



2010

Popular Annual Financial Report
Year ending June 30, 2010



Germantown, Tennessee
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 ended June 30, 2010. 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. 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, un-audited, 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 2010 CAFR can be viewed at the Germantown Library, Municipal Center or online at germantown-tn.gov.

It is our hope that the 2010 Popular Annual Financial Report will provide the citizens of Germantown with an insight into the City's financial activities and the City's commitment in providing outstanding city services. The City of Germantown's PAFR may be viewed online at germantown-tn.gov, the Germantown Library or at the Municipal Center.

Sincerely,

A handwritten signature in black ink that reads "Sharon Goldsworthy". The signature is written in a cursive, flowing style.

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 during the yellow fever epidemics of the 1870's. 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.

Demographics and Economics

In 1960, the City had 1,101 residents. By 1980 the population had grown to 20,459. Today, the City's is home to 41,011 and is primarily residential in character, but continues to expand in commercial businesses and professional services. Statistically, the population is 49% male and 51% female, with a per capita income of \$51,215 and median household income of \$125,514. The unemployment rate is estimated at 6.9%. There are approximately 14,635 households in the City with an 89% homeownership. Approximately, 98% of the City's population is a high school graduate or higher. Sixty percent of the City's residents have a bachelor's degree or better. Sixty percent of the City's residents have a bachelor's degree or higher.



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, 2009. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability and reader appeal.

An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. The City of Germantown has received a Popular Award for the last two consecutive years fiscal years ended 2008 and 2009. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.

The City of Germantown's comprehensive annual financial report for year ended June 30, 2009 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. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our comprehensive annual financial report continues to conform to the Certificate of Achievement program requirements and we are submitting our comprehensive annual financial report for the current year to the GFOA.

The City also received the GFOA's Distinguished Budget Presentation Award for its annual operating budget for the year ended June 30, 2010. Germantown has received the award for each of the 25 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.

Fiscal Process

Responding to direction from the Board, the City administration annually prepares a plan of services for the upcoming fiscal year and projects the cost. During its development, the budget is examined by the citizen Financial Advisory Commission (FAC), made up of 23 residents with financial backgrounds and an alderman liaison, and measured against the City's financial policies. The plan is reviewed by the Board then formally adopted by budget ordinance. The ordinance is adopted by fund, function and department.

To assure effective fiscal management and accountability, strict budgetary compliance is maintained by the automated accounting system. All requests for purchases are checked by a budgetary control system to assure funds are available. Purchase orders and contracts are encumbered prior to release to vendors. The system controls are maintained within cost center levels. Departments may make transfers of appropriations within their departments. Transfers of appropriations between departments require approval of the Board.

Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO

City of Germantown
Tennessee

for the Fiscal Year Ended
June 30, 2009



Jeffrey L. Case
President
Executive Director

Financial Highlights

FY10 was a challenging year for administration to anticipate and react to our country's current economic slump. It was our intention to have a budget and financial plan that was extremely conservative with little growth in revenues and expenditures without jeopardizing our current exceptional service levels. As noted in our FY10 financials the City did hold the line on expenditures while providing efficiency and continuity in our operations.

The assets of the City exceeded its liabilities at June 30, 2010, by \$139.8 million (net assets). Of this amount, \$39.7 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

At June 30, 2010, the City's governmental funds reported total fund balances of \$36.3 million. Of this amount, \$8.8 million (undesignated fund balances) may be used to meet the general government spending requirements. The undesignated fund balance represents 24.5% of total General Fund expenditures.

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, 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 – Account for the Utility, Athletic Club, Sanitation and Great Hall Funds, operated similar to a private business in that expenses are recovered through the fees charged to the users. The Sanitation Fund was in the fourth year of a four-year contract for garbage, recycling and yard waste collection during FY10. In FY10 the Great Hall was separated from the Athletic Club and an enterprise fund was created.
- 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.

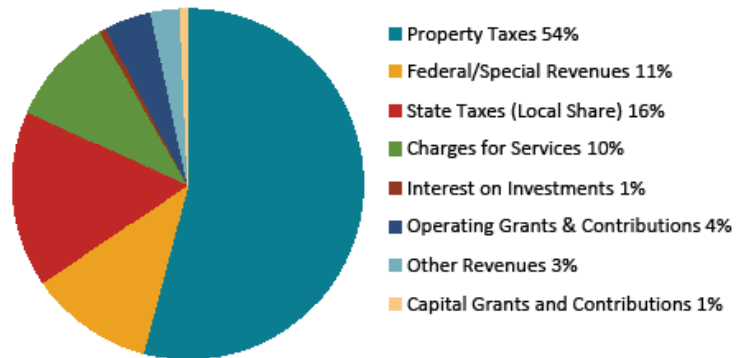
This report focuses on the City's largest funds (General, Utility, Athletic Club, and Sanitation), generally of the most interest to citizens.

Governmental Revenues

Revenues for governmental activities amounted to \$40.7 million. Property taxes accounted for the largest and most stable source of the City's revenue, at \$22.2 million or 54.6% of total revenues.

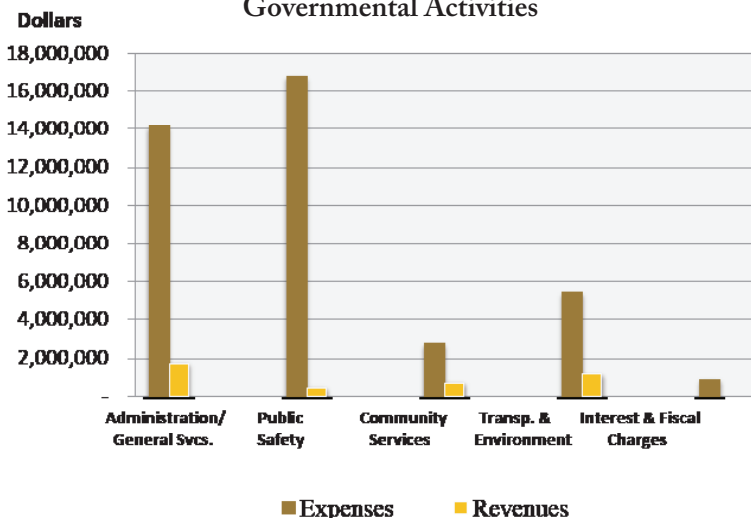
State taxes (local share) are the second largest source of revenue for the City at \$6.6 million with federal/special revenues at \$4.6 million. The remainder is from service charges, \$4.0 million; operating grants and contributions, \$1.7 million; interest on investments, \$244,182; other revenue \$1.1 million; and capital grants and contributions, \$280,244.

Revenues by Source
Governmental Activities



Governmental Activities: 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. Fund type data are reported on a modified accrual basis.

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 fiscal year 2010, expenses were \$40.0 million, an increase of \$450,500 over FY09.

The largest expense is public safety at \$16.7 million, an increase over the previous year of \$59,800. The second largest expense area is administration/general services at \$14.1 million, a \$2.0 million increase over the prior year.

Public services expense for the year was \$5.4 million, an increase of \$346,100 over last year. Community services expenses were \$2.8 million and interest and fiscal charges were \$877,100.

General Fund

The General Fund is the chief operating fund of the City. At June 30, 2010, the undesignated fund balance of the General Fund was \$8.8 million, while the total General Fund fund balance reached \$22.4 million. As a measure of the General Fund's liquidity, it is helpful to compare both undesignated fund balance and total fund balance to total fund expenditures. Undesignated fund balance represents 24.5% of total General Fund expenditures, while total fund balance represents 62.6% of that same amount.

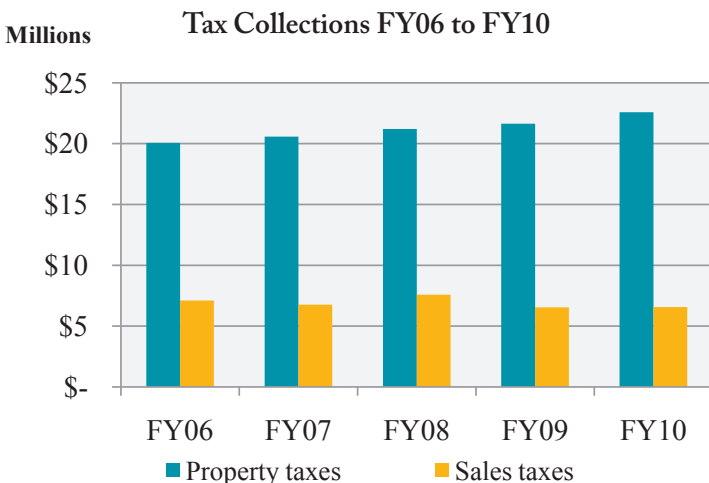
The City's General Fund fund balance decreased by \$1.7 million during the fiscal year ended June 30, 2010. Key factors include:

- + Property taxes increased \$946,400
- + Local sales taxes increased \$23,700
- + State taxes (local share) decreased \$755,300
- + Fines and forfeitures increased \$262,400
- + License and permits decreased \$1,400
- + Fees for services decreased \$66,300
- + Investment income decreased \$519,300
- + Grants increased \$427,300
- + Other revenue decreased \$44,400
- + Total expenditures increased \$242,000.

Local sales taxes increase slightly by \$23,700, while state taxes (local share) decreased by \$755,300, due to the economic downturn that has plagued the country for the past two years. In addition, lower interest rates on investments are responsible for the \$519,300 decrease in investment income.

Expenses in general government services decreased slightly by \$15,500 in FY10 due to a concerted effort to keep expenses down while preserving core services and service levels. Public safety increased \$460,800 in FY10 due partially to increases in personnel expenses and the replacement of police vehicles. The increase in transportation and environment and decrease in community services is due to the reorganization and shifting of expenditures of parks maintenance to public services.

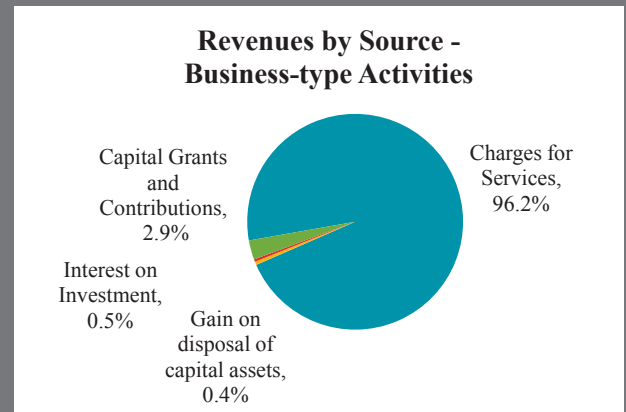
General Fund revenues were higher than budgeted by \$2.0 million. General Fund expenditures were less than budgeted by \$1,748,600. The positive variances were due to the concerted effort of City personnel to control costs, particularly the use of the managed competition approach and applying business techniques to improve efficiency and save dollars. Therefore, the City looks at dollar savings and efficiency of City services.



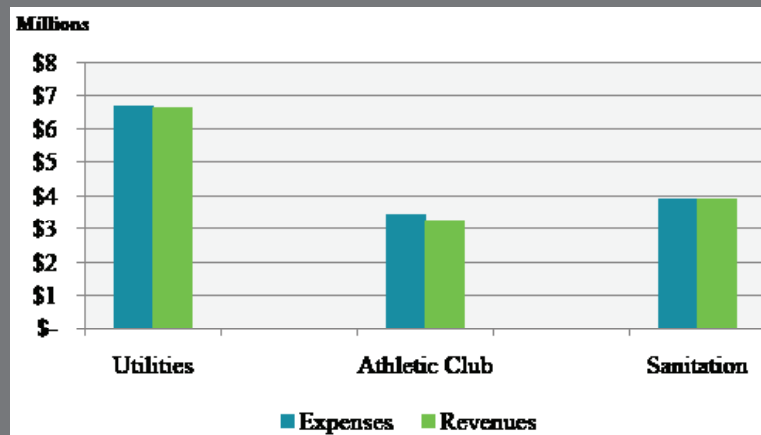
Enterprise Funds

Business-type activities -- Utilities, Athletic Club, and Sanitation -- increased the City's net assets by \$375,400.

- The Germantown Utility Fund increased by increased by \$93,700, due to a concerted effort of keeping expenses down.
- Germantown Athletic Club Fund's net assets increased by \$448,400 due to an increase in membership fees and class fees. In addition, a decrease in expenses from FY09 contributed to the increase in net assets.
- Sanitation Fund net assets increased by \$65,300, due to an increase in sanitation fees.



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

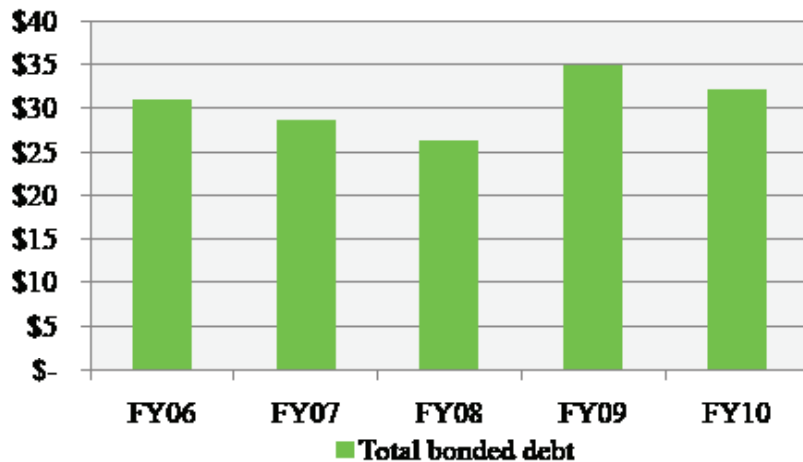
At June 30, 2010, the City had total bonded debt outstanding of \$32.1 million. Of this amount, \$24 million was debt backed by the full faith and credit of the government (general obligation) and \$8.1 million was secured by specified revenue sources (i.e., revenue bonds).

Condensed Statement of Outstanding Debt

	<u>2010</u>	<u>2009</u>
General		
Obligation Bonds	\$24,000,000	\$26,055,000
Revenue Bonds	\$ 8,125,000	\$8,900,000
Total	\$32,125,000	\$34,955,000

During FY10, the City's total debt decreased by \$2.8 million. Total debt for governmental activities decreased by 7.9%. This decrease is due to the City paid off existing debt and did not issue any additional debt in FY10. Business-type activities' debt decreased by 8.7%, due to the City not issuing debt.

Millions



Bond Rating

The City has long held the highest bond rating on indebtedness 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:

Neighborhood Planning Initiative

This project consists of the construction of drainage improvements to the existing Arthur Road drainage ditch and driveway culverts, installation of a new water main and fire hydrants, new decorative street signs and milling and asphalt resurfacing of Arthur and Riggs Roads.

Wolf River Boulevard Construction

This project involves the extension of Wolf River Boulevard from its western terminus just east of the Kimbrough Road to its eastern terminus at Farmington Boulevard, approximately 1.9 miles. The roadway will consist of two lanes in each direction with a raised median.

Riverdale Elementary Playground

This project will be completed through a community partnership with Baptist Rehabilitation – Germantown, PlayCore Corporation, the City of Germantown, Riverdale Elementary School and various service organizations within Germantown. This is the first project of this kind which will incorporate a community build strategy with volunteers assisting in the park renovation. Approximately, \$300,000 in in-kind services were provided by the Service agencies. The existing playground structures will be removed and donated to a program for underprivileged children. The park will then be designed and renovated to accommodate children of all abilities, including those with special needs.



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:

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

Economic Factors and FY11 Budget and Rates

Given the uncertain economic times, the FY11 budget process was challenging. However, actions by the administration throughout FY10 resulted in further savings and greater effectiveness, critical in light of reduced sales tax revenues. The managed completion initiative begun in FY07 continued to be an effective process by which to re-examine city operations in detail to determine further efficiencies.

The FY11 budget of \$94 million is balanced without an increase in the property tax rate, the eighth year at the same or equalized levy; it does not compromise service quality or scope. The last tax increase was in FY04 with the intention of sustaining the City's fiscal needs over a five-year planning period. Due to aggressive cost containment measures, the tax rate, \$1.425 remains the same for an eight consecutive year.

City departments will focus their time and resources toward bringing forward the City's policy agenda during FY11. The results of their efforts are reported on a quarterly basis to the Board of Mayor and Aldermen. These policy agenda items include: Safe City, Smart Growth, City Operating as a Business, Germantown Economy, Neighborhood Preservation, and Transportation.





2010



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

**Germantown, Tennessee
Excellence. Every Day.**