

THE CITY OF DOTHAN, ALABAMA

POPULAR ANNUAL FINANCIAL REPORT

Fiscal Year Ending September 30, 2012



Mike Schmitz, Mayor

DISTRICT COMMISSIONERS

- | | |
|--------------------|---------------------|
| 1. James Reading | 4. Critt Snellgrove |
| 2. Amos Newsome | 5. Taylor Barbaree |
| 3. Albert Kirkland | 6. Hamp Baxley |

Michael K. West, City Manager

Office of the Mayor



THE CITY OF **DOTHAN, ALABAMA**

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



To the Citizens of Dothan!

Understanding today's governmental financial statements can prove to be difficult. In an effort to provide our citizens with an easy to read financial report of the City of Dothan's finances, we are pleased to present the Popular Annual Financial Report (PAFR) for fiscal year ending September 30, 2012. This report represents Dothan's ongoing commitment to increase our level of operational productivity and accountability. As we strive to keep citizens informed about the City's financial position, we understand the importance of being accountable for the receipt and expenditure of public funds.

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

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

Sincerely,

Mike Schmitz
Mike Schmitz, Mayor



INTRODUCTION

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

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

Dothan currently operates under a Mayor/Commission/ City Manager form of government. The Mayor is elected at-large, and the six (6) Commissioners are elected from six (6) single member districts, for staggered terms of four (4) years. Beginning with fiscal year 2013, the terms will be concurrent. This Board of Commissioners serves part-time and is responsible for adopting all legislative ordinances and

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

The Mayor, who is a member of the Board of Commissioners, is the City's chief executive officer. The City Manager is the administrative head of the City government and is responsible for directing and managing the daily activities of the City and implementing the policies of the Board of Commissioners. The City's departments include: General Administrative (Mayor/Commissioners, City Manager, EEO, Public Relations, Internal Analyst & Legal), Information Technology, Judicial, City Clerk, Finance (Accounting, Purchasing, Utility Services/Meter Reading & Utility Collections), Personnel (Human Resources), Police, Fire, Public Works (Engineering, Street & Environmental Services), Planning & Development (Permitting, Inspections & Zoning), Leisure Services, Performing Arts, General Services (Liability & Workers' Compensation Insurance, Facility & Fleet) and Dothan Utilities (Electric, Water & Sewer). There are 1229 authorized positions (1012 full time, 53 part time and 164 seasonal) of which 1106 are currently filled (937 full time, 43 part time and 126 seasonal) and those employees staff the departments, producing high quality and cost-effective public services.



"FOR I HEARD THEM SAY,
LET US GO TO DOTHAN."
GENESIS 37:17



National Peanut Festival Fair



The Dothan Botanical Gardens



The Peanut Capital of the World



The Dothan Civic Center



Flowers Hospital (One of Two Local Hospitals)

ABOUT THIS FINANCIAL REPORT

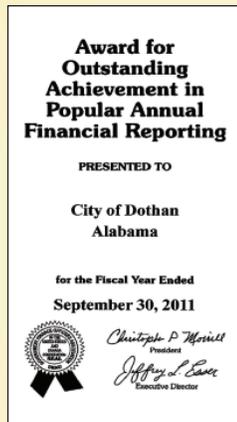
As part of our continuous effort to keep you informed of how your tax dollars are being spent, we are pleased to present the 2012 Popular Annual Financial Report (PAFR). The PAFR is a summary of the financial activities of the City's governmental funds and was drawn from information found in the Comprehensive Annual Financial Report (CAFR). The CAFR was prepared in conformance with generally accepted accounting principles (GAAP) and includes financial statements audited by McClintock, Nelson & Associates, P.C.

Unlike the CAFR, the PAFR is unaudited and presented on a non-GAAP basis. The GAAP basis presentation in the CAFR includes the City's component units and the presentation of individual funds, as well as, full disclosure of all material events, financial and non-financial, in the notes to the financial statements. Dothan's CAFR can be viewed by the public at City Hall, at the Public Library and on the City of Dothan's municipal website at <http://www.dothan.org/DocumentCenter/View/839>.

AWARDS

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

- Certificate of Achievement for Excellence in Financial Reporting for the CAFR for the year ended September 30, 2011 (twenty-nine consecutive years, 1983 - 2011).
- Award for Outstanding Achievement in Popular Annual Financial Reporting for the PAFR for the year ended September 30, 2011 (eight consecutive years, 2004 - 2011).



FINANCIAL HIGHLIGHTS

- The City's *combined* net assets (difference between assets and liabilities in governmental and business-type activities) at September 30, 2012, totaled \$186,872,988 as follows: \$138,836,897 in capital assets net of debt, \$1,890,847 restricted and \$46,145,244 unrestricted (can be used to meet the government's ongoing obligations to the citizens and creditors).
- Total revenues for all governmental funds were \$81,108,691 and total spending was \$81,945,680. The fund balances for these funds were \$41,696,860 in FY 2012 and \$34,432,022 in FY 2011.
- Total revenues for business-type activities (Utility and E-911) at the end of FY 2012 were \$114,256,035 and total spending was \$99,321,464. Total net assets were \$99,648,832 as compared to \$90,816,088 in FY 2011.
- The City of Dothan adopts a biennial operating budget for its general, debt service, capital projects, school and utility funds. In addition, a capital or supplemental budget is adopted no later than April 15th of each year.

GENERAL FINANCIAL INFORMATION

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

GOVERNMENTAL FUNDS

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

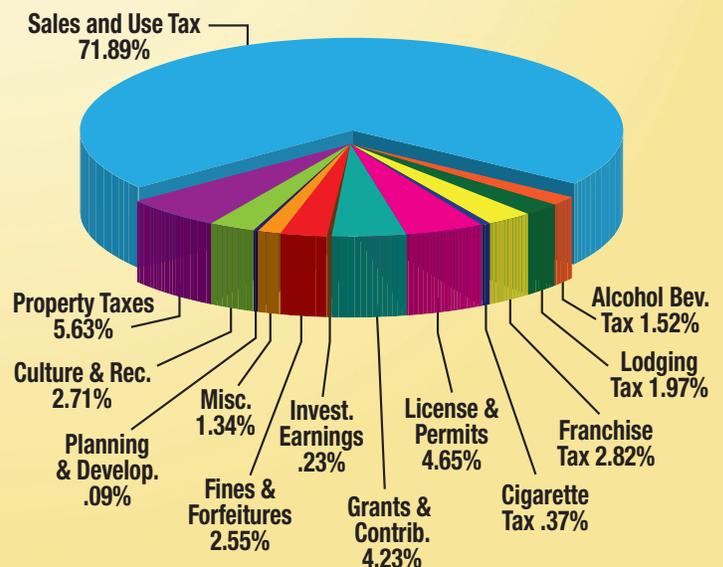
PROPRIETARY FUNDS

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

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

GOVERNMENTAL FUNDS' FINANCIAL ACTIVITIES

At September 30, 2012, the City's governmental funds reflected a combined fund balance of \$41,696,860, a \$7,264,838 increase from the previous year at \$34,432,022. These financial activities comprise the major changes in governmental fund balances:

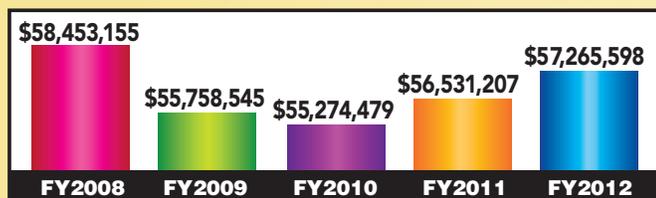


GOVERNMENTAL REVENUES

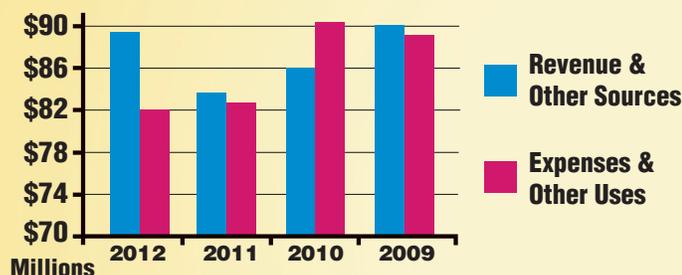
Total revenues for the governmental funds (\$81,088,294) showed an increase of .16% or \$131,019 over the prior year (\$80,957,275). Key elements in the change of net assets are as follows:

- In fiscal year 2012, sales tax collections totaled \$57,265,598 which was \$734,391 (1.30%) over the 2011 fiscal year amount of \$56,531,207. Dothan's metro area services an estimated 525,000 people within a 50 mile radius and is a hub for dining, shopping, recreation, industry and medical services for surrounding towns and rural areas.

CITY OF DOTHAN SALES & USE TAX



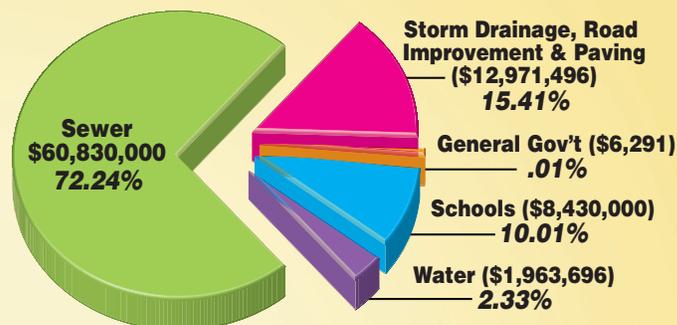
- Even though Dothan strives to maintain an aggressive grant application strategy, contributions and non-recurring grants (\$3,371,634) reflected a reduction of \$622,569 (15.59%) from 2011 (\$3,994,203).



LONG-TERM DEBT

As of the fiscal year end, the City had \$84,201,483 in long-term debt outstanding compared to \$82,212,824 in 2011 (\$1,988,659 increase or 2.42%). This increase is comprised of (1) a general obligation (\$7,170,000) warrant at 2.9% (which is through the Alabama Department of Environmental Management revolving loan program) for Rock Creek Trunk Line rehabilitation and to adhere to requirements as stated in an administrative consent decree, and (2) a refinancing of a 2009 warrant at 3.19% which provided an additional \$2,000,000 for road repair. The before mentioned, is reduced by \$1,112,837 in capital leases and notes and \$6,068,504 in principal payments.

OUTSTANDING DEBT BY TYPE



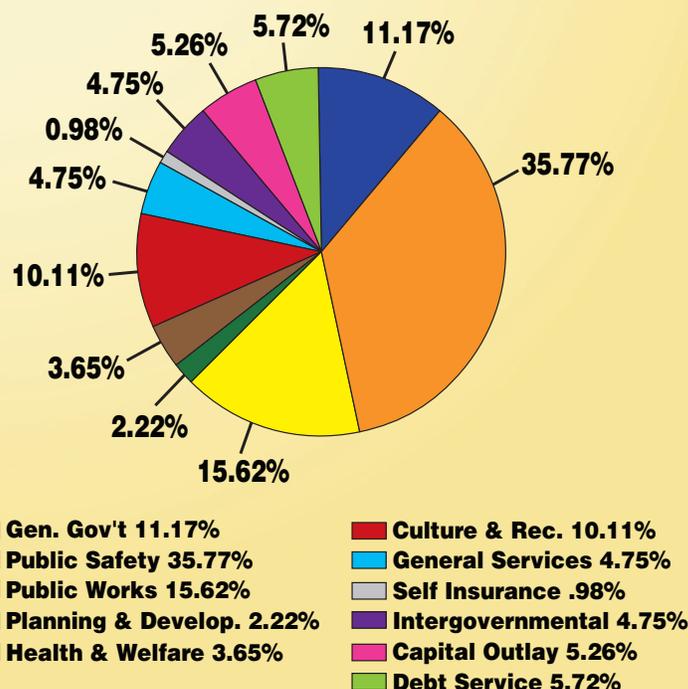
Principal payment on debt will (a) reduce current assets and reduce long-term debt and (b) reduce unrestricted net assets and increase invested in capital assets, net of debt.

GOVERNMENTAL EXPENDITURES

Total governmental expenditures decreased by \$693,998 (.84%) in fiscal year 2012 (\$81,945,680) from 2011 (\$82,639,678). The major contributing factors include:

- City departments experienced a \$1,951,506 decrease. The majority was due to a \$1,646,571 reduction in resurfacing projects and expenditures related to resurfacing and intersection, bridge and road repair in the Public Works department.
- Insurance department increased \$611,568 reflecting accrued workers' compensation hospital/medical, and self-insurance claims verses the actual claims paid. The intergovernmental expenses decreased by \$27,785.
- Capital outlay increased \$945,542 in FY 2012 from FY 2011. The majority was for purchase of police vehicles, a fire department pumper truck, garbage trucks and wastewater treatment vehicles.
- Debt service principal and interest expenditures decreased \$271,817 primarily due to the reduction in payments on the radio system counteracted by the increase in street improvement debt.

FY 2012 GOVERNMENTAL FUND EXPENDITURES



GENERAL FUND

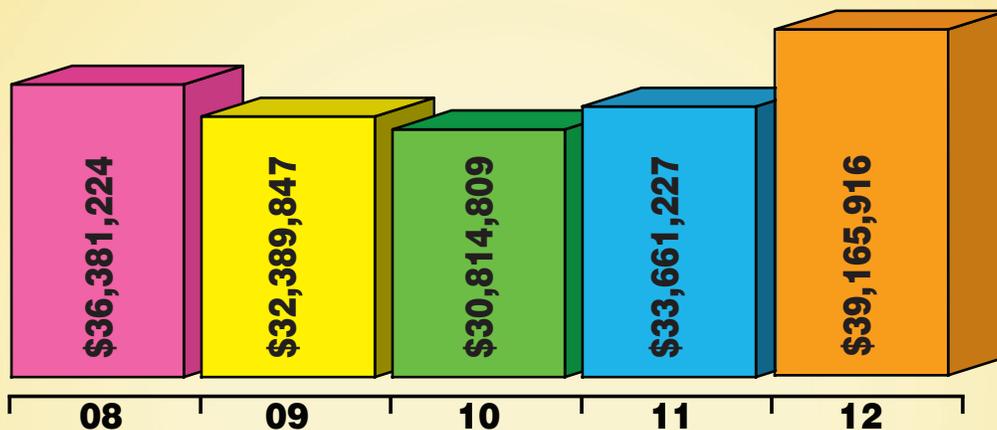
FUND BALANCE

Fund balance is the excess of what is owned (assets) over what is owed (debts or liabilities). The City Manager set a goal for maintaining the unassigned fund balance in the General Fund at not less than 8% of the budgeted expenditures. The City has consistently exceeded this goal. The General Fund reported a fund balance at September 30, 2012, of \$39,165,916, an increase of \$5,504,689 (16.35%) in comparison with the prior year which totaled \$33,661,227. Governmental

Funds' combined ending fund balances were \$41,696,860 compared to 2011 at \$34,432,022 producing a \$7,264,838 or 21.10% increase. Of this fund balance, \$14,024,201 constitutes the unassigned fund balance, which is available for spending at the government's discretion (referred to as *unassigned fund balance*). The City additionally maintains an 8% utility fund reserve to be utilized in the event of a natural disaster or unexpected economic decline.

The chart below provides fund balance comparisons:

GENERAL FUND BALANCE BY FISCAL YEAR



GENERAL FUND EXPENDITURES

General Fund expenditures totaling \$73,055,754 increased 1.21% from 2011 (\$72,181,745). Obviously, the City's effort to live within the constraints of available revenue has delayed many critical items. The downturn in the economy necessitated guarded filling

of vacated employee positions on a case by case basis and expenditures were closely monitored. The City cautiously purchased essential vehicles and equipment and addressed the most pressing building or facility maintenance/repair needs.

Increases or decreases for major functions are as follows:

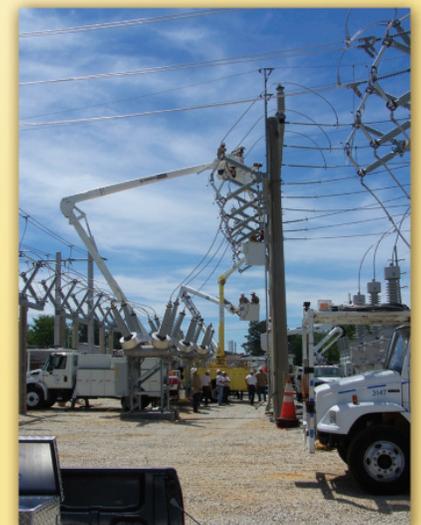
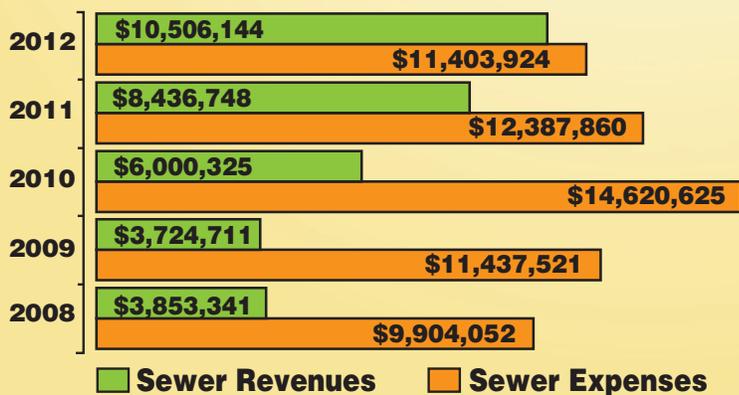
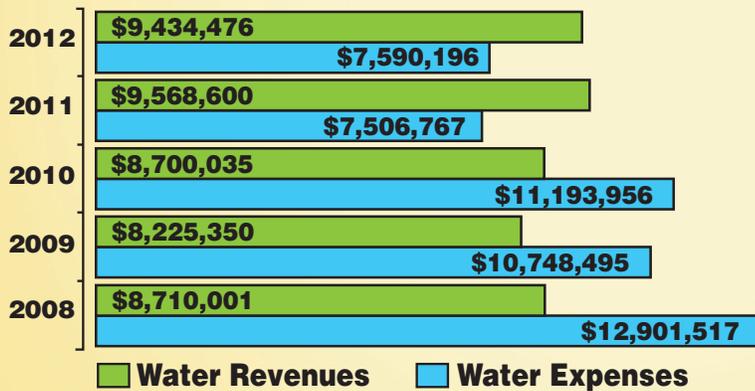
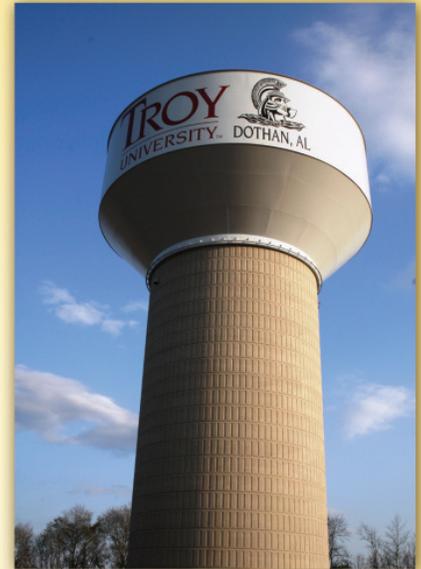
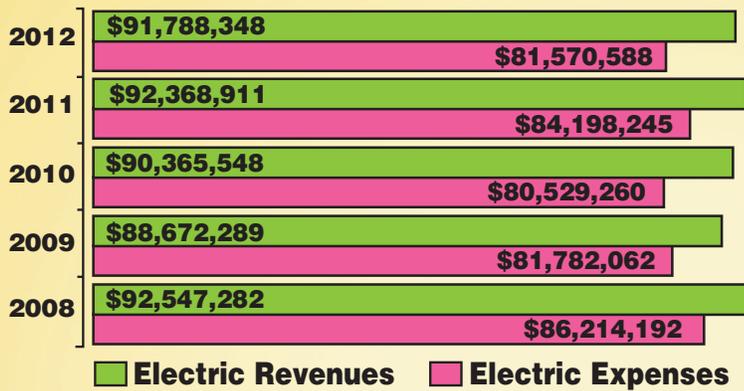
Major Functions	Amount	Percent of Total	Increase (Decrease) over 2011
General Government	\$ 9,155,464	12.53%	\$ 240,974
Public Safety	29,314,212	40.13%	459,648
Public Works	12,489,274	17.10%	(1,886,851)
Planning & Development	1,822,479	2.50%	(81,650)
Health & Welfare	2,987,149	4.09%	192,966
Culture & Recreation	8,280,689	11.33%	(68,476)
General Services	3,889,251	5.32%	(130,776)
Self Insurance	805,007	1.10%	611,568
Capital Outlay	4,312,229	5.90%	1,536,606
Total	\$ 73,055,754	100.00%	\$ 874,009

UTILITY FUND

The City's Utility Fund has experienced steady growth and the customer base has grown to approximately 36,302 electric, water and sewer customers. The largest utility revenue source comes from electric power sales. The gross income on electric sales for FY 2012 totaled \$20,413,502 compared to last year's amount of \$17,163,107. FY 2012's net income from electric sales totaled \$10,217,760.



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



BOND RATING

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

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

ECONOMIC GROWTH

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

The economic downturn has had a significant impact on Dothan and the local economy. However, 2012 provided signs of recovery. The City's major tax source, sales tax, showed signs of improvement and unemployment decreased by one percent. Principal employers are as follows:

PRINCIPAL EMPLOYERS

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

The City has made an effort to live within the constraints of available revenue and addressed the most pressing needs. Major construction projects in 2012 were as follows: Beaver Creek Trunk Line; Basin Rehabilitation & Treatment Plant Decommissioning; Little Choctawhatchee Treatment Plant Upgrade; Pinhook Creek Sanitary Sewer Line; Denton Road Widening; and Westside Water Tank & Connecting Main.

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

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

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

