



GERMANTOWN
POPULAR ANNUAL
FINANCIAL REPORT

FISCAL YEAR ENDING
JUNE 30, 2016
GERMANTOWN, TENNESSEE

Letter from the Mayor



Table of Contents

Letter from the Mayor	2
City Profile	2
Demographics & Economics	3
Fiscal Process	3
Introduction to the Popular Annual Financial Report	3
Financial Highlights	3
General Financial Information	4
General Fund	5
Enterprise Fund	5
Long Term Debt	6
Bond Rating	7
Capital Improvements	7
Economic Factors and FY 14 Budget and Rates	8
Information Requests	8

To the Citizens of Germantown:

We are pleased to present the City of Germantown's Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2016. It is our intent that the report provides Germantown residents with insight into the City's financial activities and the City's commitment to providing outstanding City services.

The report is an overview of the City's financial position and longstanding financial practices. 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 City was most recently reaffirmed as triple-A by Mood's and Standard & Poor's in February 2016.

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 CAAP-basis financial statements of the 2016 CAFR at Germantown Community Library, City Hall or online at Germantown-tn.gov/financialdocuments.

Sincerely,

A handwritten signature in black ink that reads "Mike Palazzolo". The signature is fluid and cursive, written over a white background.

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 Aldermen (BMA). The mayor and five aldermen serve four-year staggered terms. The City Administrator is charged with the day to day management of City operations and is appointed by the Mayor and confirmed by the BMA. 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 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 the population is between the ages of 55 and 64. The median age is 45.7 years.

There are 14,910 households in Germantown with an average size of 2.6 people. Family households make up 78.2% of the total households in Germantown. The City has 15,536 total housing units with a 96% occupancy rate. Of the 14,910 occupied housing units, 88% are owner-occupied and 12% are renter occupied. The average value for owner occupied housing in ZIP code 38138 is \$271,923 and zip code 39139 is \$417,382.

Germantown is one of only 61 cities in the nation that can take pride in its AAA 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. 65% of the population has a bachelor's degree or higher

At \$54,229, Germantown has the highest per capita income of all the municipalities in Shelby County. The median family income is \$154,355.

Fiscal Process

Responding to direction from the BMA, 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 ensure 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 BMA.

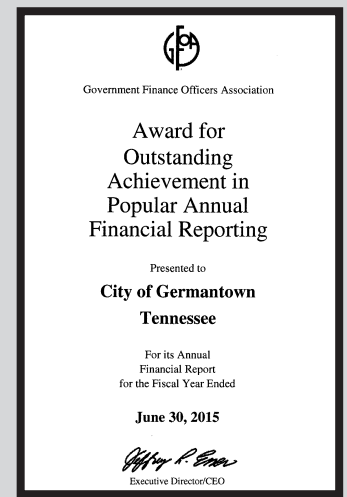
Introduction to the Popular Annual Financial Report

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/financialdocuments. 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, 2015. 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 FY16 the City has shown stabilization and improvement. Property values have stabilized within the City and new developments are under construction. Property tax remains the most stable source of revenue at approximately 55% of total General Fund revenue with collections remaining very strong. Sales tax is the second largest revenue source to the City. Sales tax increased by 12% over the past year. With the economy improving, the Hall Income tax increased by \$277,794. The City of Germantown has a strong retail climate although the City is primarily a bedroom community. Emphasis is being placed on bring more retail into the City.

The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at June 30, 2016, by \$245,596,913 (net position). Of this amount, \$63,877,991 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.

At June 30, 2016, the City's governmental funds reported total fund balances of \$64,522,355. Of this amount, \$12,072,176 (unassigned fund balances) may be used to meet the general governments spending requirements. The unassigned fund balance represents 26% of total General Fund expenditures.

During the fiscal year, the City's total debt increased by \$10,044,546. The new bonds were issued to fund capital improvements including new water drainage systems, as well as construction, renovation, and improvement of public school facilities. The City refunded portions of its Series 2006 and Series 2009 bonds in the amount of \$4.5 million. The refunding of the Series 2006 and Series 2009 bonds resulted in present value savings to taxpayers of \$284,395. *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 a Fund.

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 improvements, 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 City entered into a new contract for garbage, recycling and yard waste collection during FY16. 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 benefits fund, and the bail deposit fund.

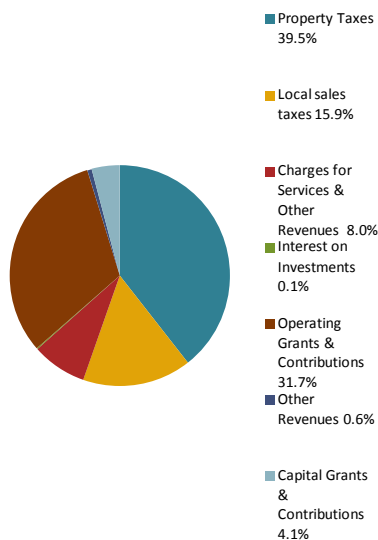
This report focuses on the City's largest funds, (General, Utility, and Athletic Club).

Revenues

Revenues for the General Fund were \$51.7 million. Property taxes accounted for the largest and most stable source of the City's revenue, at \$28.4 million or 55% of total revenues

Local sales tax is the second largest source of revenue at \$11.4 million. Intergovernmental (previously state shared taxes) is third at \$6.9 million. Intergovernmental revenues include sales taxes at \$3 million, income taxes at \$2.5 million, beer taxes, and petroleum special taxes. Other revenues come from fines and forfeitures, licenses and permits, fees for services, interest on investments, grants, cable television fees, and other revenues.

Revenues by Source

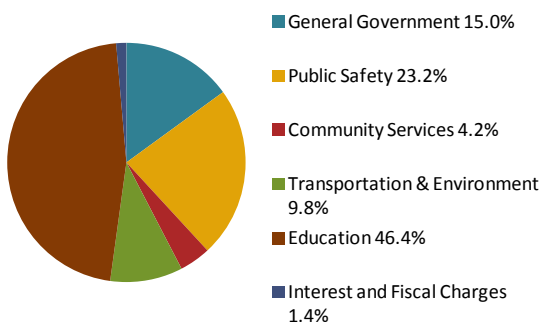


Expenses

Expenses are divided among General Government, Public Safety, Community Services, Transportation and Environment, Education and Debt Services. For fiscal year 2016 expenses were \$45.7 million, an increase of \$7.9 million over FY15.

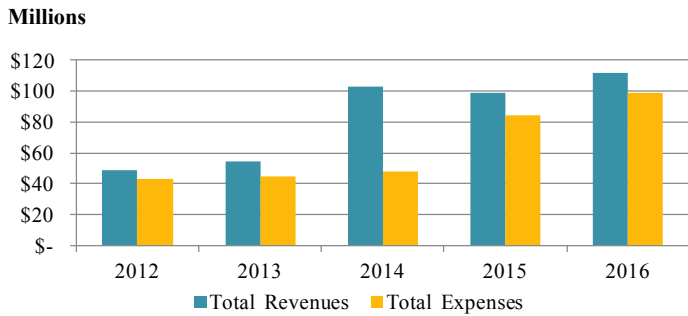
The largest expense is Public Safety at \$18 million, up \$3 million from FY 15. The increase was due to equipment purchases and establishing a new Police district. The second largest expense area was General Government at \$13.3 million, an increase from prior year of \$2.9 million. The increase was due to personnel service, professional services, materials and supplies, information system maintenance, and equipment. Transportation and Environment expense was \$4.1 million, an increase of \$3 million. Community Services expense was \$2.6 million, a decrease \$2 million. Debt service was \$7.7 million. The prior year was \$3.2 million. New bonds were issued to fund capital improvements which include, but are not limited to, new stormwater drainage systems, as well as construction, renovation, and improvement of public school facilities. The overall expenses for all departments were less than the amount 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, room occupancy tax.

Intergovernmental:

- Sales taxes, income taxes, beer taxes, liquor taxes, 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 – self explanatory

Grants – self explanatory

Other Revenues:

- Cable television fees, miscellaneous.

Expense by Source:

General Government:

- Aldermen, Administration, Human Resources, Information Technology, Finance, Courts, Civic Support, Germantown Performing Arts Center, Development, Research & Budget, and Building Maintenance.

Public Safety

- Police and Fire Departments.

Community Services

- Parks and Recreation, Cultural Arts Programs, Library, and Genealogy Center

Transportation and Environment

- Public Services and Animal Control

The General Fund is the chief operating fund of the City. On June 30, 2016, the unassigned fund balance of the General Fund was \$12,072,176 while the total fund balance reached \$31,857,872. 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 26.4% of total General Fund Expenditures, while total fund balance represents 69.7% of that same amount.

(Continued on page 6)

Enterprise Funds

Business-type activities – Utility, Athletic Club, Sanitation, Great Hall and Stormwater Fund increased the City's net position by \$3,944,922.

The Utility Fund increased by \$2,892,118 due to increased revenues in water sales, sewer service charges, and lower operating expenses.

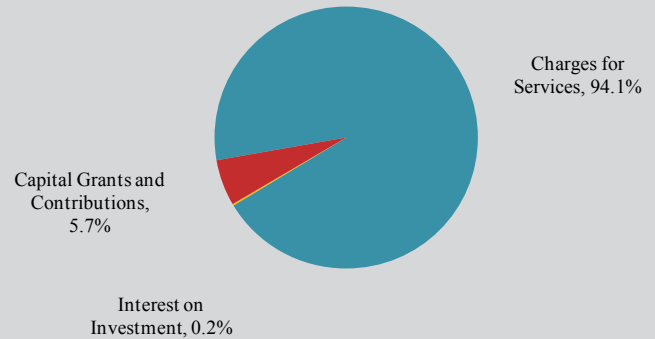
The Germantown Athletic Club's net position increased by \$775,672 due to increased membership.

The net position of the Sanitation Fund increased by \$1,948; revenues remain marginally higher than expenditures in the fund.

The Great Hall & Conference Center's net position increased by \$145,962 as the City transferred \$225,000 for capital needs.

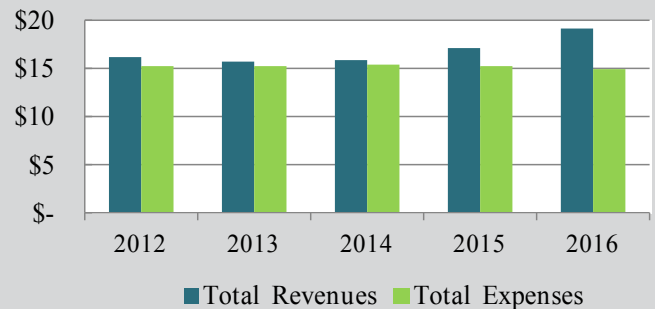
The Stormwater Fund's net position increased by \$127,942. Revenues remained higher than expenditures.

Revenues by Source



Expenses and Revenues Business Type Activities

Millions



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 together help ensure the financial health of the City.

1. A strategic plan monitoring system to execute, monitor, demonstrate effectiveness, and provide transparency of the City's strategic objectives as outlined in the Germantown Forward 2030 strategic plan.
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 \$3,607,506 during the fiscal year ended June 30, 2016. Key factors are as follows:

- Total revenues increased \$3,064,982
- Property tax increased \$259,923
- Local sales tax increased \$1,353,212
- Intergovernmental taxes increased \$464,118
- Fines and Forfeitures increased \$683,897
- Licenses and Permits decreased \$38,791
- Fees for services decreased \$15,253
- Investment income increased \$74,789
- Grants decreased \$80,719
- Other revenue increased \$363,806
- Total expenditures increased \$7,914,896

Property tax increased marginally over the past year by \$259,923. This was due to new properties being added to the rolls. Local sales tax increased by \$1,353,212. This was due to improved economic conditions during the fiscal year. Intergovernmental taxes increased by \$464,118. This was due to State Income & Excise Tax being stronger due to the economy over the prior year. Fines and Forfeitures increased by \$683,897. This was due to an increase in traffic and court revenue during this fiscal year.

Total expenses increased by \$7,914,896 due to increases in the general fund. General government includes various departments with the City. The General Government expenditures increased \$2,934,982. This was due to normal cost increases with the various departments as well as the creation of the Civic Support cost center that consolidated all grant related expenses to outside organizations under general government. The remaining increase of \$4,979,916 consists of normal cost increases in Public Safety, Community Service, Transportation and Environment, and the issuance of new debt to fund capital improvement projects.

Long Term Debt

Condensed Statement of Outstanding Debt

	2016	2015
Governmental:		
General Obligation		
Bonds	32,795,000	21,405,000
Business-Type:		
Revenue Bonds	2,700,000	3,690,000
Total	35,495,000	25,095,000

During FY16, the City's total debt increased by \$10,400,000. Total debt includes general obligation bonds and revenue bonds. Total debt for governmental activities increased by 53.2%. New bonds were issued to fund capital improvements which include, but are not limited to, improvement of roadways and greenway connectors, and stormwater drainage systems, as well as construction, renovation, and improvement of public school facilities. Business-type activities' debt decreased by 26.8%, due to the City not issuing revenue bonds. Various construction projects were still in progress at the end of FY 16.

Bond Rating

The City has long held the highest bond rating of AAA 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 meetings with rating agency analysts. The City has held the AAA rating from both agencies since 1994.

The City was reaffirmed as AAA by Moody's and Standard & Poor's in February 2016. On February 22, 2016 the City refunded portions of its Series 2006 and Series 2009 bonds in order to achieve debt service savings and issued new bonds in the amount of \$13.9 million. The refunding of the Series 2006 and Series 2009 bonds resulted in present value savings to taxpayers of \$284,395. The new bonds were issued to fund capital improvements which include, but are not limited to, improvement of roadways, greenway connectors, and storm water drainage systems, as well as construction, renovation, and improvement of public school facilities.

Capital Improvements Program

100 Foot Aerial Platform Replacement

The project involves replacing Fire Engine F-149 that is 17 years old, exceeding the normal useful life for this apparatus type of 15 years. Estimated cost \$1,475,000 (funding from reserves).

Wolf River Greenway Trail Connector- Cameron Brown Park to Eastern Trail Head

This project provides a connector from the new greenway trail under construction from Cameron Brown Park to Farmington Boulevard. Estimated cost \$1,629,000 (80% state funded).

Wolf River Boulevard Greenway Trail Connector- Neshoba Park to New Trail Head

This project provides a connector from the new greenway trail to Neshoba Park. Estimated cost \$800,000 (80% state funded).

Germantown Athletic Club Expansion Construction Phase II

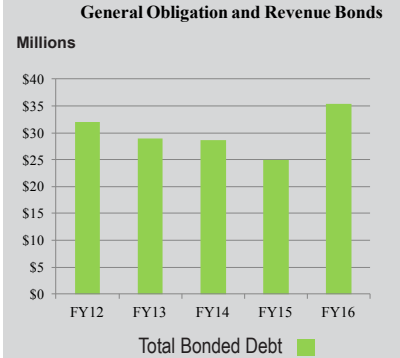
Phase II construction consists of covering the track level over the first basketball court to be used for a cardio deck and stretching area. Additional renovations include an enclosed designated group fitness area. Estimated cost \$2,500,000 (funding from reserves).

Lateral F Bank Stabilization

This project is located approximately 300 feet north of Wolf River Boulevard adjacent to the Grove Park first Addition. The stream banks are severely eroding and encroaching on private property. Estimated cost \$720,000 (funding from reserves).

Howard Road and McVay Road Culvert Replacement

This project involves replacement/reconstruction of the two existing metal pipes under Howard Road just south of McVay Road. The metal pipes are at the end of their life expectancy. Estimated cost \$800,000 (funding from reserves).



Economic Factors and FY17 Budget and Rates

Factors considered in preparing the City's Budget for fiscal year 2017 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 FY17 Budget. Other revenue sources are subject to some degree of fluctuation in economic cycles. Sales tax represents 22% of total revenue for the operations of the City. The FY17 budget anticipates an \$11.2 million in local sales tax revenue.
- Continue to follow the Germantown Forward 2030 plan focusing on quality of life issues, fiscal responsibility, strong public safety and community engagement.
- The City will work very closely with the Germantown Municipal 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.
- The City updates and adopts annually a six-year Capital Improvements Program, including the annual Capital Improvements Budget and a five year projection of capital needs and expenditures.



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 Paul A. Turner at (901) 757-7249, PTurner@Germantown-TN.gov or to:

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

