

The City of
Dothan, Alabama



Comprehensive Annual Financial Report
Fiscal Year Ended September 30,

2006

THE CITY OF DOTHAN
DOTHAN, ALABAMA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2006
PREPARED BY
DEPARTMENT OF BUDGET AND FINANCE
ANGELA T. PALMER, DIRECTOR

THE CITY OF DOTHAN
DOTHAN, ALABAMA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2006
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BOARD OF COMMISSIONERS

PAT THOMAS
PRESIDENT/MAYOR
LARRY E. MATTHEWS
COMMISSIONER, DISTRICT 1
AMOS NEWSOME
COMMISSIONER, DISTRICT 2
PAUL W. LEE
COMMISSIONER, DISTRICT 3
JASON RUDD
COMMISSIONER, DISTRICT 4
TAYLOR BARBAREE
COMMISSIONER, DISTRICT 5
PHILLIP TIDWELL
COMMISSIONER, DISTRICT 6

The City of Dothan

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

March 1, 2007



**Honorable Pat Thomas, Mayor,
Members of the City Commission and
all Citizens Interested in the
Financial Status of the City**

The Comprehensive Annual Financial Report (CAFR) of the City of Dothan, Alabama (the City) for the fiscal year ended September 30, 2006, is submitted herewith, as required by Section 11-44E-54, Code of Alabama, 1975, as amended. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City of Dothan management. The enclosed data, as presented, is accurate in all material respects and is presented in a manner designed to fairly set forth the financial position and results of operations of the City, on a Government-wide and Fund basis. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The City of Dothan has reviewed its reporting entity definition in light of the Governmental Accounting Standards Board (GASB) Statement 14 "Defining the Governmental Reporting Entity". The entities included in this report are those that are consistent by definition with Statement 14. For financial reporting purposes, the City includes all funds, agencies, boards and authorities that are controlled by or dependent on the City's executive or legislative branches. This is explained in more detail in the "Notes to the Financial Statements".

The Comprehensive Annual Financial Report (CAFR) is presented in four sections: introductory, financial, statistical and single audit. The introductory section includes the table of contents, this transmittal letter, a copy of the City's Certificate of Achievement for Excellence in Financial Reporting, the City's organizational chart, and a list of principal officials. The financial section includes the Auditor's Opinion, Management Discussion and Analysis (MD&A), Basic Financial Statements, Other Required Supplementary Information, Combining Statements and Supplementary Information. The MD&A contains a narrative introduction, overview, and analysis of the City's financial statements, and should be read in conjunction with this letter of transmittal. The statistical section presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

As a result of the implementation of the Governmental Accounting Standards Board Statement 34, the government-wide financial statements have been added to complement the fund financial statements. The government-wide statements show separate data for "governmental activities" and "business-like activities." The MD&A, added as part of the implementation of GASB 34, serves as the narrative

introduction to the basic financial statements and contains the comparative data formerly presented in the letter of transmittal. The new format expands the alternatives available to review/examine the City and its major activities. The objective of GASB 34 is to enhance the understandability and usefulness of the City of Dothan's financial reports to the citizenry, legislative and oversight bodies, and investors and creditors. Accountability is the paramount objective of governmental financial reports. We believe this presentation will provide better information to the users of the CAFR.

Internal Control

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse, and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of the costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Independent Audit

The City is required to undergo an audit as required by the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that is applicable to each of its major federal programs for the year ended September 30, 2006. Information related to this audit, including the schedule of federal awards and schedule of questioned

costs and findings, is included in the single audit section of the audit. The audit report is forwarded to the City's oversight agency, the Housing and Urban Development, for review.

In addition to the standards described above, the City complies with guidelines provided by the following:

- (1) the Governmental Accounting Standards Board (GASB), successor to the National Council on Governmental Accounting (NCGA);
- (2) the American Institute of Certified Public Accountants (AICPA);
- (3) the ordinances and resolutions of the City of Dothan;
- (4) the Government Finance Officers Association of the United States and Canada (GFOA).

The financial records of the City for the year ended September 30, 2006, have been audited by an independent certified public accounting firm whose opinion is a part of the Annual Financial Report.

The importance of an independent audit lies in its determination of the reliability of the financial statements and supporting records. This is very important to bond rating services and to the general public at large.

MD&A

The Management Discussion and Analysis (MD&A) (starting on page 3) summarizes the Statement of Net Assets and Statement of Activities and reviews the changes (from the beginning to the end of the period and current year to the prior year). The actual statements are presented in detail on pages 13 through 15. These Government-wide statements are intended to present the City in a more corporate-style basis and provide a view of the big picture.

Additionally, the Fund Financial Statements (starting on page 16) are designed to address the major (or more significant) individual funds by category (governmental and proprietary, as well as, the fiduciary fund by category). An explanation of these complementary presentations can be found in the MD&A (starting on page 3) and in the notes (see Note I on page 31).

The Unrestricted Net Asset balance is intended to be a corporate-style measure of well being (or a bottom line) for the City and its related governmental and business-type activities.

CITY PROFILE

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. The City is a rapidly growing city and thriving community built around the landmarks of its past. Although it is the center for recreation, business, industry, agriculture, healthcare and retail trade in the area, Dothan offers the charm and friendliness of the Deep South. Proclaimed "Peanut Capital of the World," Dothan has become a melting pot for its friendly atmosphere of southern hospitality.

The City is a municipal corporation incorporated on November 10, 1885, under the Constitution and laws of the State of Alabama. In accordance with Sec. 11-44E-1, et seq, Code of Alabama, 1975, as amended, the City is presently governed by a Mayor/Commission/City Manager form of government. The Mayor is elected at-large, and the six (6) Commissioners are elected from six single member districts, for staggered terms of four (4) years (the "Board of Commissioners"). The members of the Board of Commissioners serve part-time and are responsible for adopting all legislative ordinances and setting the policies of the City, including the appropriation of all monies.

The Mayor, who is a member of the Board of Commissioners, is the chief executive officer of the City. The City Manager is the administrative head of the city government and is responsible for the daily management of the City and implementing the policies of the Board of Commissioners. With the concurrence of the Board of

Commissioners, the City Manager appoints, disciplines, and removes the managers of the City's several departments. These managers are responsible for the operations of their respective departments.

The City departments include:

General Administration	Fire
City Clerk	Public Works
Information Technology	Planning & Development
Finance	Leisure Services
Personnel	Performing Arts
Judicial	General Services
Police	Dothan Utilities

Approximately 937 regular, full time employees and 207 part time or seasonal employees staff these departments, producing high quality and cost-effective public services. These services include general government or administrative services (including the mayor, commission, city manager, city clerk, public relations, business licenses, finance, information technology, personnel, judicial and legal services), public safety services (including police, fire, E911 communications and animal control), public works services (environmental services, right-of-way and street maintenance, traffic signaling, building code-enforcement, permitting, community development, planning and engineering services), culture and recreation (including performing arts, cemeteries, parks and recreation services), general services (including building maintenance, landscaping, fleet management, safety and self insurance programs), and utility services (including electric, water, sewer, and wastewater services).

Budgeting

The diverse nature of governmental operations and the necessity of assuring legal compliance preclude recording and summarizing all governmental financial transactions and balances in a single accounting entity; therefore, from an accounting and financial management viewpoint, a governmental unit is a combination of several distinctly different fiscal and accounting entities, each having

a separate set of accounts and functioning independently of each other. Each accounting entity is accounted for in a separate "fund". A fund is defined as a fiscal accounting entity with a self-balancing set of accounts recording cash and other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with regulations, restrictions or limitations.

Biannual budgets are adopted for all funds with the exception of the Emergency 911 Fund and Fiduciary Funds. Budgetary control is maintained at department level. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City's governing body. Budget to actual comparisons demonstrate how actual expenses/expenditures compare to both the original and final revised budgets.

The City maintains a purchase order system for any purchase in the amount of twenty-five hundred dollars (\$2,500.00) or greater as one technique of accomplishing budgetary control. The City issues such purchase orders in compliance with a City adopted Purchasing Policy and strictly follows the guidelines as set forth by the State of Alabama Bid Law. Encumbered amounts lapse at year-end; however, encumbrances are re-appropriated as part of the following year's budget. Field purchase orders are issued for purchases less than twenty-five hundred dollars (\$2,500.00).

ECONOMIC CONDITION AND OUTLOOK

Over the past several years, Dothan has developed into a primary source of retail trade. Local government's need for fire protection, criminal justice, recreation, infrastructure improvements, and other services provided to the citizens are normally not associated with a paid-for-service fee. This continues to place an ever-tightening constraint on the ability to aggressively plan for growth. To better enable the City to address major infrastructure programs and capital objectives, a broader flexibility in revenue is essential to maintain Dothan's traditionally strong financial condition and to address

challenges of growth. The City's major challenges are to provide the infrastructure and services needed to maintain the accustomed quality of life. Dothan is constantly looking at revenue sources in an effort to fund the growth and vitality of the City.

The City of Dothan has several potential revenue sources that, if implemented, would substantially increase the City's income by \$11,530,000. Some revenue sources are listed below, but are not inclusive of all potential revenue sources.

<u>Revenue Source</u>	<u>Increase Factor</u>	<u>Additional Revenue</u>
Ad Valorem Tax	100%	\$ 2,700,000
Sewer	50%	<u>1,600,000</u>
		<u>\$ 4,300,000</u>

Business licenses could be collected based on a gross receipts method rather than on the flat rate method which the City is presently using. The gross receipts method would yield additional revenue of approximately \$1,000,000.

Additional revenue could also be generated if the City required a residential garbage fee. A fifteen dollar (\$15.00) per month fee for 26,000 households would generate an estimated \$4,680,000.

Further, by doubling the existing Retail Liquor Tax and doubling the existing Lodging Tax, revenue would increase an additional \$150,000 and \$1,400,000, respectively.

Financial Planning

The City's capital improvement program for fiscal year 2006 contained \$14.8 million in identified projects. These projects included resurfacing, bridge repair, storm drainage improvements, citywide mobile data hardware, bay extension for fire station 2, SCADA upgrade and equipment, water wells, water tanks and lines, vehicles and rolling fleet, facility repairs, downtown master plan, citywide comprehensive plan, civic center parking lot, Westgate Park parking lot, downtown improvements, one stop permitting facility and Miracle Field.

The projects that were completed in fiscal year 2006 accounted for \$4.1 million in expenditures. The remaining \$10.7 million was for projects that were not complete at the end of fiscal year 2006. A general obligation warrant will be issued in the amount of \$9.5 million to fund the construction of water wells, tanks and lines. The remaining expenditures were or will be funded by state revolving loan, electric rate increase and the unreserved fund balance.

In addition to the capital improvement program, the city entered into a \$12 million lease to purchase contract with Motorola for communications system. The closure of the existing Beaver Creek Wastewater Treatment Plant, installation of a gravity sewer interceptor and the upgrade of the Little Choctawhatchee Wastewater Treatment Plant, to accommodate flows from both basins III and IV, will be funded by a \$30 million state revolving loan.

In October 2003, a water rate increase was implemented and as a result, the rates are adjusted by 2.85% in October of each year. In October 2005, the city passed an electric rate increase of 4%. In September 2006, the city passed an additional 1% sales tax increase to be effective January 1, 2007. The additional funds from these rate increases along with the unreserved fund balance will assist in funding the capital improvement projects for the next 5 years.

Pension Plan

The City of Dothan enrolled in the Employees' Retirement System of Alabama on October 1, 2004. The Employees' Retirement System of Alabama (ERSA) will be responsible for monitoring the future costs and changes in retirement trends of employees. They will recalculate the city's unfunded liability each year in order to take appropriate measures to ensure the actuarial soundness of the pension plan. The city has increased contributions in order to fund the unfunded liability that was determined by ERSA.

Debt Administration

The ratio of net bonded debt to assessed valuation and the

amount of debt per capita are useful indicators of the City's debt position to municipal management, citizens and investors. This data for the City at the end of 2006 was as follows:

	Amount	Ratio of Debt to Assessed Value	Debt per Capita
Net Direct Bonded Debt	\$28,621,154	3.55%	\$495

The entire fund balance of \$296,741 in the Debt Service Fund is reserved or designated for debt retirement or capital projects. It should be understood that having reasonable levels of reserves is essential to the bond market's perception of local government strength and related ability to utilize private sector styled business practices, and provides for the availability to anticipate interest as a significant annual (recurring) revenue source. The City of Dothan continues to maintain a bond rating of Aaa/A1 from Moody's Investors Service and an AAA/A+ from Standard and Poor's.

Cash Management

The City continues to aggressively pursue an investment policy intended to maximize earnings on available cash. We are of the opinion that the Finance Department continues to effectively manage all cash over which we exercise stewardship responsibility. Cash in City accounts during the year was kept fully invested through certificates of deposit collateralized with securities held by the State of Alabama Treasury Security for Alabama Funds Enhancement (SAFE) Program and the bank balances were covered by federal depository insurance. The City's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Interest earned on general government functions totaled \$1,479,526, of which debt service interest income was \$63,895.

Risk Management

The Risk Management Program, under the control of the General Services Director who reports to the City Manager, consists of self-insured programs, safety programs, and all insurance procurement. Staffing includes two full time industrial nurses. The objective of the

Risk Management Division is to protect the City from catastrophic loss from various risk exposures. An annual actuarial analysis is performed to determine funding requirements and funding is provided through contributions from the General and Utility Funds. The use of funds is restricted by resolution to costs associated with the self-insured programs. The following schedule indicates the types of re-insurance acquired, the deductible or retention level maintained by the program and, where appropriate, the limit of the re-insurance coverage acquired.

Retention Level (Deductible)	Type	Limits of Coverage
\$ 100,000	Property & Contents	\$388,641,419
\$300,000/\$400,000	Workers' Compensation	Unlimited
\$500	Faithful Performance	\$50,000 ⁽¹⁾
\$1,000	Fraud & Theft	\$250,000 per loss
\$250,000	General Liability	\$5,000,000 per occurrence

(1) \$100,000 limit for key employees.

SIGNIFICANT EVENTS AND PROSPECTS FOR THE FUTURE

The expansion of new and existing industries has brought \$37,520,000 in capital investment and 820 new jobs to the Dothan market during the fiscal year. These industries are as follows:

- A. KFH Industries, Inc
- B. Shwinco Industries
- C. Baxley Blowpipe Company, Inc
- D. Canvas Products of Dothan
- E. Cummings Signs
- F. Lewis-Smith Corporation
- G. Nypro Kanaak Alabama
- H. Oncology Supply Company, Inc
- I. Sony Magnetic Products, Inc
- J. Vantage Sourcing
- K. Pemco World Air Services
- L. Southeastern Sheetmetal
- M. Michelin Tire Corp
- N. Higgins Electric, Inc

- O. Tampa Terminal Properties
- P. Castle Corporation

AWARDS AND ACKNOWLEDGEMENTS

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 Dothan for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2005. The City has received this prestigious award for the last twenty-three (23) consecutive years (fiscal years ended 1983 – 2005).

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report (CAFR), the contents for which conform to program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements. The Certificate of Achievement is the highest form of recognition in the area of governmental financial reporting, and its attainment represents a significant accomplishment by a governmental unit.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

The GFOA has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the City of Dothan for its PAFR for the fiscal years ended September 30, 2004 and 2005. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

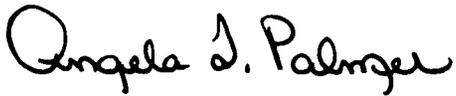
In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a PAFR whose contents conform to program standards of creativity,

presentation, understandability, and reader appeal.

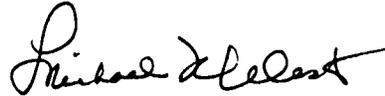
An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.

The preparation of this report on a timely basis was made possible by the efficient and dedicated service of our external auditor, McClintock, Nelson, and Associates, P.C., Certified Public Accountants, and the entire staff of the Finance Department. We would like to express our sincere appreciation to McClintock, Nelson, and Associates and all members of the Finance Department who assisted and contributed to the preparation of this report. We would also like to thank the administrators of the City for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



Angela T. Palmer
Finance Director



Michael K. West
City Manager

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Dothan
Alabama

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2005

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.



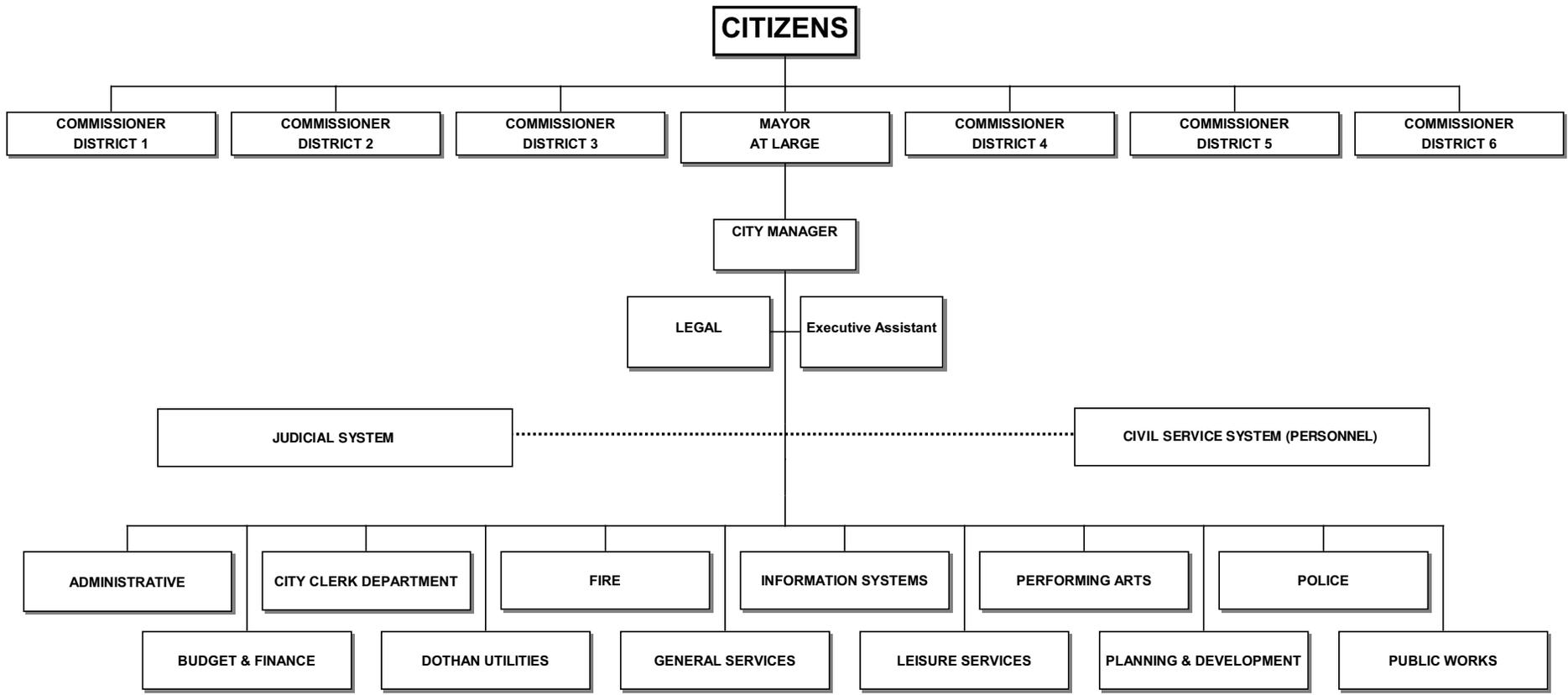
A handwritten signature in black ink, appearing to read "Thomas J. Blain".

President

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

Executive Director

CITY OF DOTHAN, ALABAMA ORGANIZATION CHART



THE CITY OF DOTHAN
DOTHAN, ALABAMA
CITY OFFICIALS

CITY COMMISSION

Pat Thomas	Mayor
Larry E. Matthews	Commissioner, District 1
Amos M. Newsome, Jr.	Commissioner, District 2
Paul W. Lee	Commissioner, District 3
Jason B. Rudd	Commissioner, District 4
Taylor Barbaree	Commissioner, District 5
Phillip M. Tidwell	Commissioner, District 6

APPOINTED OFFICIALS

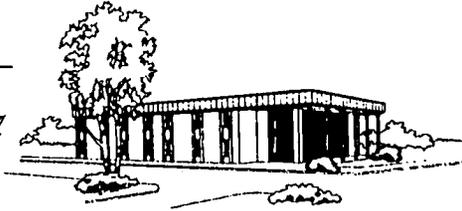
Rose Evans-Gordon	Municipal Judge	Billy R. Mayes, Jr.	Dothan Utilities Manager
Derel K. Kelly	Assistant City Attorney	Jerry W. Corbin	Public Works Director
Joe E. Herring, Jr.	Assistant City Attorney	Samuel P. Crawford	Fire Chief
Ginger Emfinger	Public Defender	Elizabeth A. Rumble	Director of Leisure Services
Shawn McGhee	Public Defender	John R. Powell	Police Chief
Kathleen Nemish	Public Defender	James C. Fredeman	Civic Center/Opera House Director
Michael K. West	City Manager	Michael K. West	EEO Officer - Acting
Freddie L. White, II	City Attorney	William L. Muench	General Services Director
Pam L. McCoy	City Clerk/Treasurer	Kai W. Davis	Personnel Director
Angela T. Palmer	Finance Director	Todd L. McDonald	Planning Director

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McClintock, Nelson & Associates, P.C.
Certified Public Accountants

George C. McClintock, C.P.A.
Marc A. Nelson, C.P.A.

Rebecca C. Harper, C.P.A.
Richmond C. McClintock, C.P.A.
(Retired)



Member of:
American Institute of Certified Public Accountants
Alabama Society of Certified Public Accountants

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Dothan, Alabama 36305
Phone: (334) 793-1414
Fax: (334) 793-9159

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Board of City Commissioners
The City of Dothan
Dothan, Alabama 36303

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Dothan, Alabama, as of and for the year ended September 30, 2006, 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 of Dothan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Dothan, Alabama, as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2007 on our consideration of the City of Dothan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 and the required supplementary information on pages 3 through 12 and 57 through 59, 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.

Honorable Mayor and Board of City Commissioners
The City of Dothan
(Continued)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Dothan's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Dothan. The combining and individual nonmajor fund financial statements, the supplemental schedules on pages 65-79, and the schedule of expenditures of federal awards 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 section and statistical tables 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.

Respectfully Submitted,

A handwritten signature in black ink that reads "McClintock, Nelson & Associates". The signature is written in a cursive, flowing style.

McCLINTOCK, NELSON & ASSOCIATES, P.C.
Certified Public Accountants

February 23, 2007

Management's Discussion and Analysis

The City of Dothan's (the "City") discussion and analysis is a narrative overview designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the City's financial activity, (c) identify changes in the City's financial position (revealing the ability to address future challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

The Management's Discussion and Analysis (MD&A) focuses on the financial performance of the City of Dothan for the fiscal year ended September 30, 2006. Please consider the information in this MD&A in conjunction with the City's financial statements (beginning on page 13), which follow this section and the additional information furnished in the letter of transmittal, which can be found in the introductory section of this comprehensive annual financial report (CAFR).

Financial Highlights

- The assets of the City of Dothan exceeded its liabilities at the close of the fiscal year ended September 30, 2006 by \$144,602,781. Of this amount, \$36,741,940 may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$2,331,770 or 1.64%. A detailed explanation of this increase can be viewed on page five (5) of this Management Discussion and Analysis (MD &A).
- As of the close of the current fiscal year, the City of Dothan's governmental funds reported combined ending fund balances of \$29,433,309 a decrease of \$2,435,648 in comparison with the prior year. Approximately \$23,664,730 of this total is *available for spending* at the government's discretion (*unreserved fund balance*).
- Total net assets for governmental activities increased by \$2,739,026, thus totaling \$68,932,652 for fiscal year 2006.
- The City of Dothan's total debt decreased by \$7,920,000 (11.94%) during the current fiscal year, yielding a total outstanding debt of \$58,415,000.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Dothan's basic financial statements. The City of Dothan's basic financial statements comprise of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements (see Pages 13-15) are designed to provide readers with an overview of the City of Dothan's finances, in a manner to resemble private-sector business. In these statements all governmental and business-type activities are consolidated into columns, which are added to a total for the City or Primary Government.

The statement of net assets (the "Unrestricted Net Assets") presents information on all of the City of Dothan's assets and liabilities, with the difference between the two reported as *net assets*. This statement combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long term debt. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Dothan is improving or deteriorating.

The statement of activities (See pages 14-15) presents information focused on both gross and net costs and shows how the City of Dothan's net assets changed during the most recent fiscal year. This is intended to summarize and simplify the user's analysis of cost of various governmental services and/or subsidy to various business-type activities. Revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Dothan that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other

functions that are intended to typically recover all or a significant portion of the cost of operation, including depreciation, through user fees and charges for services (*business-type activities*). The governmental activities of the City of Dothan include general government, public safety, public works, health and welfare, community development, insurance, equipment maintenance, culture and recreation and the business-type activities of the City of Dothan reflect private sector type operations (electric, water and sewer).

The government-wide financial statements can be found on pages 13 - 15 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that the City uses to keep track of specific revenue and spending that are segregated for specific purposes. Governmental, proprietary, and fiduciary are the three categories of fund types.

- State law requires Gas Tax funds to be accounted for separately, because the expenditures are restricted for specific uses.
- The City Commission establishes other funds to control the use of monies for particular purposes, such as tobacco taxes assessed at five cents per pack of cigarettes. These taxes are legally dedicated for the support of the City school system.
- The City of Dothan, like other state and local governments, establishes funds to ensure and demonstrate compliance with certain legally debt-financed capital projects and grant proceeds.

The *Fund Financial Statement* allows the demonstration of sources and uses and/or budgeting compliance associated therewith (beginning on page 16). 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, readers 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 this comparison between *governmental funds* and *governmental activities*.

The Governmental Major Funds (see pages 16-20) is presented on a sources and uses of liquid resources basis. This is the manner in which the financial plan (the budget) is typically developed. The flow and availability of liquid resources is a clear and appropriate focus of any analysis of a government. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. Unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows, outflows and balances of spendable resources*.

The City of Dothan maintains five 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, the debt service fund, and the capital projects fund each of which are considered to be major funds. Data from the other two governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Dothan adopts an annual appropriated budget for its general, debt service, capital projects, school and utility funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the general fund budget.

Proprietary Funds. The City of Dothan maintains two different types of proprietary funds (Utility and E-911). *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Dothan uses two major enterprise funds to provide for separate information for the Electric, Water, Sewer and E-911 activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. While the

total column on the Business-type Fund Financial Statements (see pages 21-25) is the same as the Business-type column on the Government-Wide Financial Statement, the Governmental Major Funds total column requires a reconciliation because of the different measurement focus (current financial resources versus total economic resources) which is reflected on the page following each statement (see pages 17 and 20). The flow of current financial resources will reflect bond proceeds and interfund transfers as other financial sources, as well as, capital expenditures and bond principal payments as expenditures. The reconciliation will eliminate these transactions and incorporate the capital assets and long-term obligations (bonds and others) into the Governmental Activities column (in the Government-wide statements).

The *Fiduciary Fund* (or Trust) is summarized by type (pension, investment, and private purpose trusts). Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The Fund financial statement Fiduciary fund assets are not discretionary assets of the government, but are restricted in purpose and represent trust responsibilities of the government (see pages 26-27). As a result of the restrictions, these assets are not presented as part of the Government-wide Financial Statements.

Infrastructure Assets. Until the implementation of Governmental Accounting Standards Board (GASB) Statement 34 in Fiscal Year 2001, the City's general fund assets were not reported nor depreciated in the governmental financial statements. The City elected to depreciate these assets over their useful life. The infrastructure portion related to general governmental activities as stated in GASB Statement 34 requires that these assets (infrastructure-roads, bridges, traffic signals, underground pipes [not associated to the electric, water or sewer departments], etc.) be valued and reported within the Governmental column of the Government-wide Statement.

Notes to the financial statements. (see pages 29-56) The notes provided in this report convey additional essential information that will magnify the understanding of data in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents *required*

supplementary information concerning the City of Dothan's progress in funding its obligation to provide pension benefits to its employees.

The combining statements, referred to earlier in connection with nonmajor governmental funds and internal service funds, are presented immediately following the required supplementary information on pensions.

Government-Wide Financial Analysis

The City's net assets totaling \$144,602,781 increased by \$2,331,770. The governmental net assets increased by \$2,739,026 and the business-net assets decreased by \$407,256. Management will continue to monitor net assets because the variance is a useful indicator of a City's financial position.

The following table reflects the Statement of Net Assets compared to the prior year.

Statement of Net Assets As of September 30 (In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Current & Other Assets	\$ 48,385	\$ 46,733	\$ 37,678	\$ 35,128	\$ 86,063	\$ 81,861
Capital Assets	68,368	69,924	86,499	88,629	154,867	158,553
Total Assets	116,753	116,657	124,177	123,757	240,930	240,414
Current & Other Liabilities	16,217	13,802	20,680	18,503	36,897	32,305
Long-term Liabilities	31,603	36,661	27,827	29,177	59,430	65,838
Total Liabilities	47,820	50,463	48,507	47,680	96,327	98,143
Net Assets:						
Invested in Capital Assets,	47,941	43,452	59,920	61,832	107,861	105,284
Net of Related Debt						
Restricted	0	0	0	0	0	0
Unrestricted	20,992	22,742	15,750	14,245	36,742	36,987
Total Net Assets	\$ 68,933	\$ 66,194	\$ 75,670	\$ 76,077	\$144,603	\$142,271

By far the largest portion of the City of Dothan's net assets (74.60%) reflects the total investment in capital assets (e.g., land, building, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The investment in capital at September 30, 2006 was \$107.9 million. The City of Dothan uses these capital assets to provide services to citizens. These assets are not available for future spending. Although the City of Dothan's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to pay for or liquidate these liabilities. The remaining balance of *unrestricted net assets* (\$36,741,940) may be used to meet the government's ongoing obligations to citizens and creditors.

Normal Impacts Affecting The Statement of Net Assets

There are six basic (normal) transactions that will affect the comparability of the Statement of Net Assets summary presentation.

Net Results of Activities – which will impact (increase/decrease) current assets and unrestricted net assets.

Borrowing for Capital – which will increase current assets and long-term debt.

Spending Borrowed Proceeds on New Capital – which will reduce current assets and increase capital assets. There is a second impact, an increase in invested in capital assets and an increase in related net debt which will not change the invested in capital assets, net of debt.

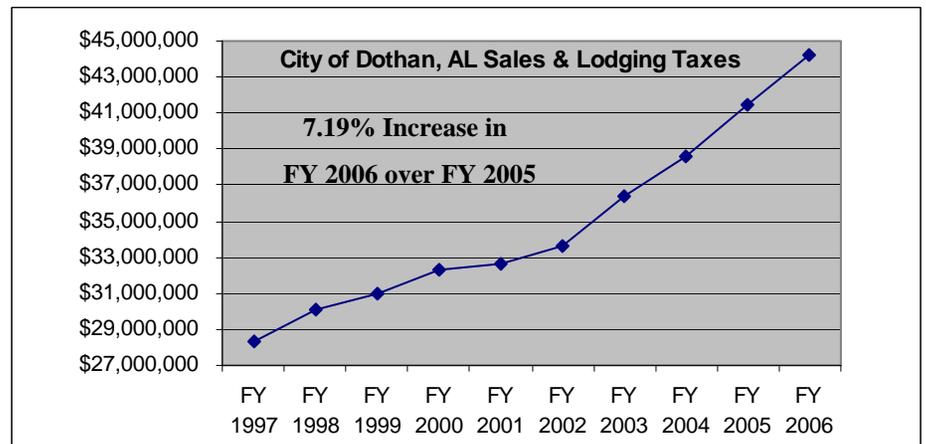
Spending of Non-borrowed Current Assets on New Capital – which will (a) reduce current assets and increase capital assets and (b) reduce unrestricted net assets and increase invested in capital assets, net of debt.

Principal Payment on Debt – which will (a) reduce current assets and reduce long-term debt and (b) reduce unrestricted net assets and increase invested in capital assets, net of debt.

Reduction of Capital Assets through Depreciation – which will reduce capital assets and invested in capital assets, net of debt.

At the end of the current fiscal year, the City of Dothan was able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

During the fiscal year the governmental activities net assets totaling \$68,932,652 increased the City of Dothan's net assets by \$2,739,026 and the business-net assets totaling \$75,670,129 decreased by \$407,256. The major contributing factor of the increase in fiscal year 2006 over 2005 in governmental activities was due to management changing the threshold of asset capitalization in fiscal year 2005 from \$500 to \$2,500 and the expensing of assets that were once reflected as capital assets. A deficit would have been reflected in the governmental activities if it were not for the transfers from the business-type activities. These transfers reduced net assets in the business-type activities by \$9,998,255.



The single largest revenue source is lodging and sales and use taxes, which generated \$44,598,594 in fiscal year 2006, compared to \$41,605,685 in fiscal year 2005 at an increase of \$2,992,909 (7.19%).

**Changes In Net Assets
As of September 30
(In Thousands)**

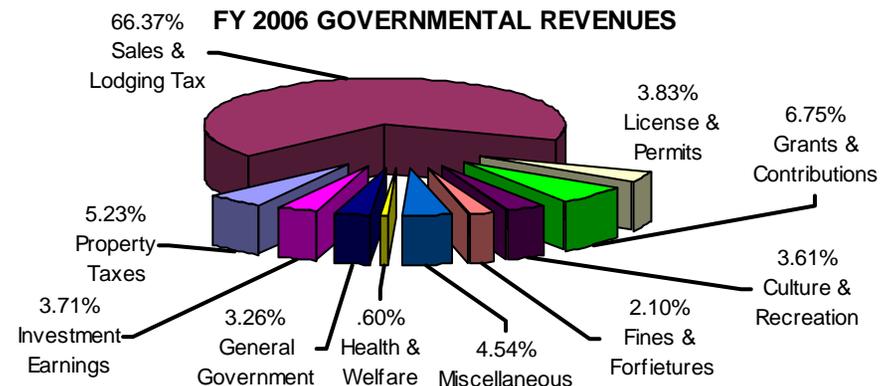
	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
REVENUES						
Program Revenues:						
Charges for Services	\$ 6,487	\$ 6,258	\$ 92,307	\$ 80,003	\$ 98,794	\$ 86,261
Oper Grants & Contributions	128	96			128	96
Cap Grants & Contributions	1,678	1,487			1,678	1,487
General Revenues:						
Property Taxes	3,514	3,265			3,514	3,265
Other Taxes	47,172	44,545			47,172	44,545
Grants & contributions not restricted to specific programs						
Other	2,730	1,868		6	2,730	1,874
Other	3,353	4,135	2,135	1,551	5,488	5,686
Total Revenues	\$ 65,062	\$ 61,654	\$ 94,442	\$ 81,560	\$159,504	\$143,214
EXPENSES						
Program Activities						
Primary Government						
Governmental Activities:						
General Government	\$ 7,633	\$ 11,723	\$	\$	\$ 7,633	\$ 11,723
Public Safety	26,456	24,453			26,456	24,453
Public Works	14,735	15,860			14,735	15,860
Planning and Development	908				908	
Health & Welfare	2,692	2,478			2,692	2,478
Culture & Recreation	9,032	8,283			9,032	8,283
General Services	3,701	3,529			3,701	3,529
Insurance	1,298	753			1,298	753
Intergovernmental	4,215	4,219			4,215	4,219
Interest on Long Term Debt	1,651	3,043			1,651	3,043
Business-type Activities:						
Electric Department			66,805	55,739	66,805	55,739
Water Department			4,442	3,410	4,442	3,410
Sewer Department			4,684	4,199	4,684	4,199
Billing-Collection Department			1,154	1,082	1,154	1,082
Meter Reading Department			681	607	681	607
Depreciation Expense			4,910	4,922	4,910	4,922
Miscellaneous			598	622	598	622
Bond Issue Costs			52	53	52	53
Loss-Disposition of Capital Assets			306	280	306	280
Interest and Fiscal Charges			1,219	1,156	1,219	1,156
Total Expenses	\$ 72,321	\$ 74,341	\$ 84,851	\$ 72,070	\$157,172	\$146,411
Transfers	9,998	10,355	(9,998)	(10,355)	- 0-	- 0-
NET INCREASE	\$ 2,739	(\$ 2,332)	(\$ 407)	(\$ 865)	\$ 2,332	(\$ 3,197)

Statement of Activities

The following schedule compares the revenues and expenses for the current and previous year.

Governmental activities increased the City of Dothan's net assets by \$2,739,026. A key element of this increase was largely due to the lodging, sales and use tax mentioned above; however, due to the an additional 2% cost of living adjustment given to the City's employees the net assets were reduced. Governmental revenues totaling \$65,061,886 increased \$3,408,386 or 5.53% over fiscal year 2005 (\$61,653,500).

- Property taxes increased by \$248,889 (7.63%) and sales taxes increased by \$2,992,909 (7.19%) during the year. Various other taxes decreased \$365,178 (12.43%) over the previous year.
- The City of Dothan experienced an \$861,967 (46.15%) increase in grant revenues. Grant revenues and contributions totaled \$2,729,560 compared to fiscal year 2005 totals at \$1,867,593. Dothan strives to maintain an aggressive grant application strategy. Grant resources support three City functions: public safety, public works, and culture and recreation.
- A decrease was also reflected in unrestricted investment earnings and miscellaneous revenues by \$781,949 (18.91%) included in other revenue, and a decrease in transfers from the utility fund to the governmental funds by \$356,627 (3.44%).



Business-type activities decreased the City of Dothan's net assets by \$407,256. A key element of this decrease was largely due to increasing cost of electric energy for resale. The City increased electric rates in October 2005 to compensate for these additional costs.

As of the end of the current fiscal year, the City of Dothan's governmental funds reported combined ending fund balances of \$29,433,309, a decrease of \$2,435,648 (7.64%) in comparison with the prior year of \$31,868,957. Of this total fund balance, \$23,664,730 constitutes the *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is *reserved* to indicate that which is not available for new spending because of previous contractual commitments and prior period purchase orders (\$4,974,034), amounts reserved for inventory (\$497,804), and amounts reserved for debt service (\$296,741).

The general fund is the chief operating fund of the City of Dothan. At the end of the current fiscal year, unreserved fund balance of the general fund was \$23,526,978, while total fund balance reached \$28,998,816. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. This is very useful in assessing the City of Dothan'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. Unreserved fund balance (\$23,526,978) represents 35.47 (%) percent of total general fund expenditures (\$66,333,509), while total fund balance (\$28,998,816) represents 43.72 (%) percent of the total general fund expenditures.

The unreserved fund balance of the City of Dothan's general fund (\$23,526,978) increased by \$2,077,656 (9.69%) during the current fiscal year. The key factors in this increase resulted from a \$3 million increase in sales tax receipts and an increase of \$.8 million in grant revenues and contributions.

The debt service fund has a total fund balance of \$296,741. Of this amount, there are no reserves for encumbrances; thus, the total fund balance is reserved for the payment of debt service.

Proprietary funds. The City of Dothan's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Net assets of the Utility and E-911 Funds at the end of the year amounted to \$73,748,870 and \$1,921,259 respectfully compared to last year's amounts of \$74,440,955 and \$1,636,430. The Utility Fund experienced a decrease in net assets in the amount of \$692,085 and the E-911 Fund reflected an increase of \$284,829.

Budgetary Highlights

The City of Dothan adopts a biennial budget, consisting of two annual budgets. State law requires adoption of annual budgets. In fiscal year 2005, the City Commission adopted a biennial budget for fiscal years 2006 and 2007. This was the second biennial budget adopted for the City of Dothan. During the biennial budget process, the City's overall revenue structure was evaluated and financial projections were done to facilitate consideration of tax or fee increases.

Per the City's Code of Ordinances, a supplemental budget is additionally prepared no later than March 20th of each year. At this time the city manager is required to submit to the commission this budget, which shall encompass new programs or activities, capital expenditures and new personnel additions. During this budget message, the city manager shall submit his recommendation of new sources of revenue or manner of increasing existing sources of revenue, sufficient to balance the budget, if such additional revenue is necessary to accomplish that purpose. At that time a five year forecast is presented, along with ten years of departmental history and a listing of all major maintenance projects, additional equipment and fleet needs, as well as, capital projects for the next five years.

Encumbrances from fiscal year 2005 were carried forward to fiscal year 2006 and the general fund beginning budget was increased by \$8,081,556. These encumbrances were funded from the general fund balance.

Differences between the general fund original budget and the final

amended budget totaled \$16,960,320 including the encumbrances mentioned above. The additional appropriations in the amount of \$8,878,764 can be briefly summarized by department as follows:

- **General Administration** - \$230,719 in increases allocated as follows: \$2,215 for disability policy for city manager, \$12,946 for citywide comprehensive plan, \$268 for mutual aid training exercise overtime and benefits, \$8,900 for legal expenses, \$102,440 for downtown master plan, \$103,750 for Wiregrass Museum of Art debt and \$200 for Peanut Festival float expenditures
- **Information Systems Technology** - \$297,227 in increases to the information systems technology department as follows: \$49,985 to purchase document imaging software, \$6,700 to purchase voter registration software, \$22,000 to purchase four laptops for the police department and \$218,542 for mobile data infrastructure/hardware
- **Finance** - \$5,000 in increases allocated to the finance department for overtime for the implementation of the utility billing software
- **Personnel** - \$386,071 in increases allocated to the personnel department as follows: \$83,384 to fund legal fees related to personnel board investigations, \$38,000 for promotional process development & implementation and \$264,687 for city's contribution to retirees' insurance
- **Judicial** - \$15,000 in increases allocated for temporary employees
- **Police** - \$481,891 in increases allocated to the police department as follows: \$13,952 for drug awareness training, \$1,160 for overtime for Homeland Security grant exercise, \$954 SRT equipment and uniforms, \$11,810 for bulletproof vests, \$30,305 for municipal jail equipment and supplies, \$9,300 for radios funded by the Alabama Department of Human Health Grant, \$2,036 for repair to the warning siren, \$21,350 for bi-directional amp, radio batteries and conditioner, \$31,700 for traffic safety program funded by an ADECA grant, \$68,800 for utilities and gasoline expenses, \$12,827 for equipment for police vehicles, \$13,175 for exercise equipment, and \$264,522 for fourteen police vehicles
- **Fire** - \$827,987 in increases allocated to the fire department as follows: \$5,700 for radios funded by the Alabama Department of Human Health Grant, \$70,000 for retirement settlement, \$7,147 for mutual aid training exercise wages, fringe benefits and operating supplies, \$109,452 for Homeland Security training, \$40,050 for utilities and gasoline expenses, \$39,687 to repair burnt wiring on ladder truck, and \$555,951 to purchase a quint truck
- **Public Works** - \$5,439,169 in increases allocated to the public works department as follows: \$1,459,246 to resurface City of Dothan maintained roads, \$25,487 for replacement of storm drain pipe, \$24,750 for relocation of 8" storm water line, \$118,365 for gasoline expenses, \$590,000 for bridge replacement and \$2,705,081 purchase a tandem roller, crew cab pickup and body, four pickup trucks, two tractors, cab & chassis for crane, five 17 yd dump trucks, sign truck and body, trailer, leaf truck and body, four trash trucks and bodies, five automated garbage trucks and garbage containers, flippers for garbage trucks, and two leaf machines, \$75,940 for the purchase of four changeable message boards, and \$440,300 for 95 gallon trash cans.
- **Planning & Development** - \$61,036 in increases allocated to the planning & development department as follows: \$53,585 for wages and benefits for the administration division, \$4,550 for operating expenses, \$801 for advertising for the CDBG paving sidewalks project and \$2,100 for gasoline expenses
- **Leisure Services** - \$776,641 in increases to the leisure services department as follows: \$4,425 for senior citizen programs, \$5,000 for soccer program, \$40,382 for the baseball program and tournaments, \$10,000 for tournament bids, \$20,000 for capital items, \$9,569 in miscellaneous expenses, \$66,530 for utilities and gasoline expenses, \$116,652 for tennis program and tournaments, \$138,900 for repair and maintenance of parks and playgrounds, \$70,638 for softball program and repairs, \$79,491 to repair and renovate the Rip Hewes stadium, \$50,100 for Water World water park operating supplies, repairs and equipment, \$38,560 for bleachers at Northcutt Field, \$42,538 for a pickup truck, three utility vehicles and a tractor, \$8,389 for diabetes program, \$5,223 for basketball program, \$37,255 for satellite concessions, \$9,356

for karate tournament, \$4,000 for football uniforms, \$13,988 for the swimming program, and \$5,645 for Fort Rucker golf tournament

- Performing Arts: \$83,007 in increases allocated to the performing arts department as follows: \$43,100 for utilities and \$39,907 for repairs to the Opera House
- General Services - \$540,323 in increases allocated to the general services department as follows: \$32,163 for maintenance at the Wiregrass Museum of Art, \$26,585 for engineering services for fire stations and museum, \$3,956 for landscaping at Foster Street Park, \$70,400 for utilities and gasoline expenses, \$208,492 for upgrade of civic center elevator system and HVAC evaluation, \$39,800 for Dixie Depot Railway Station design and contract preparation, \$29,602 for maintenance at city shop and replacement of fuel tanks, \$129,325 for purchase of wrecker with body, four pickup trucks, service body and lift gate for pickup, and a passenger vehicle
- Self Funded Insurance - \$178,203 to fund administrative services provided by Blue Cross and Blue Shield as the third party provider for the city's health and medical insurance
- Agency Assistance - \$300,000 in additional lodging taxes to be remitted to the convention and visitors bureau to promote tourism, \$46,010 for the summer feeding program which was also administered through the leisure services department, \$7,400 for utilities expense, \$50,000 for Wallace Community College Campaign for Excellence, \$3,000 for Dothan Technology Center national skills meeting, \$46,000 in increases for city assisted basketball tournament, and \$40,000 for the project safe neighborhoods program
- Financing Sources/Uses – (\$935,920) in operating transfers in from the general capital improvement fund

These appropriations which total \$8,878,764 were funded from the following revenue sources totaling \$3,048,946. The remaining \$5,829,818 was budgeted from the available unreserved fund balance.

- \$111,167 from contributions and donations
- \$30,305 from municipal court revenues
- \$43,017 from tennis tournaments and program revenues
- \$4,150 from senior programs and craft sales
- \$28,653 from police seizure income
- \$399,849 from federal and state grants
- \$800,000 from interest from funds invested
- \$46,010 from summer feeding program funds
- \$74,255 from Water World resale items and concessions
- \$53,961 basketball camps, baseball and karate tournaments
- \$8,389 from diabetes clinic
- \$7,430 from Fort Rucker events and miscellaneous receipts
- \$300,000 from 1% increase in lodging tax
- \$946,818 from financial institution tax
- \$13,988 from swimming program
- \$170,954 from junk sales
- \$10,000 from animal control fees

During the year, however, revenues exceeded budgetary estimates and expenditures were less than budgetary estimates.

Capital Asset and Debt Administration

Capital Assets. The City of Dothan's investment in capital assets for its governmental and business-type activities as of September 30, 2006 amounts to \$166,275,841 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, system improvements (electrical, water, sewer, storm drainage and street) machinery and equipment, park facilities, roads, highways, and bridges. Capital Investments decreased in the governmental capital assets by \$1,513,435 and decreased in the business-type by \$1,574,531. Major capital asset events during the current fiscal year included the following:

- WESTGATE PARKWAY - 231- HARRISON ROAD - MPO

The Westgate Parkway, State Highway 231 and Harrison Road project consisting of road widening, construction and right of way acquisition is expected to cost \$8,100,000. A Metropolitan Planning Organization (MPO) grant was obtained and the city will be reimbursed 80% of

approved expenditures. To date project expenditures total \$1,694,218, of which \$877,733 has been capitalized and the remaining \$816,485 was charged to maintenance.

• WESTGATE PARK PROJECTS

The Westgate Tennis Court and Soccer Field Additions consisting of four tennis courts and one soccer field are expected to cost \$380,000.00. An Alabama Department of Economic and Community Affairs (ADECA) grant was awarded for \$150,000.00.

- Tennis Courts Addition - Project completed at a total cost of \$301,706.
- Soccer Field Addition - Project costs to date are \$52,970.
- Bathroom Building and Shade Shelters - Project costs to date are \$10,750.

The United States Tennis Association (USTA) awarded the City of Dothan \$71,500 for construction of bathrooms and shade shelters at the Westgate Tennis Center. Completion is expected in the spring of 2007.

**Capital Assets
As of September 30
(In Thousands)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2005	2005
Land	\$ 8,306	\$ 8,327	\$ 1,044	\$ 946	\$ 9,350	\$ 9,273
Buildings	78,998	78,957	4,457	4,421	83,455	83,378
Improv. other than Bldgs.	27,301	26,837	129,677	128,159	156,978	154,996
Machinery & Equipment	28,081	25,267	9,177	8,237	37,258	33,504
Infrastructure	428,788	428,056			428,788	428,056
Construction in Progress	144	81	1,915	1,457	2,059	1,538
Total Capital Assets	\$571,618	\$567,525	\$ 146,270	\$143,220	\$717,888	\$710,745

Additional information on the City of Dothan’s capital assets can be found in note IV. D on pages 43 – 45 of this report.

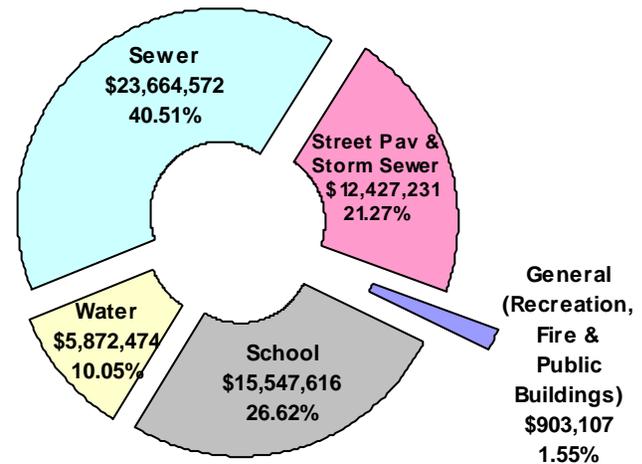
Debt Outstanding

As of the fiscal year end, the City of Dothan had \$58,415,000 in gross bonded debt outstanding compared to \$66,335,000 last fiscal year end; thus, decreasing debt by \$7,920,000 during the current fiscal year. In fiscal year 2007, \$9.5 million debt was let to construct transmission mains and two deep wells, as required by the long range water plan. Also, the city entered into a contract with Motorola to lease/purchase a \$12 million radio system.

- The City maintains an “AAA/A+” rating from Standard & Poor’s and an “Aaa/A1” rating from Moody’s for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to twenty percent (20%) of its total assessed valuation. The current constitutional debt limitation for the City of Dothan is \$157,979,191, which is significantly in excess of the City of Dothan’s outstanding general obligation debt. Additional information can be found in note IV. H on pages 48 – 51 of this report.

Debt Outstanding - September 30, 2006



**Outstanding Debt
As of September 30**

	2006	2005	2004
General Government	\$ 903,107	\$ 2,696,252	\$ 3,960,000
Schools	15,547,616	19,756,978	20,105,861
Sewer & Storm Sewer	23,664,572	24,594,572	25,398,014
Street Paving & Storm Drainage	12,427,231	12,427,231	11,800,000
Water	<u>5,872,474</u>	<u>6,859,967</u>	<u>6,386,125</u>
TOTAL	<u>\$ 58,415,000</u>	<u>\$ 66,335,000</u>	<u>\$ 67,650,000</u>

Economic Factors

The City relies on taxes (sales, property, gasoline, franchise, etc.), fees (license, permits, etc.), and fines (public safety) for their governmental activities. The primary source of revenue is sales taxes. There are a limited number of state-shared revenues and recurring and non-recurring (one-time) grants from both state and federal governments.

In the business-type and certain governmental activities (electric, water, sewer, recreational programs, etc.) the user pays a related fee or charge associated with the service.

The level of taxes, fees, and charges for services 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 encouraging both annexation and economic development.

In October 2005, area officials from the Dothan region came together to undertake a comprehensive planning effort that allowed citizens, elected leaders and business owners to identify the key issues to

address in order that continued improvements could be made in the Wiregrass area. The final result was the *ENVISION Community Strategic Plan*, bringing together community volunteers from the Wiregrass Foundation, Dothan Area Chamber Foundation, City of Dothan, Houston County and the Dothan Area Chamber of Commerce as significant partners.

The Wiregrass Foundation, responding to a request from the Chamber Foundation, retained the services of Market Street Service Inc., a nationally recognized, Atlanta-based economic, community and workforce development firm, to conduct the *Strategic Plan*. Market Street developed the plan through:

- *Competitive Assessment* - Extensive quantitative and qualitative analyses was conducted to assess the Wiregrass region in four primary components of business climate: education and workforce development, infrastructure, business costs and quality of life. The Wiregrass region was compared to three benchmark communities.
- *Community Input* - Feedback was received via an online and paper survey, focus groups and interviews to identify key issues of local concern.

Once completed, the Strategic Plan identified the key issues to address and outlined specific, detailed goals, objectives and action steps for the community to take in order to achieve its ideal future.

Financial Information Contact

The City of Dothan's financial statements are designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the public assets under its management. If you have questions about the report or need additional financial information, contact the City's Finance Director, Angela T. Palmer, at 126 North Saint Andrews Street, Room 110 of the Dothan Civic Center, Dothan, Alabama 36303. Updated financial information about the City can also be obtained by accessing the City's web site at www.dothan.org.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Cash and cash equivalents	\$ 32,964,753	\$ 24,723,532	\$ 57,688,285
Receivables	5,537,555	6,241,730	11,779,285
Due from other governments	933,871	1,772,981	2,706,852
Inventories, at cost	497,804	1,981,390	2,479,194
Capital assets (See Note IV-D):			
Non-depreciable	8,450,568	2,958,855	11,409,423
Depreciable, net	68,367,886	86,498,532	154,866,418
Total Assets	116,752,437	124,177,020	240,929,457
LIABILITIES:			
Vouchers/accounts payable	3,594,928	13,639,422	17,234,350
Accrued liabilities	5,263,090	123,696	5,386,786
Accrued interest payable	113,094	124,761	237,855
Payable to other governments	36,738		36,738
Customer deposits	546,302	5,004,931	5,551,233
Unearned revenue	393,368		393,368
Non-Current Liabilities:			
Due within one year	6,269,717	1,787,047	8,056,764
Due in more than one year	31,602,548	27,827,034	59,429,582
Total Liabilities	47,819,785	48,506,891	96,326,676
NET ASSETS:			
Invested in capital assets, net of debt	47,940,499	59,920,342	107,860,841
Unrestricted	20,992,153	15,749,787	36,741,940
Total Net Assets	\$ 68,932,652	\$ 75,670,129	\$ 144,602,781

The notes to the financial statements are an integral part of this statement.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

FUNCTION / PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
PRIMARY GOVERNMENT:							
Governmental Activities:							
General government	\$ 7,633,252	\$ 2,189,135	\$ 78,962	\$ -	\$ (5,365,155)	\$ -	\$ (5,365,155)
Public safety	26,456,406	1,410,632	49,313	376,013	(24,620,448)		(24,620,448)
Public works	14,735,368	61,755		1,301,562	(13,372,051)		(13,372,051)
Planning and development	907,988	401,217			(506,771)		(506,771)
Health and welfare	2,691,643				(2,691,643)		(2,691,643)
Culture and recreation	9,031,499	2,424,322			(6,607,177)		(6,607,177)
General services	3,700,586				(3,700,586)		(3,700,586)
Insurance department	1,298,190				(1,298,190)		(1,298,190)
Education	4,214,964				(4,214,964)		(4,214,964)
Interest/fiscal charges on long-term debt	1,651,219				(1,651,219)		(1,651,219)
Total Governmental Activities	72,321,115	6,487,061	128,275	1,677,575	(64,028,204)	-	(64,028,204)
Business-Type Activities:							
Utility	84,052,820	91,288,438				7,235,618	7,235,618
E-911	798,005	1,018,927				220,922	220,922
Total Business-Type Activities	84,850,825	92,307,365	-	-	-	7,456,540	7,456,540
Total Primary Government	\$ 157,171,940	\$ 98,794,426	\$ 128,275	\$ 1,677,575	\$ (64,028,204)	\$ 7,456,540	\$ (56,571,664)

The notes to the financial statements are an integral part of this statement.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
STATEMENT OF ACTIVITIES - CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2006

GENERAL REVENUES:

Taxes:			
Property taxes	\$ 3,513,899	\$ -	\$ 3,513,899
General sales and lodging	44,598,594		44,598,594
Other taxes	2,573,827		2,573,827
Grants and contributions not restricted to specific programs	2,729,560		2,729,560
Unrestricted investment earnings	1,424,588	1,069,104	2,493,692
Miscellaneous	1,928,507	1,065,355	2,993,862
Transfers	<u>9,998,255</u>	<u>(9,998,255)</u>	<u>-</u>
Total General Revenues, Special Items, and Transfers	<u>66,767,230</u>	<u>(7,863,796)</u>	<u>58,903,434</u>
Change in Net Assets	2,739,026	(407,256)	2,331,770
Net Assets - Beginning	<u>66,193,626</u>	<u>76,077,385</u>	<u>142,271,011</u>
Net Assets - Ending	<u>\$ 68,932,652</u>	<u>\$ 75,670,129</u>	<u>\$ 144,602,781</u>

The notes to the financial statements are an integral part of this statement.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006

	GENERAL	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:					
Cash and cash equivalents	\$ 32,566,761	\$ 256,801	\$ -	\$ 141,191	\$ 32,964,753
Receivables:					
Taxes	6,915,115				6,915,115
Accounts	1,098,263				1,098,263
Special assessments		666,248			666,248
Accrued interest	4,861	39,940			44,801
Due from other governments	933,871				933,871
Inventories, at cost	497,804				497,804
Total Assets	<u>42,016,675</u>	<u>962,989</u>	<u>-</u>	<u>141,191</u>	<u>43,120,855</u>
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Vouchers/accounts payable	3,591,489			3,439	3,594,928
Accrued liabilities	5,263,090				5,263,090
Payable to other governments	36,738				36,738
Customer deposits	546,302				546,302
Deferred revenue/income	3,580,240	666,248			4,246,488
Total Liabilities	<u>13,017,859</u>	<u>666,248</u>	<u>-</u>	<u>3,439</u>	<u>13,687,546</u>
Fund Balances:					
Reserved for:					
Encumbrances	4,974,034				4,974,034
Inventories	497,804				497,804
Debt service fund		296,741			296,741
Unreserved, reported in:					
General fund	23,526,978				23,526,978
Special revenue fund				137,752	137,752
Total Fund Balance	<u>28,998,816</u>	<u>296,741</u>	<u>-</u>	<u>137,752</u>	<u>29,433,309</u>
Total Liabilities and Fund Balances	<u>\$ 42,016,675</u>	<u>\$ 962,989</u>	<u>\$ -</u>	<u>\$ 141,191</u>	<u>\$ 43,120,855</u>

The notes to the financial statements are an integral part of this statement.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
AS OF SEPTEMBER 30, 2006

Total Fund Balances - Governmental Funds		\$ 29,433,309
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.</p>		
Governmental capital assets	\$ 571,618,048	
Less: Depreciation expense to date	<u>(494,799,594)</u>	76,818,454
<p>Because the focus of governmental funds is on short term financing, some long-term assets will not be available to pay for current period expenditures. Those assets (cash or receivables, for example) are considered deferred revenues in the governmental funds, and thus are not included in fund balance.</p>		
Adjustment of receivables - property taxes	(3,186,872)	
Adjustment of deferred revenue - property taxes	3,186,872	
Adjustment of deferred revenue - special assessment	<u>666,248</u>	666,248
<p>Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the governmental funds.</p>		
		(37,872,265)
<p>Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.</p>		
		<u>(113,094)</u>
Total Net Assets - Governmental Activities		\$ <u>68,932,652</u>

The notes to the financial statements are an integral part of this statement.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	GENERAL	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Taxes	\$ 50,359,203	\$ -	\$ -	\$ 327,117	\$ 50,686,320
Licenses and permits	2,573,704				2,573,704
Intergovernmental revenues	3,858,174			610,900	4,469,074
Charges for services	2,502,725				2,502,725
Fines and forfeitures	1,410,632				1,410,632
Special assessments		211,120			211,120
Interest income	1,409,357	63,895	4,409	1,865	1,479,526
Miscellaneous	1,974,464	86			1,974,550
Total Revenues	64,088,259	275,101	4,409	939,882	65,307,651
EXPENDITURES:					
Current:					
General government	7,849,147				7,849,147
Public safety	25,336,606				25,336,606
Public works	11,203,232			610,900	11,814,132
Planning and development	878,832				878,832
Health and welfare	2,671,928				2,671,928
Culture and recreation	8,237,035				8,237,035
General services	3,611,188				3,611,188
Insurance department	1,298,190				1,298,190
Intergovernmental				2,968,183	2,968,183
Capital outlay	5,247,351				5,247,351
Debt service:					
Principal retirement		6,002,507			6,002,507
Interest and fiscal charges		1,823,431		3,024	1,826,455
Total Expenditures	66,333,509	7,825,938	-	3,582,107	77,741,554
Excess of Revenues over (under) Expenditures	\$ (2,245,250)	\$ (7,550,837)	\$ 4,409	\$ (2,642,225)	\$ (12,433,903)

The notes to the financial statements are an integral part of this statement.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS - CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>GENERAL</u>	<u>DEBT SERVICE FUND</u>	<u>CAPITAL PROJECTS FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
OTHER FINANCING SOURCES (USES):					
Transfers in (out)	\$ 1,203,168	\$ 7,010,072	\$ (935,919)	\$ 2,720,934	\$ 9,998,255
Total Other Financing Sources (Uses)	<u>1,203,168</u>	<u>7,010,072</u>	<u>(935,919)</u>	<u>2,720,934</u>	<u>9,998,255</u>
Net Changes in Fund Balance	(1,042,082)	(540,765)	(931,510)	78,709	(2,435,648)
Fund Balances, Beginning	<u>30,040,898</u>	<u>837,506</u>	<u>931,510</u>	<u>59,043</u>	<u>31,868,957</u>
Fund Balances, Ending	<u><u>\$ 28,998,816</u></u>	<u><u>\$ 296,741</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 137,752</u></u>	<u><u>\$ 29,433,309</u></u>

The notes to the financial statements are an integral part of this statement.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

Net Change in Fund Balances - Total Governmental Funds	\$ (2,435,648)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets 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.	(1,478,790)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.	(34,645)
Governmental funds may not report revenues until they are <i>available</i> . The government-wide statement of activities, however, is <i>not</i> subject to this availability criterion. Therefore, amounts related to prior periods that first became available as revenue in the governmental funds during the current period must be removed and reflected instead as an adjustment to government-wide net assets because they had been recognized as revenue in an earlier period.	(211,120)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	6,110,887
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>788,342</u>
Change in Net Assets of Governmental Activities	<u>\$ 2,739,026</u>

The notes to the financial statements are an integral part of this statement.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2006

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS		
	UTILITY	E-911	TOTAL
ASSETS:			
Current Assets:			
Cash and cash equivalents	\$ 23,290,461	\$ 1,433,071	\$ 24,723,532
Accounts receivable	6,147,200	92,432	6,239,632
Accrued interest	1,906	192	2,098
Due from other governments	1,772,981		1,772,981
Inventories, at cost	1,981,390		1,981,390
Total Current Assets	33,193,938	1,525,695	34,719,633
Non-Current Assets:			
Capital Assets:			
Land	1,044,133		1,044,133
Buildings	4,457,293		4,457,293
Improvements other than buildings	129,676,445	900	129,677,345
Machinery and equipment	7,581,140	1,595,713	9,176,853
Accumulated depreciation	(55,640,801)	(1,172,158)	(56,812,959)
Construction in progress	1,914,722		1,914,722
Total Non-Current Assets	89,032,932	424,455	89,457,387
Total Assets	122,226,870	1,950,150	124,177,020
LIABILITIES:			
Current Liabilities:			
Vouchers/accounts payable	13,610,531	28,891	13,639,422
Accrued liabilities	123,696		123,696
Accrued interest payable	124,761		124,761
Compensated absences	402,770		402,770
Customer deposits	5,004,931		5,004,931
Bonds payable - current	1,384,277		1,384,277
Total Current Liabilities	\$ 20,650,966	\$ 28,891	\$ 20,679,857

(Continued on page 22)

The notes to the financial statements are an integral part of this statement.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS - CONTINUED
SEPTEMBER 30, 2006

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS		
	UTILITY	E-911	TOTAL
Non-Current Liabilities:			
Compensated absences	\$ 75,873	\$ -	\$ 75,873
Bonds payable (net of unamortized bond issue costs)	<u>27,751,161</u>		<u>27,751,161</u>
Total Non-Current Liabilities	<u>27,827,034</u>	<u>-</u>	<u>27,827,034</u>
Total Liabilities	<u>48,478,000</u>	<u>28,891</u>	<u>48,506,891</u>
 NET ASSETS:			
Invested in capital assets, net of debt	59,495,887	424,455	59,920,342
Unrestricted	<u>14,252,983</u>	<u>1,496,804</u>	<u>15,749,787</u>
Total Net Assets	<u><u>\$ 73,748,870</u></u>	<u><u>\$ 1,921,259</u></u>	<u><u>\$ 75,670,129</u></u>

The notes to the financial statements are an integral part of this statement.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS		
	UTILITY	E-911	TOTAL
OPERATING REVENUES:			
Charges for services	\$ 91,288,438	\$ 1,018,927	\$ 92,307,365
OPERATING EXPENSES:			
Electric department	66,805,424		66,805,424
Water department	4,441,584		4,441,584
Sewer department	4,683,960		4,683,960
Billing - collection department	1,154,371		1,154,371
Meter reading department	680,500		680,500
Depreciation	4,715,630	194,780	4,910,410
Miscellaneous		597,676	597,676
Total Operating Expenses	82,481,469	792,456	83,273,925
Operating Income (Loss)	8,806,969	226,471	9,033,440
NONOPERATING REVENUES (EXPENSES):			
Interest revenue	1,015,407	53,697	1,069,104
Miscellaneous revenue	1,055,145	10,210	1,065,355
Bond issue costs	(48,020)		(48,020)
Gain (loss) on disposition of capital assets	(300,104)	(5,549)	(305,653)
Interest and fiscal charges	(1,223,227)		(1,223,227)
Total Nonoperating Revenues (Expenses)	499,201	58,358	557,559
Income (Loss) Before Contributions and Transfers	9,306,170	284,829	9,590,999
Transfers out	(9,998,255)		(9,998,255)
Change in Net Assets	(692,085)	284,829	(407,256)
Total Net Assets - Beginning	74,440,955	1,636,430	76,077,385
Total Net Assets - Ending	\$ 73,748,870	\$ 1,921,259	\$ 75,670,129

The notes to the financial statements are an integral part of this statement.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS		
	UTILITY	E-911	TOTAL
CASH FLOWS FROM OPERATIONS:			
Receipts from customers	\$ 91,410,528	\$ 1,059,799	\$ 92,470,327
Payments to suppliers	(64,606,597)	(588,372)	(65,194,969)
Payments to employees	(10,512,055)		(10,512,055)
Other receipts (payments)	824,756	10,210	834,966
Net Cash Provided by (Used in) Operating Activities	<u>17,116,632</u>	<u>481,637</u>	<u>17,598,269</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers (out)	(9,998,255)		(9,998,255)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from State Revolving Funds	481,543		481,543
Acquisition and construction of capital assets	(3,432,166)		(3,432,166)
Principal paid on bond maturities and notes payable	(1,917,492)		(1,917,492)
Interest paid on bonds and notes payable	(1,233,204)		(1,233,204)
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(6,101,319)</u>	<u>-</u>	<u>(6,101,319)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest and dividends on investments	1,013,501	53,505	1,067,006
Net Increase (Decrease) in Cash and Cash Equivalents	2,030,559	535,142	2,565,701
Cash and Cash Equivalents at Beginning of Year	21,259,902	897,929	22,157,831
Cash and Cash Equivalents at End of Year	<u>\$ 23,290,461</u>	<u>\$ 1,433,071</u>	<u>\$ 24,723,532</u>

The notes to the financial statements are an integral part of this statement.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS - CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS		
	UTILITY	E-911	TOTAL
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities:			
Operating Income (Loss)	\$ 8,806,969	\$ 226,471	\$ 9,033,440
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	4,715,630	194,780	4,910,410
(Increase) decrease in accounts receivable	41,257	40,872	82,129
(Increase) decrease in inventory	9,921		9,921
Increase (decrease) in vouchers and accounts payable	2,660,848	9,304	2,670,152
Increase (decrease) in accrued liabilities	(15,624)		(15,624)
Increase (decrease) in compensated absences	(7,958)		(7,958)
Increase (decrease) in customer deposits	80,833		80,833
Other miscellaneous revenues	824,756	10,210	834,966
Total Adjustments	<u>8,309,663</u>	<u>255,166</u>	<u>8,564,829</u>
Net Cash Provided by (Used) in Operating Activities	<u>\$ 17,116,632</u>	<u>\$ 481,637</u>	<u>\$ 17,598,269</u>

The notes to the financial statements are an integral part of this statement.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AS OF SEPTEMBER 30, 2006

	EMPLOYEE RETIREMENT FUND
ASSETS:	
Cash and cash equivalents	\$ 36,934
Accrued interest and dividends	63
Total Assets	36,997
LIABILITIES	
NET ASSETS:	
Held in trust for pension benefits	\$ 36,997

The notes to the financial statements are an integral part of this statement.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	EMPLOYEE RETIREMENT FUND
ADDITIONS:	
Contributions	\$ -
Investment Earnings:	
Interest, dividends, and other	928
Total Additions	928
DEDUCTIONS:	
Refunds of contributions	16,655
Total Deductions	16,655
Change in Net Assets	(15,727)
Net Assets - Beginning of Year	52,724
Net Assets - End of Year	\$ 36,997

The notes to the financial statements are an integral part of this statement.

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THE CITY OF DOTHAN
DOTHAN, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Dothan, Alabama (the City), which was founded in 1885, has an estimated population of 62,713 living within an area of 87.32 square miles. The City is in the southeast corner of the State of Alabama. The City operates under a Mayor-Commission form of government.

The financial statements of the City have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. Pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989 are not applied in the preparation of the financial statements of the enterprise fund types in accordance with GASB Statement No. 20. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34 "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments." This statement provides for the most significant change in financial reporting in over twenty years and is scheduled for a phased implementation (based on size of government) starting with fiscal years ending 2002 (for larger Alabama local governments with a September 30 fiscal year). As part of this statement, there is a new reporting requirement regarding the local government's infrastructure (roads, bridges, traffic signals, etc.). This requirement permits an optional four-year further delay for implementation to the fiscal year ending in 2006. The City elected to early implement the basic model for fiscal year 2000/2001 including the implementing of the infrastructure-related portion.

A. Financial Reporting Entity

The City of Dothan (the City) was incorporated on November 10, 1885. The City operates under a Mayor-Commission form of government and provides the following services: public safety (police and fire), highway and streets, sanitation, health and social services, culture-recreation, education, public improvements, planning and zoning, general administrative, water, electric and sewer services.

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government. There were no discretely presented component units.

Blended Component Unit. The City of Dothan Pension Trust. The City of Dothan employees had participated in the City of Dothan Employees' Pension and Retirement Fund. The government, effective October 1, 2004, adopted the Retirement Systems of Alabama as the official retirement plan for all eligible employees. As of September 30, 2005, the amount left in the City of Dothan Pension Trust represents the annuity balance of a few former employees. A separate financial statement can be obtained from the accounting division of the City's finance department.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basic Financial Statements – GASB Statement No. 34

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. While the previous model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on either the City as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (police, fire, public works, etc.) which are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function (police, public works, community and youth services, etc.) or a business-type activity. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property, sales or gas taxes, intergovernmental revenues, interest income, etc.). Historically, the previous model did not summarize or present net cost by function or activity.

The City does not currently employ an indirect cost allocation system.

This government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The fund financial statements are, in substance, very similar to the financial statements presented in the previous model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) or fund type are summarized into a single column.

Unless an internal service fund is combined with the business-type activities (deemed to be an infrequent event), totals on the business-type activity fund statements should directly reconcile to the business-type activity column presented in the government-wide statements.

The governmental funds major fund statements in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the City's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column of the government-wide presentation.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basic Financial Statements – GASB Statement No. 34 (Continued)

The City's fiduciary funds (which have been redefined and narrowed in scope) are presented in the fund financial statements by type (pension, private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

The focus of the revised model is on the City as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the fiduciary funds (by category) and the component units. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

C. Basis of Presentation

The financial transactions of the City are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The new model (Statement No. 34) sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The City electively added funds, as major funds, which either had debt outstanding or specific community focus. The nonmajor funds are combined in a column in the fund financial statements and detailed in the combining section.

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The City uses the following fund categories and fund types:

1. Governmental Funds

General Fund – To account for all financial resources except those required to be accounted for in another fund. The General Fund is the City's operating fund.

Special Revenue Funds – To account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Projects Fund – To account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary and trust funds).

THE CITY OF DOTHAN
DOTHAN, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation (Continued)

Debt Service Fund – To account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. In addition, special assessment transactions that are in the debt service phase are also accounted for in this fund.

2. Proprietary Funds

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. The focus of Proprietary Fund measurement is upon determination of operating income, changes in fund net assets, financial position, and cash flows, which is similar to businesses. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. 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 their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance. Proprietary funds distinguish operating revenues and expenses from non-operating 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 all the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The following is a description of the major proprietary funds of the City:

Utility Fund accounts for the City of Dothan's utility operations, which include retailing purchased electricity, as well as water and sewer operations.

Emergency 911 Fund (E911) was established to record transactions of the Board of the Dothan/Houston County E-911 Communications District. This Board was set up to administer the installation of and implementation of an enhanced 911 emergency telephone system for the City of Dothan and Houston County.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

3. Fiduciary Funds

Trust and Agency Funds – To account for assets held by the City as trustee or agent for individuals, other governments and/or funds. These include a Pension Trust Fund. Pension funds are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical.

4. Non-Current Governmental Assets/Liabilities

GASB Statement No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the Governmental column in the government-wide Statement of Net Assets.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The Government-wide Financial Statements and the Proprietary and Fiduciary Fund Financial Statements are presented on an accrual basis of accounting. The Governmental Funds in the Fund Financial Statements are presented on a modified accrual basis.

1. Accrual

Revenues are recognized when earned and expenses are recognized when incurred.

2. Modified Accrual

Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period, or soon enough thereafter, to be used to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty (60) days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement No. 33 (the City may act as either provider or recipient), the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met should, under most circumstances, be reported as advances by the provider and deferred revenue by the recipient.

3. Revenues Susceptible to Accrual

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year-end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received, as they are deemed immaterial.

E. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

All investments are stated at fair value, which is either a quoted market price or the best available estimate.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

2. *Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

3. *Inventories*

Inventory held by the Enterprise Fund is valued at the lower of average cost or market on a first-in, first-out basis. Inventory shown in the General Fund consists of expendable supplies held for consumption and is valued at cost on a first-in, first-out basis. The cost is recorded as an expenditure at the time individual inventory items are consumed.

4. *Restricted Assets*

There were no restricted assets as of September 30, 2006.

5. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 (amount not rounded) and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Property, plant, and equipment is depreciated using the straight-line method over the following estimated useful lives.

<u>ASSETS</u>	<u>YEARS</u>
Buildings	33
Building improvements	20
Infrastructure	10-50
Vehicles	6
Office equipment	10
Computer equipment	5
Machinery	6

6. *Compensated Absences*

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Employees with less than ten years of service earn one vacation leave day per month. Employees with more than ten years service earn 1½ days vacation leave per month. A maximum of twelve and eighteen days respectively may be carried forward to the succeeding year. Employees are paid for earned unused annual leave upon separation. Sick leave is earned at the rate of one day per month. A maximum of ninety days can be carried over to a succeeding year. Upon retirement, an employee is entitled to payment of a percentage (based on retirement percentage pay) of his accumulated sick leave, providing the employee's hire date was prior to April 13, 1992. Employees, by working on holidays or on-call, may accrue additional time for which they are paid at separation.

A portion of this liability is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. All vacation pay and similar leave is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.

7. *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 statement 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.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. 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.

F. Interfund Transactions

During the course of normal operations the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The majority of these transfers occur because profits from the City's utility operations are used to provide operating subsidies to other funds. The accompanying financial statements reflect such transactions as transfers.

G. Unbilled Utility Receivables

The City bills utility customers using cycle billing. There are three billing cycles per month and at the end of any given month there is approximately thirty (30) days use of utilities that is unread and/or unbilled.

H. Cash Flows Statement

For purposes of the "Statement of Cash Flows – Proprietary Funds," these funds consider all highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Closure and Postclosure Care Cost

State and federal laws and regulations require the City of Dothan to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs in each period based on landfill capacity used as of each balance sheet date. The \$5,499,483 reported as landfill closure and postclosure care liability at September 30, 2006, represents the cumulative amount reported to date based on the use of 94.01 percent of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and postclosure care of \$350,517 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2006. The City of Dothan expects to close the current landfill in the year 2009, which would make the estimated remaining life to be approximately three years. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

1. Budgetary Accounting

All funds, except the Community Development special revenue fund, E-911 enterprise fund, and the fiduciary funds, are maintained as budgetary funds. Budgets are adopted at the beginning of each fiscal year through passage of a resolution by the Board of Commissioners. Budgetary control is exercised at the department level. The City Manager is authorized to amend the budgets during the fiscal year in order to execute the policies and planning encompassed therein provided that the total appropriation for a department and the fund is not changed, and amendments affecting capital outlay do not exceed \$10,000 in any one instance or cause. The City Manager is also authorized to approve any change to correct an error, provided the fund total does not change. Any increase in overall expenditures must be approved by the Board of Commissioners. The Board of Commissioners may amend the budget at any time during the year and significant amendments are made through the fiscal year. During the year, several supplemental appropriations were necessary in the amount of \$33,956,590. The original budget of the City consists of operating expenditures and does not include capital projects. This is the reason for the significant amount of supplemental appropriations.

Budgets are prepared or adopted in conformance with generally accepted accounting principles. All unencumbered appropriations lapse at year end. Reported budget amounts are as originally adopted or as amended by the Commission by resolution or by the City Manager through routine budget amendments.

At the end of each fiscal year, unexpended and unencumbered appropriations are closed into the fund balance accounts. At the start of the next fiscal year all encumbrances outstanding at year end are reappropriated in the new budget and therefore reestablished.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

A. Budgetary Information (Continued)

2. Encumbrances

The City uses encumbrance accounting for budgetary control purposes. Outstanding encumbrances, which are outstanding purchase orders, contracts, and other commitments, are not treated as expenditures in the operating statements but instead reflect as a reservation of fund balance for expenditure or liquidation in the subsequent fiscal year.

B. Excess of Expenditures Over Appropriations in Individual Funds

The budget to actual comparison for the general fund reflects one department's expenditures exceeding appropriations for a total of \$494,997. Although this department in this fund exceeded its budget, the overall fund budget was not exceeded or revenues exceeded the budget to make up for any expenditure overage.

C. Deficit Fund Equity

As of September 30, 2006, there were no funds that had a deficit fund balance.

III. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this (\$37,872,265) are as follows:

Bonds payable	(\$30,102,455)
Estimated cost of closure and postclosure of City landfill	(5,499,483)
Compensated absences	<u>(2,270,327)</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>(\$37,872,265)</u>

THE CITY OF DOTHAN
DOTHAN, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

III. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this (\$1,478,790) difference are as follows:

Capital outlay	\$5,247,351
Depreciation expense	<u>(6,726,141)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>(\$1,478,790)</u>

Another element of that reconciliation states that “The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.” The details of this (\$34,645) difference are as follows:

Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	\$11,398
The statement of activities reports <i>gains or losses</i> arising from the trade-in and/or deletion of existing capital assets to acquire new capital assets. Conversely, governmental funds do not report any gain or loss on a trade-in or deletion of capital assets.	<u>(46,043)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>(\$34,645)</u>

THE CITY OF DOTHAN
DOTHAN, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

III. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities (Continued)

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$6,110,887 difference are as follows:

Principal repayments:	
General obligation debt	\$6,002,507
Net change in unamortized bond premium, discount, and issue costs	<u>108,380</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$6,110,887</u>

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this \$788,342 difference are as follows:

Compensated absences	\$ 62,771
Estimated cost of closure and postclosure	(181,301)
Accrued interest	66,856
Net pension obligation not realized	<u>840,016</u>
Net adjustment to decrease <i>net changes in fund balances – governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$788,342</u>

THE CITY OF DOTHAN
DOTHAN, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

At year end, the government's carrying amount of deposits was \$57,725,219 and the total bank balance was \$56,962,748. Of the bank balance, \$700,000 was covered by federal depository insurance. Of the remaining balance, \$56,262,748 was collateralized with securities held by the Alabama State Treasury Security for Alabama Funds Enhancement (SAFE) Program. Each of the banks holding the City's deposits is a certified participant in the SAFE program. Through the SAFE program, all public funds are protected through a collateral pool administered by the Alabama State Treasury.

At year end, the government did not have any investment balances.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's deposit policy for custodial credit risk is as follows:

Any financial institution holding/accepting public City of Dothan funds on deposit is required to qualify, become a member and pledge securities to the Security for Alabama Funds Enhancement (SAFE) collateral pool established in the Office of the State Treasurer. The pool insures each deposit that is designated on a bank's books as public funds. In the event of the failure of the bank, securities pledged by that bank would be liquidated by the State Treasurer to replace the public deposits. If the securities pledged failed to produce adequate funds for that purpose, then every bank participating in the pool would share the liability for the remaining balance.

As of September 30, 2006, \$56,262,748 of the government's bank balance of \$56,962,748 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the government's name.

B. Receivables

Receivables as of year end for the government's individual major funds and nonmajor funds are as follows:

	<u>GENERAL</u>	<u>DEBT SERVICE FUND</u>	<u>UTILITY FUND</u>	<u>E-911 FUND</u>	<u>TOTAL</u>
Receivables:					
Taxes	\$ 6,915,115	\$ -	\$ -	\$ -	\$ 6,915,115
Accounts	1,098,263		6,147,200	92,432	7,337,895
Special assessments		666,248			666,248
Interest	4,861	39,940	1,906	192	46,899
	<u>4,861</u>	<u>39,940</u>	<u>1,906</u>	<u>192</u>	<u>46,899</u>
Total	<u>\$ 8,018,239</u>	<u>\$ 706,188</u>	<u>\$ 6,149,106</u>	<u>\$ 92,624</u>	<u>\$ 14,966,157</u>

THE CITY OF DOTHAN
DOTHAN, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

IV. DETAILED NOTES ON ALL FUNDS (Continued)

B. Receivables (Continued)

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>
Property taxes receivable (general fund)	\$ 3,186,872	\$ -
Special assessments not yet due (debt service fund)	666,248	
Business licenses and certain other resources that have been received, but not yet earned		393,368
Total deferred/unearned revenue for governmental funds	\$ 3,853,120	\$ 393,368

C. Property Tax

Property taxes are levied as of October 1 of each year on property assessed the preceding October 1. The taxes are due on October 1 and become delinquent on the lien date of January 1. Billings are mailed out on October 1 of each year. Property taxes are received monthly from Houston County. The City's tax rate is \$.50 per \$100 of assessed valuation. At September 30, 2006, there were property taxes receivable and deferred revenue of \$3,186,872 that does not become earned until October 1, 2006 and therefore not reflected on the government-wide statement of net assets.

If property taxes are not paid by December 31, the taxpayer is sent a letter from the revenue commissioner. If they are still unpaid after two weeks, a certified letter is sent to the taxpayer. If there is no response to the certified letter, there is a legal notice of the property placed in the local newspaper notifying that it will be put up for public auction. This legal notice will run for three weeks. After the legal notice has run the required length of time, the property can be sold at public auction; however, most property is auctioned off on May 1 of each year.

CITY OF DOTHAN
DOTHAN, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

IV. DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets

Capital asset activity for the year ended September 30, 2006 was as follows:

	PRIMARY GOVERNMENT			ENDING BALANCE
	BEGINNING BALANCE	INCREASES	DECREASES	
GOVERNMENTAL ACTIVITIES:				
Capital assets, not being depreciated:				
Land	\$ 8,327,198	\$ -	\$ (21,000)	\$ 8,306,198
Construction in progress	80,650	365,426	(301,706)	144,370
Total capital assets, not being depreciated	<u>8,407,848</u>	<u>365,426</u>	<u>(322,706)</u>	<u>8,450,568</u>
Capital assets, being depreciated:				
Buildings	78,957,488	66,168	(25,500)	78,998,156
Improvements other than buildings	26,837,204	463,318		27,300,522
Machinery and equipment	25,267,473	3,931,588	(1,118,132)	28,080,929
Infrastructure	428,055,318	733,955	(1,400)	428,787,873
Total capital assets, being depreciated	<u>559,117,483</u>	<u>5,195,029</u>	<u>(1,145,032)</u>	<u>563,167,480</u>
Less accumulated depreciation for:				
Buildings	37,857,600	2,377,813	(1,480)	40,233,933
Improvements other than buildings	12,789,697	980,155		13,769,852
Machinery and equipment	19,782,020	1,968,338	(1,117,109)	20,633,249
Infrastructure	418,764,125	1,399,835	(1,400)	420,162,560
Total accumulated depreciation	<u>489,193,442</u>	<u>6,726,141</u>	<u>(1,119,989)</u>	<u>494,799,594</u>
Total capital assets, being depreciated, net	<u>69,924,041</u>	<u>(1,531,112)</u>	<u>(25,043)</u>	<u>68,367,886</u>
Governmental activities capital assets, net	<u><u>\$ 78,331,889</u></u>	<u><u>\$ (1,165,686)</u></u>	<u><u>\$ (347,749)</u></u>	<u><u>\$ 76,818,454</u></u>

CITY OF DOTHAN
DOTHAN, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

IV. DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets (Continued)

	PRIMARY GOVERNMENT			ENDING BALANCE
	BEGINNING BALANCE	INCREASES	DECREASES	
BUSINESS-TYPE ACTIVITIES:				
Capital assets, not being depreciated:				
Land	\$ 946,133	\$ 98,000	\$ -	\$ 1,044,133
Construction in progress	1,456,739	1,989,705	(1,531,722)	1,914,722
Total capital assets, not being depreciated	<u>2,402,872</u>	<u>2,087,705</u>	<u>(1,531,722)</u>	<u>2,958,855</u>
Capital assets, being depreciated:				
Buildings	4,421,017	36,276		4,457,293
Improvements other than buildings	128,158,225	1,775,876	(256,756)	129,677,345
Machinery and equipment	8,237,431	1,064,031	(124,610)	9,176,852
Total capital assets, being depreciated	<u>140,816,673</u>	<u>2,876,183</u>	<u>(381,366)</u>	<u>143,311,490</u>
Less accumulated depreciation for:				
Buildings	1,533,686	130,917		1,664,603
Improvements other than buildings	44,018,782	4,203,146	(166,018)	48,055,910
Machinery and equipment	6,635,159	576,347	(119,061)	7,092,445
Total accumulated depreciation	<u>52,187,627</u>	<u>4,910,410</u>	<u>(285,079)</u>	<u>56,812,958</u>
Total capital assets, being depreciated, net	<u>88,629,046</u>	<u>(2,034,227)</u>	<u>(96,287)</u>	<u>86,498,532</u>
Business-type activities capital assets, net	<u><u>\$ 91,031,918</u></u>	<u><u>\$ 53,478</u></u>	<u><u>\$ (1,628,009)</u></u>	<u><u>\$ 89,457,387</u></u>

THE CITY OF DOTHAN
DOTHAN, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

IV. DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 618,451
Public safety	1,181,190
Public works, including depreciation of general infrastructure assets	2,763,976
Health and welfare	19,715
Culture and recreation	792,489
General services	103,539
Schools	1,246,781
Total depreciation expense - governmental activities	<u><u>\$ 6,726,141</u></u>

Business-type activities:

Utility (other than electric)	\$ 3,018,352
Electric	1,697,278
E-911	194,780
Total depreciation expense - business-type activities	<u><u>\$ 4,910,410</u></u>

THE CITY OF DOTHAN
DOTHAN, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

IV. DETAILED NOTES ON ALL FUNDS (Continued)

E. Interfund Receivables, Payables, and Transfers

There were no due to/from other funds as of September 30, 2006.

The interfund transfers were as follows:

Transfer out:	Transfer in:				Total
	General Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental	
Utility Fund	\$ 267,249	\$ 7,010,072	\$ -	\$ 2,720,934	\$ 9,998,255
Capital Projects	935,919		(935,919)		-
Total Transfer Out	<u>\$ 1,203,168</u>	<u>\$ 7,010,072</u>	<u>\$ (935,919)</u>	<u>\$ 2,720,934</u>	<u>\$ 9,998,255</u>

During the course of normal operations the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The majority of these transfers occur because profits from the City's utility operations are used to provide operating subsidies to other funds.

F. Net Assets

The government-wide and business type Fund Financial Statements utilize a net asset presentation. Net assets are categorized as investment in capital assets (net of related debt), restricted and unrestricted.

Investment in Capital Assets (net of related debt) – is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt.

The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost.

Restricted Assets – are liquid assets which have third-party (statutory, bond covenant or granting agency) limitations on their use. The City would typically use restricted assets first, as appropriate opportunities arise, but reserve the right to selectively defer the use thereof to a future project or replacement equipment acquisition.

Unrestricted Assets – represent unrestricted liquid assets. While City management may have categorized and segmented portions for various purposes, the City Commission has the unrestricted authority to revisit or alter these managerial decisions.

The following schedule demonstrates how the net related debt is calculated and the unrelated reduction in the City's investment in non-infrastructure assets.

CITY OF DOTHAN
DOTHAN, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

ANALYSIS OF INVESTMENT IN CAPITAL ASSETS, NET OF DEBT
FOR THE YEAR ENDING SEPTEMBER 30, 2006

ISSUE	AMOUNT OUTSTANDING	UNSPENT PROCEEDS	NET	
Infrastructure - Governmental				
2005 G/O Series	\$ 12,427,231	\$ -	\$ 12,427,231	
Total Infrastructure - Governmental	12,427,231	-	12,427,231	
Other Capital Assets - Governmental				
2002 G/O Series	903,108		903,108	
2002 G/O Refunding Series	-		-	
2005 G/O Series	15,547,616		15,547,616	
Total Other Capital Assets - Governmental	16,450,724	-	16,450,724	
Total Governmental Debt				\$ 28,877,955
Total Capital Assets			571,618,048	
Accumulated Depreciation			(494,799,594)	
Net Capital Assets			76,818,454	
Investment in Capital Assets, net of related debt				\$ 47,940,499
Infrastructure - Proprietary				
1989 G/O Series	335,000		335,000	
1996B SRLFB	2,640,000		2,640,000	
2000 - SRF Sewer Warrant	9,445,000		9,445,000	
2001 - SRF Sewer Warrant	5,530,000		5,530,000	
2002 G/O	171,892		171,892	
2002 G/O Refunding Series	6,965,000		6,965,000	
2005 G/O Series	4,450,153		4,450,153	
Total Infrastructure - Proprietary	29,537,045	-	29,537,045	
Total Proprietary Debt				\$ 29,537,045
Total Capital Assets			146,270,346	
Accumulated Depreciation			(56,812,959)	
Net Capital Assets			89,457,387	
Investment in Capital Assets, net of related debt				\$ 59,920,342

**THE CITY OF DOTHAN
DOTHAN, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

IV. DETAILED NOTES ON ALL FUNDS (Continued)

G. Leases

1. Operating Leases

The government entered into an agreement with Xerox Corporation for lease and maintenance of a copier for the Administrative Department on September 8, 2005. The lease is for a five-year period at a monthly lease cost of \$340.99 and a monthly maintenance cost of \$57.99, resulting in an annual cost of \$4,788.

The government entered into an agreement with Xerox Corporation for lease of two copiers for the Judicial Department on April 25, 2006. The lease is for a five-year period at a monthly lease cost of \$412.62, resulting in an annual cost of \$4,951.

The government entered into an agreement with Xerox Corporation for lease of a copier for the Personnel Department (Employee Health Clinic) on July 11, 2006. The lease is for a five-year period at a monthly lease cost of \$89.88, resulting in an annual cost of \$1,079.

2. Capital Leases

The government does not have any material capital leases as of September 30, 2006.

H. Long-Term Debt

General Obligation Bonds

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The original amount of general obligation bonds issued in prior years was \$75,415,000. During the year, no debt was issued.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as 20-year serial bonds with varying amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

<u>PURPOSE</u>	<u>INTEREST RATES</u>	<u>AMOUNT</u>
Governmental activities	5.25 – 5.50%	\$ 903,108
Governmental activities – refunding	2.50 – 5.00%	27,974,847
Business-type activities	3.85 – 5.00%	18,121,892
Business-type activities – refunding	2.50 – 5.00%	<u>11,415,153</u>
		<u>\$58,415,000</u>

THE CITY OF DOTHAN
DOTHAN, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

IV. DETAILED NOTES ON ALL FUNDS (Continued)

H. Long-Term Debt (Continued)

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>YEAR ENDING</u> <u>SEPTEMBER 30</u>	<u>GOVERNMENTAL ACTIVITIES</u>		<u>BUSINESS-TYPE ACTIVITIES</u>	
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
2007	\$ 4,310,723	\$ 1,332,293	\$ 1,384,277	\$ 1,135,021
2008	670,000	1,137,077	4,155,000	1,082,833
2009	2,452,231	1,115,302	2,562,769	940,746
2010	3,370,000	992,690	1,880,000	825,939
2011	1,640,000	824,190	2,870,000	753,895
2012	1,700,000	769,250	2,980,000	645,000
2013	1,765,000	709,750	3,080,000	531,930
2014	1,855,000	621,500	1,160,000	410,158
2015	1,955,000	528,750	1,205,000	365,242
2016	2,055,000	431,000	1,255,000	318,579
2017	2,150,000	328,250	1,305,000	269,983
2018	2,255,000	220,750	1,055,000	219,450
2019	1,320,000	108,000	1,095,000	178,834
2020	1,380,000	55,200	1,140,000	136,674
2021	-	-	1,180,000	92,785
2022	-	-	1,230,000	47,357
TOTAL	<u>\$ 28,877,954</u>	<u>\$ 9,174,002</u>	<u>\$ 29,537,046</u>	<u>\$ 7,954,426</u>

THE CITY OF DOTHAN
DOTHAN, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

IV. DETAILED NOTES ON ALL FUNDS (Continued)

H. Long-Term Debt (Continued)

Changes in Long-Term Liabilities

Long-Term liability activity for the year ended September 30, 2006, was as follows:

	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>ENDING BALANCE</u>	<u>DUE WITHIN ONE YEAR</u>
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 34,880,462	\$ -	\$ (6,002,508)	\$ 28,877,954	\$ 4,310,723
Plus: Unamortized bond premium	1,769,488		(143,225)	1,626,263	
Less: Unamortized bond issue cost	(424,236)		33,299	(390,937)	
Less: Unamortized bond discount	(12,371)		1,546	(10,825)	
Total Bonds Payable	36,213,343	-	(6,110,888)	30,102,455	4,310,723
Estimated cost of closure and postclosure	5,318,182	181,301		5,499,483	
Compensated absences	2,333,098	221,864	(284,635)	2,270,327	1,958,994
Net pension obligation	840,016		(840,016)	-	
Governmental Activity Long-Term Liabilities	<u>\$ 44,704,639</u>	<u>\$ 403,165</u>	<u>\$ (7,235,539)</u>	<u>\$ 37,872,265</u>	<u>\$ 6,269,717</u>
Business-type activities:					
Bonds payable:					
General obligation bonds	\$ 31,454,538	\$ -	\$ (1,917,492)	\$ 29,537,046	\$ 1,384,277
Plus: Unamortized bond premium	243,773		(21,023)	222,750	
Less: Unamortized bond issue costs	(644,291)		48,020	(596,271)	
Less: Unamortized bond discount	(32,099)		4,012	(28,087)	
Total Bonds Payable	31,021,921	-	(1,886,483)	29,135,438	1,384,277
Compensated absences	486,601	44,669	(52,627)	478,643	402,770
Business-Type Activity Long-Term Liabilities	<u>\$ 31,508,522</u>	<u>\$ 44,669</u>	<u>\$ (1,939,110)</u>	<u>\$ 29,614,081</u>	<u>\$ 1,787,047</u>

For the governmental activities, claims and judgments, and compensated absences are generally liquidated by the general fund.

**THE CITY OF DOTHAN
DOTHAN, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

IV. DETAILED NOTES ON ALL FUNDS (Continued)

H. Long-Term Debt (Continued)

On December 22, 1999, the City issued \$11,035,000 of general obligation sewer warrants Series 2000-SRF and on December 1, 2000, the City issued \$6,460,000 of general obligation sewer warrants Series 2001-SRF for the purpose of financing the costs of capital improvements for the Cypress Creek Sewer Project. These warrants represent state revolving loan funds for which interest is calculated on the entire warrant issue even though the monies are drawn down over the construction period which was estimated to be completed in October 2002. As of September 30, 2006, \$15,722,019 had been drawn down to pay for construction in progress and financing costs. As of September 30, 2006, the remaining state revolving funds available are recorded as a due from other governments in the amount of \$1,772,981.

Refunded Debt

During 1978, 1993, 1994, and 2005 the City issued warrants to refund certain bond issues. A portion of the proceeds of the refunding bond issues was placed in trust and used to purchase U.S. Government and related agencies securities at various rates and maturities sufficient to meet all debt service requirements of the refunded debt of which \$47,498,100 was outstanding at September 30, 2006. These assets are administered by the trustees and are restricted for the retirement of the refunded debt. The liability for the refunded debt and the related securities and escrow accounts are not included in the accompanying financial statements as the City substantially defeased its obligation for payment of the refunded bonded debt upon completion of the refunding transactions.

Bond issues which have been refunded and are payable from escrow amounts are:

General Obligation Secured Refunding Warrants, 1978 Series	\$18,480,000
General Obligation Refunding Warrants, 1993-A Series	3,003,100
General Obligation Warrants, Series 1998	9,260,000
General Obligation Warrants, Series 1999	<u>16,755,000</u>
Totals	<u>\$47,498,100</u>

V. OTHER INFORMATION

A. Risk Management

The City is self-insured for employee medical insurance through a contract with Blue Cross and Blue Shield, Inc. The contract states that they will administer an employee health benefit plan for the City employees. The City actually pays the medical expenses for the employees through a wire transfer to Blue Cross and Blue Shield, Inc. Monies to pay these medical expenses are collected from the General Fund and Utility Fund by direct expenditures and employee withholdings. Blue Cross and Blue Shield, Inc. bills the City for claims that are due and then the City wires the funds to Blue Cross and Blue Shield, Inc. The risk of insurance coverage is now on the City. Blue Cross and Blue Shield, Inc. only administers the plan. They provide co-pay amounts for employees and they set fee limits for the medical charges, but the City is liable for all of the medical bills. The City pays Blue Cross and Blue Shield, Inc. an administrative fee which is charged to the appropriate fund. Each employee has a set lifetime maximum benefit for major medical benefits of \$1,000,000. In order to reduce exposure, the City has purchased stop loss reinsurance for any claims in excess of \$100,000 per covered person for the policy year. As of September 30, 2006 the City accrued \$849,102 in accrued liabilities, which is based on Blue Cross and Blue Shield's estimate of benefits payable.

**THE CITY OF DOTHAN
DOTHAN, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

V. OTHER INFORMATION (Continued)

A. Risk Management (Continued)

The City became a self insured entity during 1986 and is self-insured for general liability coverages (including vehicle liability). Expenditures are recognized in the General Fund for the amount determined to fund future claims. Corresponding revenues are recognized in the General Fund. As of September 30, 2006, the City accrued the actuarially determined amount of \$2,307,000, which represents estimated liabilities for claims. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

The City is also self-insured for workers compensation claims. Expenditures are recognized in the General Fund for the amount determined to fund future claims. The revenues are recognized in the General Fund. As of September 30, 2006, the City accrued the actuarially determined amount of \$521,000, which represents estimated liabilities for claims. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

During the past three fiscal years, the amount of settlements has not exceeded the City's insurance coverage. The following is a summary of changes in the aggregate liabilities for claims.

	<u>BALANCE SEPTEMBER 30, 2004</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE SEPTEMBER 30, 2005</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE SEPTEMBER 30, 2006</u>	<u>BALANCE DUE IN ONE YEAR OR LESS</u>
Accrued claims - liabilities	\$ 3,272,462	\$ 46,165	\$ 724,000	\$ 2,594,627	\$ 1,122,000	\$ 39,525	\$ 3,677,102	\$ 3,677,102

B. Related Party Transactions

There were no material related party transactions to disclose.

C. Subsequent Events

On November 20, 2006, the City of Dothan issued \$9,500,000 of general obligation warrants for the purpose of providing for improvements to the City's water works plant and distribution system. The bonds interest rate is 3.56% and matures March 1, 2007 (semi-annually) through September 1, 2011.

On December 1, 2006, the City of Dothan entered into a lease/purchase agreement with Motorola for the purchase of a Project 25 Public Safety Communications System at a cost of \$12,790,000. The lease interest rate is 2.99% and matures December 10, 2007 (semi-annually) through December 10, 2011.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

V. OTHER INFORMATION (Continued)

D. Contingent Liabilities

There are various lawsuits pending against the City. As more fully described in note V the City is a self-insured entity to cover any potential losses that may arise from claims and judgements. In the opinion of the City's attorney, any potential adverse impact of all these claims would not be material to the financial statements of the City.

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under the terms of the grant. City management believes such disallowances, if any, would be immaterial.

The City of Dothan has entered into an annual appropriations agreement with Wachovia Bank to guarantee fifty percent of principal and interest payments of the Dothan-Houston County Airport Authority's \$4,675,000 Series 2000 Airport Revenue Bonds, dated December 1, 2000 and fifty percent of expenses related thereto. The purpose of the bonds issued by the Dothan-Houston County Airport Authority was to construct a new terminal building at the Dothan Regional Airport. Houston County has entered into a similar agreement with the Airport Authority. This agreement is for a one-year period and on the first day of each fiscal year thereafter, shall automatically renew and continue in full force and effect for such fiscal year. The highest annual debt service occurs in year 2018 and is in the amount of \$388,240.

E. Other Postemployment Benefits

In addition to providing pension benefits, the City makes available certain health care and life insurance benefits for retired City employees. Substantially all of the City's retirees may become eligible for those benefits providing that they have not exceeded the age of 65 and have met all of the requirements of the retirement plan by which they are covered. Once the retiree obtains the age of 65 or becomes employed by another employer, they are no longer eligible for these post-employment health care benefits. The cost of retiree health care and life insurance benefits is incurred totally by the retiree, thus, no expenditures are reflected on the City's books. The election for these benefits must be made prior to their effective retirement date.

F. Employee Retirement System and Pension Plans

The City contributes to the Employees' Retirement System of Alabama ("System"), a qualified defined benefit plan which acts as a common investment and administrative agent for all State agencies and departments as well as for cities and counties which elect to participate in the System. The Retirement System issues a publicly available report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to The Retirement Systems of Alabama, 135 South Union Street, Montgomery, Alabama 36104-0001 or by calling (334) 832-4140.

All regular full-time and certain regular part-time City employees are eligible to participate in the System. Benefits vest after ten years of service. Vested employees may chose a lump sum benefit, payments for a specified time period or for life. The benefit amount is based upon employee and employer contributions and accrued interest as of the retirement date and is established by State statute. The System also provides death and disability benefits.

Covered employees are required by State statute to contribute five percent (5%) of their earnable compensation; fire fighters and law enforcement officers are required to contribute six percent (6%) of their earnable compensation to the System. The City is required by the same statute to contribute the remaining amounts necessary to fund the System using the actuarial basis specified by the statute. The City's contribution rate for the year ended September 30, 2006 was 20.58% of covered payroll.

**THE CITY OF DOTHAN
DOTHAN, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

V. OTHER INFORMATION (Continued)

F. Employee Retirement System and Pension Plans (Continued)

The City's annual pension cost of \$7,347,047 was equal to the City's required and actual contributions. The required contribution was determined as part of the September 30, 2005 actuarial valuation using the entry age actuarial cost method. Significant actuarial assumptions used in the valuation include: a) a rate of return on the investment of present and future assets of 8.0%, b) projected annual rate of salary increases ranging from 4.61% to 7.75%, based on age, and c) no cost-of-living adjustments. Both a) and b) included an inflation component of 4.50%. The actuarial value of the plan's assets was determined using the 5-year smoothed market value of investments. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at September 30, 2005, was 20 years. These assumptions were also used in the computation of actuarially determined contribution requirements.

In accordance with Governmental Accounting Standards Board Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, a pension liability of \$0 was calculated at the transition date. Trend information for the most current valuation year is as follows:

FISCAL YEAR ENDING	ANNUAL PENSION COST (APC)	PERCENTAGE OF APC CONTRIBUTED	NET PENSION OBLIGATION (NPO)
09/30/05	\$ 32,210,671 *	100%	\$ 0

*Includes lump sum payment of \$25,488,046 to join RSA.

Actuarial information is unavailable for 2003 and 2004. This information was not prepared for these years as the City contemplated the change to RSA.

The City of Dothan joined the Retirement Systems of Alabama (RSA) on October 1, 2004. Since the City of Dothan is new to RSA a complete study (first ever complete study) was completed on September 30, 2005.

G. Construction and Other Significant Commitments

1. Westgate Parkway – 231-Harrison Road - MPO

The Westgate Parkway, State Highway 231 to Harrison Road project consisting of road widening, construction and right-of-way acquisition is expected to cost \$8,100,000. A Metropolitan Planning Organization (MPO) grant was obtained and the City will be reimbursed 80 percent of approved expenditures. To date project expenditures total \$1,694,218, of which \$877,733 has been capitalized and the remaining \$816,485 was charged to maintenance.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

V. OTHER INFORMATION (Continued)

G. Construction and Other Significant Commitments

2. Westgate Tennis Center and Soccer Field Projects

The Westgate Tennis Court and Soccer Field Additions consisting of four tennis courts and one soccer field are expected to cost \$380,000. An Alabama Department of Economic and Community Affairs (ADECA) grant was awarded for \$150,000. The tennis court addition was completed in fiscal year 2006. Project costs were \$301,706. The soccer field addition is expected to be complete in fiscal year 2007. Project costs to date are \$52,970.

The United States Tennis Association (USTA) awarded the City of Dothan \$71,500 for construction of restrooms and shade shelters at the Westgate Tennis Center. Completion is expected in the spring of 2007. The restroom building and shade shelters project costs to date are \$10,750.

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THE CITY OF DOTHAN
DOTHAN, ALABAMA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS)	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
REVENUES:				
Taxes	\$ 44,903,000	\$ 45,203,000	\$ 50,359,203	\$ 5,156,203
Licenses and permits	2,245,700	2,245,700	2,573,704	328,004
Intergovernmental	3,085,000	4,477,677	3,858,174	(619,503)
Charges for services	1,591,500	1,789,483	2,502,725	713,242
Fines and forfeitures	1,206,000	1,264,958	1,410,632	145,674
Interest	299,500	1,099,500	1,409,357	309,857
Miscellaneous	1,227,700	1,527,028	1,974,464	447,436
Total Revenues	<u>54,558,400</u>	<u>57,607,346</u>	<u>64,088,259</u>	<u>6,480,913</u>
EXPENDITURES:				
Current:				
General government:				
General administrative	3,990,697	2,611,367	1,481,649	1,129,718
City Clerk	770,176	508,459	453,891	54,568
Information system/Technology	2,137,034	2,596,004	2,382,258	213,746
Budget and finance	951,010	939,756	934,234	5,522
Personnel services	1,446,264	1,844,356	1,750,121	94,235
Judicial department	864,973	878,673	846,994	31,679
Public safety:				
Fire department	10,951,824	11,609,803	11,592,026	17,777
Police department	14,386,459	14,527,565	13,744,580	782,985
Public works:				
Street department	5,504,708	6,955,149	3,548,217	3,406,932
Engineering department	3,377,135	2,291,728	2,020,308	271,420
Environmental services	5,080,103	6,388,652	5,634,707	753,945
Planning and development		1,151,699	878,832	272,867
Health and welfare	2,335,060	2,827,470	2,671,928	155,542
Culture and recreation:				
Recreation	6,106,973	6,469,747	6,298,562	171,185
Culture	1,316,722	1,443,474	1,938,471	(494,997)
General services:				
Administration	452,105	493,931	463,186	30,745
Facility	1,272,808	1,599,121	1,309,290	289,831
Fleet	1,897,769	1,937,695	1,838,712	98,983
Insurance Department	1,684,810	2,847,782	1,298,192	1,549,590
Capital outlay	2,063,423	6,464,952	5,247,351	1,217,601
Total Expenditures	<u>66,590,053</u>	<u>76,387,383</u>	<u>66,333,509</u>	<u>10,053,874</u>
Excess of Revenues over (under) Expenditures	<u>(12,031,653)</u>	<u>(18,780,037)</u>	<u>(2,245,250)</u>	<u>16,534,787</u>

(Continued on page 58)

THE CITY OF DOTHAN
DOTHAN, ALABAMA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS)	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
OTHER FINANCING SOURCES (USES):				
Transfers in	\$ 3,950,097	\$ 4,868,663	\$ 1,203,168	\$ (3,665,495)
Net Change in Fund Balances	(8,081,556)	(13,911,374)	(1,042,082)	12,869,292
Fund Balances - Beginning		13,911,374	30,040,898	16,129,524
Fund Balances - Ending	\$ (8,081,556)	\$ -	\$ 28,998,816	\$ 28,998,816

THE CITY OF DOTHAN
DOTHAN, ALABAMA
REQUIRED SUPPLEMENTARY INFORMATION - PENSION SCHEDULES
SCHEDULE OF FUNDING PROGRESS
SEPTEMBER 30, 2006

<u>ACTUARIAL VALUATION DATE</u>	<u>ACTUARIAL VALUE OF ASSETS (A)</u>	<u>ACTUARIAL ACCRUED LIABILITY (AAL) ENTRY AGE (B)¹</u>	<u>UNFUNDED AAL (UAAL) (B - A)</u>	<u>FUNDED RATIO (A / B)</u>	<u>COVERED PAYROLL (C)</u>	<u>UAAL AS A PERCENTAGE OF COVERED PAYROLL (B - A) / C</u>
09/30/05	\$ 53,847,127	\$139,132,618	\$ 85,285,491	38.7%	\$ 32,836,084	259.7%

¹ Reflects liability for cost of living benefit increases granted on or after October 1, 1978.

NOTES TO TREND INFORMATION

Valuation date	September 30, 2005
Actuarial cost method	Entry Age
Amortization method	Level percent open
Remaining amortization period	20 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases	4.61 - 7.75%
Inflation	4.50%
Cost of living adjustments	None

Actuarial information is unavailable for 2003 and 2004. This information was not prepared for these years as the City contemplated the change to RSA.

The City of Dothan joined the Retirement Systems of Alabama (RSA) on October 1, 2004. Since the City of Dothan is new to RSA a complete study (first ever complete study) was completed on September 30, 2005.

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THE CITY OF DOTHAN
DOTHAN, ALABAMA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006

	SPECIAL REVENUE FUNDS		TOTAL NONMAJOR GOVERNMENTAL FUNDS
	SCHOOL FUND	COMMUNITY DEVELOPMENT FUND	
ASSETS:			
Cash and cash equivalents	\$ 139,834	\$ 1,357	\$ 141,191
Total Assets	139,834	1,357	141,191
 LIABILITIES AND FUND BALANCES:			
Liabilities:			
Vouchers/accounts payable	2,086	1,353	3,439
Fund Balances:			
Unreserved	137,748	4	137,752
Total Liabilities and Fund Balances	\$ 139,834	\$ 1,357	\$ 141,191

THE CITY OF DOTHAN
DOTHAN, ALABAMA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	SPECIAL REVENUE FUNDS		TOTAL NONMAJOR GOVERNMENTAL FUNDS
	SCHOOL FUND	COMMUNITY DEVELOPMENT FUND	
REVENUES:			
Taxes	\$ 327,117	\$ -	\$ 327,117
Intergovernmental revenue		610,900	610,900
Interest revenue	1,865		1,865
Total Revenues	<u>328,982</u>	<u>610,900</u>	<u>939,882</u>
EXPENDITURES:			
Current:			
Public works		610,900	610,900
Intergovernmental	2,968,183		2,968,183
Debt service - interest	3,024		3,024
Total Expenditures	<u>2,971,207</u>	<u>610,900</u>	<u>3,582,107</u>
Excess of Revenues over (under) Expenditures	(2,642,225)	-	(2,642,225)
OTHER FINANCING SOURCES (USES):			
Transfers in	2,720,934		2,720,934
Net Change in Fund Balances	78,709	-	78,709
Fund Balances - Beginning	59,039	4	59,043
Fund Balances - Ending	<u>\$ 137,748</u>	<u>\$ 4</u>	<u>\$ 137,752</u>

THE CITY OF DOTHAN
DOTHAN, ALABAMA
BUDGETARY COMPARISON SCHEDULE
SCHOOL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS)	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
REVENUES:				
Taxes	\$ 300,000	\$ 300,000	\$ 327,117	\$ 27,117
Interest earned	500	500	1,865	1,365
Total Revenues	<u>300,500</u>	<u>300,500</u>	<u>328,982</u>	<u>28,482</u>
EXPENDITURES:				
Intergovernmental:				
Subsidies to agencies	2,814,578	2,814,578	2,814,578	-
Obligations/expenses paid for schools	123,678	123,811	123,810	1
Other support - schools	80,178	80,021	29,795	50,226
Debt service - interest	3,000	3,024	3,024	-
Total Expenditures	<u>3,021,434</u>	<u>3,021,434</u>	<u>2,971,207</u>	<u>50,227</u>
Excess of Revenues over (under) Expenditures	(2,720,934)	(2,720,934)	(2,642,225)	78,709
OTHER FINANCING SOURCES (USES):				
Transfer from Utility Fund	2,720,934	2,720,934	2,720,934	-
Net Change in Fund Balance	-	-	78,709	78,709
Fund Balance - Beginning	<u> </u>	<u> </u>	<u>59,039</u>	<u>59,039</u>
Budgetary Fund Balance - Ending	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 137,748</u></u>	<u><u>\$ 137,748</u></u>

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THE CITY OF DOTHAN
DOTHAN, ALABAMA
BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS)	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
REVENUES:				
Special assessments	\$ 799,000	\$ 799,000	\$ 211,120	\$ (587,880)
Interest from funds invested and special assessments	3,000	3,000	63,895	60,895
Miscellaneous			86	86
Total Revenues	<u>802,000</u>	<u>802,000</u>	<u>275,101</u>	<u>(526,899)</u>
EXPENDITURES:				
General administrative	6,000	6,000		6,000
Principal retirement	6,002,508	6,002,508	6,002,507	1
Interest	1,891,545	1,891,545	1,823,431	68,114
Total Expenditures	<u>7,900,053</u>	<u>7,900,053</u>	<u>7,825,938</u>	<u>74,115</u>
Excess of Revenues over (under) Expenditures	<u>(7,098,053)</u>	<u>(7,098,053)</u>	<u>(7,550,837)</u>	<u>(452,784)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	7,894,053	7,894,053	7,825,072	(68,981)
Transfers out	(796,000)	(815,000)	(815,000)	-
Total Other Financing Sources (Uses)	<u>7,098,053</u>	<u>7,079,053</u>	<u>7,010,072</u>	<u>(68,981)</u>
Net Change in Fund Balance	-	(19,000)	(540,765)	(521,765)
Fund Balances - Beginning		19,000	837,506	818,506
Fund Balances - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 296,741</u>	<u>\$ 296,741</u>

THE CITY OF DOTHAN
DOTHAN, ALABAMA
BUDGETARY COMPARISON SCHEDULE
GENERAL CAPITAL IMPROVEMENT FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS)	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
REVENUES:				
Interest from funds invested	\$ -	\$ -	\$ 4,409	\$ 4,409
EXPENDITURES				-
Excess of Revenues over (under) Expenditures	-	-	4,409	4,409
OTHER FINANCING SOURCES (USES):				
Transfers out		(935,920)	(935,919)	1
Net Change in Fund Balances	-	(935,920)	(931,510)	4,410
Fund Balances - Beginning		935,920	931,510	(4,410)
Fund Balances - Ending	\$ -	\$ -	\$ -	\$ -

THE CITY OF DOTHAN
DOTHAN, ALABAMA
SCHEDULE OF OPERATIONS - BUDGET AND ACTUAL
UTILITY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>BUDGET</u>	<u>BUDGETARY BASIS ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
REVENUES:			
Electric department	\$ 81,316,234	\$ 78,309,449	\$ (3,006,785)
Water department	7,359,498	8,562,902	1,203,404
Sewer department	3,340,264	3,556,534	216,270
Delinquent fees - combined utilities	650,000	859,553	209,553
Other revenue	753,775	989,358	235,583
Interest from funds invested	1,000,000	1,015,407	15,407
Total Utility Revenues	<u>94,419,771</u>	<u>93,293,203</u>	<u>(1,126,568)</u>
OPERATING EXPENSES:			
Electric department	71,233,854	66,805,423	4,428,431
Water department	5,497,898	4,441,586	1,056,312
Sewer department	5,411,123	4,683,957	727,166
Billing collection department	1,186,045	1,154,371	31,674
Meter reading department	680,583	680,502	81
Combined utility expense:			
Capital outlay	2,215,266	1,696,594	518,672
Miscellaneous expenses	1,023,970	(65,787)	1,089,757
Interest and fiscal charges	1,363,496	1,219,215	144,281
Bond issuance costs	90,100	52,032	38,068
Principal on bonds and notes	1,917,494	1,917,493	1
Depreciation	4,727,310	4,715,630	11,680
Total Expenses	<u>95,347,139</u>	<u>87,301,016</u>	<u>8,046,123</u>
Excess of Revenues Over (Under) Expenses	<u>\$ (927,368)</u>	<u>\$ 5,992,187</u>	<u>\$ 6,919,555</u>

(Continued on page 68)

This schedule is prepared on a budgetary basis for the operating accounts of the proprietary fund and as such does not present the results of operations on the basis of generally accepted accounting principles, but is presented for supplemental information.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
SCHEDULE OF OPERATIONS - BUDGET AND ACTUAL
UTILITY FUND - CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	BUDGET	BUDGETARY BASIS ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
OTHER FINANCING SOURCES (USES):			
Transfers (out)	\$ (13,732,730)	\$ (9,998,255)	\$ 3,734,475
Issuance of debt	1,105,396		(1,105,396)
Gain (loss) on disposition of capital assets		(300,104)	(300,104)
Total Other Financing Sources (Uses)	(12,627,334)	(10,298,359)	2,328,975
Excess of Revenues Over Expenses per Budget Ordinances	(13,554,702)	(4,306,172)	9,248,530
Adjustment for capital outlay, principal payments, proceeds from notes and bonds	3,614,087	3,614,087	-
Total Net Assets - Beginning	13,554,702	74,440,955	60,886,253
Total Net Assets - Ending	\$ 3,614,087	\$ 73,748,870	\$ 70,134,783

The explanation of differences between budgetary revenues and expenditures and GAAP revenues and expenditures are as follows:

Capital outlay expense	\$ 1,696,594
Principal payment on bonds	1,917,493
Total Adjustments	\$ 3,614,087

This schedule is prepared on a budgetary basis for the operating accounts of the proprietary fund and as such does not present the results of operations on the basis of generally accepted accounting principles, but is presented for supplemental information.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
SUMMARY OF DEBT SERVICE REQUIREMENTS TO MATURITY
ALL SERIES
2007-2022

FISCAL YEAR	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES			TOTAL PRINCIPAL AND INTEREST
	GENERAL OBLIGATION REFUNDING WARRANTS	GENERAL OBLIGATION WARRANTS	GENERAL OBLIGATION REFUNDING WARRANTS	GENERAL OBLIGATION WARRANTS	GENERAL OBLIGATION SEWER WARRANTS	
2007	\$ 4,715,073	\$ 927,943	\$ 680,109	\$ 176,620	\$ 1,662,568	\$ 8,162,313
2008	1,807,077		3,578,533		1,659,300	7,044,910
2009	3,567,533		1,843,842		1,659,675	7,071,050
2010	4,362,690		1,042,493		1,663,446	7,068,629
2011	2,464,190		2,048,475		1,575,420	6,088,085
2012	2,469,250		2,049,850		1,575,150	6,094,250
2013	2,474,750		2,043,600		1,568,330	6,086,680
2014	2,476,500				1,570,158	4,046,658
2015	2,483,750				1,570,242	4,053,992
2016	2,486,000				1,573,579	4,059,579
2017	2,478,250				1,574,983	4,053,233
2018	2,475,750				1,274,450	3,750,200
2019	1,428,000				1,273,834	2,701,834
2020	1,435,200				1,276,674	2,711,874
2021					1,272,785	1,272,785
2022					1,277,356	1,277,356
	<u>\$ 37,124,013</u>	<u>\$ 927,943</u>	<u>\$ 13,286,902</u>	<u>\$ 176,620</u>	<u>\$ 24,027,950</u>	<u>\$ 75,543,428</u>

THE CITY OF DOTHAN
DOTHAN, ALABAMA
GENERAL OBLIGATION SEWER WARRANTS - SERIES 1989
STATEMENT OF BONDED DEBT AND INTEREST
SEPTEMBER 30, 2006

YEAR ENDING SEPTEMBER 30	INTEREST RATE - %	INTEREST		PRINCIPAL DUE AUGUST 15	TOTAL DEBT SERVICE
		DUE FEBRUARY 15	DUE AUGUST 15		
2007	5%	\$ 8,375	\$ 8,375	\$ 80,000	\$ 96,750
2008	5%	6,375	6,375	80,000	92,750
2009	5%	4,375	4,375	85,000	93,750
2010	5%	2,250	2,250	90,000	94,500
		<u>\$ 21,375</u>	<u>\$ 21,375</u>	<u>\$ 335,000</u>	<u>\$ 377,750</u>

THE CITY OF DOTHAN
DOTHAN, ALABAMA
GENERAL OBLIGATION SEWER WARRANTS - SERIES 1996B-SRF
STATEMENT OF BONDED DEBT AND INTEREST
SEPTEMBER 30, 2006

<u>YEAR ENDING SEPTEMBER 30</u>	<u>INTEREST RATE - %</u>	<u>INTEREST</u>		<u>PRINCIPAL DUE AUGUST 15</u>	<u>TOTAL DEBT SERVICE</u>
		<u>DUE FEBRUARY 15</u>	<u>DUE AUGUST 15</u>		
2007	3.950%	\$ 52,140	\$ 52,140	\$ 195,000	\$ 299,280
2008	3.950%	48,289	48,289	205,000	301,578
2009	3.950%	44,240	44,240	210,000	298,480
2010	3.950%	40,092	40,093	220,000	300,185
2011	3.950%	35,748	35,747	230,000	301,495
2012	3.950%	31,205	31,205	240,000	302,410
2013	3.950%	26,465	26,465	245,000	297,930
2014	3.950%	21,626	21,626	255,000	298,252
2015	3.950%	16,590	16,590	270,000	303,180
2016	3.950%	11,257	11,258	280,000	302,515
2017	3.950%	5,728	5,727	290,000	301,455
		<u>\$ 333,380</u>	<u>\$ 333,380</u>	<u>\$ 2,640,000</u>	<u>\$ 3,306,760</u>

THE CITY OF DOTHAN
DOTHAN, ALABAMA
GENERAL OBLIGATION SEWER WARRANTS - SERIES 2000-SRF
STATEMENT OF BONDED DEBT AND INTEREST
SEPTEMBER 30, 2006

YEAR ENDING SEPTEMBER 30	INTEREST RATE - %	INTEREST		PRINCIPAL DUE AUGUST 15	TOTAL DEBT SERVICE
		DUE FEBRUARY 15	DUE AUGUST 15		
2007	3.850%	\$ 181,816	\$ 181,816	\$ 435,000	\$ 798,632
2008	3.850%	173,443	173,443	450,000	796,886
2009	3.850%	164,780	164,780	470,000	799,560
2010	3.850%	155,732	155,732	490,000	801,464
2011	3.850%	146,300	146,300	510,000	802,600
2012	3.850%	136,482	136,482	530,000	802,964
2013	3.850%	126,280	126,280	550,000	802,560
2014	3.850%	115,693	115,693	570,000	801,386
2015	3.850%	104,720	104,720	590,000	799,440
2016	3.850%	93,362	93,362	615,000	801,724
2017	3.850%	81,524	81,524	640,000	803,048
2018	3.850%	69,204	69,204	665,000	803,408
2019	3.850%	56,403	56,403	690,000	802,806
2020	3.850%	43,120	43,120	720,000	806,240
2021	3.850%	29,260	29,260	745,000	803,520
2022	3.850%	14,919	14,919	775,000	804,838
		<u>\$ 1,693,038</u>	<u>\$ 1,693,038</u>	<u>\$ 9,445,000</u>	<u>\$ 12,831,076</u>

THE CITY OF DOTHAN
DOTHAN, ALABAMA
GENERAL OBLIGATION SEWER WARRANTS - SERIES 2001-SRF
STATEMENT OF BONDED DEBT AND INTEREST
SEPTEMBER 30, 2006

YEAR ENDING SEPTEMBER 30	INTEREST RATE - %	INTEREST		PRINCIPAL DUE AUGUST 15	TOTAL DEBT SERVICE
		DUE FEBRUARY 15	DUE AUGUST 15		
2007	3.850%	\$ 106,453	\$ 106,453	\$ 255,000	\$ 467,906
2008	3.850%	101,544	101,544	265,000	468,088
2009	3.850%	96,442	96,442	275,000	467,884
2010	3.850%	91,149	91,149	285,000	467,298
2011	3.850%	85,662	85,662	300,000	471,324
2012	3.850%	79,888	79,888	310,000	469,776
2013	3.850%	73,920	73,920	320,000	467,840
2014	3.850%	67,760	67,760	335,000	470,520
2015	3.850%	61,311	61,311	345,000	467,622
2016	3.850%	54,670	54,670	360,000	469,340
2017	3.850%	47,740	47,740	375,000	470,480
2018	3.850%	40,521	40,521	390,000	471,042
2019	3.850%	33,014	33,014	405,000	471,028
2020	3.850%	25,217	25,217	420,000	470,434
2021	3.850%	17,133	17,132	435,000	469,265
2022	3.850%	8,759	8,760	455,000	472,519
		<u>\$ 991,183</u>	<u>\$ 991,183</u>	<u>\$ 5,530,000</u>	<u>\$ 7,512,366</u>

THE CITY OF DOTHAN
DOTHAN, ALABAMA
GENERAL OBLIGATION WARRANTS - SERIES 2002
STATEMENT OF BONDED DEBT AND INTEREST
SEPTEMBER 30, 2006

<u>YEAR ENDING</u> <u>SEPTEMBER 30</u>	<u>INTEREST</u> <u>RATE - %</u>	<u>INTEREST</u>		<u>PRINCIPAL</u> <u>DUE MARCH 1</u>	<u>TOTAL DEBT</u> <u>SERVICE</u>
		<u>DUE MARCH 1</u>	<u>DUE SEPTEMBER 1</u>		
2007	5.50%	\$ 29,562	\$ -	\$ 1,075,000	\$ 1,104,562
		<u>\$ 29,562</u>	<u>\$ -</u>	<u>\$ 1,075,000</u>	<u>\$ 1,104,562</u>

THE CITY OF DOTHAN
DOTHAN, ALABAMA
GENERAL OBLIGATION REFUNDING WARRANTS - SERIES 2002
STATEMENT OF BONDED DEBT AND INTEREST
SEPTEMBER 30, 2006

YEAR ENDING SEPTEMBER 30	INTEREST RATE - %	INTEREST		PRINCIPAL DUE SEPTEMBER 1	TOTAL DEBT SERVICE
		DUE MARCH 1	DUE SEPTEMBER 1		
2007	2.950%	\$ 131,359	\$ 131,359	\$ 155,000	\$ 417,718
2008	3.200%	129,072	129,072	155,000	413,144
2009	3.450%	126,592	126,592	165,000	418,184
2010	3.650%	123,746	123,746	795,000	1,042,492
2011	3.750%	109,238	109,238	1,830,000	2,048,476
2012	3.750%	74,925	74,925	1,900,000	2,049,850
2013	4.000%	39,300	39,300	1,965,000	2,043,600
		<u>\$ 734,232</u>	<u>\$ 734,232</u>	<u>\$ 6,965,000</u>	<u>\$ 8,433,464</u>

THE CITY OF DOTHAN
DOTHAN, ALABAMA
GENERAL OBLIGATION REFUNDING WARRANTS - SERIES 2005
STATEMENT OF BONDED DEBT AND INTEREST
SEPTEMBER 30, 2006

YEAR ENDING SEPTEMBER 30	INTEREST RATE - %	INTEREST		PRINCIPAL DUE SEPTEMBER 1	TOTAL DEBT SERVICE
		DUE MARCH 1	DUE SEPTEMBER 1		
2007	5.000%	\$ 738,733	\$ 738,733	\$ 3,500,000	\$ 4,977,466
2008	3.250%	651,232	651,232	3,670,000	4,972,464
2009	5.000%	591,595	591,595	3,810,000	4,993,190
2010	5.000%	496,345	496,345	3,370,000	4,362,690
2011	3.350%	412,095	412,095	1,640,000	2,464,190
2012	3.500%	384,625	384,625	1,700,000	2,469,250
2013	5.000%	354,875	354,875	1,765,000	2,474,750
2014	5.000%	310,750	310,750	1,855,000	2,476,500
2015	5.000%	264,375	264,375	1,955,000	2,483,750
2016	5.000%	215,500	215,500	2,055,000	2,486,000
2017	5.000%	164,125	164,125	2,150,000	2,478,250
2018	5.000%	110,375	110,375	2,255,000	2,475,750
2019	4.000%	54,000	54,000	1,320,000	1,428,000
2020	4.000%	27,600	27,600	1,380,000	1,435,200
		<u>\$ 4,776,225</u>	<u>\$ 4,776,225</u>	<u>\$ 32,425,000</u>	<u>\$ 41,977,450</u>

THE CITY OF DOTHAN
DOTHAN, ALABAMA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY SOURCE
SEPTEMBER 30, 2006

CAPITAL ASSETS:

Land	\$ 8,306,198
Buildings	78,998,156
Improvements other than buildings	27,300,522
Machinery and equipment	28,080,929
Infrastructure	428,787,873
Construction in progress	<u>144,370</u>
Total Capital Assets	<u><u>571,618,048</u></u>

INVESTMENTS IN CAPITAL ASSETS FROM:

Capital Projects Funds:	
General obligation bonds	59,190,369
Grants	3,580,609
General fund revenues	506,195,945
Special revenue fund revenues	345,228
Gifts	2,233,823
Project income	12,939
Utility fund revenues	<u>59,135</u>
Total Investment in Capital Assets	<u><u>\$ 571,618,048</u></u>

THE CITY OF DOTHAN
DOTHAN, ALABAMA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
SEPTEMBER 30, 2006

FUNCTION AND ACTIVITY	LAND	BUILDINGS	IMPROVEMENTS OTHER THAN BUILDINGS	MACHINERY AND EQUIPMENT	INFRASTRUCTURE	CONSTRUCTION IN PROGRESS	TOTAL
General Government:							
Control:							
General administrative	\$ 1,966,758	\$ 2,555,267	\$ 2,967,585	\$ 367,916	\$ -	\$ -	\$ 7,857,526
Staff Agencies:							
Information system/Technology			84,515	3,188,022			3,272,537
Budget and finance		276,022		44,237			320,259
Personnel services				35,388			35,388
Total Staff Agencies	-	276,022	84,515	3,267,647	-	-	3,628,184
Total General Government	1,966,758	2,831,289	3,052,100	3,635,563	-	-	11,485,710
Public Safety:							
Fire department	438,378	6,363,962	29,418	5,709,858			12,541,616
Police department	15,332	6,096,081	1,070,316	6,036,301			13,218,030
Total Public Safety	453,710	12,460,043	1,099,734	11,746,159	-	-	25,759,646
Public Works:							
Street department	2,267	40,110	1,145,050	3,205,983	424,893,196	300	429,286,906
Environmental services	1,814,210	1,039,205	4,902,563	5,592,452			13,348,430
Special assessments	25,000		7,308,292				7,333,292
Health and welfare	106,381	599,781	30,782				736,944
Community development/ Engineering department	440,552	979,632	-	942,512	3,894,677	80,350	6,337,723
Culture and recreation	2,512,541	18,641,025	9,533,304	1,597,024		63,720	32,347,614
General services			-	315,702			315,702
Equipment maintenance		1,262,950	228,697	1,045,534			2,537,181
Schools	984,779	41,144,121					42,128,900
Total Other	5,885,730	63,706,824	23,148,688	12,699,207	428,787,873	144,370	534,372,692
Total Capital Assets	\$ 8,306,198	\$ 78,998,156	\$ 27,300,522	\$ 28,080,929	\$ 428,787,873	\$ 144,370	\$ 571,618,048

THE CITY OF DOTHAN
DOTHAN, ALABAMA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

FUNCTION AND ACTIVITY	GOVERNMENTAL FUNDS CAPITAL ASSETS OCTOBER 1, 2005	ADDITIONS	DEDUCTIONS	GOVERNMENTAL FUNDS CAPITAL ASSETS SEPTEMBER 30, 2006
General Government:				
Control:				
General administrative	\$ 7,870,412	\$ 8,114	\$ 21,000	\$ 7,857,526
Staff Agencies:				
Information system/Technology	2,802,508	470,029		3,272,537
Budget and finance	320,259			320,259
Personnel services	35,298	90		35,388
Total Staff Agencies	3,158,065	470,119		3,628,184
Total General Government	11,028,477	478,233	21,000	11,485,710
Public Safety:				
Fire department	11,917,607	742,637	118,628	12,541,616
Police department	12,934,080	418,725	134,775	13,218,030
Total Public Safety	24,851,687	1,161,362	253,403	25,759,646
Public Works:				
Street department	428,410,694	1,142,520	266,608	429,286,606
Environmental services	12,304,623	1,446,672	402,865	13,348,430
Special assessments	7,333,292			7,333,292
Health and welfare	164,945	571,999		736,944
Community development/ Engineering department	6,059,940	198,833	1,400	6,257,373
Culture and recreation	31,783,238	564,113	63,457	32,283,894
General services	330,050	6,676	21,024	315,702
Equipment maintenance	2,476,836	196,620	136,275	2,537,181
Schools	42,700,899		571,999	42,128,900
Construction in progress	80,650	365,426	301,706	144,370
Total Other	531,645,167	4,492,859	1,765,334	534,372,692
Total Capital Assets	\$ 567,525,331	\$ 6,132,454	\$ 2,039,737	\$ 571,618,048

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STATISTICAL SECTION

This part of the City of Dothan'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 City's overall financial health.

CONTENTS

SCHEDULES

Financial Trends

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

1 through 5

Revenue Capacity

These schedules contain information to help the reader assess the factors affecting the City's ability to generate its property and sales taxes.

6 through 13

Debt Capacity

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

14 through 18

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.

19 through 20

Operating Information

These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.

21 through 23

THE CITY OF DOTHAN
DOTHAN, ALABAMA
SCHEDULE 1
NET ASSETS BY COMPONENT
LAST SIX FISCAL YEARS
(accrual basis of accounting)

	FISCAL YEAR					
	2001	2002	2003	2004	2005	2006
Governmental activities						
Invested in capital assets, net of related debt	\$ 53,867,405	\$ 54,774,839	\$ 57,091,212	\$ 49,625,294	\$ 43,451,427	\$ 47,940,499
Restricted		758,470				
Unrestricted	9,909,039	6,612,569	7,901,910	18,900,566	22,742,199	20,992,153
Total governmental activities net assets	<u>\$ 63,776,444</u>	<u>\$ 62,145,878</u>	<u>\$ 64,993,122</u>	<u>\$ 68,525,860</u>	<u>\$ 66,193,626</u>	<u>\$ 68,932,652</u>
Business-type activities						
Invested in capital assets, net of related debt	\$ 73,583,473	\$ 71,551,145	\$ 71,639,003	\$ 64,330,356	\$ 61,831,904	\$ 59,920,342
Restricted		100,498				
Unrestricted	2,905,484	6,855,913	4,928,406	12,611,485	14,245,481	15,749,787
Total business-type activities net assets	<u>\$ 76,488,957</u>	<u>\$ 78,507,556</u>	<u>\$ 76,567,409</u>	<u>\$ 76,941,841</u>	<u>\$ 76,077,385</u>	<u>\$ 75,670,129</u>
Primary government						
Invested in capital assets, net of related debt	\$ 127,450,878	\$ 126,325,984	\$ 128,730,215	\$ 113,955,650	\$ 105,283,331	\$ 107,860,841
Restricted		858,968				
Unrestricted	12,814,523	13,468,482	12,830,316	31,512,051	36,987,680	36,741,940
Total primary government net assets	<u>\$ 140,265,401</u>	<u>\$ 140,653,434</u>	<u>\$ 141,560,531</u>	<u>\$ 145,467,701</u>	<u>\$ 142,271,011</u>	<u>\$ 144,602,781</u>

Notes: The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2001.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
SCHEDULE 2
CHANGES IN NET ASSETS
LAST SIX FISCAL YEARS
(accrual basis of accounting)

	FISCAL YEAR					
	2001	2002	2003	2004	2005	2006
Expenses						
Governmental activities:						
General government	\$ 7,055,400	\$ 8,258,946	\$ 7,713,572	\$ 7,031,190	\$ 11,722,770	\$ 7,633,252
Public safety	21,516,860	22,142,257	22,938,122	23,100,249	24,452,597	26,456,406
General services			3,230,076	3,310,586	3,529,222	3,700,586
Planning and development						907,988
Engineering	3,361,866	3,460,402				
Equipment maintenance	1,407,301	1,493,313				
Other public works	11,553,036	9,098,463	13,197,371	13,322,446	15,860,328	14,735,368
Insurance department	189,839	1,594,717	3,037,638	2,508,321	752,477	1,298,190
Culture and recreation	7,096,704	6,939,861	6,617,007	7,783,903	8,283,238	9,031,499
Intergovernmental	3,700,566	3,744,079	4,217,011	4,226,200	4,219,232	4,214,964
Health and welfare	2,238,480	2,645,001	2,666,477	2,259,639	2,478,188	2,691,643
Interest on long-term debt	2,228,935	2,128,512	2,118,530	1,883,900	3,042,564	1,651,219
Total government activities expenses	<u>60,348,987</u>	<u>61,505,551</u>	<u>65,735,804</u>	<u>65,426,434</u>	<u>74,340,616</u>	<u>72,321,115</u>
Business-type activities:						
Electric	47,922,507	47,045,071	48,698,918	50,213,298	55,739,231	66,805,424
Water	3,396,908	2,637,982	2,682,866	3,361,811	3,410,332	4,441,584
Wastewater	3,232,241	3,204,528	3,506,390	3,783,938	4,198,634	4,683,960
Billing - collection department	969,178	836,040	884,400	918,710	1,081,648	1,154,371
Meter reading department	609,804	640,552	655,955	538,300	607,164	680,500
Depreciation	5,256,875	3,862,733	4,229,724	4,400,169	4,922,431	4,910,410
Miscellaneous	625,920	501,783	825,378	841,164	622,207	597,676
Bond issue costs	17,808	12,668	24,678	25,746	52,969	48,020
Gain (loss) on disposition of capital assets	(132,523)	380,786	550,073	372,864	280,421	305,653
Interest and fiscal charges	863,704	917,001	1,506,188	1,356,225	1,155,590	1,223,227
Total business-type activities expenses	<u>62,762,422</u>	<u>60,039,144</u>	<u>63,564,570</u>	<u>65,812,225</u>	<u>72,070,627</u>	<u>84,850,825</u>
Total primary government expenses	<u>\$ 123,111,409</u>	<u>\$ 121,544,695</u>	<u>\$ 129,300,374</u>	<u>\$ 131,238,659</u>	<u>\$ 146,411,243</u>	<u>\$ 157,171,940</u>
Program Revenues (see Schedule 3)						
Governmental activities:						
Charges for services:						
Other public works	\$	\$	\$ 418,168	\$ 442,674	\$ 531,684	\$ 61,755
Culture and recreation	1,472,951	1,624,290	1,566,327	2,323,210	2,274,426	2,424,322
Other activities	3,055,199	3,514,307	3,233,421	3,481,294	3,452,128	4,000,984
Operating grants and contributions	659,075	720,608	913,091	124,642	95,468	128,275
Capital grants and contributions	1,305,869	1,289,749	3,098,558	2,597,395	1,487,457	1,677,575
Total governmental activities program revenues	<u>6,493,094</u>	<u>7,148,954</u>	<u>9,229,565</u>	<u>8,969,215</u>	<u>7,841,163</u>	<u>8,292,911</u>
Business-type activities:						
Charges for services:						
Electric	59,472,627	59,120,889	61,561,443	63,370,817	68,298,950	79,169,002
Water	3,792,466	5,320,571	6,436,825	7,209,493	7,212,446	8,562,902
Wastewater	3,251,758	3,323,930	3,222,803	3,367,408	3,468,794	3,556,534
E-911	904,999	928,714	961,489	1,004,436	1,023,188	1,018,927
Total business-type program activities program revenues	<u>67,421,850</u>	<u>68,694,104</u>	<u>72,182,560</u>	<u>74,952,154</u>	<u>80,003,378</u>	<u>92,307,365</u>
Total primary government program revenues	<u>\$ 73,914,944</u>	<u>\$ 75,843,058</u>	<u>\$ 81,412,125</u>	<u>\$ 83,921,369</u>	<u>\$ 87,844,541</u>	<u>\$ 100,600,276</u>

Notes: In 2003 the Engineering Department was moved to the Public Works Department and Equipment Maintenance was moved to the General Services Department.
In 2006 the Planning and Development Department was created.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
SCHEDULE 2
CHANGES IN NET ASSETS - CONTINUED
LAST SIX FISCAL YEARS
(accrual basis of accounting)

	FISCAL YEAR					
	2001	2002	2003	2004	2005	2006
Net (Expense)/Revenue						
Governmental activities	\$ (53,855,893)	\$ (54,356,597)	\$ (56,506,239)	\$ (56,457,219)	\$ (66,499,453)	\$ (64,028,204)
Business-type activities	4,671,055	9,322,047	8,653,242	9,139,929	7,932,751	7,456,540
Total primary government net expense	<u>\$ (49,184,838)</u>	<u>\$ (45,034,550)</u>	<u>\$ (47,852,997)</u>	<u>\$ (47,317,290)</u>	<u>\$ (58,566,702)</u>	<u>\$ (56,571,664)</u>
General Revenues and Other Changes in Net Assets						
Governmental activities:						
Taxes						
Property taxes	\$ 2,736,487	\$ 2,892,492	\$ 2,911,702	\$ 3,165,844	\$ 3,265,010	\$ 3,513,899
Sales taxes	32,337,368	33,824,610	36,654,785	38,977,751	41,605,685	44,598,594
Other taxes	3,060,377	2,739,798	2,832,942	3,185,455	2,939,005	2,573,827
Unrestricted grants and contributions	3,058,543	2,147,321	1,865,615	2,817,390	1,867,593	2,729,560
Investment earnings	1,351,101	388,545	278,270	278,245	698,250	1,424,588
Miscellaneous	1,490,328	1,625,235	2,351,840	1,606,846	3,436,794	1,928,507
Transfers	10,303,141	9,108,030	11,720,191	9,958,426	10,354,882	9,998,255
Total governmental activities	<u>54,337,345</u>	<u>52,726,031</u>	<u>58,615,345</u>	<u>59,989,957</u>	<u>64,167,219</u>	<u>66,767,230</u>
Business-type activities:						
Unrestricted grants and contributions		385,223	22,800	44,346	6,200	
Investment earnings	785,478	298,793	206,587	184,887	525,497	1,069,104
Gain on sale of capital assets	132,523	(380,786)				
Miscellaneous	991,025	960,993	897,415	963,696	1,025,978	1,065,355
Transfers	(10,303,141)	(9,108,030)	(11,720,191)	(9,958,426)	(10,354,882)	(9,998,255)
Total business-type activities	<u>(8,394,115)</u>	<u>(7,843,807)</u>	<u>(10,593,389)</u>	<u>(8,765,497)</u>	<u>(8,797,207)</u>	<u>(7,863,796)</u>
Total primary government	<u>\$ 45,943,230</u>	<u>\$ 44,882,224</u>	<u>\$ 48,021,956</u>	<u>\$ 51,224,460</u>	<u>\$ 55,370,012</u>	<u>\$ 58,903,434</u>
Change in Net Assets						
Governmental activities	\$ 481,452	\$ (1,630,566)	\$ 2,109,106	\$ 3,532,738	\$ (2,332,234)	\$ 2,739,026
Business-type activities	(3,723,060)	1,478,240	(1,940,147)	374,432	(864,456)	(407,256)
Total primary government	<u>\$ (3,241,608)</u>	<u>\$ (152,326)</u>	<u>\$ 168,959</u>	<u>\$ 3,907,170</u>	<u>\$ (3,196,690)</u>	<u>\$ 2,331,770</u>

Notes: The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2001.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
SCHEDULE 3
PROGRAM REVENUES BY FUNCTION/PROGRAM
LAST SIX FISCAL YEARS
(accrual basis of accounting)

	PROGRAM REVENUES					
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Function/Program						
Governmental activities:						
General government	\$ 2,693,790	\$ 3,345,999	\$ 2,420,039	\$ 2,112,964	\$ 2,226,123	\$ 2,268,097
Public safety	1,878,334	1,790,526	2,174,014	2,592,972	1,391,997	1,835,958
Other public works			3,069,185	1,940,069	1,948,617	1,363,317
Planning and development						401,217
Engineering	238,318	388,139				
Culture and recreation	1,671,492	1,624,290	1,566,327	2,323,210	2,274,426	2,424,322
Health and welfare	11,160					
Subtotal governmental activities	<u>6,493,094</u>	<u>7,148,954</u>	<u>9,229,565</u>	<u>8,969,215</u>	<u>7,841,163</u>	<u>8,292,911</u>
Business-type activities:						
Electric	59,472,627	59,120,889	61,561,443	63,370,817	68,298,950	79,169,002
Water	3,792,466	5,320,571	6,436,825	7,209,493	7,212,446	8,562,902
Wastewater/sewer	3,251,758	3,323,930	3,222,803	3,367,408	3,468,794	3,556,534
E-911	904,999	928,714	961,489	1,004,436	1,023,188	1,018,927
Subtotal business-type activities	<u>67,421,850</u>	<u>68,694,104</u>	<u>72,182,560</u>	<u>74,952,154</u>	<u>80,003,378</u>	<u>92,307,365</u>
Total primary government	<u>\$ 73,914,944</u>	<u>\$ 75,843,058</u>	<u>\$ 81,412,125</u>	<u>\$ 83,921,369</u>	<u>\$ 87,844,541</u>	<u>\$ 100,600,276</u>

Notes: In 2006 the Planning and Development Department was created.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
SCHEDULE 4
FUND BALANCES, GOVERNMENTAL FUNDS
LAST SIX FISCAL YEARS
(modified accrual basis of accounting)

	FISCAL YEAR					
	2001	2002	2003	2004	2005	2006
General Fund						
Reserved	\$ 4,004,029	\$ 6,918,802	\$ 6,899,923	\$ 6,853,899	\$ 8,591,576	\$ 5,471,838
Unreserved	14,967,395	14,134,928	15,050,540	17,524,349	21,449,322	23,526,978
Total general fund	<u>\$ 18,971,424</u>	<u>\$ 21,053,730</u>	<u>\$ 21,950,463</u>	<u>\$ 24,378,248</u>	<u>\$ 30,040,898</u>	<u>\$ 28,998,816</u>
All Other Governmental Funds						
Reserved	\$ 1,157,871	\$ -	\$ -	\$ 480,043	\$ 837,506	\$ 296,741
Unreserved, reported in:						
Special revenue funds	388,321	419,397	476,693	16,031	59,043	137,752
Capital projects funds	1,346,480	328,943	104		931,510	
Debt service funds	389,275	491,363	77,555			
Total all other governmental funds	<u>\$ 3,281,947</u>	<u>\$ 1,239,703</u>	<u>\$ 554,352</u>	<u>\$ 496,074</u>	<u>\$ 1,828,059</u>	<u>\$ 434,493</u>

THE CITY OF DOTHAN
DOTHAN, ALABAMA
SCHEDULE 5
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
LAST SIX FISCAL YEARS
(modified accrual basis of accounting)

	FISCAL YEAR					
	2001	2002	2003	2004	2005	2006
Revenues						
Taxes (see Schedule 6)	\$ 38,134,232	\$ 39,456,900	\$ 42,399,429	\$ 45,329,050	\$ 47,809,700	\$ 50,686,320
Licenses, fees, and permits	1,777,818	2,047,021	2,208,082	2,345,856	2,492,482	2,573,704
Fines and penalties	1,230,419	1,395,661	1,358,561	1,465,203	1,307,930	1,410,632
Charges for services	1,519,913	1,695,915	1,651,273	2,436,119	2,457,826	2,502,725
Special assessments			1,183,350	245,251	342,982	211,120
Intergovernmental	3,224,331	3,759,109	3,004,186	4,639,681	3,339,330	4,469,074
Investment earnings	1,351,101	388,545	278,593	363,182	770,029	1,479,526
Other revenues	1,490,328	1,625,235	2,452,368	1,680,908	3,481,265	1,974,550
Total revenues	48,728,142	50,368,386	54,535,842	58,505,250	62,001,544	65,307,651
Expenditures						
General government	6,365,768	6,973,566	6,231,177	6,130,581	8,979,751	7,849,147
Public safety	20,225,428	20,750,288	21,428,502	21,723,282	23,206,906	25,336,606
Planning and development						878,832
Refuse collection			3,081,820	3,207,141	3,403,680	3,611,188
Other public works	7,927,013	7,065,255	10,897,299	10,606,723	11,957,416	11,814,132
Health and welfare	2,238,480	2,645,001	2,665,002	2,254,034	2,472,583	2,671,928
Engineering	3,270,996	3,260,735				
Culture and recreation	6,216,247	6,253,103	5,917,990	7,024,085	7,432,301	8,237,035
Equipment and maintenance	1,336,748	1,445,064				
Insurance	189,839	1,594,717	3,037,638	2,508,321	752,477	1,298,190
Capital outlay	13,940,169	6,807,096	4,174,279	3,864,391	2,024,619	5,247,351
Intergovernmental	2,909,271	2,952,474	2,935,169	2,965,310	2,958,342	2,968,183
Debt service						
Interest	2,133,642	2,131,840	2,222,704	1,914,807	1,349,619	1,826,455
Principal	2,130,000	1,760,000	3,608,653	3,895,494	2,139,098	6,002,507
Total expenditures	68,883,601	63,639,139	66,200,233	66,094,169	66,676,792	77,741,554
Excess of revenues over (under) expenditures	(20,155,459)	(13,270,753)	(11,664,391)	(7,588,919)	(4,675,248)	(12,433,903)
Other Financing Sources (Uses)						
Bonds issued		4,202,785	(16,881)		1,757,588	
Refunding bonds issued			3,001,405		32,599,847	
Payments to escrow agent			(2,828,942)		(33,042,434)	
Transfers in	10,303,141	9,108,030	11,720,191	9,958,426	10,354,882	9,998,255
Total other financing sources (uses)	10,303,141	13,310,815	11,875,773	9,958,426	11,669,883	9,998,255
Net change in fund balances	\$ (9,852,318)	\$ 40,062	\$ 211,382	\$ 2,369,507	\$ 6,994,635	\$ (2,435,648)
Debt service as a percentage of noncapital expenditures	7.8%	6.8%	9.4%	9.3%	5.4%	10.8%

THE CITY OF DOTHAN
DOTHAN, ALABAMA
SCHEDULE 6
TAX REVENUES BY SOURCE, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)

<u>FISCAL YEAR</u>	<u>GENERAL PROPERTY TAX</u>	<u>SALES AND USE TAX</u>	<u>MOTOR VEHICLE TAX</u>	<u>LODGING TAX</u>	<u>FRANCHISE TAX</u>	<u>CIGARETTE TAX</u>	<u>FINANCIAL INSTITUTION TAX</u>	<u>TOTAL</u>
1997	\$ 1,772,052	\$ 28,886,770	\$ 373,170	\$ 632,012	\$ 1,920,891	\$ 354,664	\$ 190,073	\$ 34,129,632
1998	1,832,204	30,671,232	422,155	636,459	1,920,165	344,474	183,943	36,010,632
1999	1,960,783	31,460,149	414,966	665,370	1,403,253	338,376	190,098	36,432,996
2000	2,285,938	32,993,739	489,758	711,311	1,343,695	326,219	169,003	38,319,663
2001	2,736,487	32,621,837	272,727	665,964	1,496,668	340,550	125,554	38,259,786
2002	2,337,776	34,148,783	484,806	684,814	1,467,634	333,086	111,035	39,567,935
2003	2,412,866	36,922,391	498,835	764,738	1,472,636	327,964	194,637	42,594,065
2004	2,611,284	39,221,992	554,561	827,775	1,788,704	324,734	356,555	45,685,605
2005	2,726,765	41,535,953	538,245	1,157,201	1,541,675	309,861	312,090	48,121,791
2006	2,752,947	44,286,802	760,952	1,463,558	1,094,944	327,117	1,146,819	51,833,139
Change								
1997-2006	\$ 980,895	\$ 15,400,032	\$ 387,782	\$ 831,546	\$ (825,947)	\$ (27,547)	\$ 956,745	\$ 17,703,506

Source: Revenue Commissioners, Houston, Dale, and Henry Counties, AlaTax

Notes: Includes General Fund, Special Revenue Funds, and Debt Service Fund.
The lodging tax rate in the City of Dothan is 10%. The State of Alabama receives 4% and the City of Dothan receives 6%. Of the 6% received by the City, 4% is designated to the Dothan Area Convention and Visitors Bureau for the sole purpose of promoting tourism and conventions in the city.
In 2006 the Financial Institution Tax reported includes \$541,573.12 of collected funds from audits by the State of Alabama Department of Revenue.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
SCHEDULE 7
ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS
(in thousands of dollars)

<u>FISCAL YEAR</u>	<u>RESIDENTIAL PROPERTY</u>	<u>COMMERCIAL AND INDUSTRIAL PROPERTY</u>	<u>LESS: TAX-EXEMPT PROPERTY</u>	<u>TOTAL TAXABLE ASSESSED VALUE</u>	<u>TOTAL DIRECT TAX RATE</u>	<u>ESTIMATED ACTUAL TAXABLE VALUE</u>	<u>TAXABLE ASSESSED VALUE AS A PERCENTAGE OF ACTUAL TAXABLE VALUE</u>
1997	\$ 106,221	\$ 295,476	\$ 25,887	\$ 375,810	\$ 5.00	\$ 2,427,707	15.5%
1998	109,756	317,028	27,297	399,487	5.00	2,498,506	16.0%
1999	132,996	361,511	36,103	458,404	5.00	3,089,953	14.8%
2000	150,577	347,899	43,936	454,539	5.00	3,180,223	14.3%
2001	136,556	365,591	44,176	457,972	5.00	3,220,099	14.2%
2002	140,197	369,012	45,189	464,021	5.00	3,278,396	14.2%
2003	157,676	408,986	48,627	518,036	5.00	3,583,462	14.5%
2004	165,624	412,640	49,813	528,452	5.00	3,627,230	14.6%
2005	178,744	432,145	52,644	558,246	5.00	3,914,296	14.3%
2006	202,010	479,682	65,920	615,772	5.00	4,386,207	14.0%

Source: Revenue Commissioner and Probate Judge, Houston County

Notes: Represents fiscal year taxes that were assessed. Taxes are due and collected in the next fiscal year.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
SCHEDULE 8
DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN FISCAL YEARS
(rate per \$1,000 of assessed value)

FISCAL YEAR	CITY DIRECT RATES					OVERLAPPING RATES					
	BASIC RATE	GENERAL OBLIGATION DEBT SERVICE	REDEVELOPMENT DEBT SERVICE	REDEVELOPMENT PROGRAM	TOTAL DIRECT RATE	DOTHAN SCHOOL DISTRICT	HOUSTON COUNTY	HOSPITAL	COUNTY-WIDE	STATE OF ALABAMA	TOTAL
1997	\$ 5.00	\$	\$	\$	\$ 5.00	\$ 3.50	\$ 10.50	\$ 1.00	\$ 4.50	\$ 6.50	\$ 31.00
1998	5.00				5.00	3.50	10.50	1.00	4.50	6.50	31.00
1999	5.00				5.00	3.50	10.50	1.00	4.50	6.50	31.00
2000	5.00				5.00	3.50	10.50	1.00	4.50	6.50	31.00
2001	5.00				5.00	3.50	10.50	1.00	4.50	6.50	31.00
2002	5.00				5.00	3.50	10.50	1.00	4.50	6.50	31.00
2003	5.00				5.00	3.50	10.50	1.00	4.50	6.50	31.00
2004	5.00				5.00	3.50	10.50	1.00	4.50	6.50	31.00
2005	5.00				5.00	3.50	10.50	1.00	4.50	6.50	31.00
2006	5.00				5.00	3.50	10.50	1.00	4.50	6.50	31.00

Source: Houston County Revenue Commissioner

THE CITY OF DOTHAN
DOTHAN, ALABAMA
SCHEDULE 9
PRINCIPAL PROPERTY TAX PAYERS
CURRENT YEAR AND NINE YEARS AGO

<u>TAXPAYER</u>	<u>2006</u>			<u>1997</u>		
	TAXABLE ASSESSED VALUE	RANK	PERCENTAGE OF TOTAL CITY TAXABLE ASSESSED VALUE	TAXABLE ASSESSED VALUE	RANK	PERCENTAGE OF TOTAL CITY TAXABLE ASSESSED VALUE
Centurytel of Alabama	\$ 14,032,760	1	2.28%			
Sony Magnetics Products, Inc.	11,567,700	2	1.88%	\$ 16,060,640	1	3.48%
Triad of Alabama LLC	9,232,620	3	1.50%			
Flowers Hospital	7,196,680	4	1.17%	12,218,120	3	2.65%
PR Wiregrass Commons LLC	4,665,420	5	0.76%			
Perdue Farms Inc.	3,272,860	6	0.53%			
Twitchell Corporation	3,115,960	7	0.51%			
Swedish Match Cigars	2,413,400	8	0.39%			
Wal-Mart Real Estate Bus Trust	2,229,080	9	0.36%			
AAA Cooper Transportation	2,051,820	10	0.33%			
GTE-South, Inc.				11,443,700	2	2.48%
Metropolitan Life Insurance Co.				4,029,280	4	0.88%
Ludlow Corp				2,325,080	5	0.51%
Mark MPNM Limited				1,755,040	6	0.38%
SouthTrust Bank of Dothan, N.A.				1,543,260	7	0.34%
General Electric Motor Division				1,489,080	8	0.32%
Couch, Inc.				1,487,640	9	0.32%
Mercantile Properties, Inc.				1,476,560	10	0.32%
Total	<u>\$ 59,778,300</u>		<u>9.71%</u>	<u>\$ 53,828,400</u>		<u>11.68%</u>

Source: Revenue Commissioner Houston County.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
SCHEDULE 10
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS

FISCAL YEAR ENDED SEPTEMBER 30,	TAXES LEVIED FOR THE FISCAL YEAR	COLLECTED WITHIN THE FISCAL YEAR OF THE LEVY		COLLECTIONS IN SUBSEQUENT YEARS	TOTAL COLLECTIONS TO DATE	
		AMOUNT	PERCENTAGE OF LEVY		AMOUNT	PERCENTAGE OF LEVY
1997	\$ 1,740,529	\$ 2,085,413	119.81 %	\$ -	\$ 2,085,413	119.81 %
1998	2,085,413	1,902,193	91.21 %		1,902,193	91.21 %
1999	1,902,193	2,051,580	107.85 %		2,051,580	107.85 %
2000	2,051,580	2,205,420	107.50 %		2,205,420	107.50 %
2001	2,205,420	2,243,217	101.71 %		2,243,217	101.71 %
2002	2,391,504	2,305,028	96.38 %		2,305,028	96.38 %
2003	2,425,818	2,346,656	96.74 %		2,346,656	96.74 %
2004	2,654,953	2,556,163	96.28 %		2,556,163	96.28 %
2005	2,751,066	2,612,518	94.96 %	386	2,612,904	94.98 %
2006	2,905,533	2,748,503	94.60 %		2,748,503	94.60 %

Source: Revenue Commissioners: Houston, Dale, and Henry Counties

THE CITY OF DOTHAN
DOTHAN, ALABAMA
SCHEDULE 11
TAXABLE SALES BY CATEGORY
LAST TEN FISCAL YEARS
(in thousands of dollars)

	CALENDAR YEAR									
	1997*	1998*	1999*	2000*	2001*	2002**	2003***	2004***	2005***	2006***
Apparel stores	\$ 33,721	\$ 33,856	\$ 34,909	\$ 38,402	\$ 37,573	\$ 60,973	\$ 20,545	\$ 59,603	\$ 61,319	\$ 62,458
General merchandise	229,390	250,011	246,875	222,300	227,313	303,265	113,385	319,634	325,513	318,083
Food stores	123,115	124,663	124,740	118,298	121,185	114,147	22,486	71,152	66,068	57,434
Eating and drinking establishments	90,240	89,846	87,542	93,576	89,743	89,931	21,653	82,458	84,837	89,088
Home furnishings and appliances	49,731	52,512	55,289	42,874	43,731	42,229	9,096	31,231	41,214	45,194
Building materials and farm tools	147,177	166,792	183,211	120,318	111,845	128,419	28,535	133,503	139,221	154,271
Auto dealers and supplies	225,709	246,304	240,032	233,922	251,400	436,062	25,534	83,957	97,185	96,641
Service stations	2,697	2,270	2,013	3,282	2,896	2,903	6,862	24,256	24,955	25,861
Other retail stores	80,952	95,084	96,086	111,862	131,997	131,997	20,841	62,435	65,209	68,067
All other outlets	111,790	92,045	93,317	103,638	218,185	102,414	26,957	107,281	105,189	103,803
Not classified							931,968	336,887	386,785	470,748
Total	\$ 1,094,522	\$ 1,153,383	\$ 1,164,014	\$ 1,088,472	\$ 1,103,871	\$ 1,412,340	\$ 1,227,862	\$ 1,312,397	\$ 1,397,495	\$ 1,491,648
City direct sales tax rate	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

Sources: * 1997 through 2001- University of Alabama Center for Business and Economic Research; Alabama State Data Center. SEARP&DC estimates 93 percent of all sales in Houston County take place within the corporate limits of Dothan. These are the figures reflected above. Development of retail trade data has been temporarily halted due to recently observed problems with categories and the current state of retail trade organizations and activities.

** 2002- U.S. Census Bureau, 2002 Economic Census

*** 2003 through 2006- Alatax. Alatax is in the process of categorizing taxpayers by North American Industrial Classification (NAIC) business codes. Each year the number of taxpayers assigned an NAIC code has increased, and Alatax estimates that in 2006 approximately 70% of its taxpayers had been assigned codes. Those tax payers not assigned codes are represented as "not classified" above.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
SCHEDULE 12
REVENUE RATES FOR GENERAL SALES TAX
LAST TEN FISCAL YEARS

<u>FISCAL YEAR</u>	<u>CITY SALES TAX RATE</u>	<u>HOUSTON COUNTY SALES TAX RATE</u>	<u>STATE SALES TAX RATE</u>	<u>TOTAL SALES TAX RATE</u>
1997	3.00%	1.00%	4.00%	8.00%
1998	3.00%	1.00%	4.00%	8.00%
1999	3.00%	1.00%	4.00%	8.00%
2000	3.00%	1.00%	4.00%	8.00%
2001	3.00%	1.00%	4.00%	8.00%
2002	3.00%	1.00%	4.00%	8.00%
2003	3.00%	1.00%	4.00%	8.00%
2004	3.00%	1.00%	4.00%	8.00%
2005	3.00%	1.00%	4.00%	8.00%
2006	3.00%	1.00%	4.00%	8.00%

Sources: City of Dothan, Houston County Commission and State of Alabama Department of Revenue

THE CITY OF DOTHAN
DOTHAN, ALABAMA
SCHEDULE 13
PRINCIPAL SALES TAX REMITTERS
CURRENT YEAR AND SIX YEARS AGO

TAX REMITTER	CALENDAR YEAR					
	2006			2000*		
	TAX LIABILITY	RANK	PERCENTAGE OF TOTAL	TAX LIABILITY	RANK	PERCENTAGE OF TOTAL
Wal Mart Stores East LP	\$ 5,284,270	1	11.81%	\$ 3,597,293	1	11.03%
Sams East Inc	1,536,433	2	3.43%	1,302,886	3	4.00%
Lowes Home Centers Inc	1,464,408	3	3.27%	1,290,659	4	3.96%
Winn Dixie Montgomery Inc	1,160,816	4	2.59%	1,677,648	2	5.14%
Home Depot USA Inc	678,064	5	1.52%			0.00%
Action Truck Center Inc	316,288	6	0.71%	223,221	10	0.68%
Bondys Ford Inc	290,135	7	0.65%	276,257	9	0.85%
Solomon Motor Co	225,214	8	0.50%			0.00%
Rahal Toyota Inc	193,685	9	0.43%			0.00%
Bondys Nissan Inc	149,520	10	0.33%			0.00%
Brunos Supermarket Inc				810,742	6	2.49%
Parisian Stores Inc				798,500	7	2.45%
K Mart Corporation				818,035	5	2.51%
C J Gayfer & Company				703,410	8	2.16%
Total	\$ 11,298,833		25.25%	\$ 11,498,651		35.26%

Source: Alatax

Note: *Alatax is not able to obtain information for years prior to 2000.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
SCHEDULE 14
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

FISCAL YEAR	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES			TOTAL PRIMARY GOVERNMENT	PERCENTAGE OF PERSONAL INCOME	PER CAPITA
	GENERAL OBLIGATION BONDS	NOTES PAYABLE	GENERAL OBLIGATION BONDS	NOTES PAYABLE	SEWER BONDS			
1997	\$ 10,749,892	\$ 519,590	\$ 12,950,108	\$ 43,949	\$ 4,975,000	\$ 29,238,539	3.99%	\$ 546
1998	20,046,896	315,277	14,548,104		4,790,000	39,700,277	3.11%	741
1999	19,439,769	100,000	13,745,231		4,600,000	37,885,000	3.48%	707
2000	42,454,769	75,000	13,250,231		4,395,000	60,175,000	2.33%	1,123
2001	40,349,769	50,000	12,740,231		21,675,000	74,815,000	2.00%	1,296
2002	42,680,853	25,000	11,740,231		21,455,000	75,901,084	1.96%	1,315
2003	39,269,663		12,014,138		20,630,000	71,913,801	2.15%	1,246
2004	35,374,169		12,505,830		19,770,000	67,649,999	2.46%	1,172
2005	34,880,462		12,574,538		18,880,000	66,335,000	NA	1,149
2006	28,877,955		11,587,045		17,950,000	58,415,000	NA	1,012

THE CITY OF DOTHAN
DOTHAN, ALABAMA
SCHEDULE 15
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS

FISCAL YEAR	GENERAL BONDED DEBT OUTSTANDING		PERCENTAGE OF ACTUAL TAXABLE VALUE OF PROPERTY	PER CAPITA
	GENERAL OBLIGATION BONDS	TOTAL		
1997	\$ 10,749,892	\$ 10,749,892	2.86%	\$ 201
1998	20,046,896	20,046,896	5.02%	374
1999	19,439,769	19,439,769	4.24%	363
2000	42,454,769	42,454,769	9.34%	792
2001	41,569,769	41,569,769	9.08%	720
2002	42,680,853	42,680,853	9.20%	739
2003	39,269,663	39,269,663	7.58%	680
2004	35,374,169	35,374,169	6.69%	613
2005	34,880,462	34,880,462	6.25%	604
2006	28,877,955	28,877,955	4.69%	500

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
SCHEDULE 16
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF SEPTEMBER 30, 2006

	<u>DEBT OUTSTANDING</u>	<u>ESTIMATED PERCENTAGE APPLICABLE*</u>	<u>ESTIMATED SHARE OF DIRECT AND OVERLAPPING DEBT</u>
City of Dothan Direct Debt			
General Bonded Debt and Warrants	\$ 58,415,000	100.00%	\$ 58,415,000
Overlapping Debt			
Houston County	27,510,836	57.53%	15,826,984
Southeast Alabama Medical Center		57.53%	<u> </u>
Total direct and overlapping debt			<u><u>\$ 74,241,984</u></u>

Sources: Assessed value data used to estimate applicable percentages provided by the Houston County Board of Equalization and Assessment. Debt outstanding data provided by Houston County Commission and the Southeast Alabama Medical Center. All debt outstanding for the Southeast Alabama Medical Center are revenue warrants and is paid from designated revenues rather than property taxes.

Notes: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Dothan. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident-and therefore responsible for repaying the debt-of each overlapping government.

*For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the City's boundaries and dividing it by each unit's total taxable assessed value. This approach was also used for Houston County's capital lease, loan and other debt. The applicable percentage of Houston County Economic Development Bonds, which are backed by county sales taxes, was estimated by dividing the City's retail sales by the County's retail sales.

**THE CITY OF DOTHAN
 DOTHAN, ALABAMA
 SCHEDULE 17
 LEGAL DEBT MARGIN INFORMATION
 LAST TEN FISCAL YEARS**

	FISCAL YEAR									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Debt limit	\$ 92,202,820	\$ 98,396,144	\$ 112,162,736	\$ 115,775,140	\$ 118,825,496	\$ 120,421,900	\$ 133,183,772	\$ 135,502,760	\$ 144,532,068	\$ 161,033,940
Total net debt applicable to limit	<u>5,116,503</u>	<u>5,681,502</u>	<u>4,483,630</u>	<u>4,573,630</u>	<u>3,598,630</u>	<u>2,113,630</u>	<u>1,425,000</u>	<u>885,000</u>	<u>4,847,894</u>	<u>3,054,749</u>
Legal debt margin	<u>\$ 87,086,317</u>	<u>\$ 92,714,642</u>	<u>\$ 107,679,106</u>	<u>\$ 111,201,510</u>	<u>\$ 115,226,866</u>	<u>\$ 118,308,270</u>	<u>\$ 131,758,772</u>	<u>\$ 134,617,760</u>	<u>\$ 139,684,174</u>	<u>\$ 157,979,191</u>
Total net debt applicable to the limit as a percentage of debt limit	5.55%	5.77%	4.00%	3.95%	3.03%	1.76%	1.07%	0.65%	3.35%	1.90%

Legal Debt Margin Calculation for Fiscal Year 2006	
Assessed value	\$ 805,169,700
Debt limit (20% of assessed value)	161,033,940
Debt applicable to limit:	
General obligation bonds	58,415,000
Less: Exempt Debt	55,360,251
Less: Amount set aside for repayment of general obligation debt	-
Total net debt applicable to limit	<u>3,054,749</u>
Legal debt margin	<u>\$ 157,979,191</u>

Notes: Under state finance law, the City's outstanding general obligation debt should not exceed 20 percent of total assessed property value.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
SCHEDULE 18
PLEDGED-REVENUE COVERAGE
LAST TEN FISCAL YEARS
(dollars in thousands)

FISCAL YEAR	WATER REVENUE BONDS						SPECIAL ASSESSMENT BONDS				SALES TAX INCREMENT BONDS*			
	UTILITY SERVICE CHARGES	LESS: OPERATING EXPENSES	NET AVAILABLE REVENUE	DEBT SERVICE		COVERAGE	SPECIAL ASSESSMENT COLLECTIONS	DEBT SERVICE		COVERAGE	SALES TAX INCREMENT	DEBT SERVICE		COVERAGE
				PRINCIPAL	INTEREST			PRINCIPAL	INTEREST			PRINCIPAL	INTEREST	
1997	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
1998														
1999														
2000														
2001														
2002														
2003														
2004														
2005														
2006														

Notes: The City does not have any pledged revenues.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
SCHEDULE 19
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS

<u>CALENDAR YEAR</u>	<u>POPULATION</u>	<u>PERSONAL INCOME (thousands of dollars)</u>	<u>PER CAPITA PERSONAL INCOME</u>	<u>MEDIAN AGE</u>	<u>EDUCATION LEVEL IN YEARS OF SCHOOLING</u>	<u>SCHOOL ENROLLMENT</u>	<u>UNEMPLOYMENT RATE</u>
1997	56,663	\$ 1,165,955	\$ 20,577	36.6	12.5	9,242	4.50%
1998	57,023	1,234,377	21,647	36.8	12.5	9,058	3.20%
1999	57,383	1,316,825	22,948	37.0	12.5	8,830	3.80%
2000	57,737	1,404,568	24,327	37.2	12.5	8,674	4.80%
2001	58,367	1,498,865	25,680	37.4	12.5	8,682	4.20%
2002	58,998	1,490,761	25,268	37.6	12.9	8,633	4.30%
2003	60,036	1,545,567	25,744	37.8	12.9	8,838	4.40%
2004	61,287	1,666,271	27,188	38.0	12.9	8,668	4.20%
2005	62,713	NA	NA	38.2	13.0	8,814	3.40%
2006	NA	NA	NA	38.4	13.0	8,906	3.50%

Sources: Population, median age, and education level information provided by the U.S. Census Bureau. Personal income and unemployment data provided by the U.S. Department of Commerce, Bureau of Economic Analysis. School enrollment data provided by the Dothan City School System.

Notes: Personal income information is a total for the year. Unemployment rate information is an adjusted yearly average. School enrollment is based on the census at the start of the school year.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
SCHEDULE 20
PRINCIPAL EMPLOYERS*
CURRENT YEAR AND NINE YEARS AGO

<u>EMPLOYER</u>	<u>2006</u>			<u>1997</u>		
	<u>EMPLOYEES</u>	<u>RANK</u>	<u>PERCENTAGE OF TOTAL EMPLOYMENT</u>	<u>EMPLOYEES</u>	<u>RANK</u>	<u>PERCENTAGE OF TOTAL EMPLOYMENT</u>
Southeast Alabama Medical Center	2,002	1	4.37%	2,000	1	4.63%
Dothan (City) & Houston County School Systems	1,800	2	3.93%	1,750	2	4.05%
Flowers Hospital	1,200	3	2.62%	1,100	4	2.55%
City of Dothan	1,150	4	2.51%	1,150	3	2.66%
Southern Nuclear (Farley)	974	5	2.13%	840	7	1.94%
Pemco World Air Services	860	6	1.88%	650	9	1.50%
Wiregrass Hospice, Inc.	600	7	1.31%			
Michelin Tire Corporation	600	8	1.31%	650	10	1.50%
Sony Magnetic Products	542	9	1.18%	750	8	1.74%
Wal-Mart SuperCenter #604	525	10	1.15%			
Collins Sign				1,000	5	2.31%
Perdue Farms				950	6	2.20%
Total	10,253		22.39%	10,840		25.09%

*These figures are for Houston County.

Source: Dothan Area Chamber of Commerce

THE CITY OF DOTHAN
DOTHAN, ALABAMA
SCHEDULE 21
FULL-TIME-EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

	FULL-TIME-EQUIVALENT EMPLOYEES AS OF SEPTEMBER 30									
Function/Program	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General government										
Administrative services	11	13	13	14	14	14	11	10	10	10
Information systems	8	10	10	10	10	11	12	13	13	15
City Clerk	7	8	8	7	7	7	7	7	6	6
Finance	25	25	26	25	25	25	40	39	39	41
Personnel	11	11	11	11	11	10	10	10	10	11
Judicial	7	7	7	11	13	13	12	14	12	11
General Services	57	55	57	57	59	58	62	59	56	55
Police										
Officers	128	155	155	155	153	155	158	154	148	144
Civilians	72	72	72	69	70	66	70	69	66	72
Fire							0	0	0	
Firefighters and officers	172	172	172	171	171	172	174	168	162	164
Civilians	2	2	2	2	2	2	2	2	2	2
Refuse collection	108	108	108	104	102	98	94	96	90	94
Other public works										
Engineering	20	15	15	15	15	15	15	14	13	12
Street	51	51	51	51	51	51	49	48	44	45
Traffic	10	12	12	14	14	13	11	11	11	11
Other	6	6	6	6	6	6	4	3	5	5
Planning and development	15	17	17	16	15	15	14	14	10	15
Parks and recreation	54	54	58	56	57	58	59	57	57	60
Performing arts	11	11	11	12	11	12	13	13	12	13
Electric	92	92	92	90	92	93	73	71	66	62
Water	38	38	38	38	36	37	36	37	37	33
Wastewater	55	56	54	54	54	55	55	56	55	56
Total	960	990	995	988	988	986	981	965	924	937

Source: City of Dothan Personnel Department.

Notes: A full-time employee is scheduled to work 2,080 hours per year (including vacation and sick leave). Full-time equivalent employment is calculated by dividing total hours by 2,080.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
SCHEDULE 22
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

	FISCAL YEAR									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Function										
General government										
Building permits issued	4,580	4,687	5,123	5,126	5,558	5,204	5,338	5,730	6,068	6,354
Building inspections conducted	8,774	8,816	9,795	9,158	7,859	6,960	9,071	10,676	10,818	11,272
Police										
Physical arrests	5,086	5,680	6,249	6,500	6,631	6,045	5,533	5,411	4,897	4,522
Parking violations	344	290	319	316	268	201	224	285	241	215
Traffic violations	18,206	22,833	26,472	329,391	28,749	26,134	23,225	25,890	22,763	21,016
Fire										
Emergency responses	6,208	6,430	6,789	6,563	7,265	7,435	7,928	8,575	8,420	8,670
Fires extinguished	611	723	689	792	520	536	456	474	465	574
Inspections	1,496	1,463	1,438	1,506	1,411	1,377	1,311	1,270	1,131	688
Refuse collection										
Refuse collected (tons per day)	272.23	273.43	225.36	198.36	231.61	218.35	260.11	222.27	260.50	274.84
Recyclables collected (tons per day)	10.88	12.38	8.94	10.00	8.85	6.91	9.67	5.19	4.88	4.66
Other public works										
Street resurfacing (miles)	17	23	20	16	4		12		15	14
Parks and recreation										
Athletic field permits issued	20	20	20	20	20	20	20	20	20	23
Community center admissions	61,512	62,295	50,046	65,524	54,374	52,624	52,462	55,972	51,972	65,045
Library										
Volumes in collection - books										210,839
Volumes in collection - audio/video										3,900
Volumes borrowed										249,793
Water										
New connections	NA	NA	NA	NA	NA	155	211	173	198	198
Water main breaks	NA	NA	NA	NA	NA	27	26	25	28	15
Average daily consumption (thousands of gallons)	12,311	13,772	13,834	14,712	13,241	12,499	11,242	12,432	12,000	13,714
Peak daily consumption (thousands of gallons)	22,586	24,882	23,314	26,004	23,685	21,948	16,834	21,503	19,174	25,123
Wastewater										
Average daily sewage treatment (thousands of gallons)	13,746	14,900	12,007	10,550	12,000	9,280	12,610	11,490	14,456	10,879

Sources: Police Department, Fire Department, Public Works, Department of Leisure Services, Dothan Utilities

Notes: The Water Department began using a work order system in FY2002. Information for prior years is not available. Library data not available for 1997-2005.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
SCHEDULE 23
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

<u>Function</u>	<u>FISCAL YEAR</u>									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	14	14	15	15	15	16	16	16	17	17
Fire stations	8	8	8	8	8	8	8	8	8	8
Refuse collection										
Collection trucks	45	45	46	48	48	48	46	47	47	46
Other public works										
Streets (miles)	405	412	418	420	423	425	426	428	431	438
Highways (miles)***	56	56	56	57	57	57	58	58	58	58
Street lights**	9,650	11,650	11,850	12,050	12,250	12,645	13,024	13,386	13,532	13,683
Traffic signals	169	172	172	175	175	183	186	186	187	187
Parks and recreation										
Acreage	586	586	586	586	586	586	586	596	596	596
Playgrounds	9	9	9	9	9	9	10	11	11	11
Baseball/softball diamonds	31	31	31	31	31	31	31	31	31	31
Soccer/football fields	6	6	6	6	6	6	6	6	6	7
Community centers	5	5	5	5	6	7	7	7	7	7
Water										
Water mains (miles)*	NA	NA	NA	NA	NA	453	455	460	461	462
Fire hydrants*	NA	NA	NA	NA	NA	2,859	2,886	2,906	2,914	2,925
Storage capacity (thousands of gallons)	10,000	11,500	11,500	11,500	14,500	14,500	14,500	14,500	14,500	14,500
Wastewater										
Sanitary sewers (miles)	369	383	398	404	445	450	459	465	469	477
Storm sewers (miles)	144	147	150	155	158	160	161	162	165	169
Treatment capacity (thousands of gallons)	21,120	21,120	21,120	21,120	21,120	21,120	23,120	23,120	23,120	23,120

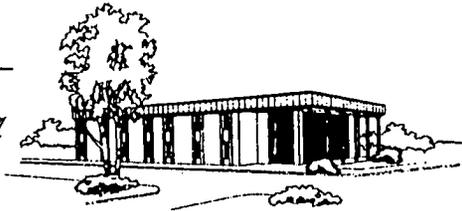
Sources: Police Department, Fire Department, Public Works, Department of Leisure Services, Dothan Utilities

Notes: *The Water Department began using a work order system in FY2002. Information for prior years is not available. ** The number of street lights is estimated for fiscal years 1997 thru 2000. ***Highway miles are miles of roadway within the City limits that are maintained by the Alabama Department of Transportation (ALDOT).

McClintock, Nelson & Associates, P.C.
Certified Public Accountants

George C. McClintock, C.P.A.
Marc A. Nelson, C.P.A.

Rebecca C. Harper, C.P.A.
Richmond C. McClintock, C.P.A.
(Retired)



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Honorable Mayor and Board of City Commissioners
The City of Dothan
Dothan, Alabama 36303

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Dothan, Alabama, as of and for the year ended September 30, 2006, which collectively comprise the City of Dothan, Alabama's basic financial statements and have issued our report thereon dated February 23, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Dothan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Dothan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Honorable Mayor and Board of City Commissioners
The City of Dothan
(Continued)

We noted certain other matters that we reported to management of the City of Dothan in a separate letter dated February 23, 2007.

This report is intended solely for the information and use of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "McClintock, Nelson & Associates". The signature is written in a cursive, flowing style.

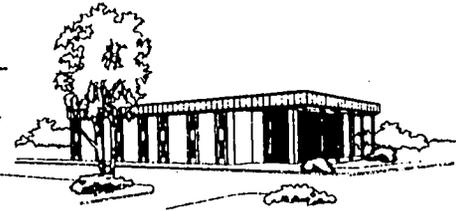
McCLINTOCK, NELSON & ASSOCIATES, P.C.
Certified Public Accountants

February 23, 2007

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and Board of City Commissioners
The City of Dothan
Dothan, Alabama 36303

Compliance

We have audited the compliance of the City of Dothan, Alabama with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. The City of Dothan's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Dothan's management. Our responsibility is to express an opinion on the City of Dothan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Dothan's compliance with those requirements and performing other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Dothan's compliance with those requirements.

In our opinion, the City of Dothan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

Honorable Mayor and Board of City Commissioners
The City of Dothan
(Continued)

Internal Control Over Compliance

The management of the City of Dothan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Dothan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Respectfully submitted,



McCLINTOCK, NELSON & ASSOCIATES, P.C.
Certified Public Accountants

February 23, 2007

THE CITY OF DOTHAN
DOTHAN, ALABAMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	PROGRAM OR AWARD AMOUNT	ACCRUED OR (DEFERRED) REVENUE AT 10-01-05	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT 9-30-06
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:							
<u>Direct Programs:</u>							
Community Development Block Grant - Entitlement	14.218	B-02-MC-01-0010 - B-05-MC-01-0010	2,676,699	\$ 53,069	\$ 610,900	\$ 610,900	\$ -
Total U.S. Department of Housing and Urban Development				<u>53,069</u>	<u>610,900</u>	<u>610,900</u>	<u>-</u>
U.S. DEPARTMENT OF JUSTICE:							
<u>Direct Programs:</u>							
Bulletproof Vest Partnership Grant	16.607	4023687	9,810	6,540	3,270	3,270	3,270
Bulletproof Vest Partnership Grant	16.607	None	11,810		11,810	11,810	10,813
Total U.S. Department of Justice				<u>6,540</u>	<u>15,080</u>	<u>15,080</u>	<u>14,083</u>
U.S. DEPARTMENT OF TRANSPORTATION:							
<u>Passed Through State of Alabama</u>							
<u>Highway Department:</u>							
MPO Westgate Widening ROW Acquisition	20.205	Oast-100008612	1,400,000	250,131	122,834	122,834	98,267
Traffic Planning Grant	20.205	None		28,343	61,339	61,339	21,597
Total U.S. Department of Transportation				<u>278,474</u>	<u>184,173</u>	<u>184,173</u>	<u>119,864</u>
U.S. DEPARTMENT OF THE INTERIOR:							
<u>Passed Through Alabama Department of Economic and Community Affairs:</u>							
United States Tennis Association	15.916	None	71,500		71,500	71,500	71,500
Land and Water Conservation	15.916	05-LW-865	150,000	9,294	140,706	140,706	101,022
Total U.S. Department of Interior				<u>9,294</u>	<u>212,206</u>	<u>212,206</u>	<u>172,522</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:							
<u>Direct Programs:</u>							
Training Grant	97.036	3 DTR	110,000		59,453	59,453	
Fire Act Grant	97.044	2004 FG-02374	222,754		213,049	213,049	45,536
<u>Passed Through State of Alabama EMA</u>							
Mutual Aid Assistance Program	97.036	None	21,350		21,350	21,350	
Mutual Aid Assistance Program	97.036	None	50,000		33,946	33,946	22,971
Mutual Aid Assistance Program	97.036	None	7,414		7,414	7,414	
Mutual Aid Assistance Program	97.036	None	1,160		1,160	1,160	
Mutual Aid Assistance Program	97.036	None	31,214		31,214	31,214	
Mutual Aid Assistance Program	97.036	None	80,000		16,397	16,397	
Total U.S. Department of Homeland Security				<u>-</u>	<u>383,983</u>	<u>383,983</u>	<u>68,507</u>

THE CITY OF DOTHAN
DOTHAN, ALABAMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS-THROUGH GRANTOR'S NUMBER</u>	<u>PROGRAM OR AWARD AMOUNT</u>	<u>ACCRUED OR (DEFERRED) REVENUE AT 10-01-05</u>	<u>REVENUE RECOGNIZED</u>	<u>EXPENDITURES</u>	<u>ACCRUED OR (DEFERRED) REVENUE AT 9-30-06</u>
U.S. DEPARTMENT OF AGRICULTURE:							
<u>Passed Through State Department of Education:</u>							
Summer Food Service Program	10.559	AKZ-0000	\$ 46,010	\$ -	\$ 46,010	\$ 46,010	\$ -
<u>Passed Through Natural Resources Conservation Service:</u>							
Watershed Protection Program	10.904	69-4101-5-23	113,100		88,411	88,411	
Total U.S. Department of Agriculture					134,421	134,421	-
TOTAL FEDERAL AWARDS				<u>\$ 347,377</u>	<u>\$ 1,540,763</u>	<u>\$ 1,540,763</u>	<u>\$ 374,976</u>

THE CITY OF DOTHAN
DOTHAN, ALABAMA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
SEPTEMBER 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The City of Dothan has been awarded a number of federal and state grants. The revenues and expenditures for the grants are accounted for in several different funds on the modified accrual basis. The Schedule of Expenditures of Federal Awards is also presented on the modified accrual basis.

2. ENTITY DEFINITION

For the purposes of these schedules, the entity is defined as the City of Dothan, exclusive of its boards, agencies and authorities for which a lack of influence, control and dependence exists on the part of the City and in their relationship with the City. These exclusions are in conformance with the criteria set forth by the National Council on Governmental Accounting (NCGA), Statement 3, Defining the Governmental Reporting Entity.

3. ALLOCATION OF INDIRECT COSTS

The City has no indirect cost allocation plan for grants.

THE CITY OF DOTHAN
DOTHAN, ALABAMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

SUMMARY OF AUDITOR'S RESULTS

We have issued a report with an unqualified opinion on the financial statements.

The audit disclosed no reportable conditions which were considered to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City of Dothan in a separate letter dated February 23, 2007.

The audit disclosed no instances of noncompliance which are material to the financial statements.

We have issued a report with an unqualified opinion on compliance with requirements applicable to each major program.

The audit disclosed no findings which are required to be reported in accordance with OMB Circular A-133 section .510 (a).

The audit disclosed no reportable conditions in internal control over major programs.

The City of Dothan, Alabama's major programs are as follows:

U.S. Department of Housing and Urban Development

CFDA # 14.218

The dollar threshold used to distinguish Type A and Type B programs is \$300,000.

The City of Dothan, Alabama did not qualify for consideration as a low risk auditee.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS IN ACCORDANCE WITH GAGAS:

There are no such findings in the current year.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS:

There are no such findings or questioned costs in the current year.