



2009

Popular Annual Financial Report



**City of Germantown.
Excellence. Every Day.**

Letter from the Mayor



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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 ending June 30, 2009. This report is intended to present an overview of the City's financial position, as well as the City's long-standing financial practices. 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 credit rating agencies. This is an informative report that depicts where revenue dollars are generated and how they are spent in a fiscally responsible manner.

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. For those citizens who wish to view more detailed financial information, a copy of the audited GAAP-basis financial statements of the 2009 CAFR can be viewed at Germantown Community Library, Municipal Center or online at germantown-tn.gov.

It is our hope the 2009 Popular Annual Financial Report will provide citizens with insight into the City's financial activities. The City's commitment to providing outstanding services is clearly demonstrated in this report. Additional copies are available online at germantown-tn.gov, Germantown Municipal Center or Germantown Community Library.

Sincerely,

Sharon Goldsworthy, Mayor

City Profile

The City of Germantown is located in Shelby County in the southwestern part of Tennessee. Germantown was first settled in 1825, and existed as a small rural community. It is at the center of the most affluent and rapidly developing area of Shelby County.

The City's legislative body is made up of 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.



Fiscal Process

Responding to direction from the Board, the City administration annually prepares a plan of services for the upcoming fiscal year and projects costs. During its development, the budget is examined by the 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 held prior to release to vendors. The system controls are maintained within cost center levels. Departments may make transfers of appropriations within their department. Transfers of appropriations between departments require approval of the Board.

Awards

The Government Finance Officers Association 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, 2008. 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, with contents conforming 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. Our current report continues to conform to the Popular Annual Financial Reporting requirements. It will be submitted to GFOA.

The City of Germantown's comprehensive annual financial report (CAFR) for year ended June 30, 2008 was 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. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. Our comprehensive annual financial report continues to conform to the Certificate of Achievement program requirements. It will be submitted for the current year to GFOA.

The City also received GFOA's Distinguished Budget Presentation Award for its annual operating budget for the year ended June 30, 2009. Germantown has received the award for each of the 24 years since the program was instituted in 1984. To qualify, the City budget document was judged to be proficient and/or outstanding in several categories, including policy documentation, financial planning, operations and communications.

Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO

City of Germantown
Tennessee

for the Fiscal Year Ended

June 30, 2008



Jeffrey L. Easer
Executive Director

Financial Highlights

The assets of the City exceeded its liabilities as of June 30, 2009, by \$139.4 million (net assets). Of this amount, \$42.7 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

As of June 30, 2009, the City's governmental funds reported total fund balances* of \$37.5 million. Of this amount, \$9.7 million (undesignated fund balances) may be used to meet the general government spending requirements. The undesignated fund balance represents 27.2 percent of total General Fund expenditures.

During the fiscal year, the City's total debt increased by \$8.77 million, due to the issuance of new debt and refinancing of existing 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. These concise descriptions should provide a better understanding of the accounts.

- **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, 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** – Account for the Utility, Athletic Club and Sanitation Funds, operated similarly to a private business in that expenses are recovered through fees charged to users. During the year, the City issued \$5 million in water revenue bonds in December, 2008. This issue supports the plant expansion of the Johnson Road Water Plant, Johnson Road Reservoir, water wells, automated controls and sewer pipeline rehabilitation. The Athletic Club began renovating locker rooms, constructing three new family locker rooms and improving the current fitness center space. The Sanitation Fund was in the third year of a four-year contract for garbage, recycling and yard waste collection during FY09.
- **Fiduciary 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 postemployment benefit fund and bail deposit fund.

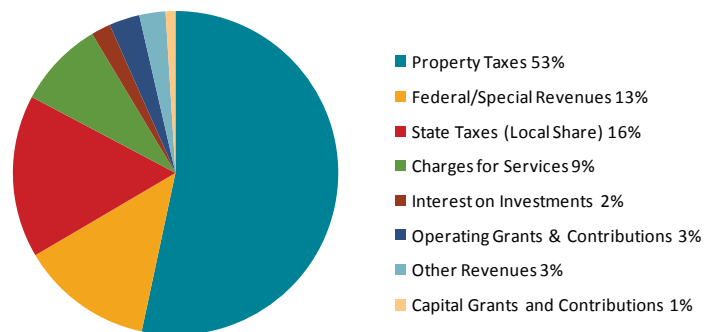
This report focuses on the City's largest funds (General, Utility, Athletic Club and Sanitation), generally of the most interest to citizens.

Governmental Revenues

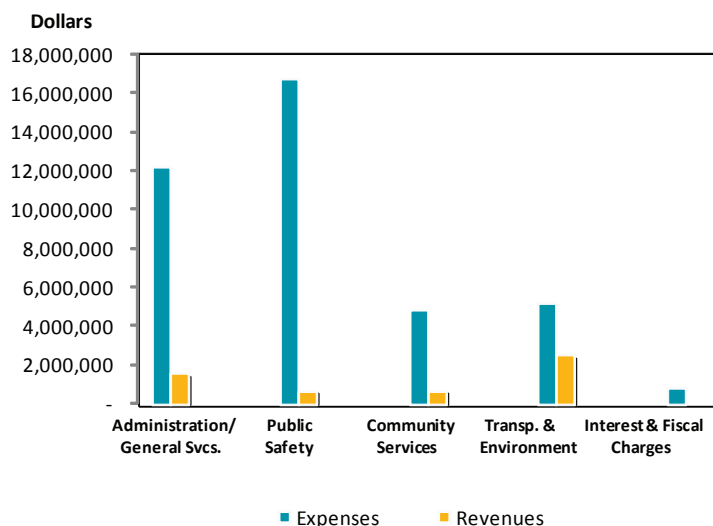
Revenues for governmental activities amounted to \$40.5 million. Property taxes accounted for the largest and most stable source of the City's revenue, at \$21.6 million or 53.3 percent of total revenues.

Sales tax is the second largest source of revenue for the City at \$6.5 million with federal/special revenues at \$5.3 million. The remainder is from service charges, \$3.5 million; operating grants and contributions, \$1.2 million; interest on investments, \$783,049; other revenue \$1.1 million and capital grants and contributions, \$400,000.

Revenues by Source
Governmental Activities



Expenses and Program Revenues
Governmental Activities



Governmental Expenses

Expenses are divided among administration/general services, public safety, community services, interest and fiscal charges and public services. For FY09, expenses were \$39.5 million, an increase of \$2.2 million over FY08.

The largest expense is public safety at \$16.7 million, a decrease from the previous year of \$231,200. The second largest expense area is administration/general services at \$12.2 million, a \$2.1 million increase over the prior year.

Public services expense for the year was \$5.1 million, an increase of \$809,000 over last year. Community services expenses were \$4.8 million and interest and fiscal charges were \$786,600.

General Fund

The General fund is the chief operating fund of the City, and is used to account for all financial resources (revenues and expenditures) except those required to be accounted for in another fund. As previously noted, the undesignated fund balance of the General Fund is \$9.7 million. Undesignated fund balance is the amount of fund balance not legally restricted or designated for specific purposes. The total General Fund balance is \$24.1 million. This includes reserved and unreserved fund balances. As a measure of the General Fund's liquidity, it is helpful to compare the undesignated fund balance and total fund balance to total fund expenditures. Undesignated fund balance represents 27.2 percent of total General Fund expenditures, while total fund balance represents 67.7 percent of that same amount.

The City's General Fund fund balance decreased by \$1.7 million during the fiscal year ended June 30, 2009. Key factors include:

- Property tax increased by \$427,000
- Local sales tax decreased \$1,032,000
- State taxes (local share) decreased \$1,495,800
- Fines and forfeitures decreased \$48,200
- License and permits decreased \$21,100
- Fees for services decreased \$11,100
- Investment income decreased \$660,500
- Grants decreased \$87,300
- Other revenue decreased \$19,100
- Total expenditures increased \$467,300

General Fund revenues were slightly higher than budgeted by \$128,400. General Fund expenditures were less than budgeted by \$1.6 million. The positive variances were due to the concerted effort of City personnel to control costs, particularly the use of the managed competition approach and applying business techniques to improve efficiency and save dollars.

The largest positive variance was in administration/general services in the amount of \$529,800, public safety \$459,700 and community services \$176,100. Savings were also achieved in public services of \$55,600 and debt service of \$354,100.

Tax Collections FY05 to FY09

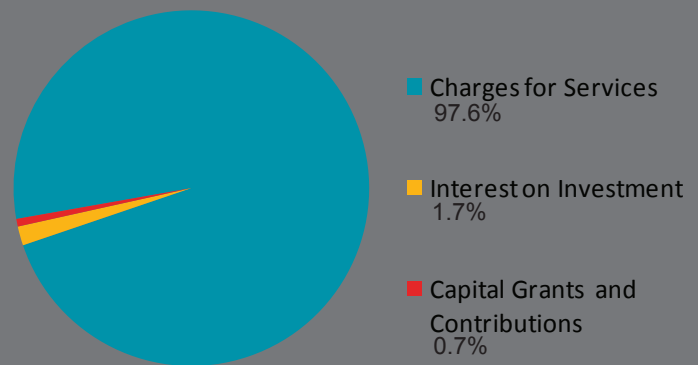


Enterprise Funds

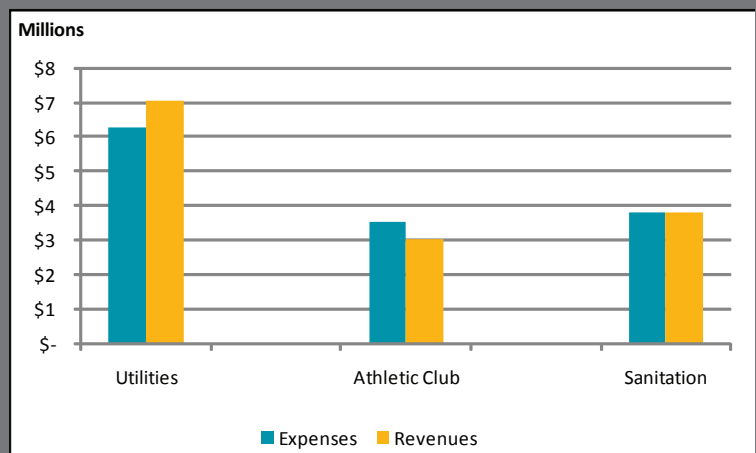
Business-type activities -- Utilities, Athletic Club, and Sanitation -- increased the City's net assets by \$1.4 million.

- The Germantown Utility Fund increased by \$834,800, due to an increase in Utility deposit revenues and the addition of some new Utility revenues identified during FY09.
- Germantown Athletic Club Fund's net assets increased by \$496,900 due to the implementation of a rate increase during FY09 and the addition of a City operating transfer. Athletic Club revenue increased by \$872,700; however, operating expenses grew by \$597,200 as programming and service levels expanded for additional members.
- Sanitation Fund net assets increased by \$22,300 due to a transfer from storm debris collection. In the third year of a four-year contract revenue increased by \$59,600 from additional garbage collection. Expenses increased by \$116,700, due to additional costs associated with storm debris collections.

Revenues by Source - Business Type Activities



Expenses and Revenues - Business Type Activities



Protecting the City's Financial Health

Due to an uncertain economy, City administration put into place steps for ensuring the financial health of the City.

1. Establish an early warning system to discern which environmental trends and factors will have an impact on strategy and timing.
2. React quickly to environmental changes.
3. Adhere to sound financial policies.
4. Use Vision 2020, the City's map for long-term progress, as the evaluation tool to make financial choices.
5. Continue to be strong community advocates.

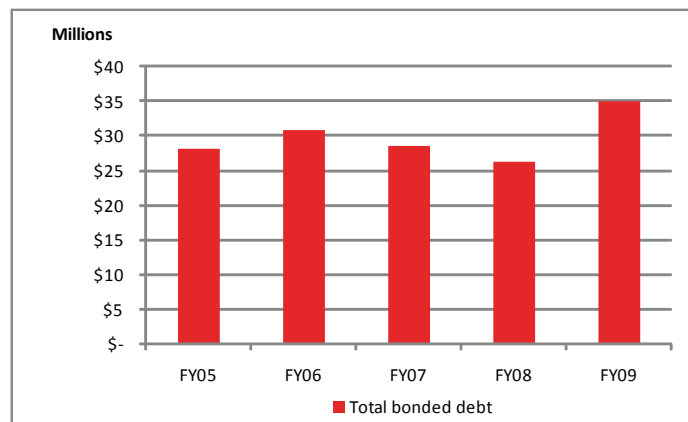
Long Term Debt

As of June 30, 2009, the City had total bonded debt outstanding of \$35 million. Of this amount, \$26.1 million was debt backed by the full faith and credit of the government (general obligation), and \$8.9 million was secured by specified revenue sources, such as revenue bonds.

Condensed Statement of Outstanding Debt

	<u>2009</u>	<u>2008</u>
General Obligation Bonds	\$26,055,000	\$21,935,000
Revenue Bonds	\$ 8,900,000	\$4,250,000
Total	\$34,955,000	\$26,185,000

During FY09, the City's total debt increased by \$8.77 million. Debt for governmental activities increased by 18.8 percent, due to \$9.635 million of general obligation debt and the refunding of \$3.635 million in general obligation bonds. In Business-type activities' debt increased by 109.4 percent, due to the City issuing \$5 million in Water Revenue Bonds in December, 2008.



Bond Rating

The City has long held the triple-A bond rating, the highest possible rating, from both Moody's and Standard & Poor's credit rating agencies. They cite the City's strong financial management, conservative budgeting, and diversity of revenue sources. In addition, the City has maintained a good relationship with the rating agencies and the major investment institutions through comprehensive disclosure of financial data and direct meetings with rating agency analysts. These ratings were reaffirmed in December 2008 and June 2009. 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 of several years. 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. Future projects of interest include:

Fire Station 4 - This new station will replace Fire Station 4 at 3031 Forest Hill-Irene Road. It will consist of three apparatus bays, sleeping quarters for eight, a training classroom, and an alternate emergency operation center.

Wolf River Boulevard ROW - The Wolf River Boulevard right-of-way acquisition is required for the construction of Wolf River Boulevard extension, between Farmington Boulevard and Kimbrough Road.

Outdoor Amphitheater - This project involves the construction of an outdoor amphitheater that will provide a performance venue not found in any other City park. This facility is a component of the recently adopted Master Park Plan for the Civic Club Complex and adjacent park properties.

Howard Road/Mimosa Gardens Drainage - This project will upgrade the 50-year-old stormwater system by increasing the size of drainage pipes and adding new inlets curbs and gutters. In addition, roadways within the project will be resurfaced.



Information Requests

The information contained in the PAFR is a general overview of the City's finances. Questions about any of the information or requests for additional financial information may be addressed to the Department of Finance, City of Germantown, 1930 South Germantown Road, Germantown, Tennessee 38138.

Economic Factors and FY10 Budget and Rates

Due to aggressive cost containment measures, the FY10 budget of \$71 million did not require an increase to the City's property tax rate. FY10 represents the seventh year with no property tax increase, however, it was a reappraisal year. The rate was decreased to \$1.425 from \$1.54 per \$100 of assessed value. The last tax increase was in FY04 with the intention of sustaining the City's fiscal needs over a five-year planning period.

The City initiated the managed competition program during FY07. The FY10 budget incorporates cost reductions derived from detailed examination, reengineering procedures or outsourcing. The transformation to a business model approach focuses on customer service while maintaining a high standard of service. The FY10 budget reflects the continued emphasis of managed competition and cost savings.

The City continues to look at new sources of revenues and grants to supplement property and sales taxes. Uncertain economic times and declining state shared taxes and other revenues necessitated an in-depth review of all revenue assumptions in formulating the FY10 Budget. Additionally, a thorough expense review, including local issues of growth, new operating services, neighborhood preservation and quality of life, will ensure the City's ability to provide responsible, high-quality leadership and services residents have come to expect from its government.





2009



This document was prepared by
City of Germantown Marketing
and Communications staff in cooperation with
the Research and Budget department .

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