



Popular Annual Financial Report

Fiscal Year Ending June 30, 2011

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, 2011. This report presents 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 2011 CAFR at Germantown Community Library, Municipal Center or online at www.germantown-tn.gov/financialdocuments.

It is our intent that the 2011 Popular Annual Financial Report will provide Germantown citizens with insight into the City's financial activities and the City's commitment in providing outstanding city services. This document may 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 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. In the 1970's, Germantown began to grow rapidly and by 1980 the population had grown to 20,459. Today, the City's population is 38,844 per the 2010 US Census. The City is primarily residential in character, but continues to expand in commercial businesses and professional services. Statistically, the population make-up is approximately 48.4 percent male and 51.6 percent female, with a per capita income of \$53,043 and median household income of \$110,532. Unemployment is estimated at 6.2 percent. The City's 14,729 households have 88 percent homeownership. Approximately, 98 percent of the City's population holds at least a high school diploma, 63 percent 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, 2010. 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. Germantown has received the award for the last three consecutive year fiscal years.

The City's latest comprehensive annual financial report 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. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

The City also received the GFOA's Distinguished Budget Presentation Award for its annual operating budget for the year ended June 30, 2011. Germantown has received the award for each of the 26 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, 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 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, 2010



Linda C. Davidson
President

Jeffrey L. Case
Executive Director

Financial Highlights

FY11 was a challenging year for city governments due to the current economic slump. In response, City leaders approved a conservative budget anticipating little growth in revenues. As noted in the City's FY11 financials the City held the line on expenditures while increasing efficiency and maintaining or improving service levels.

City assets exceeded liabilities at June 30, 2011, by \$146.8 million (net assets). Of this amount, \$38.6 million (unrestricted net assets) may be used to meet ongoing obligations to citizens and creditors.

As of June 30, 2011, the City reported total governmental fund balances of \$31.2 million. Of this amount, \$3.0 million (unassigned fund balances) may be used to meet general government spending requirements. The unassigned fund balance represents 8.4 percent of total General Fund expenditures.

During FY11, the City's total debt decreased by \$3.0 million. The City paid off existing debt and did not issue any new debt.

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

General Financial Information

Most city services and projects are accounted for in a general category referred to as Funds. These concise descriptions should provide a better understanding of the accounts.

General Fund – Accounts for revenues and expenditures associated with the general operations of the City that are not required to be accounted for in separate funds.

Special Revenue Funds – Account for proceeds of specific revenue sources that are legally restricted or have been restricted for specific purposes (e.g. state street aid, automated enforcement, 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 last year of a five year contract for garbage, recycling and yard waste collection during FY11. 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 – 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.

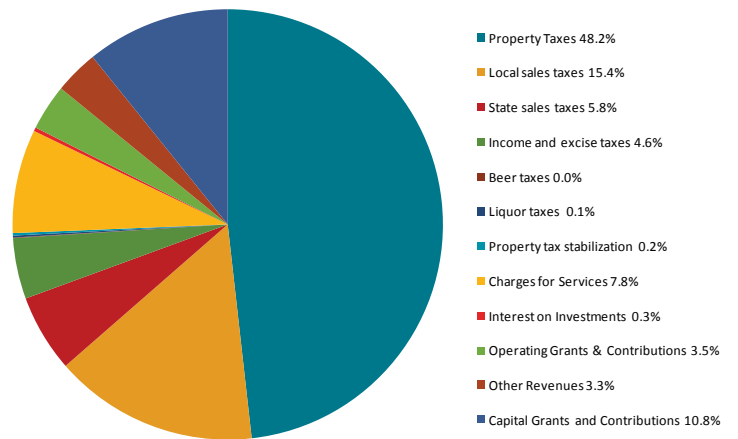
This report focuses on the City's largest funds (General, Utility, Athletic Club, Sanitation and Stormwater), generally of the most interest to citizens.

Governmental Revenues

Revenues for governmental activities totaled \$46.5 million. Property taxes accounted for the largest and most stable source of revenue, at \$22.4 million or 48.2 percent of total revenues.

State taxes (local share) are the second largest source of revenue for the City at \$7.1 million with state sales taxes at \$2.7 million. The remainder is from service charges, \$3.6 million; operating grants and contributions, \$1.6 million; interest on investments, \$128,522; income and excise taxes \$2.1 million; beer taxes \$21,377; liquor taxes \$67,424; property tax stabilization \$87,952; other revenue \$1.5 million and capital grants and contributions, \$5.0 million.

Revenues by Source



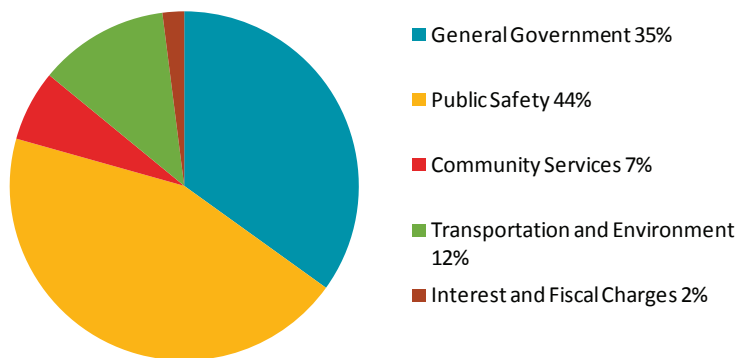
Governmental Expenses

Expenses are divided among administration/general services, public safety, community services, interest and fiscal charges, public services. For fiscal year 2011, expenses were \$40.2 million, an increase of \$203,400 over fiscal year 2010.

The largest expense in FY11 is public safety at \$17.7 million, an increase of \$923,500 over FY10 due to an increase in personnel expenses resulting from filling vacant positions. These positions include an assistant fire marshal and fully staffing various positions left vacant in FY10. The second largest expense is administration/general services at \$13.9 million, a \$243 decrease from the prior year due partly to a decrease in computer equipment maintenance expenses.

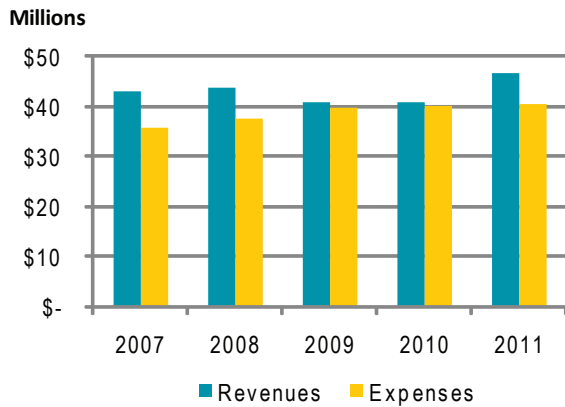
Public services expenses for the year were \$4.8 million, down \$642,100 from last year due to the transfer of employees from public services to the stormwater enterprise fund. Community services expenses were \$3 million, up \$244,200 from last year due to an increase in consulting services for the Library. Interest and fiscal charges were \$798,400, down \$78,700 from FY10 due to the reduction of outstanding debt.

Expenses and Program Revenues



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 expenses. The fund type data are reported on a modified accrual basis, which is a measure of revenue and expenses on a current financial resource measurement.

Expenses and Program Revenues Governmental Activities



General Fund

The General Fund is the chief operating fund of the City. As of June 30, 2011, the unassigned fund balance of the General Fund was \$3 million, while the total General Fund balance reached \$19.8 million. 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 8.4 percent of total General Fund expenditures, while total fund balance represents 54.8 percent of that same amount.

The City's General Fund balance decreased by \$2.6 million during the fiscal year ended June 30, 2011. A major factor of this decrease is \$5 million in transfers out during FY11. Other factors include:

- Property tax decreased \$538,375
- Local sales tax increased \$574,706
- State sales taxes increased \$420,696
- Fines and forfeitures decreased \$195,505
- Licenses and permits decreased \$7,191
- Fees for service increased \$3,827
- Investment income decreased \$96,008
- Grants decreased \$354,780
- Other revenue decreased \$112,751
- Total expenditures increased \$411,386

Property taxes decreased by \$538,375, local sales taxes increase slightly by \$574,706 and state taxes (local share) increased by \$420,696 due to the economic downturn that has plagued the country for the past three years. In addition, lower interest rates on investments are responsible for a \$96,008 decrease in investment income.

General Fund revenues were \$2.3 million higher than budget. General Fund expenditures were \$221,033 less than budget. These positive variances were due to the concerted effort of City personnel to control costs, use of a managed competition approach and applying business techniques to improve efficiency and save dollars.

Enterprise Funds

Business-type activities – Utilities, Athletic Club, Sanitation and the Nonmajor Enterprise Funds - increased the City's net assets by \$2,295,896.

The Germantown Utility Fund increased by \$611,943 due to an increase in water sales.

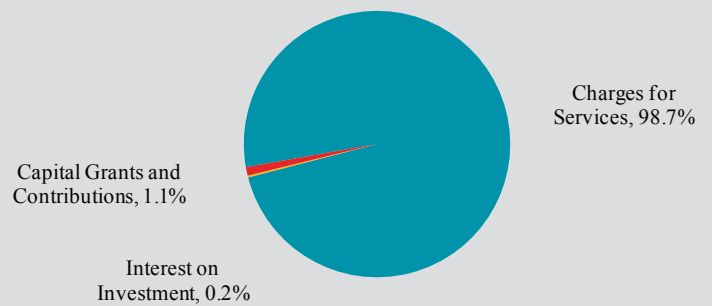
Germantown Athletic Club Fund's net assets increased by \$1,110,839 due to an increase in membership fees and class fees. An increase in daily admission revenues also contributed.

Sanitation Fund net assets decreased by \$50,756 due to an increase in sanitation fees.

Great Hall Fund net assets increased by \$595,716, due to the increase in rental income.

Stormwater Fund net assets increased by \$140,397, due to the establishment of stormwater fees in FY11.

Revenues by Source Business Type Activities



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

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

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



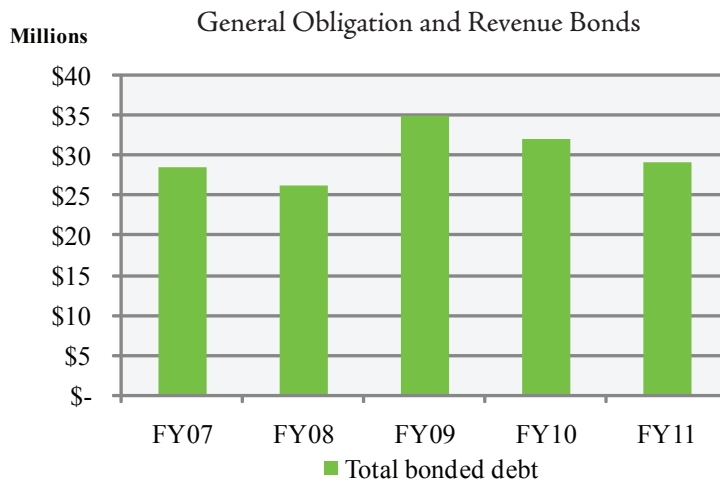
Long Term Debt

As of June 30, 2011, the City had outstanding bonded debt totaling \$29.1 million. Of this amount, \$21.8 million was debt backed by the full faith and credit of the government (general obligation) and \$7.3 million was secured by specified revenue sources (i.e., revenue bonds).

Condensed Statement of Outstanding Debt

	<u>2011</u>	<u>2010</u>
General		
Obligation Bonds	\$21,825,000	\$24,000,000
Revenue Bonds	\$ 7,300,000	\$8,125,000
Total	\$29,125,000	\$32,125,000

During FY11, the City's total debt decreased by \$3 million. Total debt for governmental activities decreased by 9.1 percent. This decrease is a result of no new debt being issued by the City in FY11. Business-type activities' debt decreased by 10.2 percent, for the same reason.



Bond Rating

The City has long held the highest bond rating on indebtedness from both Moody's and Standard & Poor's credit rating agencies. 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 Triple-A rating was last reaffirmed by both agencies in August 2011. 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. 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:

Public Safety Radio System

This project will convert all four public safety radio channels to P25 800 MHz conventional repeaters and will add simulcast capability to provide transmitters and receivers at the new site and a site on the east side of the City. The project will also add a fifth channel to be shared between police and fire staff.

Farmington Boulevard Reconstruction Phase II

This project involves completing the reconstruction of Farmington Boulevard from Al-lenby Road to Germantown Road including new sub grad base, asphalt travel surface, new curbs and gutters where needed and roadway markings and striping. STP Project – 80% State Funds and 20% Local Funds.

Bobby Lanier Park

The scope of this project is to produce a Park Master Plan for the new Bobby Lanier Park (Ocean View Farm) and adjacent park sites. The plan would include evaluating the needs of the community, determining the best use of that land and providing a plan to direct future growth of park development.

Miller Farms Lift Station Construction Phase II

This project is the result of a sewer basin study conducted by Allen and Hoshall to assess existing conditions within the Miller Farms Sewer Basin and projected impact of Smart Growth development. The project will address downstream deficiencies in the Miller Farms Basin with the construction of a sewer lift station and a force main paralleling the existing gravity sewer line and discharging into a 42 inch gravity sewer line.

Economic Factors and FY12 Budget and Rates

The balanced FY12 Budget totals \$73.7 million for all funds with the City's General Fund totaling \$38.9 million. The balanced budget is the result of ongoing departmental cost control, efficiency measures implemented even before the start of the recession and a property tax increase of \$0.06, designed to ensure financial health as the recovery continues to gather strength.

The City initiated managed competition during FY07 with an emphasis on creating greater efficiency and cost control. The FY12 Budget reflects the continued emphasis of Managed Competition and cost savings by looking at each element of operations with a business focus on customers and quality of service.

The City continues to look at new sources of revenue, including grants, to supplement the stable property tax rate. The City will continue to implement process improvement plans to improve service levels and control operating expenses.

The uncertain economic times and continued uncertainty of state shared taxes and other forms of revenue required an in-depth review of all revenue assumptions in formulating the FY12 Budget. Additionally, a thorough expense review including local issues of growth, new services, neighborhood preservation and quality of life will help ensure the City's ability to provide responsible, high-quality leadership and services that residents have come to expect.

City departments focus time and resources toward achieving the City's policy agenda. The results related performance measures are reported quarterly to the Board of Mayor and Aldermen. Policy agenda categories are based on the triple bottom line and include city services and finances, environmental quality, quality of life, community vitality and public safety.



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 Gabb at (901) 757-7249, rgabb@germantown-tn.gov or to:

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

