



Popular Annual Financial Report

Fiscal Year Ending June 30, 2013

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 ended June 30, 2013. This report is 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 2013 CAFR at Germantown Community Library, Municipal Center or online at www.germantown-tn.gov/financialdocuments.

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

Sincerely,


Sharon Goldsworthy, Mayor

City Profile

The City of Germantown is located in Shelby County in the southwestern part of the State of 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 in the 1870's during the yellow fever epidemics. Today 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.

The City received the 2013 Achievement Award from the Tennessee National Center for Performance Excellence for promoting and improving efficiency and productivity of City services.



Demographics and Economics

The City of Germantown's latest census recorded a city population of 40,123. The 2010 U.S. Census reports the largest percentage of people in Germantown is between the ages of 45 and 54. The second largest percentage of population is between the ages of 55 and 64. The median age is 45.7 years old.

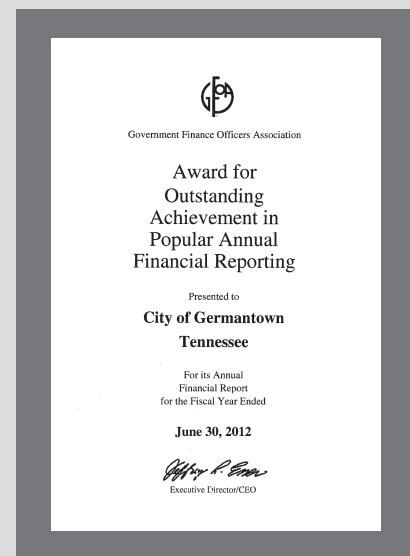
There are 14,910 households in Germantown with an average size of 2.6 people. Thirty-four percent of the households have children under 18 years. Germantown has 15,536 total housing units with a 96 percent occupancy rate. Of the 14,910 occupied housing units, 88 percent are owner-occupied and 12 percent are renter occupied. The average value for owner-occupied housing in ZIP code 38138 is \$282,160; the average home price in zip code 38139 is \$401,816.

Germantown is one of only 61 cities in the nation that can claim a triple-A bond rating from both Moody's and Standard & Poor's.

Germantown has one of the lowest crime rates for any city its size in the state of Tennessee and the police and fire departments have an average emergency response time of less than five minutes.

In 2010, 98% of the population over 25 years old had obtained a high school diploma or higher; more than half has a bachelor's degree or higher.

At \$51,701, Germantown has the highest per capita income of all the municipalities in Shelby County. The median family income is \$126,196.



Financial Highlights

FY13 was a challenging year for the City's property tax base as citizens continued to appeal appraisals from four years ago. In addition, sales tax was down approximately 5% from budget. The City trimmed the budget and spending within the departments, while continuing to provide service levels at the level citizens expect.

City assets exceeded liabilities at June 30, 2013 by \$163.5 million (net assets). Of this amount, \$27.4 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

As of June 30, 2013, the City reported total governmental fund balance of \$24.9 million. Of this amount \$2.9 million (unassigned fund balances) may be used to meet general government spending requirements. The unassigned fund balance represents 7.4% to total general fund expenditures.

During FY13 the City did not issue bonded debt and the total debt of the City decreased by \$3.4 million.

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

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, each spring, 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 organized 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.

Introduction to the Popular Annual Financial Report

The purpose of the Popular Annual Financial Report (PAFR) is to serve as an easy-to-read synopsis of the City of Germantown's financial information. On an annual basis, the City prepares a Comprehensive Annual Financial Report (CAFR). The report contains detailed information required to be reported by generally accepted accounting principles and it conforms to the requirements for a CAFR contents prescribed by the Government Finance Officers Association (GFOA). We encourage you to read the CAFR, which contains detailed and audited financial statements, notes, schedules and other information. The CAFR may be found on the City's website www.germantown-tn.gov. The information in the PAFR has been taken from the CAFR and is intended to be a supplement to, rather than a replacement for, the CAFR.

The Government Finance Officers Association of the United States and Canada (GFOA) gave an Award for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) to the City of Germantown for the fiscal year ended June 30, 2012. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a national award recognizing conformance with the highest standards for preparation of state and local government popular reports. *(continued to page 4)*

The City has received the award for the last five fiscal years.

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 for 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 Report requirements, and we are submitting it to GFOA.

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 second year of a five year contract for garbage, recycling and yard waste collection during FY13. In FY10 the Great Hall was separated from the Athletic Club and an enterprise fund was created. In FY11 the Stormwater Fund was created due to 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 postemployment benefit fund, and bail deposit fund.

This report focuses on the City's largest funds (General, Utility, Athletic Club).

Revenues

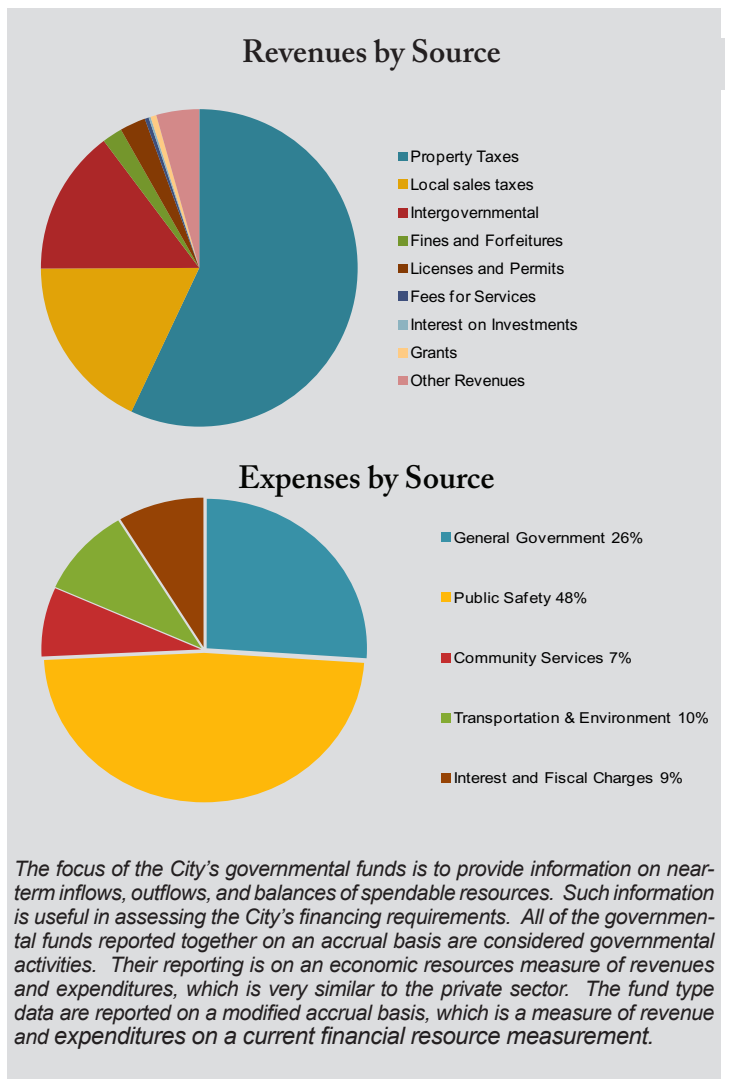
Revenues for general government fund were \$39.4 million. Property taxes accounted for the largest and most stable source of the City's revenue, at \$22.5 million or 57.1% of total revenues.

Local sales tax is the second largest source of revenue at \$7.1 million. Intergovernmental (previously known as state shared taxes) is third at \$5.8 million. State taxes include sales taxes, income taxes, excise taxes, beer taxes, telecommunications taxes, petroleum special taxes. Other revenues come from fines and forfeitures, licenses and permits, fees for services, interest on investments, grants, and other revenues.

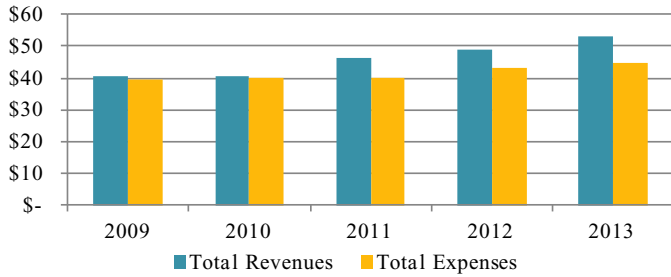
Expenses

Expenses are divided among General Government, Public Safety, Community Services, Transportation and Environment, and Debt Services. For fiscal year 2013 expenses were \$38.8 million, a slight increase of \$76,467 over FY12.

The largest expense was public safety at \$18.7 million, down \$34,277 from the prior year. The second largest expense area was general government at \$10.1 million, a decrease from last year of \$93,142. Transportation and environment expense was \$3.7 million, a decrease of \$179,434. Community services was \$2.9 million, a slight increase of \$71,597. Debt service was \$3.4 million, an increase over last year of \$317,723. This was due to a paying down the debt. Overall, the general government kept expenses under control over the prior year. The cumulative effect was a slight increase in government expenses of \$76,467. The general government controlled expenses without sacrificing the service levels to its citizens.



Expenses and Program Revenues Governmental Activities



General Fund

Revenue by Source

Property Tax

- Real property taxes, personal property taxes, penalties and interest on property taxes, receipt in lieu of taxes – TVA and MLGW

Local Sales Taxes

- Sales taxes, beer and liquor taxes, gross receipts tax, penalties and interest – gross receipts tax, telecommunications tax, room occupancy tax

Intergovernmental

- Sales taxes, income taxes, excise taxes, beer taxes, liquor taxes, telecommunications tax, petroleum special taxes.

Fines and Forfeitures

- Traffic and other violations, City court costs, other court costs, animal impoundment fees.

Licenses and Permits

- Automobile registrations, building permits, animal licenses, fence and sign permits, liquor permits

Fees for services

- Engineering fees, fire inspection fees, zoning applications, library fees

Interest on Investments

Grants

Other Revenues

- Cable television fees, miscellaneous

Expense by Source

General Government

- Aldermen, Administration, Human Resources, Information Technology, Finance, Courts, Community and Economic Development, Research and Budget, Facility Services, Germantown Performing Arts Center Departments

Public Safety

- Police and Fire

Community Services

- Parks and Recreation, Cultural Arts Programs, Library, Genealogical Library and Farm Park

Transportation and Environment

- Public Services and Animal Control

(Continued to page 6)

Enterprise Funds

Business-type activities – Utility, Athletic Club, Sanitation, the Great Hall Fund and Stormwater Fund – decreased the City's net assets by \$814,994.

The Germantown Utility Fund decreased by \$802,733 due to decrease in water and sewer sales and an increase in operating cost.

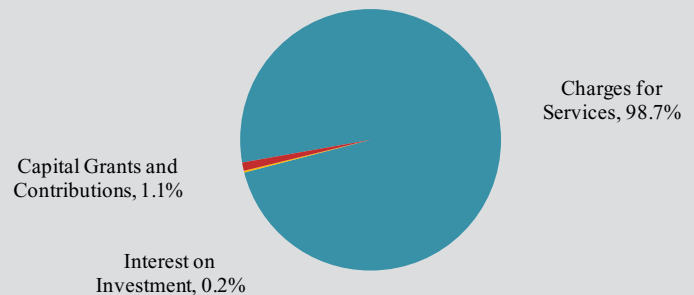
Germantown Athletic Club Fund's net assets decreased by \$347,827 due to a transfer of \$850,000 to the general fund. Overall the operations of the fund were positive by \$526,721.

The Sanitation Fund net assets grew by \$356,972 due to a decrease in collection expense, because there was a larger than anticipated participation in curbside services.

Great Hall Fund net assets decreased by \$102,890 due to expenses being higher than projected revenues.

The Stormwater Fund net assets increased by \$81,484 due to higher than anticipated stormwater fees and lower operating cost.

Revenues by Sources



Expenses and Revenues



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.

(Continued from page 5)

The General Fund is the chief operating fund of the City. As of June 30, 2013, unassigned fund balance of the General Fund was \$2,876,078 while the total fund balance reached \$19,220,174. As a measure of the General Fund's liquidity, it may be useful to compare the unassigned fund balance and the total fund balance to total fund expenditures. Unassigned fund balance represents 7.4% of total General Fund Expenditures, while total fund balance represents 49.5% of that same amount.

The fund balance of the City's General Fund increased by \$1,471,193 during the fiscal year ended June 30, 2013. Key factors include:

- Property tax decreased \$71,355
- Local sales tax decreased \$179,633
- Intergovernmental taxes increased \$1,097,989
- Fines and Forfeitures increased \$46,344
- Licenses and Permits increased \$32,018
- Fees for services increased \$21,195
- Investment income decreased \$278
- Grants decreased \$154,928
- Other revenue increased \$66,265
- Total expenditures increased \$76,467

Property tax decreased due to some taxpayers appealing the values to the assessors' office. Local sales taxes decreased due to the loss of a grocery store chain and road construction in the central business district. Intergovernmental increased due to the increased Halls tax from dividends and interest paid to the state by citizens. Fines and forfeitures increased due to more court cases being heard and fines being assessed. Licenses and permits increased due to more business licenses and permits for buildings issued in FY13. Fees for services increased very moderately. Investment income decreased very moderately by \$278 as interest rates continue to be low. Grants decreased as there were few grants for the City to apply.

Long Term Debt

Condensed Statement of Outstanding Debt

	<u>2013</u>	<u>2012</u>
Governmental:		
General		
Obligation Bonds	\$23,105,000	\$25,650,000
Business -Type:		
Revenue Bonds	<u>5,565,000</u>	<u>6,445,000</u>
Total	\$28,670,000	\$32,095,000

During FY13 the City did not issue additional bonds but focused on paying down its existing debt. The bond money issued in FY12 was still being used to fund the public safety tower, fleet maintenance shop and the City's portion of Wolf River Boulevard. The paying down of the existing debt demonstrates the City's desire to control long term debt issuance. The debt decreased by \$3,425,000. This breaks down to general obligation debt decreased \$2,545,000 or 10.0% and revenue bonds decreased \$880,000 or 13.7%.

Protecting the City's Financial Health

The City relies on several strategies and tools to maintain a fiscally healthy city government.

1. A financial trend 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 a Financial Advisory Commission comprised of 22 citizens and an alderman liaison with strong diverse financial backgrounds.



Bond Rating

Since 1994, the City has held the highest bond rating of triple A on indebtedness from both Moody's and Standard & Poor's credit rating agencies. The rating agencies cite the City's strong financial management, conservative budgeting and diversity of revenue sources as reasons for the superior rating. The city has maintained a good relationship with rating agencies and major investment institutions through comprehensive disclosure of financial data and direct meeting with rating agency analysts. The City was reaffirmed a Triple-A rating by both rating agencies in September 2013. On September 23, 2013, the City refunded its 2005 bonds for a better interest rate and issued new bonds in the amount of \$3.5 million. The refunding of the 2005 bond had a present value saving to the taxpayers of \$360,412. These bonds fund capital improvements which include, but are not limited to, improvements and stabilization of various drainage laterals, construction of a new roadway to the Farm Park and the extension of the Greenway along Wolf River Boulevard.

Capital Improvements Program

The Capital Improvements Program (CIP) is a plan for 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:

Animal Shelter Expansion Phase I

An animal intake area to quarantine new arrivals will be constructed. This expansion area will have two independent HVAC systems to combat disease transfer. The roof on the building and the doors / jams and flooring will be replaced.

Germantown Road – Stout to City Limits

This project will complete the widening of Germantown Road through Germantown. It will widen 3,500 feet of the existing road from Stout Road south to the city limits to a four lane road with a median and bicycle lanes. The improvement will include a traffic signal at Crestridge and decorative mast arms at Stout and Crestridge.

Lateral D – Farmington Boulevard Culvert Protection

This is a joint project between the City and the Corps of Engineers to protect the box culvert under Farmington Boulevard under a Section 14 Permit. The funding is 65% federal and 35% local.

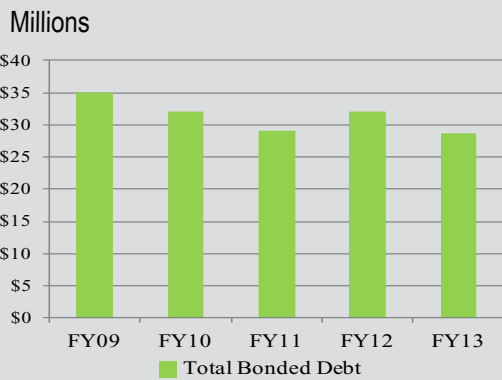
Lateral D & E Construction

The bank stabilization project will correct severely eroded stream banks on Laterals D & E. The specific area of concern on Lateral D is about 250 feet east of Autobahn Drive and the Lateral E location is about 700 feet south of Wolf River Boulevard and 200 feet east of Glenbuck Street.

Germantown Athletic Club Expansion Design

This project will expand on an existing architectural study completed in January 2012 to develop a comprehensive plan to address the space utilization needs and social needs of the facility. Public charettes will be utilized to choose a preferred alternative in conjunction with the schematic design.

General Obligation and Revenue Bonds



Economic Factors and FY14 Budget and Rates

Factors considered in preparing the City's Budget for the 2014 fiscal year are more fully discussed in the Budget document.

- The property tax was increased by .445 cent in FY14. It was driven by lower property values, decreased sales tax, reduced Halls tax and decreases in fund balance.
- The City initiated managed competition during FY07 with an emphasis on creating greater efficiency and cost control. The FY14 Budget reflects the continued impact of managed competition strategies and cost savings by looking at each element of operations with business focus on customers and quality of service.
- The City continues to look at new sources of revenue and grants to supplement the property tax revenues. The City will continue to reengineer the systems and process in the delivery of its services to control operating expenses.
- Uncertain economic times requires the City to review in-depth its revenue assumptions in the FY14 Budget. Additionally, a thorough expense review including local issues of growth, new operating services, neighborhood preservation and quality of life will help to ensure the City's ability to provide responsible, high-quality leadership and services that residents have come to expect from its government.



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, rgabb@germantown-tn.gov or to:

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