

Popular Annual Financial Report

Fiscal Year Ending June 30, 2015
Germantown, Tennessee

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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, 2015. 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.

The report is an overview of the City's financial position, as well as the City's long-standing financial practices. It identifies revenue sources 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 since 1988 and Standard & Poor's since 1994.

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 unmodified, 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 2015 CAFR at Germantown Community Library, Municipal Center or online at www.germantowngov/financialdocuments.

It is our intent that the report provides Germantown citizens with insight into the City's financial activities and the City's commitment in providing outstanding city services.

Sincerely,

Mike Palazzolo, 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 Alderman. 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 2014 Achievement Award from the Tennessee National Center of 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 old. 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 101 cities in the nation that can take pride in its 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 about five minutes.

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

At \$49,857, Germantown has the highest per capita income of all the municipalities in Shelby County. The median family income is \$113,294.

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.

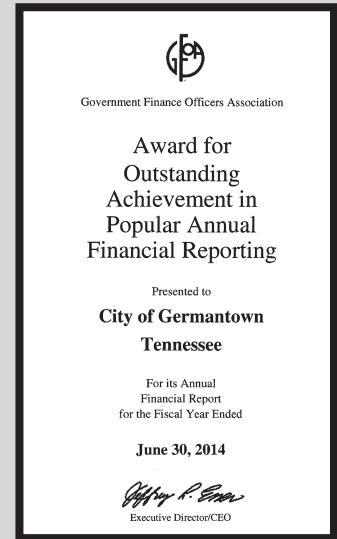
Introduction to the Popular Annual Financial Report

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), which contains detailed financial information about the finances of the City. 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) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) to the City of Germantown for the fiscal year ended June 30, 2014. 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.

In order 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.



Financial Highlights

During FY15 the City has shown stabilization and improvement in the last year. Property values have stabilized with the City and construction of new properties. Property tax remains the most stable source of revenue at approximately 57.8% of total general fund revenues with collections remaining very strong. Sales tax increased by 29.8% over the past year. The City continues to monitor spending within the departments, while continuing to provide service levels at the level citizens expect.

The assets of the City exceeded its liabilities and deferred inflows of resources at June 30, 2015 by \$227,526,404 (net position). Of this amount, \$39,408,395 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.

At June 30, 2015, the City's governmental funds reported total fund balances of \$40,665,389. Of this amount, \$10,195,572 (unassigned fund balances) may be used to meet the general governments spending requirements. The unassigned fund balance represents 27.0% of total General Fund expenditures.

During the fiscal year, the City's total debt decreased by \$3,790,453. The City paid down its bonded debt and debt due to settlement with Shelby County Board of Education.

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 us 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, recreation, municipal schools and ambulance).

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 fourth year of a five year contract for garbage, recycling and yard waste collection during FY15. 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.

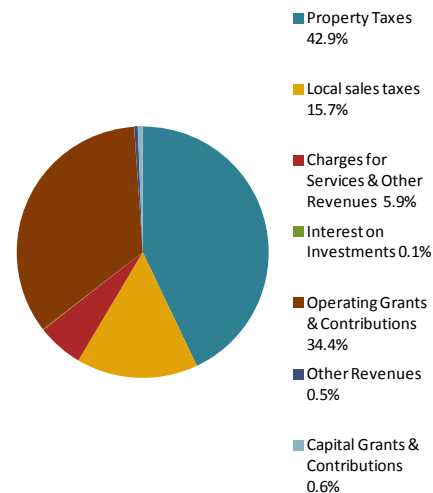
This report focuses on the City's largest funds (General, Utility, Athletic Club).

Revenues

Revenues for general government fund were \$48.7 million. Property taxes accounted for the largest and most stable source of the City's revenue, at \$28.1 million or 57.8% of total revenues

Local sales tax is the second largest source of revenue at \$10.1 million. Intergovernmental (previously known as state shared taxes) is third at \$6.4 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.

Revenues by Source

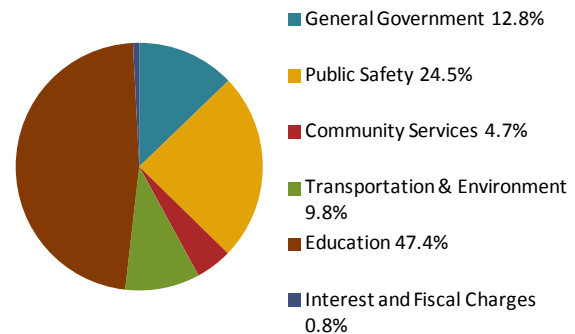


Expenses

Expenses are divided among General Government, Public Safety, Community Services, Transportation and Environment, Education and Debt Services. For fiscal year 2015 expenses were \$37.8 million, a decrease of \$4.4 million over FY14.

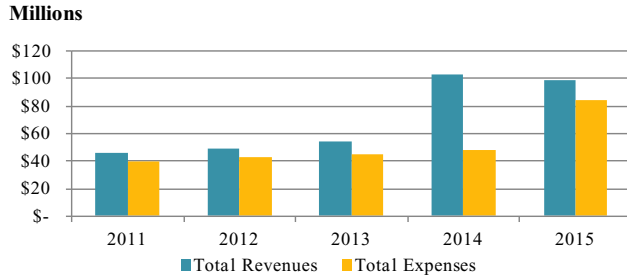
The largest expense is Public Safety at \$17.7 million up \$0.5 million. The increase was due to personnel cost and materials and materials and supplies. The second largest expense area was General Government at \$10.4 million, an increase from prior year of \$0.9 million. The increase was due mainly to personnel cost increases. Transportation and Environment expense was \$3.8 million, an increase of \$0.1 million. Community Services expense was \$2.8, the decrease from prior was very modest at \$44,000. Debt service was \$3.2 million. The prior year was \$9.1 million. The decrease was due to reporting requirements of refinancing the Series 2005 bonded debt of the prior year. The overall expenses for all departments were less than originally budgeted for the fiscal year. All departments were able to control expenses and provide service levels to its citizens.

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



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, Receipt in lieu of taxes – 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 & sign permits, liquor permits

Fees for services

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

Interest on Investments – self explanatory

Grants – self explanatory

Other Revenues

- Cable television fees, miscellaneous

Expense by Source:

General Government

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

Public Safety

- Police and Fire Department

Community Services

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

Transportation and Environment

- Public Services and Animal Control

The General Fund is the chief operating fund of the City. At June 30, 2015, unassigned fund balance of the General Fund was \$10,195,572 while the total fund balance reached \$28,250,366. 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 represent 27.0% of total General Fund Expenditures, while total fund balance represents 74.8% of that same amount.

(Continued to page 6)

Enterprise Funds

Business-type activities – Utility, Athletic Club, Sanitation, Great Hall and Stormwater Fund increased the City's net position by \$2,281,001.

The Utility Fund increased by \$1,222,716 due to increased revenues in water and sewer and lower operating cost. The water and sewer rates were increased 30.0% due to lower consumptions.

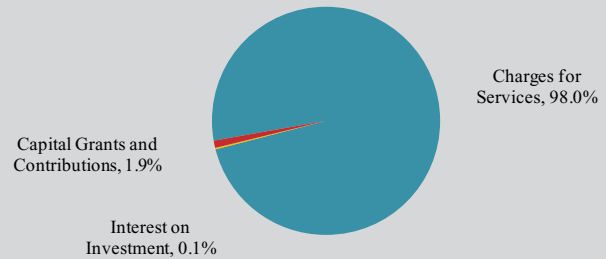
The Germantown Athletic Club's net position increased by \$807,875 due to increased membership and controlling operating cost.

The net position of the Sanitation Fund increased by \$75,055; revenues remain marginally higher than expenditures in the fund.

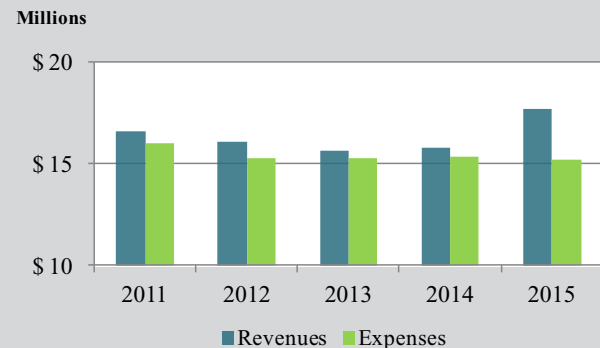
The Great Hall and Conference Center's net position increased by \$106,667 as the City transferred \$225,000 for capital needs.

The net position of the Stormwater Fund was positive of \$151,202. Revenues remained higher than expenditures.

Revenues by Source



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

The City relies on several strategies to maintain a fiscally healthy city government. All of these and many together help ensure the financial health of the City.

1. A financial trend monitoring system to monitor the financial condition of the City as developed by the ICMA.
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.



(Continued from page 5)

The fund balance of the City's General Fund increased by \$4,180,533 during the fiscal year ended June 30, 2015. Key factors are as follows:

- Property tax increased \$333,797
- Local sales tax increased \$2,313,416
- Intergovernmental taxes increased \$857,238
- Fines and Forfeitures decreased \$27,925
- Licenses and Permits increased \$44,928
- Fees for services increased \$35,443
- Investment income increased \$10,085
- Grants increased \$218,516
- Other revenue decreased \$130,909
- Total expenditures increased \$1,240,710

Property tax increased marginally over the past year by \$333,797. This was due to new properties being added to the rolls. Local sales tax increased by \$2,313,416. This was due to the increase in sales tax of .5% being in affect for a complete year. Intergovernmental taxes increased by \$857,238. This is due to State Income & Excise Tax being stronger due to the economy by \$820,564 over the prior year. Fines and Forfeitures decreased a small amount by \$27,925. This is due to lower animal impoundments fees and court revenues. Licenses and permits, Fees for services and Investment income grew moderately. This was due to increased building permits, engineering fees.

Total expenses increased by \$1,240,710 due to increases in the general government. General government includes various departments with the City. The General Government expenditures increased \$857,068. This due to normal cost increases with the various departments. The remaining increase of \$365,642 is normal cost increases in public safety, Community service, transportation and environment.

Long Term Debt

Condensed Statement of Outstanding Debt

Governmental:	2015	2014
General Obligation		
Bonds	21,405,000	23,885,000
Business-Type:		
Revenue Bonds	3,690,000	4,645,000
Total	25,095,000	28,530,000

During FY15, the City's total debt decreased by \$3,435,000. Total debt includes general obligation bonds and revenue bonds. The City continues to pay down its existing debts. Governmental activities debt decreased by 10.4%. Business-type activities' debt decreased by 20.6%. This was due to the City not issuing general obligation or revenue bonds. Various construction programs are still in progress at the end of the current fiscal year.

Bond Rating

The City has long 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. In addition, 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 has held the triple-A rating from both agencies since 1994. 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 are to fund capital improvements which include, but are not limited to improvements to and stabilization of various drainage laterals, construction of a new roadway to the Farm Park and the extension of the Greenway along Wolf River Blvd.

Capital Improvements Program

Wolf River Boulevard – Milling & Paving (East Section)

The project involves mill and overlay, pavement markings on Wolf River Boulevard between Farmington Boulevard and the east city limits. Also includes signage and upgrading of HCR's to current ADA standards as needed and installation of new sidewalk to fill in the missing links along the north side eastward to Houston Middle School. Estimated cost \$1,722,000 (80% Federal and State funded).

Lateral G Phase I Construction

This project will consist of drainage improvements along Lateral G south of Wolf River Boulevard and adjacent to Houston High School to reduce the potential for flooding and achieve a revision of the FEMA 100 Year Flood Plan Map for this area. Final construction will consist of widening the bank slopes of the east side of the existing channel and installing a box culvert for the Houston High School students to use as a pedestrian bridge. Estimated cost \$1,100,000 (Bond Issue).

Wolf River Boulevard Greenway Trail VI Connectors

This project will provide a connector from the new greenway trail under construction to Nashoba Park and a connector from Cameron Brown Park to Farmington Boulevard. Estimated cost \$1,700,000 (80% Federal and State funded).

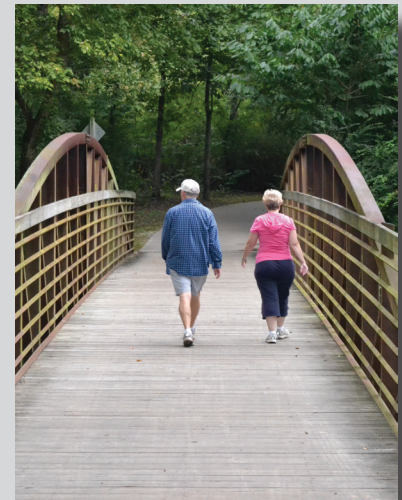
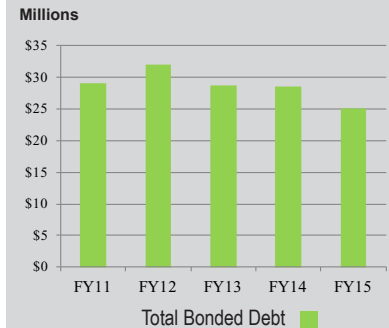
Germantown Athletic Club Expansion Construction Phase I

The expansion of programming spaces, including functional training, expanded group programming and social areas. The social amenities are critical to serving the growing needs of the current members as well as attaining new members. Design will be completed in FY15. Estimated cost \$1,500,000 (funding from reserves).

Lateral D Sewer Crossing Protection

The Sanitary Sewer crossing of Lateral D is in danger of failure due to excessive head cutting along Lateral D. This project will stabilize the ditch at the sewer crossing and for several hundred feet both north and south of the crossing correcting the severely eroded stream bank. This is a joint project with the City and the U.S. Army Corps of Engineers under the Corps Section 14 Program. The cost share of this project is 65% Corps and 35% City funding. Estimated City portion is \$665,000 and is funded from reserves.

General Obligation and Revenue Bonds





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, TN 38138



Economic Factors and FY15 Budget and Rates

Factors considered in preparing the City's Budget for the 2016 fiscal year are further discussed in the Budget document and include:

- The property tax is the most stable source of revenue for the City. There was no tax rate increase in the FY16 Budget. Other revenue sources are subject to some degree of fluctuation in economic cycles. Sales tax represents 21.0% of total revenue for the operations of the City. The FY16 budget anticipates a \$10.2 million in local sales tax revenue.
- Plans are in place to develop and staff an additional police district within the City to help address increased service demands related to the expected rapid expansion of retail and service businesses within the Central Business District.
- With the formation of the Germantown Municipal School District, the City will work very closely with the District in the creation of a five-year capital plan and funding priorities. The plan will be built on enrollment data, growth projections and facility conditions. The City will also work with the District on an ongoing basis to evaluate the physical condition of the school buildings and how well they support current and future populations and educational requirements.
- To provide a consistent look in the City's Central Business District (CBD) and to incorporate the existing conditions, the City will engage the services of the professional design firm for the establishment of a CBD street scaping plan. The plan will identify a unified approach to street lighting, signage, landscaping and public art. Future funding for the implementation of this plan will be incorporated into the City's five-year capital improvements plan and will be supported by revenue from the City's occupancy tax.

