



Popular Annual Financial Report

Fiscal Year Ending June 30, 2012

Letter from the Mayor

To the Citizens of Germantown:

We are pleased to present the Popular Annual Financial Report (PAFR) of the City of Germantown for the fiscal year ended June 30, 2012. This report presents an overview of the City's financial position, as well as the City's long-standing financial practices. It identifies the source of revenues and describes how they are spent in a fiscally responsible manner. The fiscal stability of the City is reflected in its ability to maintain a Triple-A credit rating with Moody's and Standard & Poor's.

The Comprehensive Annual Financial Report (CAFR) was prepared in conformance with Generally Accepted Accounting Principles (GAAP) and audited by the City's independent auditors, receiving an unqualified, clean opinion. Although the financial numbers in the PAFR come from an audited source, they are presented in this report in a condensed, unaudited, non-GAAP format. Citizens seeking more detailed financial information may view a copy of the audited GAAP-basis financial statements of the 2012 CAFR at Germantown Community Library, Municipal Center or online at www.germantown-tn.gov/financialdocuments.

It is our intent that the 2012 Popular Annual Financial Report provide Germantown citizens with insight into the City's financial activities and the City's commitment in providing outstanding municipal services. This document may be viewed at Germantown Community Library, Municipal Center or online at www.germantown-tn.gov/financialdocuments.

Sincerely,


Sharon Goldsworthy, Mayor



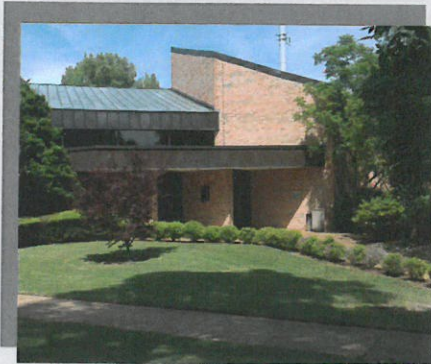
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City Profile

The City of Germantown is located in Shelby County in southwestern Tennessee. It began in 1833 as the hamlet of Pea Ridge. In 1836 it was renamed Germantown, probably because the earliest settlers were of German heritage. By 1841 the City of Germantown was chartered. It met with a modest amount of prosperity when a plank road was built in 1849 and the railroad came through in 1852. It suffered setbacks in the 1860's when part of the city was destroyed during the Civil War and during the yellow fever epidemics of the 1870's. Today it is at the center of the most affluent and rapidly developing area of Shelby County.

The City's legislative body is the Board of Mayor and Aldermen. The mayor and five aldermen serve four-year terms. The City provides a full range of municipal services including police and fire services, streets and drainage construction and maintenance, sanitation, cultural and recreational programs, planning and zoning and administrative services. In addition, the City operates a water and sewer utility system.



Demographics and Economics

In 1960, the City had 1,101 residents. In the 1970's, Germantown began to grow rapidly and by 1980 the population reached to 20,459. Today, the City's population is 40,123. The city is primarily residential in character, but continues to expand in commercial businesses and professional services. Statistically, the population make-up is approximately 48.7 percent male and 51.3 percent female, with a per capita income of \$50,429 and median household income of \$105,602. Unemployment is estimated at 6.4 percent. The City's 14,635 households have 89 percent homeownership. Approximately, 98 percent of the City's population holds at least a high school diploma; 60 percent have a bachelor's degree or higher.

Fiscal Process

Responding to direction from the Board, administration annually prepares a plan of services for the upcoming fiscal year and projects the cost. During its development, the budget is examined by the citizen Financial Advisory Commission and measured against the City's financial policies. The plan is reviewed by the Board, then formally adopted by budget ordinance. The ordinance is adopted by fund, function and department. To assure effective fiscal management and accountability, strict budgetary compliance is maintained by the automated accounting system. All requests for purchases are checked by a budgetary control system to assure funds are available. Purchase orders and contracts are encumbered prior to release to vendors. The system controls are maintained within cost center levels. Departments may make transfers of appropriations within their departments. Transfers of appropriations between departments require approval of the Board.

Awards

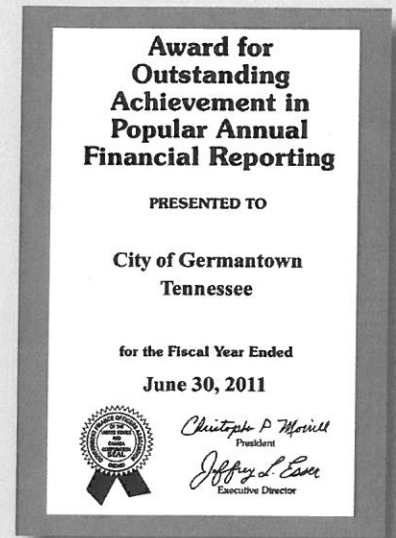
The Government Finance Officers Association (GFOA) of the United States and Canada (GFOA) has given an award for Outstanding Achievement in Popular Annual Financial Reporting to the City of Germantown for its Popular Annual Financial Report for the fiscal year ended June 30, 2011. The Award for Outstanding 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 Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability and reader appeal. Germantown has received the award for the last four consecutive fiscal years.

Germantown's Comprehensive Annual Financial Reports for the years ended 1982-2011, from which the information on pages 13-101 has been drawn, were awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

The Government Finance Officers Association of the United States and Canada presented a Distinguished Budget Presentation Award to the City of Germantown, Tennessee for its annual operating budget for the fiscal year beginning June 30, 2011. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communication device.



Financial Highlights

FY12 was a challenging year for city governments because of the current economic slump. In response, City leaders approved a conservative budget anticipating little growth in revenues. As noted in the FY12 financials the City held the line on actual expenditures over budget, while increasing efficiency and maintaining or improving service levels.

City assets exceeded liabilities at June 30, 2012, by \$153.6 million (net assets). Of this amount, \$32.7 million (unrestricted net assets) may be used to meet ongoing obligations to citizens and creditors.

As of June 30, 2012, the City reported total governmental fund balances of \$30.4 million. Of this amount, \$2.5 million (unassigned fund balances) may be used to meet general government spending requirements. The unassigned fund balance represents 6.4 percent of total General Fund expenditures.

During FY12, the City's total debt increased by \$2.97 million. The City paid \$3.055 million toward existing debt and issued \$6.025 million in new debt.

Fund balance: The cumulative excess of revenues over expenditures in a fund at a point in time.

General Financial Information

Most city services and projects are accounted for in a general category referred to as 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 or have been restricted for specific purposes (e.g. state street aid, automated enforcement, drug, Pickering Center and recreation).

Capital Project Funds – Account for the financial resources used for the construction and/or acquisition of major capital facilities (e.g. major roads, intersections, general government, fire department, parks improvement and drainage).

Enterprise Funds – Utility, Athletic Club, Sanitation, Great Hall and Stormwater Funds, operated similar to a private business in that expenses are recovered through fees charged to users. The Sanitation Fund was in the first year of a five year contract for garbage, recycling and yard waste collection during FY12. In FY10 the Great Hall was separated from the Athletic Club and an enterprise fund was created. In FY11 the Stormwater Fund was created because of a federal mandate for municipalities to manage stormwater runoff.

Fiduciary Funds – These funds convey information about financial relationships in which the City acts solely as a trustee for the benefit of others, namely the pension fund, other post employment benefit fund, and bail deposit fund.

This report focuses on the City's largest funds (General, Utility, Athletic Club, Sanitation and Stormwater), generally of the most interest to citizens.

Governmental Revenues

Revenues for governmental activities amounted to \$49.0 million. Property taxes accounted for the largest and most stable source of the City's revenue, at \$22.6 million or 46.0% of total revenues.

Capital grants and contributions are the second largest source of revenue for the City at \$8.3 million. Sales taxes (local share) are at \$7.2 million with state sales taxes at \$2.6 million. The remainder is from operating grants and contributions, \$1.4 million; income and excise taxes \$1.9 million; beer and liquor taxes \$78,800; and charges for services and other revenues \$4.8 million.

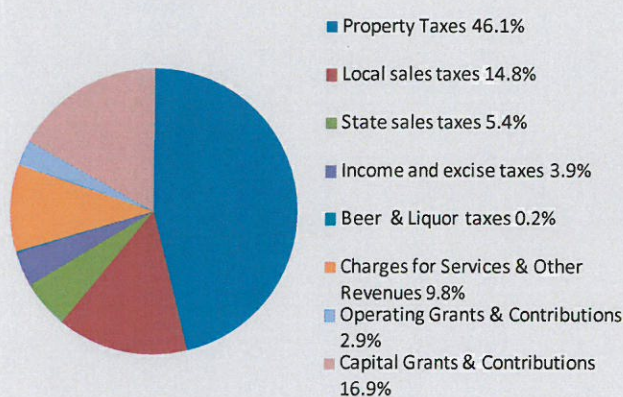
Governmental Expenses

Expenses are divided among General Government, Public Safety, Community Services, Interest and Fiscal Charges, and Transportation and Environment. For fiscal year 2012, expenses were \$43.1 million, an increase of \$2.97 million over FY11.

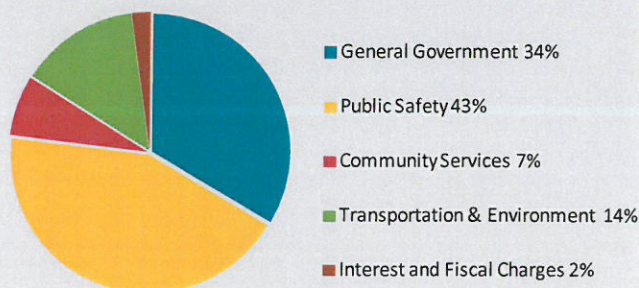
The largest expense was in Public Safety at \$18.7 million, an increase over the previous year by \$1.0 million, due to an increase in personnel expenses in FY12, which included an increase in health benefits and the addition of two positions: medical battalion chief and dispatcher. The second largest expense area was General Government at \$14.5 million, a \$572,600 increase from the prior year due to an increase in contract maintenance in facility services. Transportation and Environment expenditures were \$6.0 million, an increase over the previous year of \$1.2 million, due to an increase in health benefit expenses and the purchase of maintenance equipment in the Infrastructure Replacement Program.

Community Services expenses were \$3.0 million, an increase of \$26,000 from last year due to the movement of other civic support expenses to Parks and Recreation. Interest and fiscal charges were \$1.0 million, an increase of \$151,700 over FY11 due to the issuance of \$6.025 million in General Obligation debt.

Revenues by Source

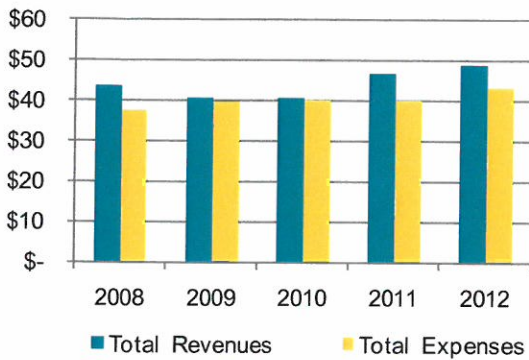


Expenses by Source



The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. All of the governmental funds reported together on an accrual basis are considered governmental activities. Their reporting is on an economic resources measure of revenues and expenditures, which is very similar to the private sector. The fund type data are reported on a modified accrual basis, which is a measure of revenue and expenditures on a current financial resource measurement.

Expenses and Program Revenues Governmental Activities



Enterprise Funds

Business-type activities – Utility, Athletic Club, Sanitation, the Great Hall Fund and Stormwater Fund - increased the City's net assets by \$489,000.

The Germantown Utility Fund increased by \$248,100 due to a decrease in operating expenses.

Germantown Athletic Club Fund's net assets increased by \$134,000 due to an increase in membership fees and other income.

Sanitation Fund net assets increased by \$122,100 due to a decrease in garbage collection expenses, since there was a larger than anticipated participation in curbside service. Also, recycling volume increased by 1% over FY11, which resulted in reduced landfill expenses and an increase in recycling revenue.

Great Hall Fund net assets decreased by \$262,400 due to a slight increase in operating expenses. Also, the General Fund did not transfer funds to the Great Hall Fund in FY12.

The Stormwater Fund net assets increased by \$155,200 due to an increase in stormwater fees.

General Fund

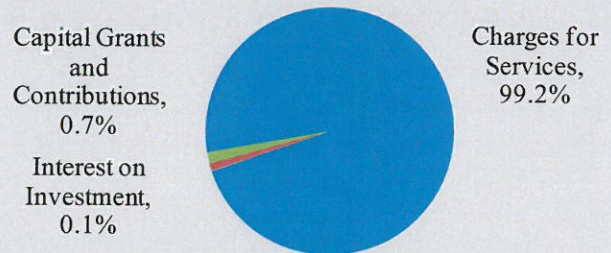
The General Fund is the chief operating fund of the City. As of June 30, 2012, the unassigned fund balance of the General Fund was \$2.5 million, while the total General Fund balance reached \$16.7 million. The City has financial policies that establishes designated reserves in the following areas: emergencies and catastrophes (\$900,000 each year), capital asset replacement infrastructure (next fiscal year's infrastructure replacement program), tax anticipation (1/3 of next fiscal year's property taxes), general debt (next fiscal year's general debt), and contingencies (\$50,000 each year).

The City's General Fund balance decreased by \$3.1 million during the fiscal year ended June 30, 2012. Major factors of this decrease include higher health benefit costs and personnel costs, and the replacement of assets during FY12. Other factors affecting the fund balance include:

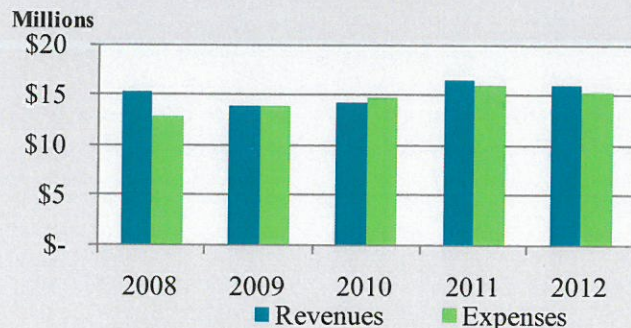
- Property tax increased \$537,100
- Local sales tax increased \$100,500
- State sales taxes decreased \$274,600
- Fines and forfeitures decreased \$360,000
- Licenses and permits decreased \$25,400
- Fees for service decreased \$1,600
- Investment income decreased \$49,000
- Grants increased \$116,900
- Other revenue increased \$284,000

Property taxes increased due to the collection of prior year property taxes and the increase of additional housing units in FY12. Local sales taxes increased due to the improvement in the economy, while state sales taxes, calculated on a per capita basis, decreased due to a decrease in the federal census. Fines and forfeitures decreased due to lower court cost collections. Licenses and permits decreased due to lower automobile registration. Fees for services decreased due to lower engineering fees received. Investment income decreased due to lower interest rates and fewer investments made in FY12. Grants increased due to the City applying for more grants. Other revenue increased due to an increase in cable television fees.

Revenues by Sources Business Type Activities



Expenses and Revenues Business Type Activities



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

Protecting the City's Financial Health

Due to an uncertain economy, City administration relies on several strategies to maintain a fiscally healthy city government.

1. A financial trends monitoring system to monitor the financial condition of the City.
2. Analysis of trend data to guide the City's financial plan.
3. Adherence to sound long established financial policies.
4. Diligent attention to strong stewardship of taxpayer dollars.
5. Review and evaluation of the City's finances through the Financial Advisory Commission, comprised of 24 Germantown citizens with diverse financial backgrounds.

Long Term Debt

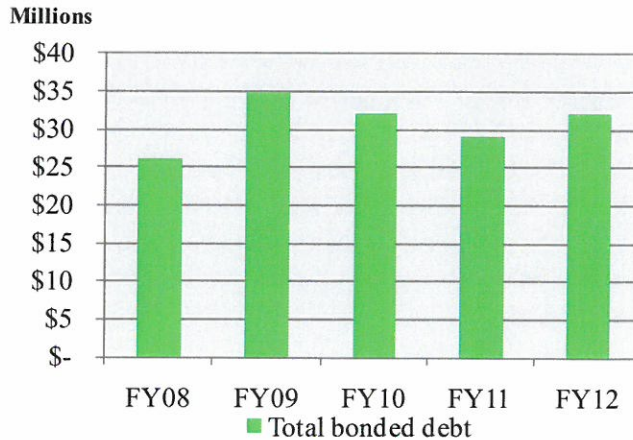
As of June 30, 2012, the City had outstanding bonded debt totaling \$32.1 million. Of this amount, \$25.7 was debt backed by the full faith and credit of the government (general obligation bonds) and \$6.4 million was secured by specified revenue sources (i.e., revenue bonds), specifically, utility reserves.

Condensed Statement of Outstanding Debt

	<u>2012</u>	<u>2011</u>
Governmental:		
General		
Obligation Bonds	\$25,650,000	\$21,825,000
Business-Type:		
Revenue Bonds	<u>6,445,000</u>	<u>7,300,000</u>
Total	\$32,095,000	\$29,125,000

During FY12, the City issued \$6.025 million in new debt and paid off \$3.055 million in existing debt, which resulted in a net increase of total debt of \$2.97 million. Cumulatively, total debt for governmental activities increased by 17.5%. The \$6.025 million new general obligation debt issued in FY12 provided funding for the public safety tower, fleet maintenance shop and the City's portion of Wolf River Boulevard. Business-type activities' decreased by 11.7%, due to the City paying off \$855,000 in existing debt and not issuing new debt.

General Obligation and Revenue Bonds



Bond Rating

The City has long held the highest bond rating—triple-A—on indebtedness from both Moody's and Standard & Poor's credit rating agencies. It is valuable to the City because it invites advantageous interest rates and the ability to sell bonds at a premium, saving the taxpayers money due to lower borrowing costs. Rating agencies cite the City's strong financial management, conservative budgeting and diversity of revenue sources as reasons for the superior rating. In addition, the City has maintained a good relationship with rating agencies and major investment institutions through comprehensive disclosure of financial data and direct meetings with rating agency analysts. The City has held the triple-A rating from both agencies since 1994 and was most recently reaffirmed by both agencies in August 2011. The City continues to follow prudent fiscal policies and practices.



Capital Improvements Program

The Capital Improvements Program (CIP) is a plan for capital expenditures over a fixed period. It addresses projects that require the acquisition or construction of major infrastructure. This six-year program is based on available fiscal resources and established community priorities. Major projects of interest include:

Public Safety Radio System

This project converts all four public safety radio channels to P25 800 MHz conventional repeaters and adds simulcast capability to provide transmitters and receivers at the new site and a site on the east side of the City. The project also adds a fifth channel (Special Event) to the four channels to be shared between police and fire staff. The system improvements are funded by City accumulated reserves.

Fleet Maintenance Shop Construction

A new vehicle maintenance facility will be constructed on 2.74 acres adjacent to Public Services. The facility will increase the efficiency and effectiveness of the maintenance shop and eliminate environmental and safety concerns. It is funded by a combination of Germantown general obligation bonds and City accumulated reserves.

Wolf River Boulevard Construction

Connection of Wolf River Boulevard between Kimbrough Road and Farmington Boulevard, approximately 1.9 miles, is slated to be completed July 2013. The roadway will consist of two lanes in each direction with a raised median. The roadway is funded by 80% federal funds and 20% Germantown general obligation bonds.

Bobby Lanier Farm Park Phase II

Phase II amenities of the master plan for the park include renovation of the two barn structures and cottage, including water and sewer service, and construction of a primary access road and parking lot. The project is funded by City accumulated reserves.

Seismic Retrofit/Refurbishment Aeration Towers - Southern Avenue Water Plant

The aeration towers at the Southern Avenue water plant are free standing concrete structures 24 feet wide by 88 feet long and 35 feet high. The towers were built prior to current seismic design standards and the 2008 seismic evaluation of city facilities indicated that there was a 45% risk of damage to the structures in the event of a magnitude 7.7 earthquake. Failure of the towers could potentially result in water shortages to the community. The project is funded from Utility Fund accumulated reserves.

Economic Factors and FY13 Budget and Rates

The balanced FY13 Budget totals \$75.3 million for all funds of which the City's General Fund totals \$40.5 million. The balanced budget is the result of ongoing departmental cost control, efficiency measures implemented even before the start of the recession. The FY13 Budget reflects cost savings by looking at each element of operations with a business focus on customers and quality of service.

The FY13 General Fund and Capital Fund budget did not include a property tax increase. Cost savings over the past several years have enabled the City to fund the Board of Mayor and Aldermen's priority areas while keeping operating expenditures relatively flat. Such action allowed leaders to extend a tax rate in a responsible manner to eight years through FY11. The City adopted a modest increase of \$0.06 in 2011. Continued recovery from the recession along with tight fiscal management will determine the funding priorities and service levels going forward.

The City identifies new revenue sources and pursues grants to supplement the stable property tax rate and growth. The City will continue to implement process improvement plans to improve service levels and control operating expenses. Also, service delivery systems and processes are reengineered in order to control operating expenses.



Information Requests

The information contained in the PAFR is a general overview of the City's finances. Questions or requests for additional information may be addressed to Finance Director Ralph J. Gabb at (901) 757-7249, by email at rgabb@germantown-tn.gov or to:

City of Germantown
Department of Finance
1930 South Germantown Road
Germantown, Tennessee 38138

