



City of  
**Germantown**  
T E N N E S S E E  
Excellence. Every Day.



# Popular Annual Financial Report

Fiscal Year Ending July 30, 2014

# 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, 2014. 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 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 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 2014 CAFR at Germantown Community Library, Municipal Center or online at [www.germantown-tn.gov/financialdocuments](http://www.germantown-tn.gov/financialdocuments).

This document may also be viewed at Germantown Community Library, Municipal Center or online at [www.germantown-tn.gov/financialdocuments](http://www.germantown-tn.gov/financialdocuments).

Sincerely,

Sharon Goldsworthy, Mayor



## Table of Contents

City Profile	2
Demographics and Economics	3
Fiscal Process	3
Introduction to the Popular Annual Financial Report	4
General Financial Information	4
General Fund	5
Enterprise Fund	5
Protecting the City's Financial Health	6
Long Term Debt	6
Bond Rating	7
Capital Improvements Program	7
Economic Factors and FY15 Budget and Rates	8
Information Requests	8

## 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. 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. 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 84 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.

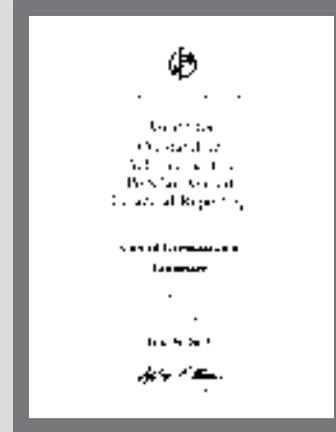
## Introduction to the Popular Annual Financial Report

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](http://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, 2013. 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 FY14 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 61.7% of total general fund revenues with collections remaining very strong. Sales tax increased by 3.0% 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 exceed its liabilities and deferred inflows of resources at June 30, 2014 by \$219,192,686 (net position). Of this amount, \$34,091,672 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.

At June 30, 2014, the City's governmental funds reported total fund balances of \$31,057,937. Of this amount, \$6,295,396 (unassigned fund balances) may be used to meet the general government's spending requirements. The unassigned fund balance represents 14.9% of total General Fund expenditures.

During the fiscal year, the City's total debt increased by \$4,125,436. The City paid down its bonded debt but incurred debt due to settlement with Shelby County Board of Education.

During FY14 the City issued \$9,070,000 of debt. \$3,500,000 was new issue and \$5,570,000 was re-financing of the General Obligation Series 2005 bond for an interest savings.

*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 City's 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, 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 first year of a five year contract for garbage, recycling and yard waste collection during FY12. 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, and Athletic Club), generally of the most interest to citizens.

## Revenues

Revenues for general government fund were \$45.0 million. Property taxes accounted for the largest and most stable source of the City's revenue, at \$27.8 million or 61.7% of total revenues

Local sales tax is the second largest source of revenue at \$7.7 million. Intergovernmental (previously known as state shared taxes) is third at \$5.6 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.

## Expenses

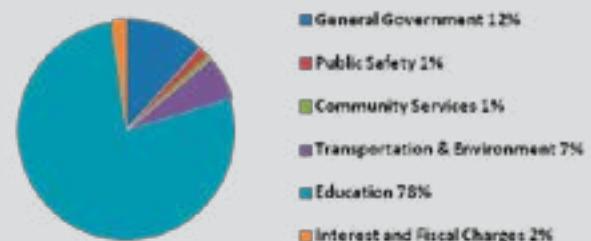
Expenses are divided among General Government, Public Safety, Community Services, Transportation and Environment, Education and Debt Services. For fiscal year 2014 expenses were \$42.2 million, an increase of \$3.4 million over FY13.

The largest expense is Public Safety at \$17.2 million, down \$1.6 million from the prior year. The second largest expense area was general government at \$9.5 million, a decrease from last year of \$615,739. Transportation and Environment expense was \$3.7 million, a decrease of \$50,550. Community Services was \$2.8 million, a decrease of \$75,299. Debt Services was \$9.1 million, an increase over last year's \$5.7 million. The increase is due to a refunding of Series 2005 bond for a better interest rate and saving to the citizens. Overall, the general government kept expenses under control over the prior year without sacrificing the service levels to its citizens.

Revenues by Source

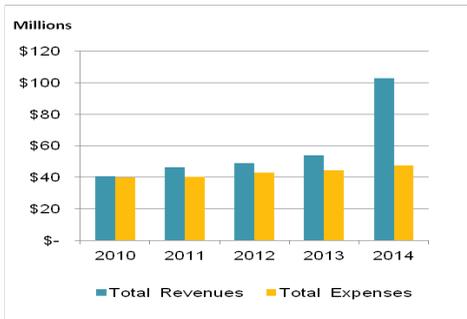


Expenses by Source



*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, Budget and Performance, 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

(continued to page 6)

## Enterprise Fund

Business-type activities – Utility, Athletic Club, Sanitation, Great Hall and Stormwater Fund increased the City's net position by \$79,815

The Utility Fund decreased by \$885,743 due to lower revenues in water and sewer. The lower revenues were due to lower consumption, as well as increases in personnel cost and depreciation.

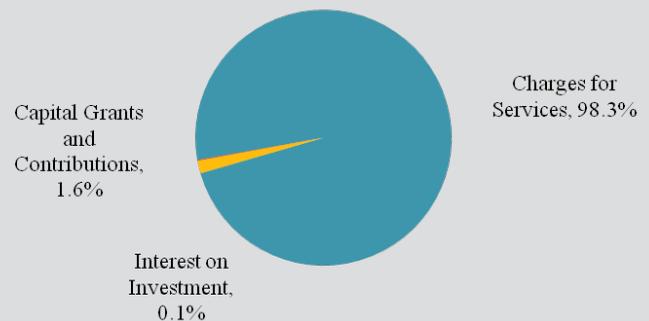
The Germantown Athletic Club's net position increased by \$772,526. This was due to increases in membership and controlling cost.

The Sanitation Fund net position increased by \$45,174. Revenues remain marginally higher than expenditures in the fund.

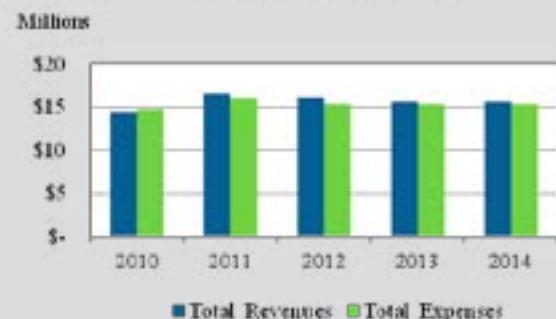
The Great Hall net position increased by \$50,461. The increase in net position was from a transfer from the general fund in the amount of \$175,000.

The Stormwater Fund's net position increased by \$97,397. The revenues remained higher than expenditures.

### Revenues by Sources



### 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.*

(continued from page 5)

# 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.

The General Fund is the chief operating fund of the City. At June 30, 2014, unassigned fund balance of the General Fund was \$6,295,396 while the total fund balance reached \$24,069,837. 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 14.9% of total General Fund Expenditures, while total fund balance represents 57.0% of the same amount.

The fund balance of the City's General Fund increased by \$4,849,663 during the fiscal year ended June 30, 2014. Key factors are as follows:

- Property tax increased \$5,297,878
- Local sales tax increased \$690,197
- Intergovernmental taxes decreased \$251,442
- Fines and Forfeitures decreased \$33,913
- Licenses and Permits decreased \$10,238
- Fees for services decreased \$6,876
- Investment income decreased \$15,068
- Grants decreased \$161,275
- Other revenue increased \$121,889
- Total expenditures increased \$3,382,313

Property tax increased due to an increase in the tax rate of \$0.445 cents per \$100 of assessed value. Local sales tax increased due to local sales tax increase of .5%. Intergovernmental taxes decreased due to lower than anticipated Halls taxes from dividends and interest paid to the state by citizens. Fines and forfeitures decreased due to City court cost and other court cost decreasing. This is due to fewer fines being assessed and collected. Licenses and permits decreased from the prior year in all categories. The largest decrease was automobile registration.

## Long Term Debt

### Condensed Statement of Outstanding Debt

Governmental:	2014	2013
General Obligation Bonds	23,885,000	23,105,000
Business-Type:		
Revenue Bonds	4,645,000	5,565,000
<b>Total</b>	<b>28,532,014</b>	<b>28,670,000</b>

During FY14, the City's total debt decreased by \$140,000. Total debt includes general obligation bonds and revenue bonds. Total debt for governmental activities increased by 3.4%. The increase was due to the issuance of General Obligation Bonds Series 2013A and General Obligation Refunding Bonds, Series 2013B. The City continues to pay down its new and existing debt. Business-type activities' debt decreased by 16.5%, due to the City not issuing Revenue bonds. Various construction programs were 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

## Animal Shelter Expansion Phase II

Phase II will continue the building improvements that were initiated in Phase I and will include an enlarged cat area, expanded outdoor run areas and additional storage. In addition, an adoption atrium and pet socialization area along the front of the building will be bid as an alternate and constructed if funding is available. Estimated cost \$413,000.

## Wolf River Boulevard – Milling & Paving

Project involves mill and overlay, pavement markings on Wolf River Boulevard between Germantown Road and Kimbrough Road and 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 and from the Stern Clinic westward to the existing Greenway Trail. Estimated cost \$1,350,000 (80% Federal and State funded).

## Bobby Lanier Farm Park Phase II

The scope of this project is to provide funding to complete the major infrastructure components of the master plan, construction of a new hay barn and provide construction oversight for the project. The design and construction documents were completed in 2013. Estimated cost \$951,000 (21% grant funded).

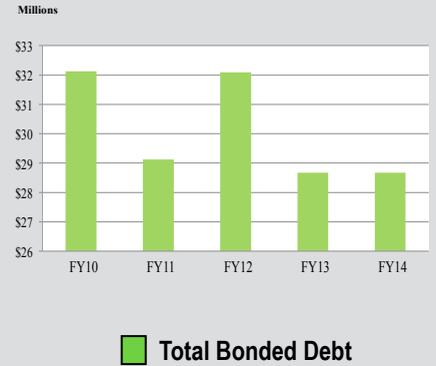
## Wolf River Boulevard Greenway Trail

This project will increase the length of the greenway trail from the western trail-head to Cameron Brown Park, approximately an additional mile. Estimated cost \$1,600,000, (80% Federal and State funded).

## Germantown Athletic Club Expansion Construction

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. Estimated cost \$1,250,000.

# General Obligation and Revenue Bonds



## ***Economic Factors and FY15 Budget and Rates***

Factors considered in preparing the City's Budget for the 2015 fiscal year are more fully discussed in the Budget document and included:

- The property tax is the most stable source of revenue for the City. There was no tax rate increase in the FY15 Budget. Other revenue sources are subject to some degree of fluctuation in economic cycles, the inclusion of a half cent sales tax increase, FY15 general fund revenues increased by 8.5% over FY14 estimate.
- The City initiated Managed Competition during FY07 with an emphasis on creating greater efficiency and cost control. The FY15 Budget reflects the continued emphasis on Managed Competition. A new tool being used in the strategic planning process to assess the community priorities is the Annual City Survey. This survey measures the citizens' satisfaction and importance for City functions.
- The City continues to look at new sources of revenue and grants to supplement the property tax values. The City will continue to review the systems and process in the delivery of its services and thereby control operating expenses.
- As economic times appear to be improving and new developments are on the horizon the City revised the FY15 budget. The City reviewed its expenses as it related to the growth and proving operating services levels to the business community and homeowners. Fire and emergency medical services, Police service, City Parks, Maintenance of streets and managing traffic flow continue to be of greatest importance to our citizens.
- The inclusion of a Germantown Municipal Schools System which had previously been a part of the Shelby County Schools System. The Germantown Municipal Schools System operates 5 schools with approximately 5,751 students.



## ***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](mailto:rgabb@germantown-tn.gov) or to:

City of Germantown  
Department of Finance  
1930 South Germantown Road  
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