster Street Improvements; South Saint Andrews Street Water Main Replacement; Eastside Fire Station; and Medical College Road Construction.

The City set downtown revitalization as a key priority by reconstituting the Dothan Downtown Redevelopment Authority (DDRA). The DDRA is already dealing with dilapidated structures on Main Street and cleaning up other areas of downtown.

The City Commission worked diligently to develop a mission statement, long range goals and action items to be addressed. This strategic plan was a positive step and provided a sense of unity, direction and vision for the City's future.

Direct any questions about this financial report to:
Angela Palmer, Finance Director-Treasurer • atpalmer@dothan.org
 P. O. Box 2128 • Dothan, AL 36302 • Phone: (334) 615-3140