

THE CITY OF DOTHAN, ALABAMA

POPULAR ANNUAL FINANCIAL REPORT

Fiscal Year Ending September 30, 2016



MIKE SCHMITZ, MAYOR

District Commissioners

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

Michael K. West, City Manager

OFFICE OF THE MAYOR



To the Citizens of Dothan:

Understanding today's governmental financial statements can prove to be difficult. In an effort to provide our citizens with an easy to read financial report of the City of Dothan's finances, we are pleased to present the Popular Annual Financial Report (PAFR) for fiscal year ending September 30, 2016. This report represents Dothan's ongoing commitment to increase our level of operational productivity and accountability. As we strive to keep citizens informed about the City's financial position, we understand the importance of being accountable for the receipt and expenditure of public funds.

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

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

Sincerely,

A handwritten signature in black ink that reads "Mike Schmitz". The signature is written in a cursive, flowing style.

Mike Schmitz, Mayor



INTRODUCTION

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

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

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

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

The Mayor, who is a member of the Board of Commissioners, is the City's chief executive officer. The City Manager is the administrative head of the City government and is responsible for directing and managing the daily activities of the City and implementing the policies of the Board of Commissioners. The City's departments include: General Administrative (Mayor, Commissioners, City Manager, City Clerk, EEO, Public Relations, Internal Analyst & Legal), Information Technology, Judicial, Finance (Accounting, Purchasing, Utility Services/Meter Reading & Utility Collections), Personnel (Human Resources), Police, Fire, Public Works (Engineering, Street & Environmental Services), Planning & Development (Permitting, Business License, Inspections & Zoning), Leisure Services, Performing Arts, General Services (Liability & Workers' Compensation Insurance, Facility & Fleet) and Dothan Utilities (Electric, Water & Wastewater/Sewer). There are 1,239 authorized positions (1,014 full time, 58 part time and 167 seasonal) of which 1,111 are currently filled (942 full time, 52 part time and 117 seasonal) and those employees staff the departments, producing high quality and cost-effective public services.



The Aquatic Pool at Andrew Belle Center



Construction of ball fields at the new James Oates Park



One of six trails at the newly opened Dothan Forever Wild Trails



The Peanut Capital of the World



Construction of the new Westgate Wellness Indoor Pool



Construction of Carroll St. Substation

ABOUT THIS FINANCIAL REPORT

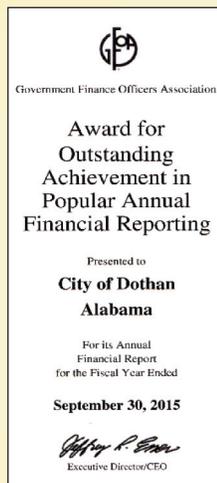
As part of our continuous effort to keep you informed of how your tax dollars are being spent, we are pleased to present the 2016 Popular Annual Financial Report (PAFR). The PAFR is a summary of the financial activities of the City's governmental funds and was drawn from information found in the Comprehensive Annual Financial Report (CAFR). The CAFR was prepared in conformance with generally accepted accounting principles (GAAP) and includes financial statements audited by McClintock, Nelson & Associates, P.C.

Unlike the CAFR, the PAFR is unaudited and presented on a non-GAAP basis. The GAAP basis presentation in the CAFR includes the City's component units and the presentation of individual funds, as well as, full disclosure of all material events, financial and non-financial, in the notes to the financial statements. Dothan's CAFR can be viewed by the public at City Hall, at the Public Library and online at <http://www.dothan.org/DocumentCenter/View/3684>.

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, 2015 (thirty-three consecutive years, 1983 - 2015).
- Award for Outstanding Achievement in Popular Annual Financial Reporting for the PAFR for the year ended September 30, 2015 (twelve consecutive years, 2004 - 2015).



FINANCIAL HIGHLIGHTS

- The City's *combined* net position (difference between assets and deferred outflows and liabilities and deferred inflows in governmental and business-type activities) at September 30, 2016, totaled \$102,224,524 as follows: \$168,012,716 in net investment in capital assets (difference between the capital asset and the outstanding debt incurred to finance those capital assets), \$211,985 restricted (resources that are constrained by legislation to a particular purpose) and a deficit unrestricted net position of \$66,000,177.
- Total revenues for all governmental funds were \$94,571,730 and total spending was \$109,180,340. The fund balances (the excess of what is owned over what is owed ~ assets minus liabilities/debt) for these funds were \$39,938,969 in FY 2016 compared to \$46,459,172 in FY 2015.
- Total revenues for business-type activities (Utility) at the end of FY 2016 were \$117,874,565 and total spending was \$97,992,542. Total net position was \$98,233,142 as compared to \$86,433,100 in FY 2015.

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

GENERAL FINANCIAL INFORMATION

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

GOVERNMENTAL FUNDS

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

PROPRIETARY FUNDS

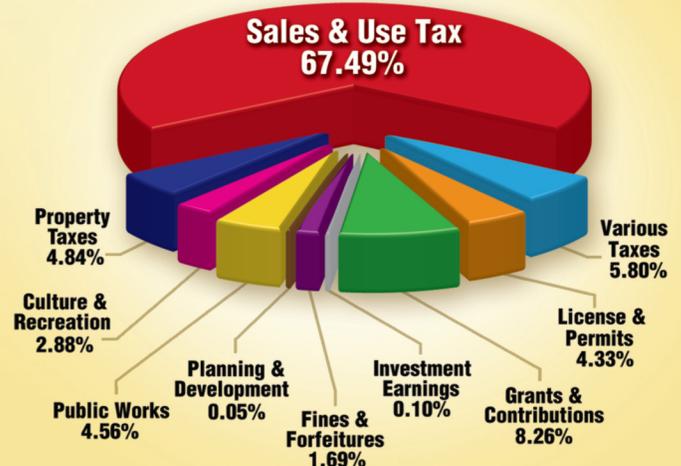
Proprietary Funds account for activities the City operates similar to private businesses. The City of Dothan has one proprietary fund: the Utility Fund (Electric, Water, Wastewater/Sewer and Combined Activities).

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

GOVERNMENTAL FUNDS' FINANCIAL ACTIVITIES

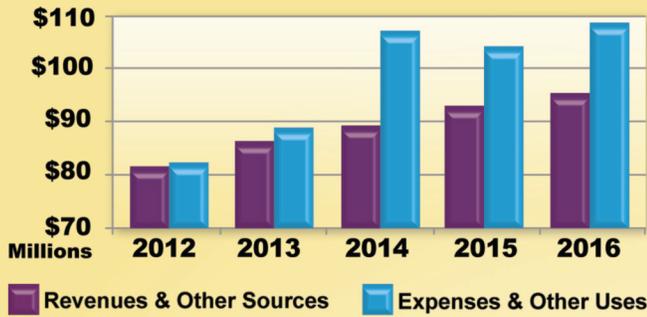
At September 30, 2016, the City's governmental funds reflected a combined fund balance of \$39,938,969, a \$6,520,203 decrease from the previous year at \$46,459,172. These financial activities comprise the major changes in governmental fund balances:

FY 2016 GOVERNMENTAL REVENUES



GOVERNMENTAL REVENUES

Total revenues for the governmental funds (\$94,571,730) showed an increase of \$1,769,569 or 1.91% over the prior year (\$92,802,161).



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

- In FY 2016, sales tax collections totaled \$63,927,219 which was \$2,290,540 (3.72%) over FY 2015 amount of \$61,636,679. 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. Various other taxes had a net increase of \$510,295.

CITY OF DOTHAN SALES & USE TAX



- Grant revenue for FY 2016 (\$5,397,401) reflected an increase of \$616,892 (12.9%) from FY 2015 (\$4,780,509).

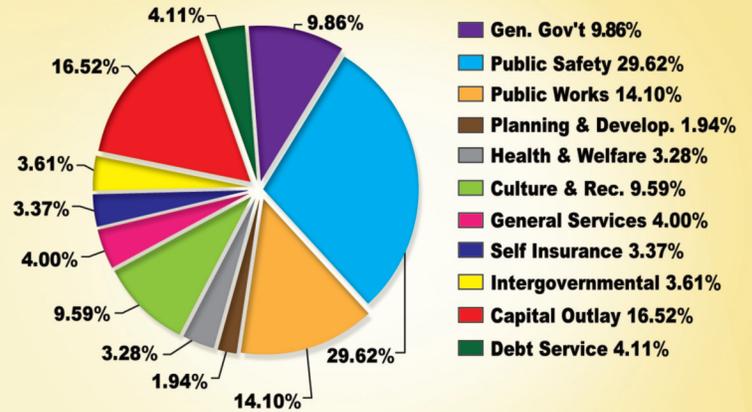
GOVERNMENTAL EXPENDITURES

Total governmental expenditures increased by \$4,412,552 (4.21%) in FY 2016 (\$109,180,340) from FY 2015 (\$104,767,788). The major contributing factors that resulted in this net increase include:

- City departments experienced a \$1,086,090 increase as follows: (General Administration) contribution for Porter Hardware Museum and Visitor’s Center; (Public Safety) grants for equipment, training, and overtime; (Culture and Recreation) recreation facility repairs; and city-wide increase in salaries and benefits from cost of living and performance adjustments. This increase was offset by a decrease in Public Works expenditures for resurfacing compared to the prior year.
- Health and Welfare decreased \$1,263,151 which was a result of additional appropriations to the Houston-Love Memorial Library and for repairs to the Alfred Saliba Family Services Center in FY 2015, but not in FY 2016.

- Intergovernmental increased by \$46,690 due to an increase in property insurance for the school fund and printing of tobacco tax stamps that was not required in the prior year.
- Capital outlay increased by \$5,050,032 with the majority of the funds being spent for the following: (Public Safety) Motorola Radio System Upgrade and Ladder Truck; (Public Works) Westgate Parkway Sidewalk Project and Recycling Vehicle; (Planning) CDBG Sidewalk Improvements; and (Leisure Services) Forever Wild Trails, James Oates Park and Westgate Aquatics Center.

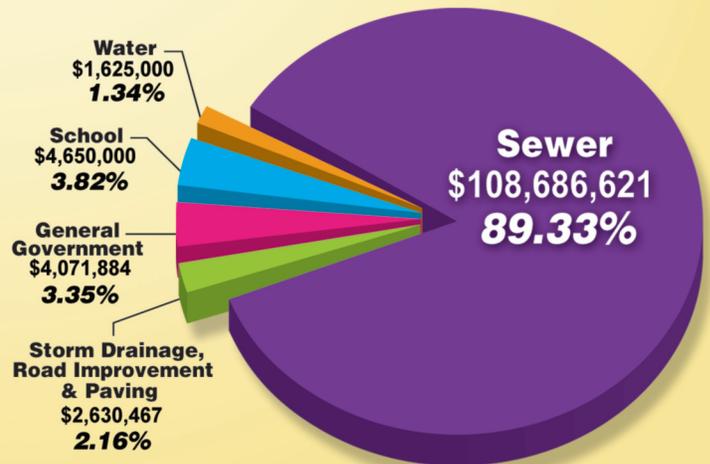
FY 2016 GOVERNMENTAL FUND EXPENDITURES



LONG-TERM DEBT

As of the fiscal year end, the City had \$121,663,972 in long-term debt outstanding compared to \$88,294,612 in 2015 (\$33,369,360 or 37.79%). This increase was a result of additions of capital leases of \$6,426 and the issuance of two general obligation (G/O) warrants during the year (\$49,645,000) which was reduced by debt service payments (\$16,282,066). The two issues were as follows: a \$41,085,000 G/O for an upgrade to the City’s wastewater system and an \$8,560,000 G/O for refunding of the 2009 G/O warrant.

OUTSTANDING DEBT AS OF SEPTEMBER 30



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

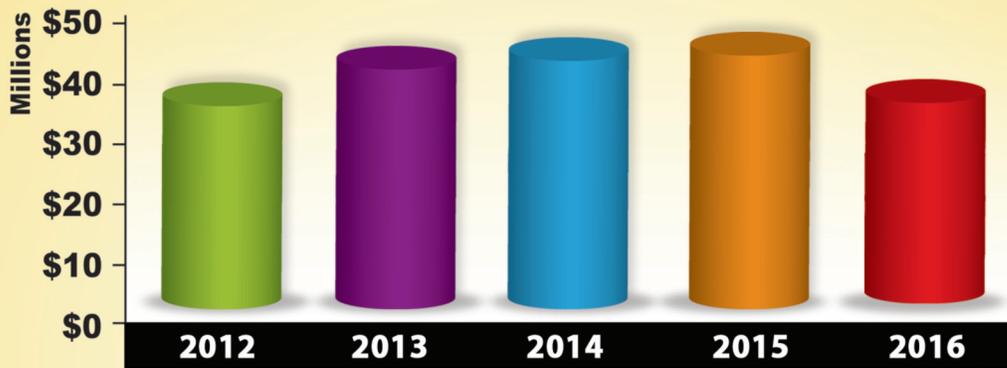
GENERAL FUND

FUND BALANCE

Fund balance is the excess of what is owned (assets) over what is owed (debts or liabilities). The City Manager set a policy for maintaining reserves in the General Fund at not less than 8% of the actual expenditures. The City has consistently exceeded this goal. The General Fund reported a fund balance at September 30, 2016, of \$39,893,413, a decrease of \$6,483,585 (13.98%) in comparison with the prior year which totaled \$46,376,998. Governmental Funds' combined ending fund balances were \$39,938,969 compared to 2015 at \$46,459,172 producing a \$6,520,203 (14.03%) decrease. Of this fund balance, \$4,462,443 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



Fund Balance \$39,165,916 \$44,298,794 \$45,879,970 \$46,376,998 \$39,893,413

GENERAL FUND EXPENDITURES

General Fund expenditures totaling \$100,753,429 increased \$4,857,396 (5.07%) from 2015 (\$95,896,033). The City made a conscious effort to live within the constraints of available revenues. Filling of vacated staff positions was still approved on a case by case basis and expenditures were closely monitored. The City cautiously purchased essential vehicles and equipment and addressed the most pressing building or facility maintenance/repair needs.

Increases or decreases for major functions are as follows:

Major Functions	Amount	Percent of Total	Increase (Decrease) over 2015
General Government	\$ 10,762,578	10.68%	\$ 336,623
Public Safety	32,342,515	32.10%	455,657
Public Works	15,388,942	15.28%	(307,774)
Planning & Dev.	2,117,536	2.10%	(220,931)
Health & Welfare	3,580,357	3.55%	(1,263,151)
Culture & Recreation	10,474,336	10.40%	1,012,828
General Services	4,365,873	4.33%	(190,313)
Self Insurance	3,681,005	3.65%	(15,575)
Capital Outlay	18,040,287	17.91%	5,050,032
Total	\$ 100,753,429	100.00%	\$ 4,857,396

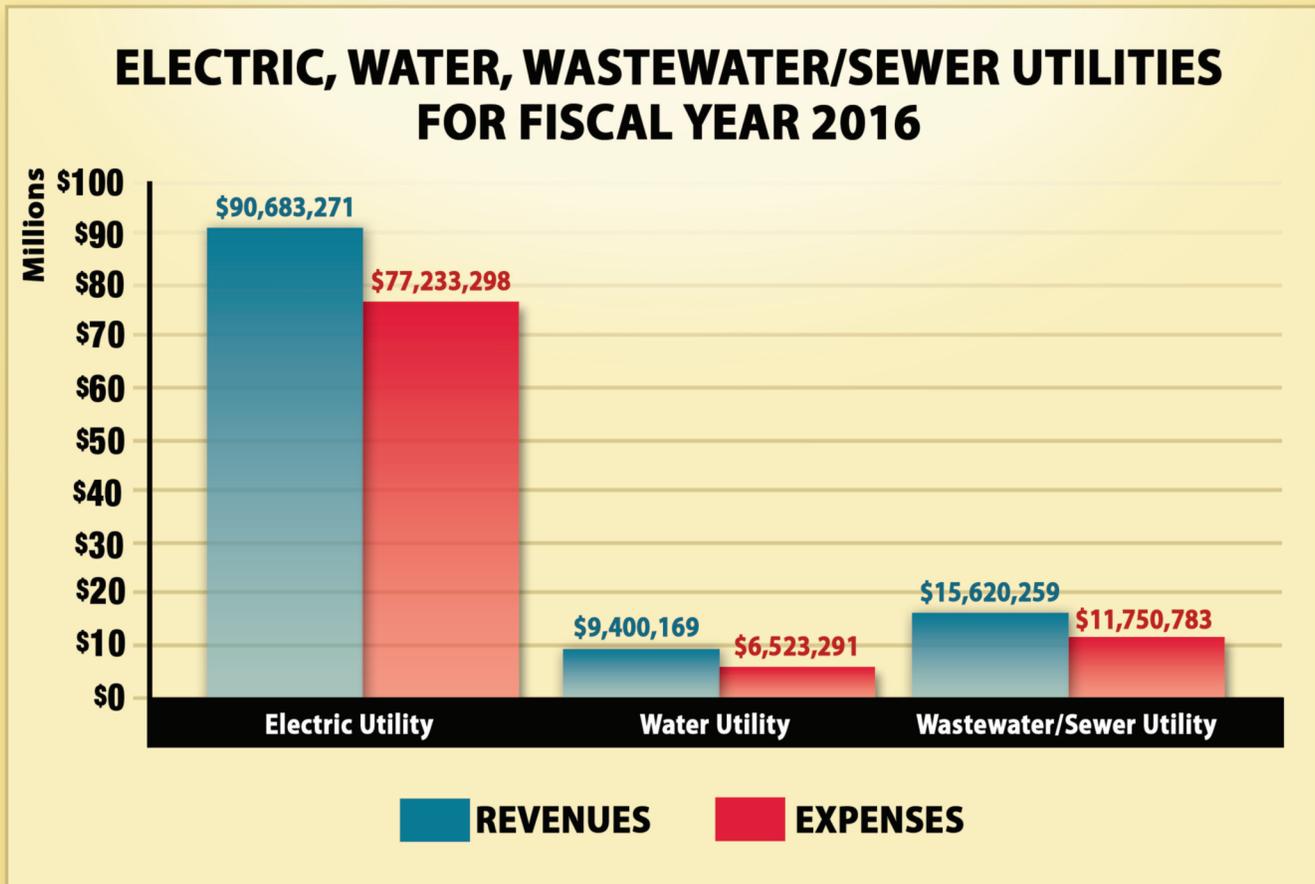
UTILITY FUND

The City's Utility Fund has experienced steady growth and the customer base has grown to approximately 37,772 electric, water and wastewater/sewer customers. The largest utility revenue source comes from electric power sales. The gross income on electric sales for FY 2016 totaled \$21,791,284 compared to last year's amount of \$16,596,969. FY 2016's net income from electric sales totaled \$13,449,973. The City Commission approved an increase in the electric rates in December 2015 which became effective in January 2016. This increase in rates along with a reduction in the wholesale power cost, as a result of lower fuel cost, has contributed to the increase in income for FY 2016.

Each October the water rates increase 2.85%. This additional revenue over the years has allowed the City to pay the debt on wells, as well as fund upgrades on transmission lines and maintenance on the existing wells. FY 2016's net income from water sales totaled \$2,876,878.

In September 2009, a sewer rate increase was implemented and rates were adjusted \$.75 per thousand gallons of metered water for the next five years and 2.85% thereafter. However, the additional funds from this rate increase was not sufficient to offset the cost of the debt service on required sewer improvements; therefore, in December 2015, the Commission approved a revised annual rate increase of \$.25, \$.50, \$.30, \$.35 and \$.30 for years 2016-2020 and then increase by 2.85% each October thereafter. In July 2016, the City issued a \$41 million general obligation warrant to pay for an upgrade of Omussee Wastewater Treatment Plant. FY 2016's net income from sewer sales totaled \$3,869,476.

Electric, water, and wastewater/sewer operations for FY 2016 are reflected as follows:



BOND RATING

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

- S&P Global Ratings ~ “AA”
- Moody’s Investors Service ~ “Aa2”

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

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

TREND DATA

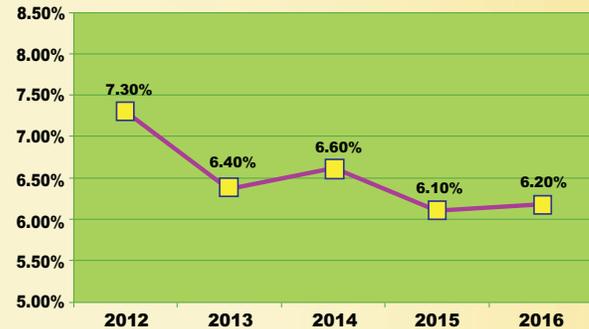
Population Trends

(Estimates Obtained from U.S. Census Bureau)



Unemployment Rate

(Obtained from AL Dept of Industrial Relations)



ECONOMIC GROWTH

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

The economic downturn has had a significant impact on Dothan and the local economy. However, recent years have provided signs of recovery. In addition to the City’s major tax source, sales tax, continuing to show signs of improvement,

unemployment has declined 3.6% since 2009. Principal employers are as follows:

PRINCIPAL EMPLOYERS

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

The City has made an effort to live within the constraints of available revenue and addressed the most pressing needs. Major design/construction projects in 2016 were as follows: Beaver Creek Basin and Sewer Rehabilitation; Denton Road Widening and Bridge; Rock Creek/Little Choctawhatchee

Trunk Line Rehabilitation; Whatley Connector Main; Fiber Optic System; Landfill Expansion on Ennis Road; James Oates Park Phase 1; Westgate Aquatic Center; Wastewater Treatment Plant Dewatering Upgrade; Radio System Upgrade; Dothan Forever Wild Trails; and Omussee Creek Wastewater Treatment Plant Rehabilitation and Upgrade.

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

Direct any questions about this financial report to:

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