

THE CITY OF DOTHAN, ALABAMA

POPULAR ANNUAL FINANCIAL REPORT

Fiscal Year Ending September 30, 2014



Mike Schmitz, Mayor

DISTRICT COMMISSIONERS

- | | |
|--------------------|-------------------|
| 1. Kevin Dorsey | 4. John Ferguson |
| 2. Amos Newsome | 5. Susan Anderson |
| 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, 2014. 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 Lisa Reeder, 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,

A handwritten signature in black ink that reads "Mike Schmitz". The signature is written in a cursive, slightly stylized font.

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.

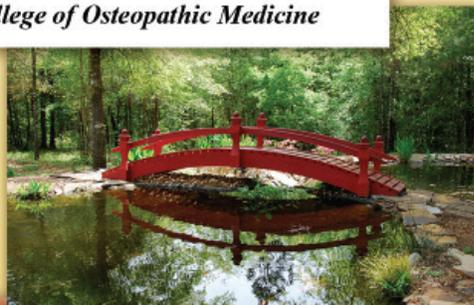
The Mayor, who is a member of the Board of Commissioners, is the City's chief executive officer. The City Manager is the administrative head of the City government and is responsible for directing and managing the daily activities of the City and implementing the policies of the Board of Commissioners. 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 1,252 authorized positions (1,037 full time, 55 part time and 160 seasonal) of which 1,123 are currently filled (961 full time, 40 part time and 122 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

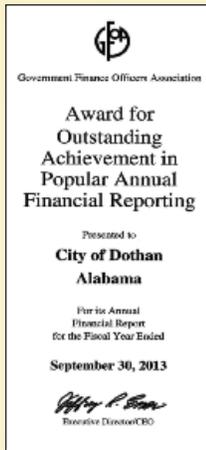
As part of our continuous effort to keep you informed of how your tax dollars are being spent, we are pleased to present the 2014 Popular Annual Financial Report (PAFR). The PAFR is a summary of the financial activities of the City's governmental funds and was drawn from information found in the Comprehensive 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/2378>.

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, 2013 (thirty-one consecutive years, 1983 - 2013).
- Award for Outstanding Achievement in Popular Annual Financial Reporting for the PAFR for the year ended September 30, 2013 (ten consecutive years, 2004 - 2013).



FINANCIAL HIGHLIGHTS

- The City's *combined* net position (difference between assets and liabilities in governmental and business-type activities) at September 30, 2014, totaled \$206,932,495 as follows: \$142,871,686 in net investment in capital assets (difference between the capital asset and the outstanding debt incurred to finance those capital assets), \$210,752 restricted (resources that are constrained by legislation to a particular purpose) and \$63,850,057 unrestricted (can be used to meet the government's ongoing obligations to the citizens and creditors).
- Total revenues for all governmental funds were \$88,514,998 and total spending was \$108,425,162. The fund balances (the excess of what is owned over what is owed ~ assets minus liabilities/debt) for these funds were \$45,942,960 in FY 2014 compared to \$46,195,810 in FY 2013.
- Total revenues for business-type activities (Utility and E-911) at the end of FY 2014 were \$119,058,223 and total spending was \$104,880,442. Total net position was \$117,969,698 as compared to \$111,798,816 in FY 2013.

- 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

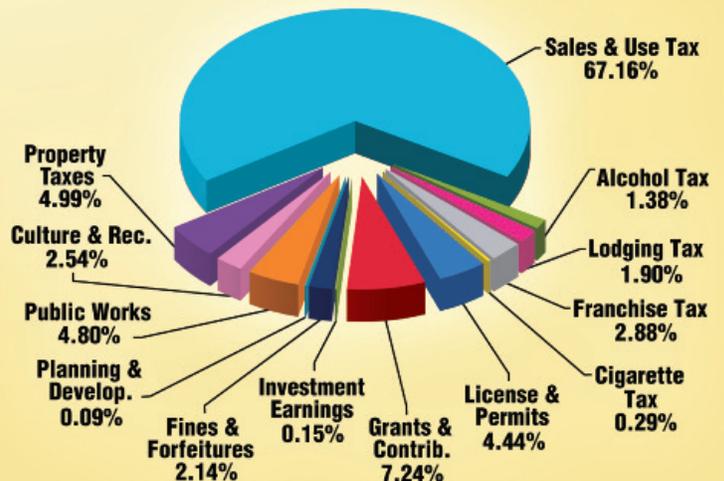
Proprietary Funds account for activities the City operates similar to private businesses. The City of Dothan has two proprietary funds: the Utility Fund (Electric, Water and Sewer) and the E-911 Fund.

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

GOVERNMENTAL FUNDS' FINANCIAL ACTIVITIES

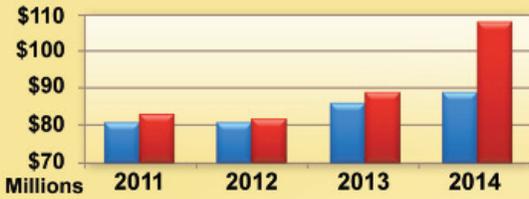
At September 30, 2014, the City's governmental funds reflected a combined fund balance of \$45,942,960, a \$252,850 decrease from the previous year at \$46,195,810. These financial activities comprise the major changes in governmental fund balances:

FY 2014 GOVERNMENTAL REVENUES



GOVERNMENTAL REVENUES

Total revenues for the governmental funds (\$88,514,998) showed an increase of \$2,361,161 or 2.74% over the prior year (\$86,153,837).

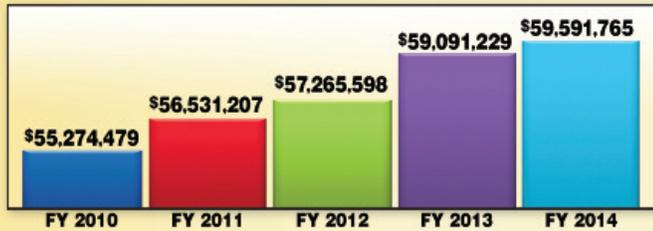


■ Revenues & Other Sources ■ Expenses & Other Uses

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

- In fiscal year 2014, sales tax collections totaled \$59,591,765 which was \$500,536 (.85%) over the 2013 fiscal year amount of \$59,091,229. 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



- Solid waste revenue (\$4,255,345) reflected an increase of \$1,779,567 (71.88%) from 2013 (\$2,475,778) due to the first full year of collections of a monthly solid waste fee which was effective March 1, 2013.

GOVERNMENTAL EXPENDITURES

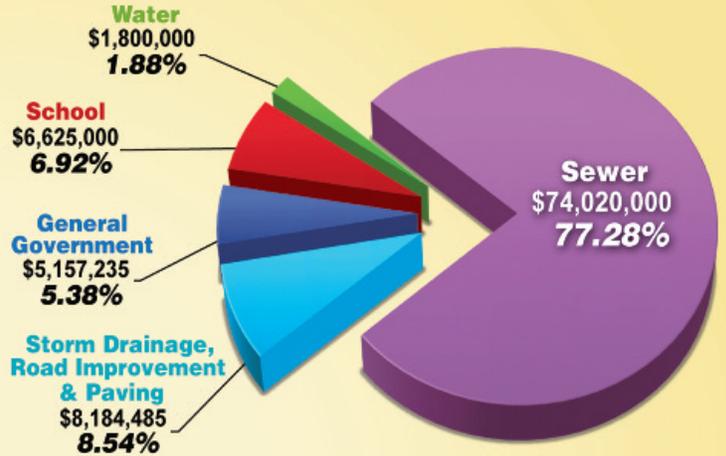
Total governmental expenditures increased by \$19,838,771 (22.40%) in fiscal year 2014 (\$108,425,162) from 2013 (\$88,586,391). The major contributing factors include:

- City departments experienced a \$4,846,458 increase as follows: (General Administration) appropriation to Houston County Industrial Development Authority; (Personnel) Transitional Reinsurance fee; (Public Works) transfer and disposal of solid waste; (Performing Arts) civic center shows; and city-wide increase in salaries and benefits from cost of living and performance adjustments; and filling of vacant positions.
- Insurance department decreased \$828,286 which was primarily due to a reversal of accrued self-insurance claims and a reduction in attorney fees and miscellaneous claims payable.
- Capital outlay increased by \$4,103,000 with the majority of the funds being spent in Information Technology for city-wide fiber optic; Public Works for jet truck, dozier, excavators, tractors, mower, backhoe, sign & paint trucks,

LONG-TERM DEBT

As of the fiscal year end, the City had \$95,786,720 in long-term debt outstanding compared to \$83,264,088 in 2013 (\$12,522,632 or 15.04%). This increase is comprised of the issuance of two general obligation (G/O) warrants during the year including unamortized bond premium (\$30,895,415) and reduced by debt service payments (\$18,372,783). The two issues were as follows: a \$19,245,000 G/O for various engineering studies, programs and rehabilitation projects to improve the City’s wastewater system and a \$10,705,000 G/O for refunding of the 2005 G/O warrant.

OUTSTANDING DEBT BY TYPE

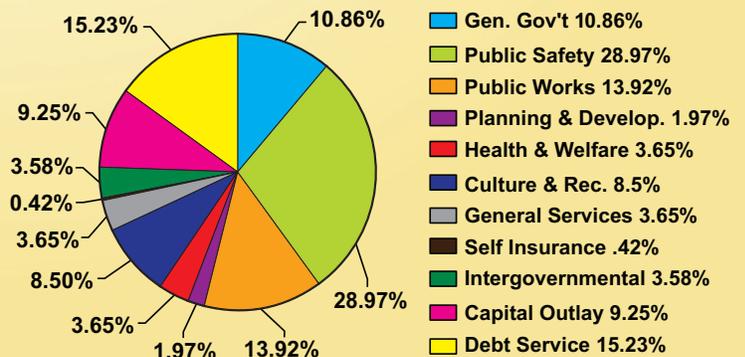


Principal payment on debt will (a) reduce current assets and reduce long-term debt and (b) reduce unrestricted net assets and increase net investment in capital assets.

pickup trucks, garbage trucks, and knucklebooms; Planning & Development for Downtown streetscapes; and Leisure Services for renovations to Doug Tew Recreation Center.

- Principal retirement, interest and fiscal charges on long-term debt increased \$11,781,762 due to the refunding of the 2005 general obligation warrant. Intergovernmental decreased by \$27,304.

FY 2014 GOVERNMENTAL FUND EXPENDITURES



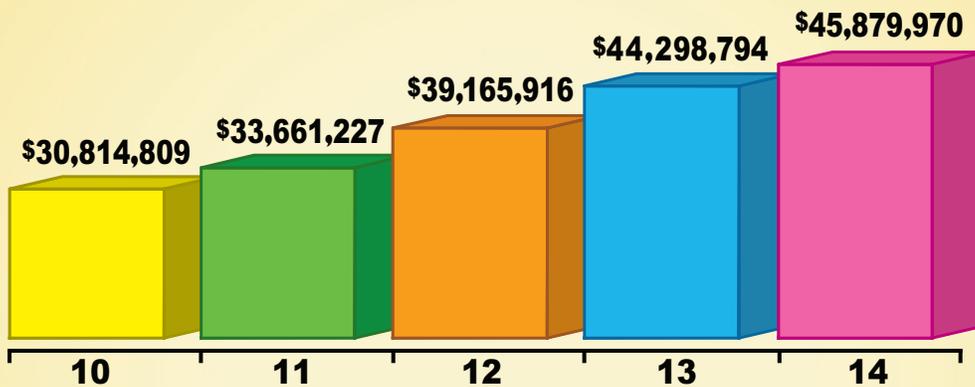
GENERAL FUND

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, 2014, of \$45,879,970, an increase of \$1,581,176 (3.57%) in comparison with the prior year which totaled \$44,298,794. Governmental Funds' combined ending fund balances were \$45,942,960 compared to 2013 at \$46,195,810 producing a \$252,850 (.55%) decrease. Of this fund balance, \$869,854 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 BALANCE BY FISCAL YEAR



GENERAL FUND EXPENDITURES

General Fund expenditures totaling \$86,669,636 increased \$7,390,753 (9.32%) from 2013 (\$79,278,883). The City made a conscious effort to live within the constraints of available revenues. Filling of vacated staff positions were still approved 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.

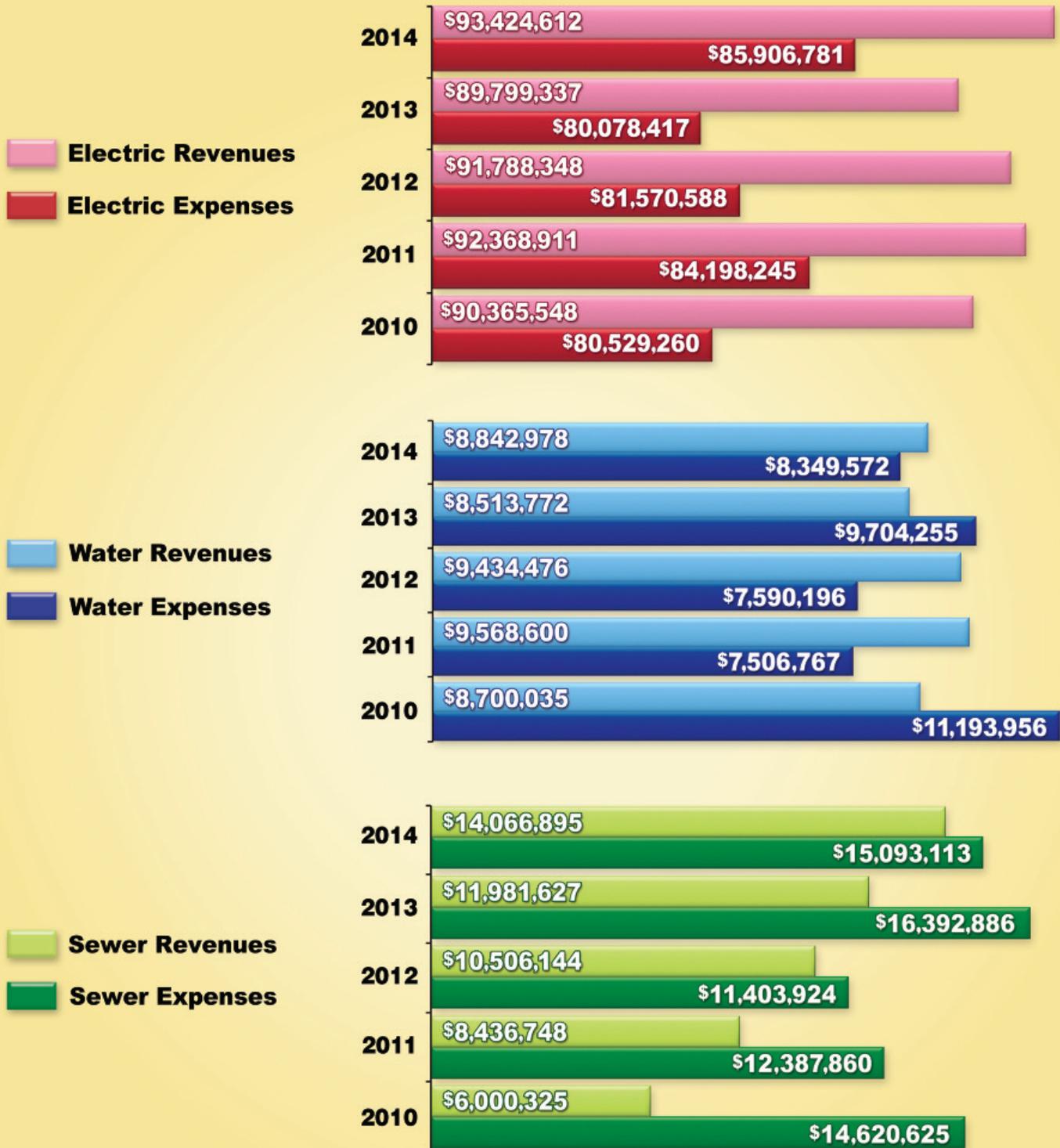
Increases or decreases for major functions are as follows:

Major Functions	Amount	Percent of Total	Increase (Decrease) over 2013
General Government	\$ 11,775,504	13.59%	\$ 1,905,531
Public Safety	31,409,731	36.24%	1,065,149
Public Works	13,729,771	15.84%	643,695
Planning & Dev.	2,136,277	2.46%	254,017
Health & Welfare	3,959,138	4.57%	(36,859)
Culture & Recreation	9,218,891	10.64%	258,389
General Services	3,956,596	4.57%	26,117
Self Insurance	452,688	.52%	(828,286)
Capital Outlay	10,031,040	11.57%	4,103,000
Total	\$ 86,669,636	100.00%	\$ 7,390,753

UTILITY FUND

The City's Utility Fund has experienced steady growth and the customer base has grown to approximately 37,010 electric, water and sewer customers. The largest utility revenue source comes from electric power sales. The gross income on electric sales for FY 2014 totaled \$17,589,411 compared to last year's amount of \$20,653,201. FY 2014's net income from electric sales totaled \$7,517,831.

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.
<small>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.</small>		

In June 2014, Standard and Poor’s Ratings Services upgraded the City of Dothan’s bond rating from AA- to AA. The increase was based on the rating agencies view of the “city’s historically very strong budgetary flexibility and liquidity.” The bond rating can affect the cost of borrowing funds in the future.

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 economic development/recruitment and job growth.

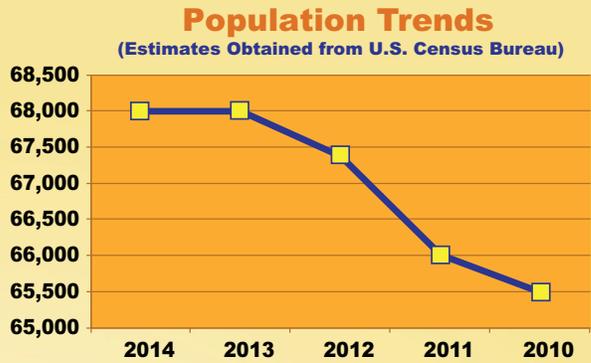
The economic downturn has had a significant impact on Dothan and the local economy. However, recent years have provided signs of recovery. The City’s major tax source, sales tax, showed proof

of improvement and unemployment decreased by 3.2% since 2009. 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) Michelin Tire
7) AAA Cooper Transportation
8) Houston County Government
9) Twitchell Corporation
10) Extendicare Health & Rehab

The City has made an effort to live within the constraints of available revenue and addressed the most pressing needs. Major design/construction projects in 2014 were as follows: Beaver Creek Basin and Sewer Rehabilitation; Denton Road Widening and Bridge; Doug Tew Center Renovation;

TREND DATA



Tuscaloosa Test Well; Rock Creek Trunk Line Rehabilitation; Whatley Connector Main; Fiber Optic System; Westgate Recreation Center - HVAC Replacement and Locker Renovations; Civic Center Remodeling; Landfill Expansion on Ennis Road; James O. Oates Park Phase 1 and Andrew Belle Aquatic Complex.

Over the recent years, the City’s staff has done an exceptional job of controlling costs. Throughout the recession, the City maintained its financial integrity. Additionally, the City Commission continues to work diligently with consultant, Lyle Sumek, to set priorities for major programs undertaken by the City while revisiting the Strategic Plan each year. This Strategic Plan provides a sense of unity, direction, and vision for the City’s future. Most of our major accomplishments since 2006 were initiated in this process.

Direct any questions about this financial report to:

Lisa H. Reeder, Finance Director-Treasurer • lreeder@dothan.org • P. O. Box 2128 • Dothan, AL 36302 • Phone: (334) 615-3140