

THE CITY OF DOTHAN, ALABAMA

POPULAR ANNUAL FINANCIAL REPORT

Fiscal Year Ending September 30, 2015



MIKE SCHMITZ, MAYOR

District Commissioners

- | | |
|--------------------|----------------------|
| 1. Kevin Dorsey | 4. John Ferguson |
| 2. Amos Newsome | 5. Beth Kenward |
| 3. Albert Kirkland | 6. David Crutchfield |

Michael K. West, City Manager

OFFICE OF THE MAYOR



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, 2015. 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 1,235 authorized positions (1,010 full time, 58 part time and 167 seasonal) of which 1,129 are currently filled (959 full time, 39 part time and 131 seasonal) and those employees staff the departments, producing high quality and cost-effective public services.



New Aquatic Pool at Andrew Belle Center



Alabama College of Osteopathic Medicine



New Dothan / Houston County Main Library



The Peanut Capital of the World



Flowers Hospital (One of Two Local Hospitals)



The Dothan Botanical Gardens

ABOUT THIS FINANCIAL REPORT

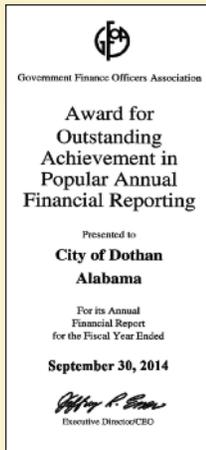
As part of our continuous effort to keep you informed of how your tax dollars are being spent, we are pleased to present the 2015 Popular Annual Financial Report (PAFR). The PAFR is a summary of the financial activities of the City's governmental funds and was drawn from information found in the Comprehensive 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/2978>.

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, 2014 (thirty-two consecutive years, 1983 - 2014).
- Award for Outstanding Achievement in Popular Annual Financial Reporting for the PAFR for the year ended September 30, 2014 (eleven consecutive years, 2004 - 2014).



FINANCIAL HIGHLIGHTS

- The City's *combined* net position (difference between assets and liabilities in governmental and business-type activities) at September 30, 2015, totaled \$85,731,009 as follows: \$150,450,829 in net investment in capital assets (difference between the capital asset and the outstanding debt incurred to finance those capital assets), \$270,862 restricted (resources that are constrained by legislation to a particular purpose) and \$(64,990,682) unrestricted.
- Total revenues for all governmental funds were \$92,802,161 and total spending was \$104,767,788. The fund balances (the excess of what is owned over what is owed ~ assets minus liabilities/debt) for these funds were \$46,459,172 in FY 2015 compared to \$45,942,960 in FY 2014.
- Total revenues for business-type activities (Utility) at the end of FY 2015 were \$118,114,544 and total spending was \$109,027,429. Total net position was \$86,433,100 as compared to \$89,784,139 (restated) in FY 2014.

- 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 presented 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

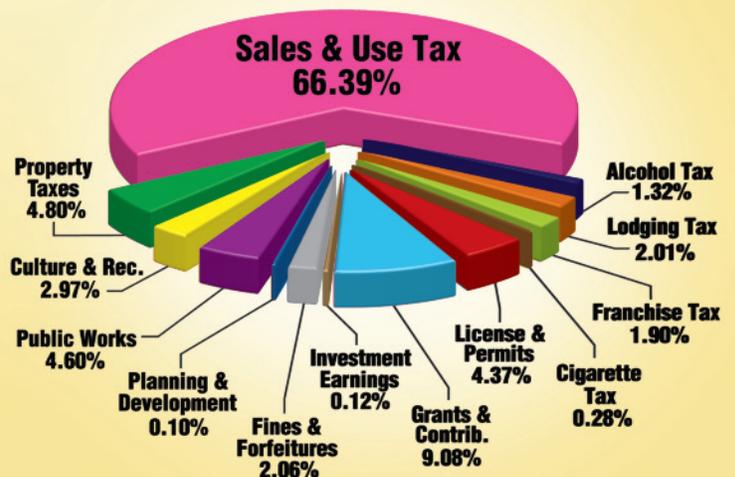
Proprietary Funds account for activities the City operates similar to private businesses. The City of Dothan has one proprietary fund: the Utility Fund (Electric, Water and Sewer).

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

GOVERNMENTAL FUNDS' FINANCIAL ACTIVITIES

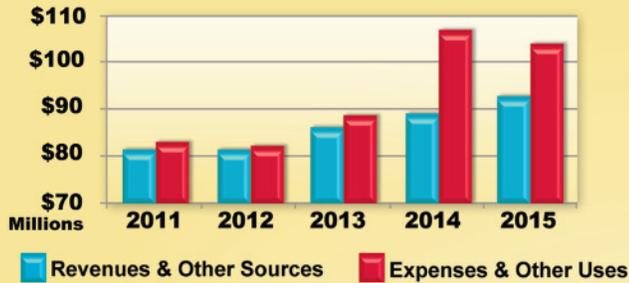
At September 30, 2015, the City's governmental funds reflected a combined fund balance of \$46,459,172, a \$516,212 increase from the previous year at \$45,942,960. These financial activities comprise the major changes in governmental fund balances:

FY 2015 GOVERNMENTAL REVENUES



GOVERNMENTAL REVENUES

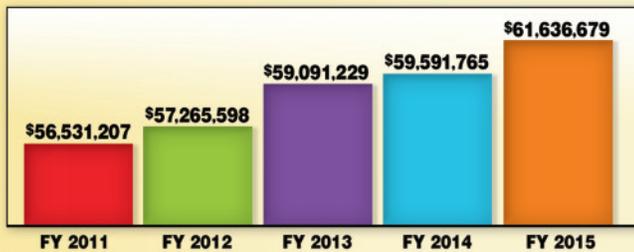
Total revenues for the governmental funds (\$92,802,161) showed an increase of \$4,287,163 or 4.84% over the prior year (\$88,514,998).



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

- In fiscal year 2015, sales tax collections totaled \$61,636,679 which was \$2,044,914 (3.43%) over the 2014 fiscal year amount of \$59,591,765. 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



- Grant revenue (\$4,780,509) reflected an increase of \$800,862 (20.12%) from 2014 (\$3,979,647).
- Miscellaneous revenue (\$3,660,608) reflected an increase of \$1,217,708 (49.85%) from 2014 (\$2,442,900).
- Increase in transfers from the business-type activities in the amount of \$4,431,255.

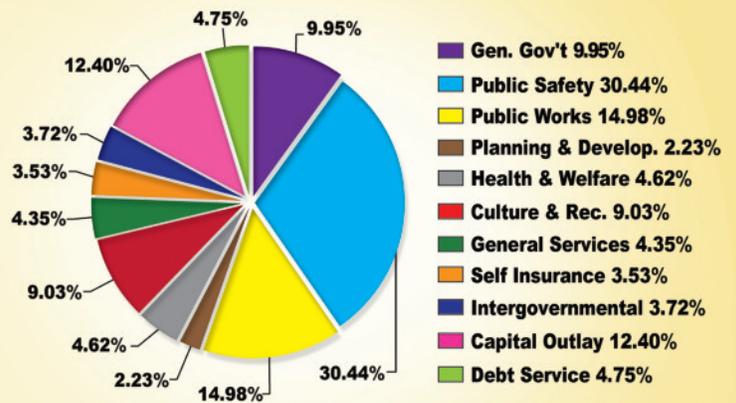
GOVERNMENTAL EXPENDITURES

Total governmental expenditures decreased by \$3,657,374 (3.37%) in fiscal year 2015 (\$104,767,788) from 2014 (\$108,425,162). The major contributing factors that resulted in this net decrease include:

- Principal retirement, interest and fiscal charges on long-term debt decreased \$11,538,866 due to the refunding of the 2005 general obligation warrant in the prior year.
- City departments experienced a \$776,061 increase as follows: (Public Safety) self-contained breathing apparatuses; (Public Works) street resurfacing; (Planning and Development) projects funded by Community Development Block Grant funds; (Culture and Recreation) recreation facility maintenance; (General Services) replacement of civic center chiller and exterior lighting; and city-wide increase in salaries and benefits from cost of living and performance adjustments. This increase was offset by a decrease in General Administration expenditures for economic development compared to the prior year.

- Health and Welfare increased \$884,370 which was a result of additional appropriations to the Houston-Love Memorial Library and for repairs to the Alfred Saliba Family Services Center.
- Insurance department increased \$3,243,892 which was primarily due to medical insurance claims and reversal of accrued worker's compensation and self-insured claims.
- Intergovernmental increased by \$17,954 due to an increase in property insurance for the school fund offset by a decrease in printing of tobacco tax stamps.
- Capital outlay increased by \$2,959,215 with the majority of the funds being spent for the following: (Information Technology) IVR and Outage Management System; (Public Safety) fire truck; (Public Works) relocating transmission lines for landfill expansion and traffic engineering storage building and loading dock; and (Leisure Services) construction of Andrew Belle Aquatic Complex and James Oates Park.

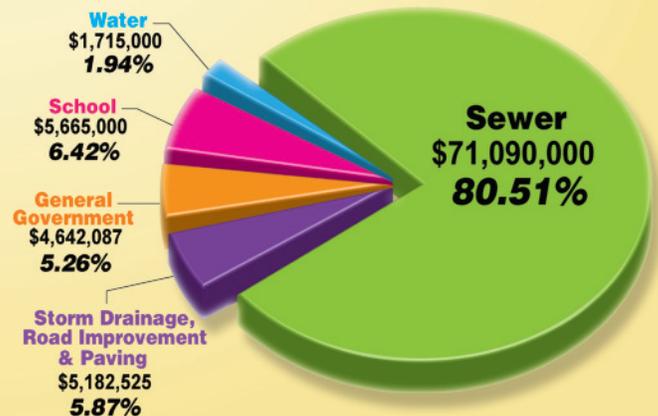
FY 2015 GOVERNMENTAL FUND EXPENDITURES



LONG-TERM DEBT

As of the fiscal year end, the City had \$88,294,612 in long-term debt outstanding compared to \$95,786,720 in 2014 (\$7,492,108 or 7.82%). This decrease was a result of debt service payments of \$7,535,793 reduced by additions of capital leases of \$43,685.

OUTSTANDING DEBT AS OF SEPTEMBER 30



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.

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, 2015, of \$46,376,998, an increase of \$497,028 (1.08%) in comparison with the prior year which totaled \$45,879,970. Governmental Funds' combined ending fund balances were \$46,459,172 compared to 2014 at \$45,942,960 producing a \$516,212 (1.12%) increase. Of this fund balance, \$4,982,343 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 \$95,896,033 increased \$9,226,397 (10.65%) from 2014 (\$86,669,636). The City made a conscious effort to live within the constraints of available revenues. Filling of vacated staff positions was 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.

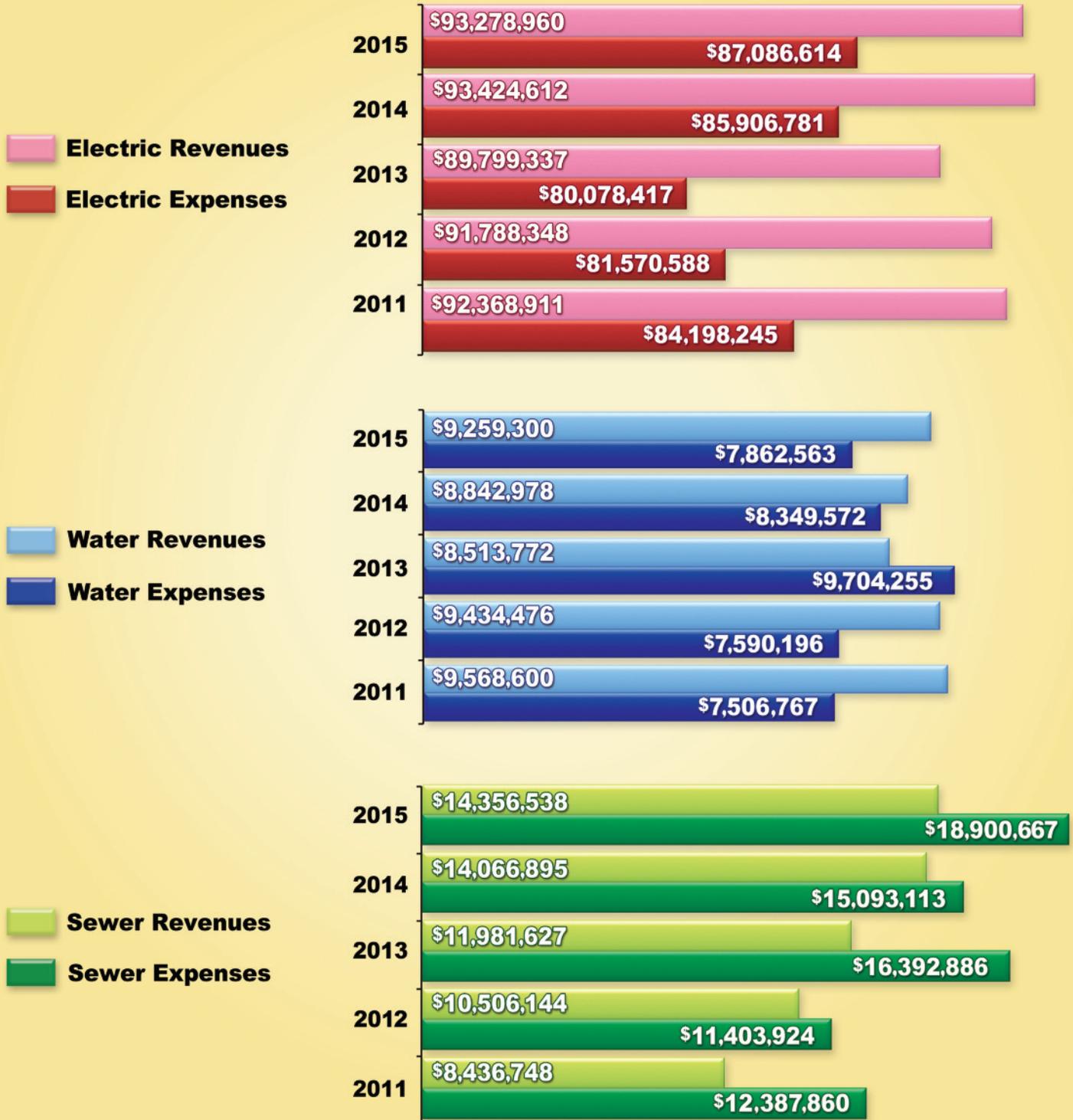
Increases or decreases for major functions are as follows:

Major Functions	Amount	Percent of Total	Increase (Decrease) over 2014
General Government	\$ 10,425,955	10.87%	\$ (1,349,549)
Public Safety	31,886,858	33.25%	477,127
Public Works	15,696,716	16.37%	1,966,945
Planning & Dev.	2,338,467	2.44%	202,190
Health & Welfare	4,843,508	5.05%	884,370
Culture & Recreation	9,461,508	9.87%	242,617
General Services	4,556,186	4.75%	599,590
Self Insurance	3,696,580	3.85%	3,243,892
Capital Outlay	12,990,255	13.55%	2,959,215
Total	\$ 95,896,033	100.00%	\$ 9,226,397

UTILITY FUND

The City's Utility Fund has experienced steady growth and the customer base has grown to approximately 37,463 electric, water and sewer customers. The largest utility revenue source comes from electric power sales. The gross income on electric sales for FY 2015 totaled \$16,596,969 compared to last year's amount of \$17,589,411. FY 2015's net income from electric sales totaled \$6,192,346.

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.
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.		

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. In addition to the City’s major tax source, sales tax, continuing to show signs of improvement,

unemployment has declined 3.7% since 2009. Principal employers are as follows:

PRINCIPAL EMPLOYERS
1) Southeast Alabama Medical Center
2) Dothan (City) & Houston Co. Schools
3) Flowers Hospital
4) Southern Nuclear (Farley)
5) City of Dothan
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 2015 were as follows: Beaver Creek Basin and Sewer Rehabilitation; Denton Road Widening and Bridge; Doug Tew Center Renovation; Tuscaloosa Test Well; Rock Creek Trunk Line

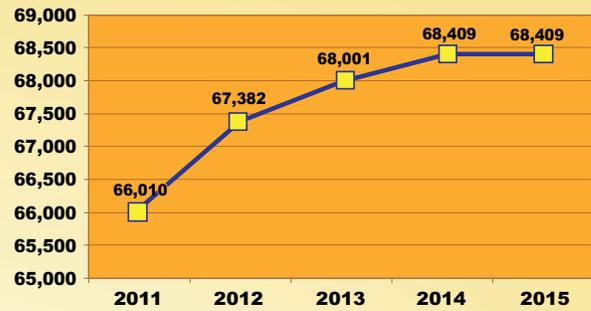
Rehabilitation; Whatley Connector Main; Fiber Optic System; Landfill Expansion on Ennis Road; James Oates Park Phase 1; Andrew Belle Aquatic Complex; Westgate Aquatic Center; Flowers Chapel Road Improvements; and Wastewater Treatment Plant Dewatering Upgrade.

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 Dothan 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.

TREND DATA

Population Trends

(Estimates Obtained from U.S. Census Bureau)



Unemployment Rate

(Obtained from AL Dept of Industrial Relations)



Direct any questions about this financial report to:

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