

# The City of Germantown, Tennessee



## POPULAR ANNUAL FINANCIAL REPORT

Fiscal Year Ending June 30, 2008

*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, 2008. The PAFR is a brief analysis of where the revenues come from to operate the City and how those same dollars are spent. It is our goal to communicate the operations of the City in an easy to understand report. The soundness of the City's long-standing financial practices and its fiscal stability is reflected in its ability to maintain a Triple-A credit rating with Moody's and Standard & Poor's. It is the only such city in Tennessee and one of just 31 in the nation to merit the highest ranking from both agencies.*

*The PAFR is a summary drawn from the 2008 Comprehensive Annual Financial Report (CAFR). The CAFR was prepared in conformance with Generally Accepted Accounting Principles (GAAP) and was audited by the City's independent auditors. The CAFR received an unqualified, clean opinion. The PAFR, however, is unaudited.*

*The City of Germantown's CAFR and PAFR may be viewed online at [www.germantown-tn.gov.afs.html](http://www.germantown-tn.gov.afs.html), the Germantown Library or at the Municipal Center.*

*Sincerely,*

*Sharon Goldsworthy*  
Sharon Goldsworthy, Mayor



### PROFILE OF THE CITY

The City of Germantown is located in Shelby County in the southwestern part of the State of Tennessee. Germantown was first settled in 1825 and existed as a small rural community. 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.

## 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 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 that 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 department. Transfers of appropriations between departments require approval of the Board.

## AWARDS

For the 26<sup>th</sup> consecutive year, the Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report for the year ended June 30, 2007. The certificate recognizes an easily readable and efficiently organized report that satisfies 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, 2008. Germantown has received the award for each of the 24 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.

## FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at June 30, 2008, by \$138.2 million (net assets). Of this amount, \$46.2 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- At June 30, 2008, the City's governmental funds reported total fund balances of \$36.4 million. Of this amount, \$10.8 million (undesignated fund balances) may be used to meet the general government spending requirements. The undesignated fund balance represents 30.7% of total General Fund expenditures.
- During the fiscal year, the City's total debt decreased by \$2.3 million, due to the refinancing and payment of existing debt.



## 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, 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 and Sanitation Funds, operated similar to a private business in that expenses are recovered through the fees charged to the users. During the year, the Utility Fund decreased the rate by 10 cents per thousand on usage above 5,000 gallons, the Athletic Club renovated the entrance and put in new weights and cardiovascular equipment, and the Sanitation Fund is in the third year of a four-year contract for garbage, recycling and yard waste collection.
- **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.

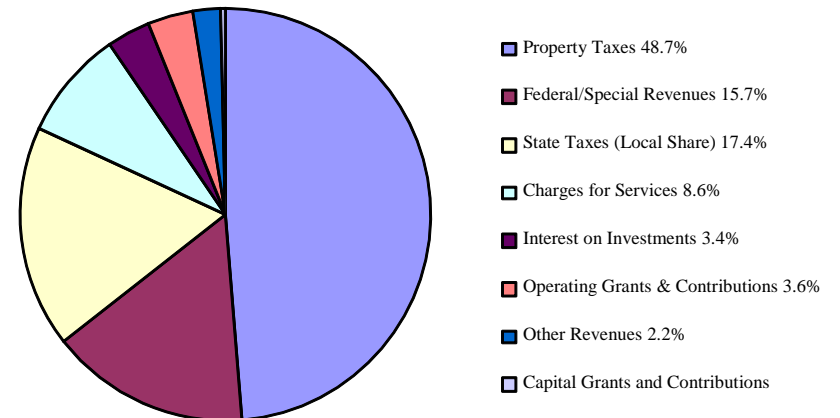
This report focuses on the City's largest funds (General, Utility, Athletic Club and Sanitation), generally of the most interest to citizens.

## Governmental Revenues

Revenues for governmental activities amounted to \$43.5 million. Property taxes accounted for the largest and most stable source of the City's revenue, at \$21.2 million or 48.7% of total revenues.

Sales tax is the second largest source of revenue for the City at \$7.5 million with federal/special revenues at \$6.8 million. The remainder is from fees, \$3.7 million; operating grants and contributions, \$1.5 million; interest on investments, \$1.5 million; other revenue \$951,000; and capital grants and contributions, \$163,000.

### Revenues by Source – 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 2008, expenses were \$37.3 million, an increase of \$1.7 million over FY07.

The largest expense is public safety at \$16.9 million, an increase over the previous year of \$1.7 million. The second largest expense area is administration/general services at \$10.1 million, a \$1.1 million decrease from the prior year.

Public services expense for the year was \$4.3 million, an increase of \$1.4 million in capital projects. Community services expenses were \$5.2 million and interest and fiscal charges were \$879,000.



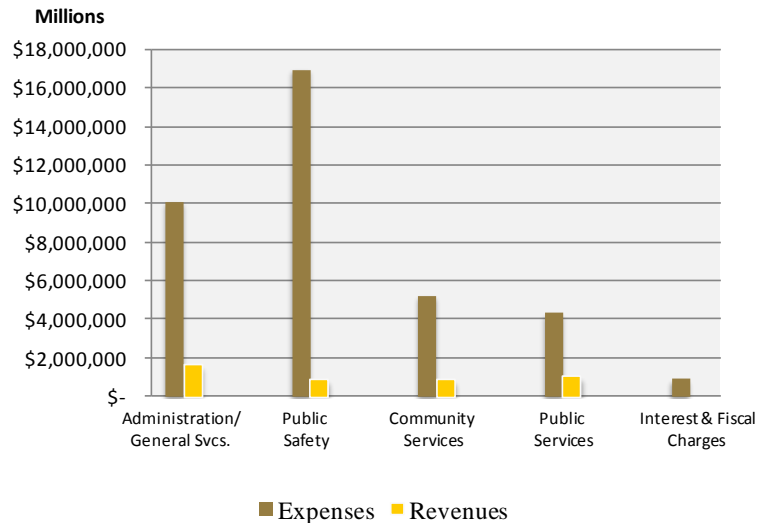
## General Fund

The General Fund is the chief operating fund of the City. At June 30, 2008, the undesignated fund balance of the General Fund was \$10.8 million, while the total General Fund fund balance reached \$25.7 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 30.7% of total General Fund expenditures, while total fund balance represents 73.4% of that same amount.

The City's General Fund fund balance decreased by \$287,000 during the fiscal year ended June 30, 2008. Key factors include:

- Property tax increased \$633,000
- Local sales tax increased \$818,000
- State taxes (local share) increased \$834,000
- Fines and forfeitures decreased \$220,000
- License and permits increased \$7,000
- Fees for services decreased \$8,000
- Investment income decreased \$351,000
- Grants decreased \$199,000
- Other revenue increased \$295,000
- Total expenditures increased \$2.1 million.

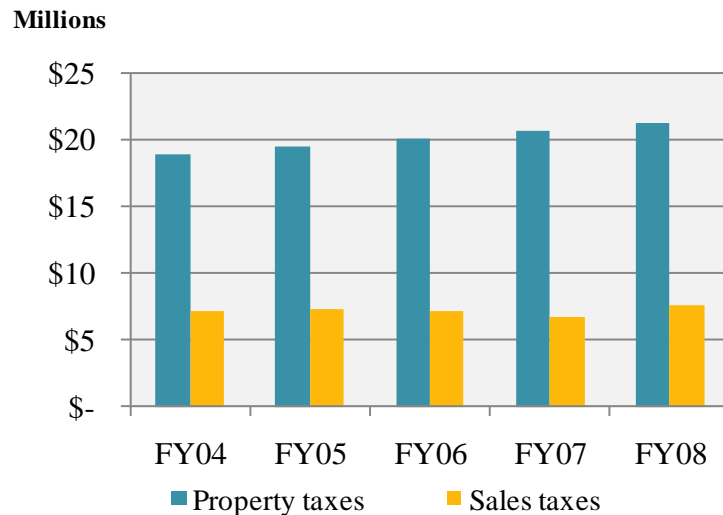
## Expenses and Revenues Governmental Activities



General Fund revenues were higher than budgeted by \$3.8 million. General Fund expenditures were less than budgeted by \$1.2 million. 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.

The largest positive variance was in administration/general services in the amount of \$521,000, public safety of \$346,000, and community services of \$236,000. Savings were also achieved in public services of \$68,000 and in debt services of \$31,000.

### Tax Collections FY04 – FY08

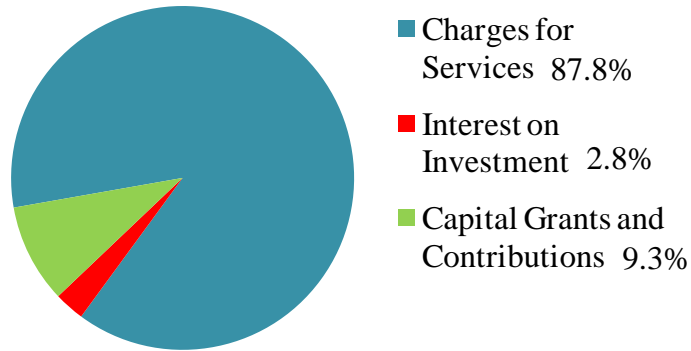


### Enterprise Funds

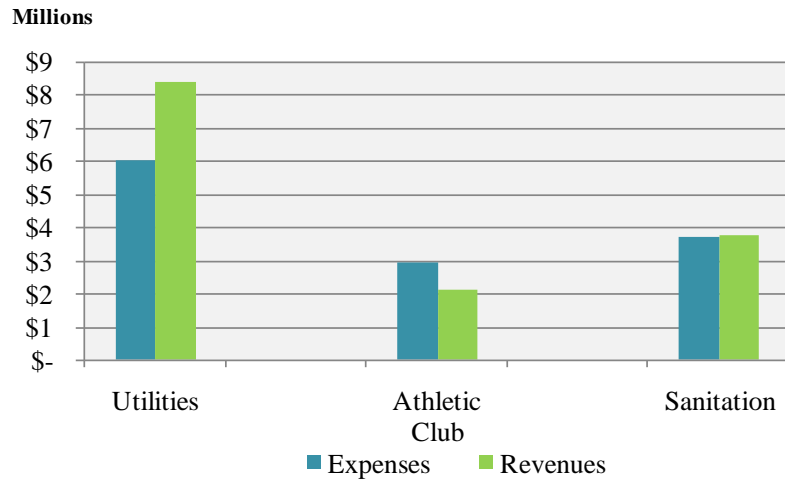
Business-type activities – Utilities, Athletic Club, and Sanitation - increased the City’s net assets by \$4.4 million.

- The **Germantown Utility Fund** increased by \$4.1 million, due to a rate increase implemented at the beginning of FY07 and unusually high water use in the summer of 2007. The rate increase was projected to sustain the fund for the next five years and to address infrastructure improvements.
- The **Germantown Athletic Club Fund’s** net assets increased by \$161,000 due to a City operating transfer. The Athletic Club revenue increased by \$41,000; however, the operating expenses grew by \$366,000 as programming and service levels expanded to attract additional members.
- **Sanitation Fund** net assets increased by \$69,000, due to a new sanitation contract. In the second year of a three-year contract, revenue increased by \$20,000 from additional garbage collection. Expenses increased by \$101,000, due to higher costs of providing service to residences.

## Revenues by Source – Business-type Activities



## Expenses and Revenues Business-type Activities



## Long-Term Debt

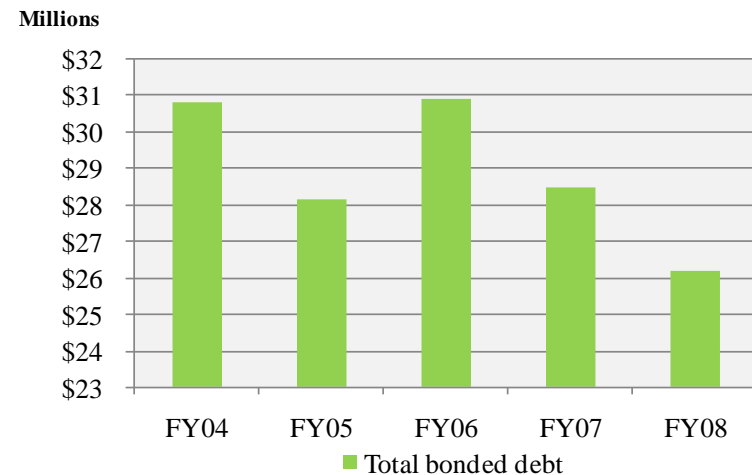
At June 30, 2008, the City had total bonded debt outstanding of \$26.2 million. Of this amount, \$21.9 million was debt backed by the full faith and credit of the government (general obligation) and \$4.25 million was secured by specified revenue sources (i.e., revenue bonds).

### Condensed Statement of Outstanding Debt General Obligation and Revenue Bonds

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
General Obligation	\$ 21,935,000	\$ 23,885,000	-	-	21,935,000	23,885,000
Revenue Bonds	-	-	4,250,000	4,585,000	4,250,000	4,585,000
<b>Total</b>	<b>\$ 21,935,000</b>	<b>\$ 23,885,000</b>	<b>4,250,000</b>	<b>4,585,000</b>	<b>26,185,000</b>	<b>28,470,000</b>

During FY08, the City's total debt decreased by \$2.3 million. Debt for governmental activities decreased by 8.2%, and business-type activities' debt decreased by 7.3%, both the result of paying down debt.

### Total Bonded Debt Outstanding FY04 – FY08



## 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. The City continues to follow prudent fiscal policies and practices.

## Economic Factors and FY09 Budget and Rates

Factors considered in preparing the City's budget for the 2009 fiscal year are more fully discussed in the Budget document include:

- The FY09 budget of \$69.3 million did not require an increase to the City's property tax rate. The City's tax rate for FY09 was set at \$1.54 per \$100 of assessed value. 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 remains the same for a sixth consecutive year.
- The City initiated the managed competition program during FY07 for cost control. As in FY08, the FY09 budget incorporates cost reductions derived from detailed examination and - when appropriate - reengineering procedures or outsourcing. The transformation to a "run it like a business" also focuses on customer service, while maintaining high quality of service. The FY09 budget reflects the continued emphasis of managed competition and cost savings. By looking at each element of operations as a business, the City will focus on customers and quality of service.
- The City continues to look at new sources of revenues and grants to supplement the property tax rate and sales tax.

- The uncertain economic times and the uncertainty of state shared taxes and other revenues necessitated an in-depth review of all revenue assumptions in formulating the FY09 Budget. Additionally, a thorough expense review including local issues of growth, new operating services, neighborhood preservation and quality of life will help to ensure the City's ability to provide responsible, high-quality leadership and services that residents have come to expect from its government.

During FY08 the undesignated fund balance in the General Fund increased to \$10.8 million.

## Request for Information

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