

CITY OF FRANKLIN

Franklin, New Hampshire

Financial Statements

June 30, 2011

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GRZELAK AND COMPANY, P.C.

Certified Public Accountants

Members – American Institute of CPA's (AICPA)
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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Franklin
Franklin, New Hampshire

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Franklin as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Franklin's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Franklin, as of June 30, 2011, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2013, on our consideration of the City of Franklin's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 15 and 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the City of Franklin's financial statements as a whole. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements. The combining nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Grzelak and Co. , P.C.

GRZELAK & COMPANY, P.C., CPA's

Laconia, New Hampshire

October 22, 2013

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2011

As management of the City of Franklin, we offer readers of the City of Franklin's financial statements this narrative overview and analysis of the financial activities of the City of Franklin for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlight

- The assets of the City of Franklin exceeded its liabilities at the close of the most recent fiscal year by \$26.4 million (net assets). Of this amount, \$2.8 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors. Total net assets for governmental activities were \$16.3 million (\$1.3 million unrestricted) and total net assets for business like activities were \$10.1 million (\$1.6 million unrestricted).
- As of the close of the current fiscal year, the City of Franklin's governmental funds reported combined ending fund balances of \$4.4 million, an increase of \$189 thousand over the prior year. Of the combined ending fund balances, \$1.9 million is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1.89 million, or 8.2 percent of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Franklin's basic financial statements. The City of Franklin's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Franklin's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Franklin's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Franklin is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused sick leave).

Both of the government-wide financial statements distinguish functions of the City of Franklin that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Franklin include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities of the City of Franklin include Water, Sewer, and Fuel Depot Activities.

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2011

The government-wide financial statements include not only the City of Franklin (known as the primary government), but also a legally separate dependent school district, Franklin School District, which the City of Franklin is financially accountable. Financial information for this *component unit* is blended with the financial information presented for the primary government itself.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Franklin, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Franklin can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Franklin maintains seventeen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, capital fund and capital reserve funds which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Franklin adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. The City of Franklin maintains only two types of proprietary funds: enterprise and internal service fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Franklin uses enterprise funds to account for its water and sewer activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations, both of which are considered to be major funds of the City of Franklin.

Internal service funds report "any activity that provides goods and services to other funds, departments or agencies of the primary government and its component units, or to other governments, on a cost reimbursement basis". The City of Franklin uses an internal service fund to account for the fuel depot. Because the nature of these funds is internal, internal service funds are combined with governmental activities on the government-wide financial statements.

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2011

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City of Franklin's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Franklin's Non-GAAP Budgetary Basis Reporting.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Franklin, assets exceeded liabilities by \$26.4 million at the close of fiscal year 2011 and \$26.1 million at the close of fiscal year 2010. Governmental activities assets exceeded liabilities by \$16.3 million and \$16.6 million at the close of fiscal years 2011 and 2010, respectively.

The largest portion of the City of Franklin's net assets (79.7%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. The City of Franklin uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Franklin's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Franklin, New Hampshire Net Assets (in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Current and other assets	12,593	12,204	2,056	1,445	14,649	13,649
Capital assets	18,515	19,387	12,235	9,640	30,750	29,027
Total assets	31,108	31,591	14,291	11,085	45,399	42,676
Current liabilities	8,996	8,208	3,386	621	12,382	8,829
Long term liabilities outstanding	5,830	6,778	789	926	6,619	7,704
Total liabilities	14,826	14,986	4,175	1,547	19,001	16,533
Net Assets:						
Invested in capital assets, net of related debt	12,738	12,860	8,296	8,308	21,034	21,168
Restricted	2,263	1,735	263		2,526	1,735
Unrestricted	1,281	2,010	1,557	1,230	2,838	3,240
Total net assets, as restated	16,282	16,605	10,116	9,538	26,398	26,143

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2011

An additional portion of the City of Franklin's net assets (10%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$2.8 million) may be used to meet the government's ongoing obligations to citizens and creditors. At the end of the current fiscal year, the City of Franklin is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

City of Franklin, New Hampshire Changes in Net Assets (in Thousands)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<u>Revenues</u>						
Program Revenue:						
Charges for Services	1,654	931	2,514	2,315	4,168	3,246
Operating Grants and Contributions	10,185	10,664	10	10	10,195	10,674
Capital Grants and Contributions	-	332	-	-	-	332
General Revenues:					-	-
Property Taxes	10,119	9,953	-	-	10,119	9,953
Other Taxes	319	319	-	-	319	319
Licenses and Permits	972	960	-	-	972	960
Grants and Contributions not restricted to specific programs	547	733	-	-	547	733
Interest Earnings	342	165	-	-	342	165
Miscellaneous	221	448	-	-	221	448
Total Revenues	<u>24,359</u>	<u>24,505</u>	<u>2,524</u>	<u>2,325</u>	<u>26,883</u>	<u>26,830</u>
<u>Expenses</u>						
Functional Expenditures:						
General Government	1,555	1,575	-	-	1,555	1,575
Public Safety	4,354	3,769	-	-	4,354	3,769
Highway and Streets	1,590	1,530	-	-	1,590	1,530
Sanitation	793	980	-	-	793	980
Health	117	57	-	-	117	57
Welfare	179	191	-	-	179	191
Culture and Recreation	658	626	-	-	658	626
Conservation	-	-	-	-	-	-
Economic Development	46	45	-	-	46	45
School	15,336	14,945	-	-	15,336	14,945
Debt Service	54	307	-	-	54	307
Capital Outlay	-	-	-	-	-	-
Proprietary Activities	-	-	1,946	1,870	1,946	1,870
Total Expenses	<u>24,682</u>	<u>24,025</u>	<u>1,946</u>	<u>1,870</u>	<u>26,628</u>	<u>25,895</u>
Change in net assets before transfers	(323)	480	578	454	255	934
Transfers	-	(1)	-	1	-	-
Increase (Decrease) in net assets	<u>(323)</u>	<u>479</u>	<u>578</u>	<u>455</u>	<u>255</u>	<u>934</u>
Net Assets, Beginning, as restated	<u>16,605</u>	<u>16,126</u>	<u>9,538</u>	<u>9,082</u>	<u>26,143</u>	<u>25,208</u>
Net Assets, Ending, as restated	<u>16,282</u>	<u>16,605</u>	<u>10,116</u>	<u>9,538</u>	<u>26,398</u>	<u>26,143</u>

City of Franklin, New Hampshire
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Governmental activities. Governmental activities decreased the City of Franklin's net assets by \$322,796.

Business-type activities. Business-type activities increased the City of Franklin's net assets by \$577,491, which, net with the decrease in net assets from governmental activities, accounts for the City's total increase in net assets.

Financial Analysis of the Government's Funds

As noted earlier, the City of Franklin uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Franklin'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 of Franklin's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the close of the current fiscal year, the City of Franklin's governmental funds reported combined ending fund balances of \$4.4 million, an increase of \$189 thousand over the prior year. Of the combined ending fund balances, \$1.9 million is available for spending at the government's discretion (unassigned fund balance). The remainder of fund balance is *nonspendable, restricted committed or assigned* to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$218,077), 2) legally restricted for permanent fund and capital purchase purposes (\$2,263,442), or 3) for a variety of other restricted purposes (\$26,778).

The general fund is the chief operating fund of the City of Franklin. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1.9 million, while total fund balance reached \$2.9 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 8.2 percent of total general fund expenditures, while total fund balance represents 11.2 percent of that same amount.

Proprietary funds. The City of Franklin's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the proprietary funds at the end of the year amounted to \$1,556,430. The total growth in net assets was \$577,491. Other factors concerning the finances of this fund have already been addressed in the discussion of the City of Franklin's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were relatively large (\$156,220 increase in appropriations) and can be briefly summarized as follows:

- \$125,000, Drug Free Communities Support Program Grant, allocated to Franklin Mayor's Drug Task Force
- \$30,000 Contingent Grant Line, allocated to general government
- \$1,220 for carbon monoxide blood hemoglobin reader, allocated to fire

Of this increase, \$155,000 was funded from grant sources and \$1,220 from City trust funds. No supplemental appropriation was budgeted from available fund balance in fiscal year 2011.

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2011

Capital Asset and Debt Administration

Capital Assets. The City of Franklin's investment in capital assets for its governmental and business type activities as of June 30, 2011, amounts to \$30,750,492 (net of accumulated depreciation). This investment in capital assets includes monuments, land, land improvements, buildings, infrastructure and utility systems, improvements, machinery and equipment, park facilities, roads, highways, bridges, and construction in progress.

Major capital asset events during the current fiscal year included the following:

- Land
- River Crossing Pipeline
- Hill Road Water Main
- Playground (partially grant funded)
- Daniel Webster Drive & Flaghole Road reclamation
- Acme Water Treatment Plant (in progress, partially grant funded)
- Cheney Street Retaining Wall
- Memorial Street Water Main Replacement
- Pleasant Street Paving
- Water Department Garage (in progress)
- Boat Ramp – Lagace Beach (grant funded)
- Downtown Transportation Project (in progress, grant funded)
- Partial Roof – City Hall
- Truck Lift Columns
- Tire Changer
- Haynes Brook Culvert (in progress)
- Elevator upgrades (school district)
- Miscellaneous equipment (school district)

City of Franklin, New Hampshire Capital Assets Net of Depreciation (in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Land	906	906	49	34	955	940
Monuments	61	61	-	-	61	61
Construction in Progress	206	180	3,236	436	3,442	616
Land Improvements	181	186	-	-	181	186
Buildings and Improvements	12,797	13,741	85	90	12,882	13,831
Machinery, Vehicles and Equipment	2,939	2,927	335	369	3,274	3,296
Infrastructure	1,425	1,387	8,530	8,710	9,955	10,097
Total	18,515	19,388	12,235	9,639	30,750	29,027

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2011

Long-term debt. At the end of the current fiscal year, the City of Franklin had total bonded debt outstanding of \$5,601,579 and 3,678,672 in notes. Of this amount, 100% comprises debt backed by the full faith and credit of the government; however, \$260,000 bonds & \$3,678,672 notes are attributable to the Water and Sewer proprietary funds, and \$350,000 is attributable to the District Courthouse. Of the \$3,678,672 proprietary note debt, the State of New Hampshire has agreed to offset \$133,135 in the form of a revolving loan. The City of Franklin is financially liable for the debt due and owing for the District Courthouse Building, but has been reimbursed annually by the State of New Hampshire. The City of Franklin is also financially liable for general obligation debt outstanding for its component unit, Franklin School District, which amounts to approximately \$4,381,579. Further information regarding the School District's indebtedness may be found in their annual audit report.

City of Franklin, New Hampshire Long Term Debt (in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
General Obligation Bond	5,342	5,899	260	365	5,602	6,264
Accrued Landfill Postclosure	216	224	-	-	216	224
Compensated Absences	393	229	20	16	413	245
Capital Leases	833	1,027	-	-	833	1,027
Other Notes	-	-	3,678	967	3,678	967
Other Post Employment Benefits	595	402	-	-	595	402
Total	<u>7,379</u>	<u>7,781</u>	<u>3,958</u>	<u>1,348</u>	<u>11,337</u>	<u>9,129</u>

The City of Franklin's net total debt increased by \$1,208,322 (13 percent) during the current fiscal year. This increase is the net effect of current year debt service amounts paid (\$1,263,354) and increase in compensated absences (\$412,998), increase in other post employment benefits (\$327,077) and new state drinking water revolving fund loan for water treatment facility (\$2,742,684).

New Hampshire Municipal Finance Act, Chapter 33 of the State Statutes limit the amount of general obligation debt a local governmental entity may issue to 9.75 percent of its total equalized assessed valuation as computed by the Department of Revenue Administration. State statute allows certain debts (betterment of water and sewer systems, energy production projects, small scale power facilities, etc) to be excluded from the debt capacity computation. The current debt limitation for the City of Franklin is \$55 million, which is significantly in excess of the City of Franklin's outstanding general obligation debt.

Additional information on the City of Franklin's long-term debt can be found in the notes to financial statements, later in this document.

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2011

Economic Factors and Next Year's Budgets and Rates

Taxation Cap

Pursuant to Franklin City Charter, the city manager is responsible for preparing an annual budget and submitting the budget to the Franklin City Council one month prior to the start of the new fiscal year. The annual budget is to be presented to the city council for action no later than the 27th day of the first month of the fiscal year (July). If the city council does not take action within 30 days, the budget shall automatically become effective.

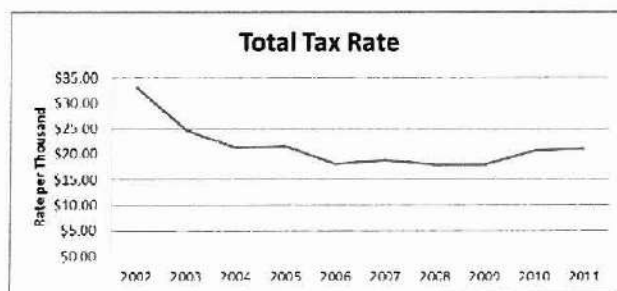
In November, 1989 the voters of the City of Franklin amended the budget procedures outlined under the city's charter §C-32 limiting the amount of taxes that can be raised to support annual operations. The formula limits the amount to be raised by the prior calendar year's Consumer Price Index (national average). The charter amendment provides cap exceptions with a 2/3 vote of the city council. Exceptions from the tax cap include school or city debt service or any capital expenditures deemed necessary by the council.

In October 2002, the Charter was amended again and the tax cap was modified to include a calculation to include newly assessed property value from the prior year (April 1). The calculation includes all new value from April 1 of the prior tax year multiplied by the prior calendar year's tax rate.

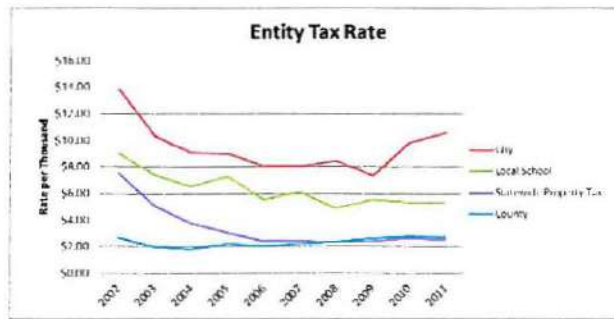
The amended tax cap formula is as follows:

	Total Amount of Property Taxes Assessed in the Prior Year As Calculated by Department of Revenue Administration (DRA)
X	National Consumer Price Index Average
+	Pick-Ups for new construction (as of April 1)
X	Prior Year's Tax Rate approved by DRA
=	Additional Revenues Allowed to be Raised with Property Taxes

The city's tax rate is set by the New Hampshire Department of Revenue Administration. The total tax rate is comprised of a statewide education property tax assessment, Merrimack County tax assessment and the local municipal and school rates. The Franklin City Council has authority over the school and municipal rate, but not the statewide property tax rate or the county tax rate.



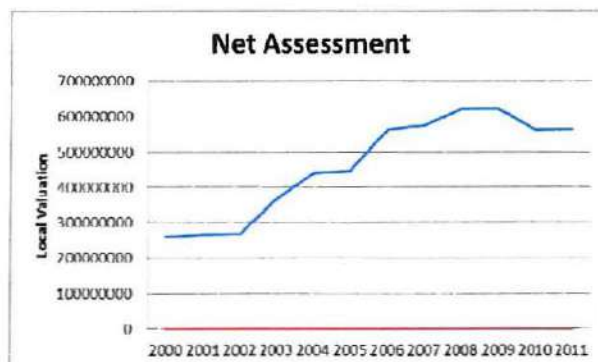
City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2011



The total city tax commitment as opposed to the city's gross budget reflects how much taxes were raised as a result of changes in the gross budget and property assessment.

Fiscal Year	Total Taxes	Percentage Change
2002	\$8,838,708	2.1%
2003	\$9,144,701	3.5%
2004	\$9,483,601	3.7%
2005	\$10,090,189	6.4%
2007	\$10,724,152	6.3%
2008	\$11,038,643	2.9%
2009	\$11,018,539	0.0%
2010	\$11,391,420	3.4%
2011	\$11,735,093	3.0%

The City's net valuation, or the taxable assessment on both land and buildings used to establish the tax rate, was \$563,925,990 in fiscal year 2011. The City has essentially maintained its valuation over the previous year where there was decreases for all property as a result of the housing market correction experienced by the entire Country.



City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2011

Economics

The City of Franklin is at the confluence of the Pemigewasset and Winnepesaukee Rivers, forming the headwater for the Merrimack River. In its prime, Franklin was a thriving mill city with numerous factories. After the last of the large mills closed in the 1970's, the community is striving to reinvent itself.

As New Hampshire growth trends from south to north, Franklin has become more attractive to retirees and commuters seeking affordable homes within convenient driving distances to southern tier employers. Interest in Franklin's historic housing stock, proximity to Interstate 93, and other Lake Region recreation destinations has renewed interest in the community and drawn attention to revitalizing its main street corridor. The community promotes a stabilized tax rate, access to various recreation amenities, and its historic downtown.

The City welcomes Big Cat Coffee who purchased the old Freudenberg-NOK building. In addition, the City has seen interest in another industrial park building (old Polyclad). These changes are a welcome addition to the once stagnant but now growing industrial park. In addition, there has been renewed commercial interest in other City owned properties.

Franklin City Mayor, Ken Merrifield, was instrumental in securing a 5 year \$625,000 federal drug free communities program grant and developing the Franklin Mayor's Drug Task Force to address underage drinking and illegal drug problems that plague many U.S. communities to make Franklin a safer community.

Franklin City Council approved the acceptance of \$784,000 in federal earmark grants to improve the downtown area. Bids are currently out on this project with construction expected to start in early July 2012.

As expected, residential growth has remained flat after the sharp decrease last year as a result of the nationwide downturn in the housing markets. However, slight growth did occur as both retirees and commuting professionals seek property tax stability, a commutable location to southern tier employers, affordable housing stock, and recreational access. The City experienced foreclosures similar to the nationwide trend.

As expected, the City has experienced an increase in need for welfare. The City continuously works to assist people in getting into the correct programs in order to minimize City exposure. This area will continue to be monitored closely in fiscal year 2012.

Water and Sewer Rates

The City has continued efforts to improve the quality and delivery of water. In FY09, the City had received 49% grant funding (\$3,555,000) through USDA Rural Development utilizing American Recovery & Reinvestment Act of 2009 funding for the construction of a water treatment facility that will significantly reduce the iron and manganese in the city's drinking water causing various aesthetic and mechanical issues. The city secured funding (\$3,345,000) through the state drinking water revolving fund for the remainder of the project. By the end of fiscal year 2011, the City is well underway is the construction portion of this project.

Ongoing water meter replacement program continues in order to replace old, faulty and stop meters often preventing the city from obtaining valid water usage information. Some aging water equipment was replaced in the current fiscal year.

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2011

The City septage is treated by the Winnepesaukee River Basin Program (WRBP); a state owned and operated facility. Users of the municipal sewer system pay a shared assessment for the operation and maintenance of WRBP treatment and collection system. The WRBP is approximately 76% of the City's current sewer budget. Although some capital improvement expenditures have been passed on to the City by the WRBP, several large capital improvements are expected in the coming years that will impact the rate payer. The City participates in the advisory board for the WRBP which works with NHDES to review budget operations and capital projects of the program. Due to the age of WRPB facilities, the advisory board has been more active in issues facing the WRBP.

All of the above factors were considered in preparing the City of Franklin's budget for the 2012 fiscal year.

Water rates remained constant for fiscal 2012 budget year as increases were made to support capital projects during the previous budget years as discussed in FY08 financial statements. Sewer rates were increased for the 2012 budget year by 10.28% (or \$.54 per 100 gallons) for all customers. These rate increases were necessary to finance increased operating expenses and debt service on the Winnepesaukee River Basin Program.

Requests for Information

This financial report is designed to provide a general overview of the City of Franklin's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Judie Milner, Finance Director, City of Franklin, Finance Office, 316 Central Street Franklin, NH 03235.

City of Franklin, New Hampshire
Statement of Net Assets
June 30, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Assets			
Cash and equivalents	\$ 7,269,679	\$ -	\$ 7,269,679
Investments	2,615,264	-	2,615,264
Receivables, net of allowances for uncollectables			
Taxes	1,621,553	-	1,621,553
Accounts	287,300	538,088	825,389
Intergovernmental receivable, current	1,584,561	204,704	1,789,265
Internal Balances	(1,261,576)	1,261,576	-
Prepaid items	26,541	-	26,541
Inventory	46,052	51,331	97,383
Tax deeded property, subject to resale	397,344	-	397,344
Other Assets	5,784		5,784
Capital assets not being depreciated			
Monuments	61,000	-	61,000
Land	905,806	49,399	955,205
Construction in progress	206,228	3,236,077	3,442,305
Capital assets, net of accumulated depreciation			
Land improvements	181,191	-	181,191
Buildings and improvements	12,797,270	84,484	12,881,754
Machinery, equipment, and vehicles	2,938,553	335,101	3,273,654
Infrastructure	1,425,403	8,529,981	9,955,384
Total assets	31,107,954	14,290,740	45,398,694
LIABILITIES			
Classified Liabilities			
Accounts Payable	1,239,876	46,179	1,286,056
Accrued payroll and benefits	164,332	6,504	170,836
Contracts payable	97,918	-	97,918
Retainage payable	-	-	-
Accrued interest payable	19,647	30,924	50,571
Intergovernmental payable	870	-	870
Unearned revenues	5,924,465	133,446	6,057,911
Noncurrent liabilities:			
Due within one year:			
Bonds	557,105	105,000	662,105
Notes	-	3,044,881	3,044,881
Leases	176,687	-	176,687
Landfill postclosure care costs	10,244	-	10,244
Compensated absences	208,965	19,705	228,670
Other post employment benefits	594,519	-	594,519
Due in more than one year:			
Bonds, long term	4,784,476	155,000	4,939,476
Compensated absences	184,328	-	184,328
Notes, long term	-	633,791	633,791
Leases	656,724	-	656,724
Landfill postclosure care, long term	205,492	-	205,492
Total Liabilities	14,825,648	4,175,431	19,001,079
NET ASSETS			
Net Assets			
Invested in capital assets, net of related debt	12,737,803	8,296,369	21,034,172
Restricted net assets	2,263,442	262,510	2,525,952
Unrestricted	1,281,061	1,556,430	2,837,491
Total net assets	\$ 16,282,306	\$ 10,115,309	\$ 26,397,615

The accompanying notes to the basic financial statements are an integral part of this statement.

City of Franklin, New Hampshire
Statement of Activities
For the Fiscal Year Ended June 30, 2011

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
Primary government:						
Primary government						
Governmental activities:						
General Government	\$ 1,555,020	\$ 8,411	\$ -	\$ -	\$ (1,546,609)	\$ (1,546,609)
Public Safety	4,354,263	373,989	123,396	-	(3,856,878)	(3,856,878)
Highways and streets	1,590,069	3,371	205,308	-	(1,381,390)	(1,381,390)
Sanitation	792,672	209,265	-	-	(583,407)	(583,407)
Health	117,030	-	71,589	-	(45,441)	(45,441)
Welfare	178,657	2,204	-	-	(176,453)	(176,453)
Culture and recreation	658,335	106,497	17,550	-	(534,288)	(534,288)
Conservation	320	-	-	-	(320)	(320)
Economic Development	46,050	-	-	-	(46,050)	(46,050)
School	15,335,463	950,265	9,767,600	-	(4,617,598)	(4,617,598)
Interest on long term debt	53,511	-	-	-	(53,511)	(53,511)
Capital Outlay	-	-	-	-	-	-
Total governmental activities:	24,681,390	1,654,002	10,185,443	-	(12,841,945)	(12,841,945)
Business-type activities:						
Water operations	975,121	1,273,757	4,000	-		\$ 302,636
Sewer operations	971,011	1,239,853	6,014	-		274,855
Total business-type activities	1,946,132	2,513,609	10,014	-		577,491
Total primary government	26,627,522	4,167,611	10,195,457	-	(12,841,945)	(12,264,454)
General Revenues:						
Property Taxes					10,118,764	10,118,764
Other Taxes					318,858	318,858
Licenses and Permits					972,158	972,158
Grants Not Restricted to Specific Programs					546,986	546,986
Interest Earnings					70,068	70,068
Change in Fair Market Value					271,608	271,608
Miscellaneous					220,708	220,708
Transfers - Internal Activity					-	-
Total General Revenues					12,519,149	12,519,149
Change in Net Assets					(322,796)	577,491
Net Assets - Beginning, as restated					16,605,102	9,537,818
Net Assets - Ending					\$ 16,282,306	\$ 10,115,309
						\$ 26,397,615

The accompanying notes to the basic financial statements are an integral part of this statement.

City of Franklin, New Hampshire
Balance Sheet
Governmental Funds
June 30, 2011

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and equivalents	\$ 6,930,548	\$ 100	\$ 339,031	7,269,679
Investments	742,557	-	1,872,707	2,615,264
Receivables, net of allowances for uncollectables				
Taxes	1,621,553	-	-	1,621,553
Accounts	270,672	-	945	271,617
Intergovernmental receivable	166,874	897,093	163,750	1,227,717
Interfund receivable	743,923	-	87,093	831,017
Prepaid items	26,541	-	-	26,541
Inventory	237	-	13,759	13,996
Other Assets	\$ 5,784	\$ -	\$ -	5,784
Total assets	<u>\$ 10,508,689</u>	<u>\$ 897,193</u>	<u>\$ 2,477,285</u>	<u>13,883,168</u>
LIABILITIES AND FUND BALANCES				
Classified Liabilities				
Accounts payable	\$ 538,827	\$ 172,815	\$ 528,235	1,239,876
Accrued payroll and benefits	113,407	-	5,336	118,743
Contracts payable	-	-	-	-
Retainage payable	-	97,918	-	97,918
Intergovernmental payable	870	-	-	870
Interfund payable	1,357,052	626,461	117,463	2,100,976
Deferred revenues	5,916,547	-	7,918	5,924,465
Total liabilities	<u>7,926,703</u>	<u>897,193</u>	<u>658,951</u>	<u>9,482,848</u>
Fund balances:				
Nonspendable:	26,778	-	1,107,344	1,134,122
Restricted:	-	-	503,952	503,952
Committed:	445,108	-	61,792	506,900
Assigned:	218,077	-	145,245	363,322
Unassigned	1,892,023	-	-	1,892,023
Total fund balances	<u>2,581,986</u>	<u>-</u>	<u>1,818,334</u>	<u>4,400,320</u>
Total liabilities and fund balances	<u>\$ 10,508,689</u>	<u>\$ 897,193</u>	<u>\$ 2,477,285</u>	<u>\$ 13,883,168</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

City of Franklin, New Hampshire
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2011

Total Fund Balances - Governmental Funds	\$ 4,400,320
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation.	18,515,452
Certain long term assets are not available to pay for current fund liabilities and, therefore, are deferred in the funds:	
Tax Deeded Property	397,344
Receivables from individuals	6,785
Receivables from other governments	356,844
Internal service funds are used by management to account for fuel, gasoline and diesel, used by City vehicles. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.	49,338
Certain long term liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds:	
Accrued interest payable	(65,236)
Due to other governments	-
Capital lease obligations payable	(833,411)
General obligation bonds payable	(5,341,581)
Landfil postclosure Costs	(215,736)
Accrued compensated absences	(393,293)
Other post employment benefits	(594,519)
Deferred revenue	-
	<u>(7,443,777)</u>
Total Net Assets - Governmental Activities	<u><u>\$ 16,282,306</u></u>

The accompanying notes to the basic financial statements are an integral part of this statement.

City of Franklin, New Hampshire
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2011

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 10,437,621	\$ -	\$ -	\$ 10,437,621
Licenses and Permits	972,158	-	-	972,158
Intergovernmental	10,179,449	19,122	505	10,199,076
Charges for Services	1,462,680	-	725,875	2,188,555
Miscellaneous	246,767	-	6,057	252,824
Interest	31,792	-	38,276	70,068
Change in fair market value	-	-	271,608	271,608
Total Revenues	23,330,468	19,122	1,042,321	\$ 24,391,910
Expenditures:				
General Government	1,337,395	-	8,718	1,346,113
Public Safety	4,148,826	-	6,214	4,155,039
Highways and Streets	1,497,640	-	-	1,497,640
Sanitation	920,963	-	-	920,963
Health	117,030	-	-	117,030
Welfare	178,568	-	-	178,568
Culture and Recreation	239,911	-	372,760	612,671
Conservation	-	-	320	320
Economic Development	46,050	-	-	46,050
School	13,755,327	-	671,386	14,426,713
Debt Service	883,046	-	-	883,046
Capital Outlay	-	19,239	-	19,239
Total Expenditures	23,124,755	19,239	1,059,397	24,203,391
Excess of Revenues Over Expenditures	205,713	(117)	(17,077)	188,519
Other Financing Sources (Uses):				
Transfers In	3,005	2,742,684	376,216	3,121,905
Transfers Out	(322,293)	(2,742,684)	(56,927)	(3,121,905)
Total Other Financing Sources(Uses)	(319,288)	-	319,288	0
Net Change in Fund Balances	(113,576)	(117)	302,212	188,519
Fund Balances, Beginning as restated	2,695,562	117	1,516,122	4,211,801
Fund Balances, Ending	\$ 2,581,986	\$ -	\$ 1,818,334	\$ 4,400,320

The accompanying notes to the basic financial statements are an integral part of this statement.

City of Franklin, New Hampshire
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2011

Total Net Change in Fund Balances - Governmental Funds	\$	188,519
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital asset purchases capitalized		336,637
Loss on disposal of capital assets		-
Depreciation expense		(1,208,601)
		(871,964)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Tax Deeded Properties		(510)
Deferred revenue		-
Accounts receivable		(1,200)
		(1,710)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long term liabilities in the Statement of Net Assets. Repayment of debt principle is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the Statement of Net Assets:

Capital lease proceeds received		-
Capital lease obligation principle payments		193,356
General obligation bond principle payments		506,158
		699,514

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Transfer to enterprise funds		
Accrued interest payable		12,017
Landfill postclosure		8,249
Accrued compensated absences		19,728
Severance bonus provision		(184,328)
Other post employment benefits		(192,072)
		(336,405)

Internal Services Funds are used by management to account for the cost of fuel charged to individual departments. The net revenue (expense) of the internal service funds is reported with governmental activities.

Change in Net Assets of Governmental Activities	\$	(322,796)
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The accompanying notes to the basic financial statements are an integral part of this statement.

City of Franklin, New Hampshire
Statement of Net Assets
Proprietary Funds
June 30, 2011

	Enterprise Funds		Total Enterprise Funds	Governmental Activity - Fuel Depot Internal Service Fund
	Water	Sewer		
ASSETS				
Current Assets:				
Accounts Receivable, Net of Allowance for Uncollectible	\$ 256,730	\$ 281,359	\$ 538,088	\$ 8,898
Intergovernmental Receivable	-	204,704	204,704	-
Interfund Receivable	1,002,387	259,188	1,261,576	8,383
Inventory	49,631	1,700	51,331	32,056
Total Current Assets	1,308,748	746,951	2,055,699	49,338
Noncurrent Assets:				
Capital Assets:				
Land	49,399	-	49,399	-
Construction in Progress	3,236,077	-	3,236,077	-
Buildings	111,209	-	111,209	70,737
Accumulated Depreciation, Buildings	(26,725)	-	(26,725)	(70,737)
Machinery and Equipment	416,891	171,477	588,367	-
Accumulated Depreciation, M&E	(208,185)	(45,081)	(253,267)	-
Infrastructure	9,376,564	2,764,057	12,140,621	-
Accumulated Depreciation, Infra	(3,170,513)	(440,128)	(3,610,641)	-
Total Capital Assets, Net	9,784,717	2,450,324	12,235,041	-
Total Assets	11,093,465	3,197,275	14,290,740	49,338
LIABILITIES				
Current liabilities:				
Accounts Payable	44,822	1,357	46,179	-
Accrued Payroll and Benefits	4,474	2,031	6,504	-
Accrued Interest Payable	14,908	16,015	30,924	-
Interfund Payable	-	-	-	-
Unearned Revenue	192	133,254	133,446	-
General Obligation Debt Payable, Current:				
Notes and Bonds	3,104,001	45,880	3,149,881	-
Compensated Absences	14,186	5,519	19,705	-
Total Current Liabilities	3,182,584	204,056	3,386,640	-
Noncurrent Liabilities:				
General Obligation Bonds Payable	127,500	27,500	155,000	-
General Obligation Notes Payable	-	633,791	633,791	-
Total Noncurrent Liabilities	127,500	661,291	788,791	-
Total Liabilities	3,310,084	865,347	4,175,431	-
NET ASSETS:				
Invested in Capital Assets, Net of Related Debt	6,553,215.45	1,743,154	8,296,369	-
Restricted	223,056	39,454	262,510	-
Unrestricted	1,007,109	549,321	1,556,430	49,338
Total Net Assets	\$ 7,783,380	\$ 2,331,929	\$ 10,115,309	\$ 49,338

The accompanying notes to the basic financial statements are an integral part of this statement.

City of Franklin, New Hampshire
Statement of Revenues, Expenditures, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2011

	Enterprise Funds		Total	Governmental
	Water	Sewer	Enterprise	Activity - Fuel
	Fund	Fund	Funds	Depot Internal
				Service Fund
Operating revenues:				
User Charges	\$ 1,263,081	\$ 1,239,652	\$ 2,502,732	\$ 256,988
Miscellaneous	14,676	-	14,676	-
Grants	-	6,215	6,215	-
Sale of Municipal Property	-	-	-	-
Total operating revenues	1,277,757	1,245,867	2,523,623	256,988
Operating expenses:				
Salaries, wages and benefits	408,786	119,067	527,853	-
Purchased services, professional and technical	7,427	6,059	13,486	101
Purchased services, property and miscellaneous	347,452	792,611	1,140,063	257,636
Depreciation	190,332	32,821	223,153	-
Total operating expenses	953,997	950,558	1,904,556	257,737
Operating income (loss)	323,760	295,308	619,068	(749)
Nonoperating revenues (expenses):				
Interest	(21,124)	(20,453)	(41,577)	-
Capital contributions	-	-	-	-
Total nonoperating revenues (expenses)	(21,124)	(20,453)	(41,577)	-
Income (loss) before transfers	302,636	274,855	577,491	(749)
Transfers:				
In	2,742,684	-	2,742,684	-
Out	(2,742,684)	-	(2,742,684)	-
Total transfers	-	-	-	-
Net change in net assets	302,636	274,855	577,491	(749)
Net assets, beginning	7,480,744	2,057,073	9,537,818	50,087
Net assets, ending	\$ 7,783,380	\$ 2,331,929	\$ 10,115,309	\$ 49,338

The accompanying notes to the basic financial statements are an integral part of this statement.

City of Franklin, New Hampshire
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2011

	Enterprise Funds			Governmental Activity - Fuel Depot Internal Service Fund
	Water Fund	Sewer Fund	Total Enterprise Funds	
Cash Flows from Operating Activities				
Receipts from Users	\$ 1,263,081	\$ 1,239,652	\$ 2,502,732	\$ 256,988
Payments to Providers	(953,997)	(950,558)	(1,904,556)	(257,737)
Other Receipts (Payments)	(318,502)	(255,615)	(574,116)	749
Net Cash Provided by (Used in) Operating Activities	(9,418)	33,479	24,061	-
Cash Flows from Noncapital Financing Activities				
Transfers from Other Funds	2,742,684	-	2,742,684	-
Transfers to Other Funds	(2,742,684)	-	(2,742,684)	-
Net Cash Provided by (Used in) Noncapital Financing Activities	-	-	-	-
Cash Flows from Capital and Related Financing Activities				
Capital Assets	(2,627,867)	32,821	(2,595,046)	-
Long Term Debt	2,658,409	(45,846)	2,612,563	-
Interest	(21,124)	(20,453)	(41,577)	-
Capital Contributions	-	-	-	-
Net Cash Provided by (Used in) Capital and Related Financing Activities	9,418	(33,479)	(24,061)	-
Net Increase (Decrease) in Cash and Cash Equivalents	(0)	(0)	(0)	-
Balances - Beginning of Year	-	-	-	-
Balances - End of Year	\$ (0)	\$ (0)	\$ (0)	\$ -
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating Income (Loss)	\$ 323,760	\$ 295,308	\$ 619,068	\$ (749)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Change in Assets and Liabilities:				
Inventory	3,595	119	3,713	(5,918)
Receivables, net	39,669	(16,747)	22,923	2,312
Deferred Revenue	(743)	(6,639)	(7,381)	-
Due from Other Funds	(399,990)	(237,541)	(637,531)	21,970
Accounts Payable	20,656	(3,948)	16,708	(17,615)
Accrued Payroll	1,567	1,054	2,621	-
Due to Other Funds	-	-	-	-
Due from Other Governments	-	60	60	-
Accrued Compensated Absences	2,068	1,812	3,880	-
Net Cash Provided By (Used in) Operating Activities	\$ (9,418)	\$ 33,479	\$ 24,061	\$ -

The accompanying notes to the basic financial statements are an integral part of this statement.

City of Franklin, New Hampshire
Statement of Net Assets
Fiduciary Funds
June 30, 2011

	Agency Funds			Private Purpose Trust Funds		
	Engineering Escrow	Student Activities	Total	Charity	School Scholarship	Total
ASSETS						
Cash and Cash Equivalents	\$ 61,742	\$ 140,302	\$ 202,044	\$ -	\$ -	\$ -
Investments	-	-	-	186,671	654,352	841,023
Total Assets	61,742	140,302	202,044	186,671	654,352	841,023
LIABILITIES						
Accounts Payable	82	-	82	-	-	-
Due to Developers	61,660	-	61,660	-	-	-
Due to Student Groups	-	140,302	140,302	-	-	-
Total Liabilities	61,742	140,302	202,044	-	-	-
NET ASSETS						
Held in Trust for Special Purposes	\$ -	\$ -	\$ -	\$ 186,671	\$ 654,352	\$ 841,023

The accompanying notes to the basic financial statements are an integral part of this statement.

City of Franklin, New Hampshire
Statement of Changes in Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2011

	Private Purpose Trust Funds		
	Charity	School Scholarship	Total
ADDITIONS			
Investment earnings:			
Interest and dividends	\$ 3,840	\$ 17,522	\$ 21,362
Net increase in fair market value of investments	51,408	180,203	231,611
New Funds	-	4,800	4,800
DEDUCTIONS			
Scholarship and charity distributions	994	16,750	17,744
Change in net assets	54,253	185,776	240,029
Net assets, beginning	132,418	468,576	600,994
Net assets, ending	\$ 186,671	\$ 654,352	\$ 841,023

The accompanying notes to the basic financial statements are an integral part of this statement.

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
As Of And For The Fiscal Year Ended
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Franklin, New Hampshire (the City) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

1-A Reporting Entity

The City of Franklin is a municipal corporation governed by an elected 9-member City Council and City Manager. The reporting entity is comprised of the primary government and any other organizations that are included to ensure that the financial statements are not misleading.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board, and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. A primary government may also be financially accountable if an organization is fiscally dependent on the primary government. Fiscal independency is defined by GASB as the ability to complete certain essential fiscal events without substantive approval by a primary government:: (a) determine its budget without another government's having the authority to approve and modify that budget, (b) levy taxes or set rates or charges without approval by another government, and (c) issue bonded debt without approval by another government. Based on the foregoing criteria, the City of Franklin's dependent school district is included in the City's financial reporting entity as a blended component unit.

1-B Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities; and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements - The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the City as a whole. Individual funds are not displayed at this reporting level as all individual funds are consolidated as governmental or business-type activities. Fiduciary activities are not included at the government-wide reporting level.

The statement of net assets presents the financial position of the governmental and business-type activities of the City at year-end. This statement includes all of the City's assets, liabilities and net assets.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental and business-type activities. Direct expenses are those that are specifically associated with the function, and therefore, clearly identifiable to that particular function.

The statement of activities reports the expenses of a given function offset by program revenues directly related to the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with the functional activity. Program revenues include: (1) charges for services, which include charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions, which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to the program uses.

For identifying to which function program revenue pertains, the determining factor for *charges for services* is which functions *generate* the revenue. For *grants and contributions*, the determining factor is to which functions the revenues are *restricted*.

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
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1-B Basis of Presentation, continued

Fund Financial Statements - During the year, the City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. A fund is a fiscal and accounting entity with a self-balancing set of accounts. Fund financial statements are designed to present financial information of the City at this more detailed level. Fund financial statements are provided for governmental, proprietary and fiduciary funds.

Fund Accounting - The City uses funds to maintain its financial records during the year. The City uses three categories of funds: governmental, proprietary, and fiduciary.

Governmental Funds - Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The City reports the difference between governmental fund assets and liabilities as fund balance. The following are the City's major governmental funds:

General Fund - The general fund is the primary operating fund of the City. All general revenues and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund. This fund accounts for general operating expenditures, fixed charges, and the capital improvement costs that are not reported in other funds.

Capital Fund - The capital fund is used to account for bond monies received for renovation or construction of a new asset. Currently the remainder of the Paul Smith School project and the beginning of the downtown transportation project are reflected in this fund.

The City also reports 14 non-major special revenue and permanent funds as other governmental funds.

Proprietary Funds - Proprietary funds are those which account for activities of the government that are similar to activities that may be performed by a commercial enterprise. These funds cover those activities that generally charge a fee in order to recover operational costs. The City reports the difference between proprietary fund assets and liabilities as net assets. The following are the City's two major proprietary funds:

Enterprise Funds - Enterprise funds are used to report activities for which a fee is charged to external users for goods or services. The City reports water and sewer funds, which account for all the activity related to the provision of water and sewage disposal services, as major funds.

Internal Services Fund - Internal Services funds are used to account for any activity that provides goods and services to other funds, departments or agencies of the primary government and its component units, or to other governments, on a cost reimbursement basis. The City also reports one internal service fund, which predominantly accounts for fuel used by City departments or agencies, as a governmental activity.

Fiduciary Funds - Fiduciary fund reporting focuses on net assets. The City's fiduciary funds consist of two types of funds, agency and private purpose trust funds. The engineering escrow and student activities agency funds are custodial in nature (assets equal liabilities), and do not involve the measurement of results of operations. The charity and scholarship private purpose trust funds account for assets held by the trustees of trust funds for the benefit of other governments, organizations or individuals.

1-C Measurement Focus

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net assets. The statement of activities reports revenues, expenses and changes in net assets.

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
As Of And For The Fiscal Year Ended
June 30, 2011

1-C Measurement Focus, continued

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the governmental fund statements.

All proprietary funds are accounted for using the accrual basis of accounting. Using this basis of accounting, revenues are recognized when they are earned, and expenses are recognized when they are increased (flow of economic resources measurement focus).

Fiduciary funds use an economic resources measurement focus. These funds report all assets and liabilities on the statement of fiduciary net assets. The statement of changes in fiduciary net assets reports additions and deductions to net assets of the private purpose trust funds.

1-D Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. At the fund reporting level, governmental funds use the modified accrual basis of accounting, and proprietary and fiduciary funds use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of some deferred revenue, and in the presentation of expenses versus expenditures. Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB.

Revenues - Exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded when the exchange takes place and in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year, generally within sixty days of year-end.

Revenues - Nonexchange Transactions - Nonexchange transactions, in which the City receives value without directly giving equal value in return, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all grantor imposed eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions also must be available (i.e., collected within 60 days) before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be susceptible to accrual: taxes, charges for services, interest, and federal and state grants.

Deferred/Unearned Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. On governmental fund financial statements (i.e., on the modified accrual basis), receivables that will not be collected within the available period have been reported as deferred revenue (i.e., they are measurable, but not available) rather than as revenue. Grants and entitlements received before the eligibility requirements are met (e.g., cash advances) also are recorded as deferred revenue in the governmental funds, and as unearned revenue on the government-wide financial statements.

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
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June 30, 2011

1-D Basis of Accounting, continued

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. On the modified accrual basis, expenditures generally are recognized in the accounting period in which the related fund liability is incurred and due, if measurable.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's primary ongoing operations. The principal operating revenue of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

1-E Assets, Liabilities and Net Assets or Fund Equity

1-E-1 Cash, Cash Equivalents and Investments

Cash and Cash Equivalents - Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City.

New Hampshire statutes require that the City treasurer have custody of all moneys belonging to the City and pay out the same only upon orders of the City Manager. The treasurer shall deposit all such moneys in participation units in the public deposit investment pool established pursuant to N.H. RSA 383:22 or in solvent banks in the state. Funds may be deposited in banks outside the state if such banks pledge and deliver to a third party custodial bank or the Federal Reserve Bank, collateral security for such deposits, United States government or government agency obligations or obligations of the State of New Hampshire in value at least equal to the amount of the deposit in each case.

Investments - Whenever the treasurer has in custody an excess of funds, which is not immediately needed for the purpose of expenditure, the treasurer shall, with the approval of the City Manager, invest the excess funds.

New Hampshire law authorizes the City to invest in the following type of obligations:

- Obligations of the United States government,
- The public deposit investment pool established pursuant to RSA 383:22,
- Savings bank deposits,
- Certificates of deposit and repurchase agreements of banks incorporated under the laws of the State of New Hampshire or in banks recognized by the state treasurer.

Any person who directly or indirectly receives any such funds or moneys for deposit or for investment in securities of any kind shall, prior to acceptance of such funds, make available at the time of such deposit or investment an option to have such funds secured by collateral having a value at least equal to the amount of such funds. Such collateral shall be segregated for the exclusive benefit of the City. Only securities defined by the bank commissioner as provided by rules adopted pursuant to RSA 386:57 shall be eligible to be pledged as collateral.

Investments are stated at fair value based on quoted market prices, in accordance with GASB Statement #31.

1-E-2 Receivables

Tax revenue is recorded when a warrant for collection is committed to the tax collector. Taxes receivable are reported net of an allowance established for tax amounts considered uncollectible by City management.

As prescribed by law, the tax collector executes a lien on properties for all uncollected property taxes in the following year after taxes are due. The lien on these properties has priority over other liens and accrues interest at 18% per annum. If property is not redeemed within the 2-year redemption period, the property is tax deeded to the City, and may be subsequently sold at public sale. Accounts receivable include various service charges which are recorded as revenue for the period when service was provided. These receivables are reported net of any allowances for uncollectible amounts.

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
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1-E-3 Interfund Balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as interfund receivables/payables. These amounts are eliminated on the statement of net assets. Balances between governmental and proprietary funds are eliminated on the line called internal balances.

1-E-4 Inventory and Prepaid Items

Inventory is valued at cost using the first-in, first-out method. The consumption method is used to account for inventory. Under the consumption method, inventory is recorded when expenditures are consumed rather than when purchased. Reported inventory in the governmental funds is equally offset by nonspendable fund balance reserve which indicates that the assets are not available for appropriation even though they are a component of reported assets.

Payments made to vendors for services that will benefit periods beyond year-end are recorded as prepaid items using the consumption method, by recording an asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

1-E-5 Capital Assets

Capital assets include property and equipment which the City owns. These assets are reported in the applicable columns of the government-wide financial statements. The proprietary funds' capital assets are reported in both the government-wide and fund statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$5,000 and three or more years of estimated life. Improvements to capital assets are capitalized; the costs of normal maintenance and repairs that do not add to the value of an asset or materially extend the asset's life are expensed.

All reported capital assets are depreciated over their estimated useful lives. Depreciation is computed using the straight-line method over the following useful lives:

	<u>Years</u>
Land improvements	50-75 years
Building and building improvements	20-120 years
Machinery, Equipment and Vehicles	3-50 years
Infrastructure	20-100 years

1-E-6 Compensated Absences

Vacation benefits are accrued as a liability, as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are not payable upon termination and therefore not accrued as a liability.

All compensated absence liabilities include salary-related payments, where applicable.

The total compensated absence liability is reported on the government-wide and proprietary fund financial statements. Governmental funds report the compensated absence liability at the fund reporting level only when due.

1-E-7 Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

City of Franklin, New Hampshire
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In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of these funds. However, claims and judgments, and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

In the government-wide financial statements and in proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets.

1-E-8 Equity

Fund equity at the governmental fund financial reporting level is classified as fund balance. Equity for all other reporting is classified as net assets. The City implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The statement established new fund balance classifications and reporting requirements outlined below.

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The City reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources, and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The City's fund balance classification policies and procedures are as follows:

- 1) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by City resolution adopted by the City Council and their use is specifically identified. Any change in the use of these funds would require revision of the initial development of the fund through further resolutions.
- 2) Committed funds are reported and expended as a result of resolutions adopted by the appropriate majority of the City Council.
- 3) Assigned funds are used for specific purposes as established by management. These funds which include encumbrances have been assigned for specific goods and services ordered by the City prior to year end but not received or fulfilled by year end.
- 4) Unassigned funds are available to be spent in future periods within the restrictions as defined by the City's fund balance policy. The City's policy requires that it achieve and maintain a minimum unrestricted (which includes committed, assigned and unassigned fund balances) general fund balance of at least 15% of total general fund appropriations approved for that fiscal year, excluding any appropriation for capital projects or improvements funded by bond process, transfer or other financing sources.

The City does not have any stabilization arrangements at this time.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the City uses the following order to liquidate liabilities: restricted, committed, assigned, unassigned.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net assets are reported as unrestricted.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

City of Franklin, New Hampshire
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1-E-9 Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement of repayment are reported as interfund transfers. At the fund reporting level, interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

At the government-wide financial reporting level, transfers between funds that would be reported in the individual funds are eliminated.

1-E-10 Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

2-A Budget

Governmental revenues and expenditures are balanced and controlled by a formal integrated budgetary system which is substantively consistent with Generally Accepted Accounting Principles (GAAP); applicable State finance related laws and regulations which govern the City's operations as well as the City's adopted charter. The City's budget is approved by the City Council. During the budget year, appropriations may be transferred between lines but total expenditures may not exceed the total approved budget. Emergency items may be accepted under the City Charter and Municipal Budget Law under State RSA 32. At year end, all unencumbered annual appropriations lapse. Other appropriations, which have a longer than annual authority may carry over at year end if the governing body intends to continue or complete the special purpose for which the funds were established. State statutes require balanced budgets, but provide for the use of beginning unassigned fund balance to achieve that end. In the fiscal year 2011, \$0 of beginning general fund unassigned fund balance was appropriated to reduce taxes.

2-B Encumbrances

Encumbrance accounting is utilized in the governmental funds to account for commitments relating to unperformed contracts for goods and services. Encumbrances outstanding at year-end are reported as assigned fund balance and do not constitute expenditures or liabilities of the governmental fund but are carried forward to supplement appropriations of the succeeding year. Encumbrances outstanding at year-end in the general fund are detailed by function as follows:

School District	\$82,007
Economic Development	10,950
Municipal Services	68,450
Fire	17,228
Police	4,306
Planning	20,000
City Manager	5,913
Finance	6,723
Recreation	2,500
Total	\$218,077

City of Franklin, New Hampshire
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2-C Budgetary Basis

The general fund final appropriation appearing on Schedule A of the fund financial statements represents a final budget as of June 30, 2011 and includes encumbrances and reserves at June 30, 2011 as follows:

FY2011 Appropriations	\$23,836,619
June 2010 Encumbrances	353,102
Final Budgeted Amounts	\$24,189,721

The actual amounts appearing on Schedule A of the fund financial statements are shown on a budgetary basis which differs from generally accepted accounting principles (GAAP) as follows:

	<u>Revenues</u>	<u>Expenditures</u>
Revenues/Expenditures GAAP Basis	\$23,242,997	\$23,124,755
Transfers to Other Funds	3,005	322,293
Budgetary Beginning Fund Balance	1,475,047	
2010 Encumbrances/Reserves		(353,102)
2011 Encumbrances/Reserves		218,077
State of NH on Behalf Payments	(246,383)	(246,383)
Non Budgeted Activity	(42,518)	
Revenues/Expenditures Budgetary Basis	\$24,432,148	\$23,065,641

2-D Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. During fiscal year 2011, the City, with the exception of the school district, was a member of the Local Government Center Property-Liability Trust, LLC and Workers' Compensation Program. This entity is considered public entity risk pools, currently operating as common risk management and insurance programs for member towns and cities. The school district was a member of Primex for property liability and worker's compensation coverage.

The Local Government Center Property-Liability Trust, LLC is a trust organized to provide certain property and liability insurance coverage's to member towns, cities and other qualified political subdivisions of New Hampshire. As a member of the Local Government Center Property-Liability Trust, LLC, the City shares in contributing to the cost of, and receiving benefits from, a self-insured pooled risk management program. The membership and coverage run from July 1 to June 30. The program maintains a self-insured retention above which it purchases reinsurance and excess insurance. This policy covers property, auto physical damage, crime, general liability and public officials' liability subject to a \$1,000 deductible.

Property/Liability contributions paid in 2011 recorded as an insurance expenditure totaled \$137,379. There were no unpaid contributions for the year ending June 30, 2011 and due in 2011. The City also paid \$113,180 for workers' compensation for the year ended June 30, 2011. The trust agreement permits the Trust to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. At this time, the Trust foresees no likelihood of any additional assessments for past years.

Settled claims, if any, have not exceeded the City's coverage in any of the past five years.

City of Franklin, New Hampshire
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2-E Contingent Liabilities

Grants – Amounts received are subject to later year's review and adjustment by grantor agencies, principally federal and state governments. At such time, any disallowed claims, including amounts already collected, may constitute a liability of the City and applicable funds. At June 30, 2011, the City believes that disallowed expenditures, if any, based on subsequent review will not have a material effect on any individual funds or the overall financial position of the City. Therefore, no provision for such contingencies has been recorded.

Litigation – The City is subject to various claims, and sometime lawsuits, which arise in the normal course of operations. Management of the City believes that the outcome of these contingencies will not have a materially adverse effect on the financial statements and accordingly, no provision for loss has been recorded.

2-F Legal Debt Limit

Per state statute, the City may not incur debt at any one time in excess of 9.75% of its locally assessed valuation as last equalized by the Commissioner of the New Hampshire Department of Revenue Administration. For the year ended June 30, 2011, the City had not exceeded its legal debt limit.

NOTE 3 - DETAILED NOTES ON ALL FUNDS AND GOVERNMENT-WIDE STATEMENTS

3-A Investment Risks

Repurchase Agreement

Included in the City's cash equivalents at June 30, 2011, is a short-term investment in a repurchase agreement issued by a local banking institution. Under this agreement, the City will be repaid principal plus interest on a specified date which is subsequent to year-end. The agreement is guaranteed/collateralized with securities held by the banking institution which equal the amount of the agreement. To the extent that the banking institution may default on its commitment to this obligation, the City is at risk of economic loss. Management considers this exposure to be minimal. At June 30, 2011, the City held an investment in the following repurchase agreement:

			<u>Collateral Pledged</u>	
<u>Amount</u>	<u>Interest Rate %</u>	<u>Maturity Date</u>	<u>Underlying Securities</u>	<u>Market Value</u>
\$6,799,509	0.50%	3/01/2013	FNMA	\$7,559,163

Investments

As of June 30, 2011, the City had the following investments:

Certificate of deposit	\$ 283,142
Mutual/Bond Funds	920,708
Common stocks	1,491,980
New Hampshire Public Deposit Investment Pool	<u>760,457</u>
Total	<u>\$3,456,287</u>

Interest Rate Risk - The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - State law limits investments to those described in Note 1-E-1. The City has no investment policy that would further limit its investment choices.

City of Franklin, New Hampshire
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Custodial Credit Risk - The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Of the City's \$3,456,287 in investments, \$1,491,980 is subject to custodial credit risk because the securities are held by the counter party's trust department or agent, not in the City's name. The City does not have policies for custodial credit risk.

3-B Taxes Receivable

The property tax year is from April 1 to March 31 and all property taxes are assessed on the inventory taken in April of that year. The net assessed valuation as of April 1, 2010, upon which the 2010 property tax levy was based is:

For the New Hampshire education tax	\$535,845,290
For all other taxes	\$563,925,990

The City subscribes to the semi-annual method of tax collection as provided for by RSA 76:15-a. Under this method, tax bills are due on or around July 1 and December 1 of each year, with interest accruing at a rate of 12% on bills outstanding after the due date. The first billing is considered an estimate only and is one half of the previous year's tax billing. The remaining balance of taxes due is billed in the fall after the New Hampshire Department of Revenue Administration has calculated and approved the City's tax rate for the fiscal year. Unpaid property taxes may be lienied following statutory notification and procedural guidelines as soon as 30-days after the final bill or installment is due. Interest accrues at a rate of 18% on properties that have been through the tax lien process. Two years from the execution of the real estate tax lien the Tax Collector (with approval of City Council) may execute to the lienholder a "deed" of the property subject to the real estate tax lien and not redeemed/paid.

In connection with the setting of the tax rate, City officials with the approval of the Department of Revenue Administration, establish and raise through taxation an amount for abatements and refunds of property taxes, known as overlay. This amount is reported as a reduction in tax revenue and is adjusted by management for any tax allowances at year-end. The property taxes collected by the City include taxes levied for the State of New Hampshire and Merrimack County, which are remitted as required by law. The ultimate responsibility for the collection of taxes rests with the City.

The tax rates and amounts assessed for the year ended June 30, 2011, were as follows:

	Per \$1000 of Assessed Valuation	Property Taxes Assessed
Municipal portion	10.56	5,958,473
School portion:		
State of New Hampshire	2.50	1,337,334
Local	5.33	3,005,396
County portion	2.75	1,549,990
Total	21.14	11,851,193

During the current fiscal year, the tax collector executed a lien on April 22, 2011 for all uncollected 2009/2010 property taxes, \$440,791.

Taxes receivable at June 30, 2011, are as follows:

Property:	
Levy of 2010	\$ 1,088,226
Unredeemed (under tax lien)	567,500
Less: allowance for estimated uncollectible taxes	<u>(34,173)</u>
Net taxes receivable	<u>\$1,621,553</u>

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The City recognizes property tax revenues when they are levied. This is a GAAP departure from *GASB Statement #1* generally, and specifically *NCGA Interpretation -3 "Revenue Recognition – Property Taxes"*. Under GAAP, certain disclosures are required of property tax revenues that are not received during the period, or within 60 days thereafter, that are recognized as receivables without a corresponding reserve. The City believes that this application of GAAP to its property tax revenues would result in misleading financial statements since such GAAP application would reduce fund balance by the amount of uncollected property taxes; concurrent with a GAAP requirement to record an expenditure and payable for the amount due to the local education authority (such amount based solely on a share of the uncollected property taxes) and County. This GAAP departure as applied to New Hampshire municipalities was addressed by the GASB in 1984. The GASB, in responding to an inquiry on this matter, provided justification for the departure from the 60 day rule due to the unique legislation in the State of New Hampshire regarding the City's responsibility for (and expenditure recognition of) intergovernmental payments to the local education authority (school district) and County. This justification has been reviewed and accepted by the New Hampshire Department of Revenue Administration (which requires GAAP based regulatory reporting) and has been established as a widely prevalent practice followed by most New Hampshire municipalities.

3-C Other Receivables

Other receivables at June 30, 2011, consisted of accounts (billings for water, sewer, police details, ambulance, transfer station, and other user charges), and intergovernmental amounts arising from grants.

Receivables are recorded on the City's financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and collectability.

Amounts receivable at June 30, 2011 are as follows:

	Governmental	Proprietary
Accounts	\$ 279,448	\$543,365
Intergovernmental	1,227,717	204,704
Voluntary liens	34,897	-
Less: allowance for uncollectible or unavailable amount	(42,728)	(5,277)
Net receivables	\$1,499,334	\$742,792

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
As Of And For The Fiscal Year Ended
June 30, 2011

3-D Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Balance, Beginning	Changes	Balance, Ending
Governmental activities:			
At cost:			
Not being depreciated:			
Monuments	61,000	0	61,000
Land	905,806	0	905,806
Construction in progress	180,426	25,802	206,228
Total capital assets not being depreciated	1,147,232	25,802	1,173,034
Being depreciated:			
Land improvements	196,945	0	196,945
Buildings	22,655,645	58,611	22,714,256
Machinery and equipment	6,590,443	129,415	6,719,858
Infrastructure	1,612,054	123,204	1,735,258
Total capital assets being depreciated	31,055,087	311,230	31,366,317
Total all capital assets	32,202,319	337,032	32,539,351
Less accumulated depreciation:			
Land improvements	11,364	4,390	15,754
Buildings	9,320,782	596,205	9,916,987
Machinery and equipment	3,257,340	523,965	3,781,305
Infrastructure	225,417	84,437	309,854
Total accumulated depreciation	12,814,903	1,208,997	14,023,900
Net book value, all capital assets	19,387,416	(871,965)	18,515,451
Business-type activities:			
At cost:			
Not being depreciated:			
Land	34,399	15,000	49,399
Construction in progress	436,367	2,799,711	3,236,078
Total capital assets not being depreciated	470,766	2,814,711	3,285,477
Being depreciated:			
Buildings	111,209	0	111,209
Machinery and equipment	584,878	3,489	588,367
Infrastructure	12,140,621	0	12,140,621
Total capital assets being depreciated	12,836,708	3,489	12,840,197
Total all capital assets	13,307,474	2,818,200	16,125,674
Less accumulated depreciation:			
Buildings	21,169	5,556	26,725
Machinery and equipment	215,845	37,422	253,267
Infrastructure	3,430,466	180,174	3,610,640
Total accumulated depreciation	3,667,480	223,152	3,890,632
Net book value, all capital assets	9,639,994	2,595,048	12,235,042

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
As Of And For The Fiscal Year Ended
June 30, 2011

3-D Capital Assets, continued

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 37,940
Public Safety	234,509
Highways and streets	267,899
Sanitation	3,465
Culture and recreation	45,905
School district	618,883
Total depreciation expense - governmental activities	\$ 1,208,601
Business-type activities:	
Water	\$ 190,332
Sewer	32,821
Total depreciation expense - business-type activities	\$ 223,153

3-E Prepaid Items

Prepaid items at June 30, 2011, totaling \$26,541, consisted of the following paid in the current period to benefit the following fiscal year governmental activities:

Purpose	Amount
Software support	17,562
Equipment	2,500
Employee benefits	2,831
Continuing education	1,121
Dues	720
Equipment lease	504
Subscription	133
Total	25,371

3-F Interfund Balances and Transfers

Interfund balances at June 30, 2011 consist of interfund loans, services provided, reimbursements or budgetary transfers. The composition of interfund balances as of June 30, 2011 is as follows:

Fund	Due From	Due To
General	743,923	1,357,052
Capital Projects	-	626,461
Water	1,002,387	-
Sewer	259,188	-
Fuel Depot	8,383	-
Parks & Recreation	27,488	-
Outside Police Detail	15,750	-
Library	38,565	-
Expendable Trusts	5,290	-
Food Service	-	114,378
Other Library Trusts	-	3,085
Totals	2,100,976	2,100,976

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
As Of And For The Fiscal Year Ended
June 30, 2011

3-F Interfund Balances and Transfers, continued

Interfund transfers during the year were comprised of the following:

Fund	Transfer In	Transfer Out
General	3,005	322,293
Capital Projects	2,742,684	2,742,684
Water	2,742,684	2,742,684
DARE	500	-
Heritage	400	-
Library	375,316	-
Expendable Trusts	-	1,005
Odell Trust	-	2,000
Buswell Trust	-	47,333
Other Library Trusts	-	6,589
Totals	5,864,588	5,864,588

3-G Deferred/Unearned Revenue

Governmental Funds - Deferred/unearned revenue of \$5,924,465 at June 30, 2011 largely consists of property taxes levied but not due until the subsequent year (\$5,872,351). In addition, \$23,541 related to recreation program fees and grants collected in advance; \$10,335 related to dispatch fees collected in advance; \$10,320 donations collected in advance of expenditure; and \$7,918 related to student meal money collected in advance of the meals being served.

Proprietary Funds – Water department unearned revenue at June 30, 2011 of \$192 represents water rents collected in advance of water bills. Sewer department unearned revenue at June 30, 2011 of \$133,254 represents sewer rents collected in advance of the sewer bills (\$119) and amount due from State revolving fund to partially fund loan payments (\$133,135).

3-H Long-Term Liabilities

Changes in the City's long-term obligations during the year ended June 30, 2011, consisted of the following:

	Balances, Beginning	Additions	Reductions	Balances, Ending
Governmental activities:				
General obligation bonds	\$ 5,898,684	\$ -	\$ (557,105)	\$ 5,341,579
Compensated absences	217,726	393,293	(217,726)	393,293
Capital leases	1,026,767	-	(193,356)	833,411
Landfill post closure care costs	223,985	-	(8,249)	215,736
Other post employment benefits	402,447	327,077	(135,005)	594,519
Total - governmental activities	<u>7,769,609</u>	<u>720,370</u>	<u>(1,111,441)</u>	<u>7,378,538</u>
Business-type activities:				
General obligation bonds/notes	1,332,076	2,742,684	(136,088)	3,938,672
Compensated absences	15,825	19,705	(15,825)	19,705
Total - business-type activities	<u>\$ 1,347,901</u>	<u>\$ 2,762,389</u>	<u>\$ (151,913)</u>	<u>\$ 3,958,377</u>

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
As Of And For The Fiscal Year Ended
June 30, 2011

3-H Long-Term Liabilities, continued

Long-term liabilities payable are comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at June 30, 2011	Current Portion
Governmental Activities:						
<u>General obligation bonds payable</u>						
Bridge Project	1,300,000	1994	2015	4.7-7.0	260,000	65,000
Police Station	1,000,000	1998	2018	4.7-5.3	350,000	50,000
Courthouse	1,000,000	1999	2018	4.7-5.3	350,000	50,000
School Renovation	5,010,386	2001	2020	4.5-5.25	2,250,000	250,000
School Renovation	2,700,000	2006	2026	4.29	2,131,581	142,105
Total general obligation bonds payable					5,341,581	557,105
<u>Capital leases payable</u>						
Automated Collection & Recycling Program	948,000	2009	2015	4.08	675,999	124,310
2008 F-350 SuperDuty - School District	26,949	2009	2013	6.35	11,623	5,628
Copiers and Printers - School District	241,643	2010	2014	3.90	145,789	46,749
Total capital leases payable					833,411	176,687
<u>Other long term obligations</u>						
Compensated Absences					393,293	208,965
Lanfill Post Closure Care Costs					215,736	10,244
Post Employment Benefits - Health					594,519	594,519
Total Governmental Activities					7,378,540	1,547,520
Business-Type Activities:						
<u>Bonds/notes payable</u>						
Water/Sewer	1,000,000	1991	2014	Variable	150,000	50,000
FMHA Water	1,100,000	1991	2013	5.88	110,000	55,000
Sewer Revolving Loan	784,061	2006	2026	3.35	665,921	32,130
Water DWSRF Bond Anticipation Note	3,345,000	2010	2012	1.00	3,012,751	3,012,751
Total bonds/notes payable					3,938,672	3,149,881
<u>Other long term obligations</u>						
Compensated Absences					19,705	19,705
Total Business-Type Activities					3,958,377	3,169,586

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
As Of And For The Fiscal Year Ended
June 30, 2011

3-H Long-Term Liabilities, continued

The annual requirements to amortize all general obligation debt outstanding as of June 30, 2011, including interest payments, are as follows:

Annual Requirements To Amortize Governmental Funds' General Obligation Bonds Payable:

Fiscal Year Ending, June 30	Principal	Interest	Total
2012	557,106	249,353	806,459
2013	557,105	221,032	778,137
2014	557,105	192,662	749,767
2015	557,105	164,260	721,365
2016	492,105	137,823	629,928
2017-2021	1,910,527	351,833	2,262,360
2022-2026	710,526	83,824	794,351
Totals	5,341,579	1,400,787	6,742,367

Annual Requirements To Amortize Governmental Funds' Leases Payable:

Fiscal Year Ending, June 30	Principal	Interest	Total
2012	176,687	34,683	211,371
2013	184,099	27,273	211,372
2014	185,438	19,699	205,137
2015	140,640	12,062	152,702
2016	146,547	6,155	152,702
Totals	833,411	99,872	933,283

Annual Requirements To Amortize Proprietary Funds' General Obligation Bonds Payable:

Fiscal Year Ending, June 30	Principal	Interest	Total
2012	137,130	33,900	171,030
2013	138,207	27,067	165,274
2014	84,320	21,600	105,920
2015	35,470	18,981	54,451
2016	36,659	17,792	54,451
2017-2021	202,573	69,684	272,257
2022-2026	238,877	33,379	272,257
2027	52,685	1,766	54,451
Totals	925,921	224,171	1,150,092

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
As Of And For The Fiscal Year Ended
June 30, 2011

3-H Long-Term Liabilities, continued

All debt is general obligation debt of the City, which is backed by its full faith and credit. Proprietary fund debt will be funded through user fees. All other debt will be repaid from general governmental revenues.

Accrued Landfill Post closure Care Costs

As required by state and federal laws and regulations, the City has constructed a final capping system on the River Street Landfill and completes annual ground water sampling and post closure reports. The Landfill stopped accepting waste in 1984 and the final capping system was completed in 1985. Remaining post closure care liability estimate of \$215,736 is reflected in the City's Government Wide Statement of Net Assets under governmental activities. Actual costs may differ due to inflation, changes in technology, or changes in regulations.

3-I State Aid to Water Pollution Projects

The City received from the State of New Hampshire the following amounts in the form of state aid to water pollution projects:

<u>Bond Issue</u>	<u>Amount</u>
Sewer Revolving Loan	\$665,921

Under N.H. RSA Chapter 486, the City receives from the State of New Hampshire a percentage of the annual amortization charges on the original costs resulting from the acquisition and construction of sewage disposal facilities. At June 30, 2011, the City is due to receive the following annual amounts to offset debt payments:

<u>Fiscal Year Ending</u> <u>June 30</u>	<u>Amount</u>
2012	6,424
2013	6,639
2014	6,861
2015	7,091
2016	7,329
2017-2027	<u>98,791</u>
Total	<u>\$133,135</u>

3-J Operating Leases

The City has entered into operating leases for the use of photocopiers. These leases are cancellable in the event of non-appropriation.

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
As Of And For The Fiscal Year Ended
June 30, 2011

3-K Fund Balance Components

The City's governmental fund balance components under GASB 54 are comprised of the following:

	General Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:			
Prepaid items	26,541	-	26,541
Inventory	237	13,759	13,996
Permanent fund principal	-	1,093,585	1,093,585
Restricted:			
Conservation	-	72,681	72,681
Fire	-	85,672	85,672
Library	-	275,030	275,030
Parks	-	36,999	36,999
Police	-	1,582	1,582
School	-	31,990	31,990
Committed:			
Conservation	-	10,210	10,210
Fire	34,717	-	34,717
Heritage	-	7,690	7,690
Municipal services	144,272	-	144,272
Other capital	4,923	-	4,923
Parks	-	26,476	26,476
Police	-	17,417	17,417
School	261,196	-	261,196
Assigned:			
Fire	17,228	-	17,228
General government	23,586	-	23,586
Municipal services	68,450	-	68,450
Planning	20,000	-	20,000
Police	4,306	-	4,306
Recreation	2,500	-	2,500
School	82,007	145,245	227,252
Unassigned	1,892,023	-	1,892,023
	<u>2,581,987</u>	<u>1,818,334</u>	<u>4,400,320</u>

Other governmental funds are an aggregate of several non-major individual funds. Refer to supplemental schedules provided after the notes section for breakdown of non-major individual funds.

3-L Restatement of Equity

Fund equity at July 1, 2010, was restated to give retroactive effect to the following prior period adjustment:

	General Fund	Governmental Activities
Adjustment:		
Correction to Lakes Region Mutual Fire Aid Association expenditure	(26,038)	(26,038)
Correction to deferred tax liability - exception to 60 day rule	464,822	
Reclassify capital reserve funds as a result of GASB 54	402,590	
Reclassify 1st issue tax bill to deferred revenue		(5,715,847)
Correction to capital lease liability		(34,886)
Capital project balance not reported		117
Fund Balance/Net Assets, as previously reported	1,854,188	22,381,756
Fund Balance/Net Assets, as restated	<u>2,695,562</u>	<u>16,605,102</u>

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
As Of And For The Fiscal Year Ended
June 30, 2011

NOTE 4 - OTHER MATTERS

4-A Pensions

The City of Franklin participates in the New Hampshire Retirement System (the System) which consists of a cost-sharing, multiple-employer contributory pension plan and trust established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The plan is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. Provisions for benefits and contributions are established and can be amended by the New Hampshire Legislature. The System issues a publicly available financial report that may be obtained by writing the New Hampshire Retirement System, 54 Regional Drive, Concord, NH 03301.

The System is financed by contributions from both the employees and the City. Member contribution rates are established and may be amended by the State legislature while employer contribution rates are set by the System trustees based on an actuarial valuation. All employees except police officers and firefighters are required to contribute 5% of earnable compensation. Police officers and firefighters are required to contribute 9.3% of gross earnings. For 2011, the City contributed 14.63% for police, 18.52% for fire, 8.02% for teachers and 9.16% for other employees. The contribution requirements for the City of Franklin for the fiscal years 2009, 2010 and 2011 were \$787,413, \$925,971 and \$1,015,899, respectively, which were paid in full in each year.

The State of New Hampshire funded 25% of employer costs for teachers, police officers and firefighters employed by the City for 2010; which in accordance with GASB Statement No. 24 represents on behalf fringe benefit payments that are required to be reported as revenue and expense in the statement of activities and as revenue and expenditure in the governmental funds statement of revenues, expenditures, and changes in fund balances. For the year ended June 30, 2011, on behalf fringe benefit payments were made by the State of New Hampshire for the City in the amount of \$246,383.

4-B Post-Retirement Benefits - Other Post Employment Benefits

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is recognition of an actuarially required contribution as an expense on the statement of revenues, expenditures and changes in net assets when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that the entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Assets over time.

Plan Description

The City provides its eligible retirees, including in some cases their beneficiaries (as governed by RSA 100-A:50), the ability to purchase health and prescription insurance at the City's group rates. Although the City does not supplement the cost of these plans, GASB Statement 45 requires the City to recognize the liability for the inclusion of any implicit rate subsidies afforded its retirees. This subsidy is generated as a result of the basic nature of insurance – one risk group subsidizes another to arrive at a blended premium, therefore current employees who are young and healthy subsidized the older retirees. As of June 30, 2011, there were approximately 79 retiree subscribers, including eligible spouses and dependents, and 219 active employees that meet the eligibility requirements. The plan does not issue a separate financial report.

Benefits Provided

The City provides medical, prescription drug and mental health/substance abuse benefits to retirees and their covered dependents. All active employees who retire from the City and meet the eligibility criteria will receive these benefits.

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
As Of And For The Fiscal Year Ended
June 30, 2011

4-B Post-Retirement Benefits - Other Post-Employment Benefits, continued

Funding Policy

Retirees of the City, including the dependent school district, contribute 100% of the cost of the health plan, as determined by the City. The City contributes to the remainder of the health plan costs on a pay-as-you-go basis.

Annual OPEB Costs and Net OPEB Obligation

The City's fiscal 2011 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of 30 years. The following table shows the components of the City's annual OPEB cost for the year ending June 30, 2011, the amount actually contributed to the plan and the change in the City's net OPEB obligation based on an actuarial valuation as of July 1, 2009.

Annual OPEB Cost and Net OPEB Obligation

1. Annual Required Contribution	\$327,076
2. Interest on Net OPEB Obligation	0
3. Adjustment to annual required contribution	<u>0</u>
4. Annual OPEB cost	\$327,076
5. Employer contributions (including subsidy)	<u>135,005</u>
6. Change in Net OPEB Obligation	\$192,071
7. Net OPEB Obligation - beginning of year	<u>402,447</u>
8. Net OPEB Obligation - end of year	<u><u>\$402,447</u></u>

Impact of Implicit Subsidy

1. Employer contributions (including subsidy)	\$135,005
2. Actual employer contributions	<u>0</u>
3. Implicit Subsidy (1. - 2.)	<u><u>\$135,005</u></u>

Plan History

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Increase in Net OPEB Obligation
6/30/2011	327,076	41%	192,071
6/30/2010	314,066	37%	198,905
6/30/2009	301,174	32%	203,542

The City's net OPEB obligation as of June 30, 2011 is recorded as a component of long term liabilities on the City's Statement of Net Assets.

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
As Of And For The Fiscal Year Ended
June 30, 2011

4-B Post-Retirement Benefits - Other Post-Employment Benefits, continued

Schedule of Funding Progress

Actuarial Value Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL(UAAL) (b- a)	Funded Ratio (a/b)	Covered Payroll c	UAAL as a % of Covered Payroll ((b- a)/c)
3/30/2011	0	2,469,769	2,469,769	0.0%	8,948,438	27.6%
3/30/2011	0	2,310,766	2,310,766	0.0%	8,360,353	27.6%
7/1/2009	0	2,147,493	2,147,493	0.0%	7,750,077	27.7%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far in the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the City and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long term perspective of the calculations.

In the March 30, 2011 actuarial valuation, the projected unit credit cost method was used. The actuarial value of assets was not determined as the City has not advance funded its obligation. The actuarial assumptions included a 4% investment rate of return and an initial annual healthcare cost trend of 10% which decreases to a 5% long term rate for all healthcare benefits after 6 years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on an open basis.

City of Franklin, New Hampshire
Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
Beginning Budgetary Fund Balance	\$ 353,102	\$ 353,102	\$ 1,475,047	\$ 1,121,945
Resources (Inflows)				
Taxes:				
Property	10,145,898	10,145,898	10,030,496	(115,402)
Other	272,950	246,099	319,654	73,555
Licenses, Permits & Fees	1,012,100	1,012,100	930,268	(81,832)
Intergovernmental:				
Highway Block Grant	205,117	205,117	205,308	191
Meals & Rooms Tax	386,000	384,622	384,622	0
Forest Land Reimbursement	145	163	146	(17)
Flood Control Reimbursement	37,968	36,341	36,341	0
School Aid	-	-	-	-
Department of Environmental Services	-	-	-	-
Department of Justice	114,697	114,697	112,719	(1,979)
Department of Health & Human Services	-	125,000	40,651	(84,349)
Office of Emergency Management	-	-	-	-
Other Grant	21,117	51,117	58,661	7,544
Charges for Services:				
City Clerk/Tax Collector	450	450	-	(450)
Finance	1,300	1,300	540	(760)
Fire	306,125	306,125	290,495	(15,630)
Municipal Services	255,343	255,343	212,636	(42,707)
Planning & Zoning	2,800	2,800	7,871	5,071
Police	65,566	65,566	78,867	13,301
Recreation	51,500	51,500	43,125	(8,375)
School	10,440,759	10,440,759	9,922,038	(518,721)
Welfare	7,500	7,500	2,204	(5,296)
Interest	100,000	100,000	30,686	(69,314)
Sale of Municipal Property	35,000	35,000	11,601	(23,399)
Other	216,064	245,902	235,166	(10,736)
Transfers from Other Funds	2,000	3,220	3,005	(215)
Amounts Available for Appropriation	24,033,501	24,189,721	24,432,148	242,427
Charges to Appropriations (Outflows)				
General Government:				
Executive	256,254	286,254	258,799	27,455
Election, Registration & Vital Statistics	218,905	218,905	227,015	(8,110)
Financial Administration	442,219	442,219	431,774	10,445
Planning & Zoning	153,035	153,035	142,588	10,447
Insurance, Legal & Personnel Expenses	126,179	126,179	130,035	(3,856)
Buildings	124,450	124,450	126,056	(1,606)
Other	26,048	26,048	22,002	4,046
Public Safety:				
Police	2,354,946	2,354,946	2,210,753	144,193
Fire, Ambulance, Emergency Management	1,877,366	1,878,586	1,763,808	114,778
Municipal Services:				
Highways, Streets & Bridges	1,427,711	1,427,711	1,250,600	177,111
Solid Waste	879,249	879,249	929,759	(50,510)
Health Agencies & Hospitals	76,379	76,379	76,379	-
Mayor's Drug & Alcohol Abuse Task Force	-	125,000	40,651	84,349
Welfare	171,199	171,199	178,568	(7,369)
Culture & Recreation:				
Parks & Recreation	415,455	415,455	400,755	14,700
Economic Development	57,000	57,000	57,000	-
Other	10,625	10,625	10,169	456
Capital Outlay	-	-	-	-
Debt Service:				
Principle	165,000	165,000	165,000	-
Interest	56,868	56,868	56,868	1
Other	825	825	-	825
School	14,877,605	14,877,605	14,264,768	612,837
Transfers to Other Funds	316,183	316,183	322,293	(6,110)
Total Charges to Appropriations	24,033,501	24,189,721	23,065,641	1,124,080
Ending Budgetary Fund Balance	\$ -	\$ -	\$ 1,366,507	\$ 1,366,507

City of Franklin, New Hampshire
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2011

	Franklin Public Library	School Food Service	CDBG Grant Fund	Conservation Commission	Drug Forfeiture	Dare Fund	Heritage Commission	Expendable Trusts	Parks and Recreation	Outside Detail	Total Special Revenue Funds
ASSETS											
Assets											
Cash and equivalents	\$ 156,957	\$ 107,089	\$ -	\$ -	\$ 1,582	\$ 722	\$ -	\$ 72,681	\$ -	\$ -	\$ 339,031
Investments	-	-	-	10,210	-	-	7,690	113,137	-	-	131,037
Receivables, net of allowances for uncollectables	-	-	-	-	-	-	-	-	-	945	945
Intergovernmental Receivable	-	163,750	-	-	-	-	-	-	-	-	163,750
Interfund receivable	38,565	-	-	-	-	-	-	5,290	27,488	15,750	87,093
Prepaid items	-	-	-	-	-	-	-	-	-	-	-
Inventory	-	13,759	-	-	-	-	-	-	-	-	13,759
Total assets	195,523	284,598	-	10,210	1,582	722	7,690	191,108	27,488	16,695	735,615
LIABILITIES AND FUND BALANCES											
Classified Liabilities											
Accounts payable	1,314	465	-	-	-	-	-	-	1,012	-	2,792
Contracts payable	-	-	-	-	-	-	-	-	-	-	-
Accrued payroll & benefits	2,503	2,833	-	-	-	-	-	-	-	-	5,336
Intergovernmental payable	-	-	-	-	-	-	-	-	-	-	-
Interfund payable	-	114,378	-	-	-	-	-	-	-	-	114,378
Deferred Revenue	-	7,918	-	-	-	-	-	-	-	-	7,918
Total liabilities	3,817	125,594	-	-	-	-	-	-	1,012	-	130,424
Fund balances:											
Nonspendable:											
Inventory	-	13,759	-	-	-	-	-	-	-	-	13,759
Restricted:											
Conservation	-	-	-	-	-	-	-	72,681	-	-	72,681
Fire	-	-	-	-	-	-	-	85,672	-	-	85,672
Library	191,705	-	-	-	-	-	-	-	-	-	191,705
Parks	-	-	-	-	-	-	-	766	-	-	766
Police	-	-	-	-	1,582	-	-	-	-	-	1,582
School	-	-	-	-	-	-	-	31,990	-	-	31,990
Committed:											
Conservation	-	-	-	10,210	-	-	-	-	-	-	10,210
Heritage	-	-	-	-	-	-	7,690	-	-	-	7,690
Parks	-	-	-	-	-	-	-	-	26,476	-	26,476
Police	-	-	-	-	-	722	-	-	-	16,695	17,417
School	-	-	-	-	-	-	-	-	-	-	-
Assigned:											
School	-	145,245	-	-	-	-	-	-	-	-	145,245
Total fund balances	191,705	159,004	-	10,210	1,582	722	7,690	191,108	26,476	16,695	605,192
Total liabilities and fund balances	\$ 195,523	\$ 284,598	\$ -	\$ 10,210	\$ 1,582	\$ 722	\$ 7,690	\$ 191,108	\$ 27,488	\$ 16,695	\$ 735,615

City of Franklin, New Hampshire
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2011

	Franklin Public Library	School Food Service	CDBG Grant Fund	Conservation Commission	Drug Forfeiture	Dare Fund	Heritage Commission	Expendable Trusts	Parks and Recreation	Outside Police Details	Total Special Revenue Funds
Revenues											
Revenues Gov Funds											
Intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ 505	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 505
Charges for Services	5,488	656,677	-	-	-	-	-	-	57,884	5,827	725,875
Interest	201	317	-	16	6	2	11	2,504	-	-	3,056
Change in Fair Market	-	-	-	-	-	-	-	31,157	-	-	31,157
Miscellaneous	3,614	-	-	-	-	1,000	-	-	-	-	4,614
Total revenues	9,303	656,994	-	16	511	1,002	11	33,661	57,884	5,827	765,207
Expenditures											
Public Safety	-	-	-	-	1,748	800	-	-	-	3,666	6,214
Culture and recreation	324,876	-	-	-	-	-	-	-	47,883	-	372,760
Conservation	-	-	-	320	-	-	-	-	-	-	320
School	-	671,386	-	-	-	-	-	-	-	-	671,386
Capital Outlay	-	-	-	-	-	-	-	-	-	-	-
Total expenditures	324,876	671,386	-	320	1,748	800	-	-	47,883	3,666	1,050,679
Excess (deficiency) of revenues over (under) expenditures	(315,574)	(14,392)	-	(304)	(1,237)	202	11	33,661	10,001	2,161	(285,472)
Other financing sources (uses):											
Transfers in	375,316	-	-	-	-	500	400	-	-	-	376,216
Transfers Out	-	-	-	-	-	-	-	(1,005)	-	-	(1,005)
Total other financing sources and uses	375,316	-	-	-	-	500	400	(1,005)	-	-	375,211
Net change in fund balances	59,742	(14,392)	-	(304)	(1,237)	702	411	32,656	10,001	2,161	89,739
Fund balances, beginning	131,963	173,396	-	10,515	2,820	20	7,279	158,452	16,475	14,534	515,453
Fund balances, ending	\$ 191,705	\$ 159,004	\$ -	\$ 10,210	\$ 1,582	\$ 722	\$ 7,690	\$ 191,108	\$ 26,476	\$ 16,695	\$ 605,192

City of Franklin, New Hampshire
Combining Balance Sheet
Nonmajor Permanent Funds
June 30, 2011

	Odell Park	Other General Trusts	Library Buswell Trust	Other Library Trusts	Total Permanent Funds
ASSETS					
Assets					
Investments	\$ 136,110	\$ 573,819	\$ 763,908	\$ 267,832	\$ 1,741,670
Intergovernmental receivable	-	-	-	-	-
Total Assets	136,110	573,819	763,908	267,832	1,741,670
LIABILITIES AND FUND BALANCES					
Classified Liabilities					
Accounts payable	-	525,443	-	-	525,443
Interfund Payable	-	-	-	3,085	3,085
Total Liabilities	-	525,443	-	3,085	528,528
Fund balances:					
Nonspendable:					
Permanent fund principal	113,113	35,142	707,329	238,002	1,093,585
Restricted:					
Library	-	-	56,579	26,746	83,325
Parks	22,998	13,235	-	-	36,232
Total fund balances	136,110	48,376	763,908	264,747	1,213,142
Total liabilities and fund balances	\$ 136,110	\$ 573,819	\$ 763,908	\$ 267,832	\$ 1,741,670

City of Franklin, New Hampshire
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Permanent Funds
For the Fiscal Year Ended June 30, 2011

	Odell Park	Other General Trusts	Library Buswell Trust	Other Library Trusts	Total Permanent Funds
Revenues					
Revenues Gov Funds					
Interest/Dividends	\$ 3,697	\$ 1,149	\$ 22,594	\$ 7,780	\$ 35,219
Change in Fair Value	37,484	13,322	115,886	73,759	240,451
Miscellaneous	-	-	1,443	-	1,443
Total revenues	41,181	14,471	139,922	81,539	277,113
Expenditures:					
Functional Expenditures					
General government	-		8,718	-	8,718
Total expenditures	-	-	8,718	-	8,718
Excess of revenues over expenditures	41,181	14,471	131,204	81,539	268,395
Other financing sources (uses):					
Transfers In	-	-	-	-	-
Transfers Out	(2,000)	-	(47,333)	(6,589)	(55,922)
Total other financing sources (uses)	(2,000)	-	(47,333)	(6,589)	(55,922)
Net change in fund balances	39,181	14,471	83,872	74,949	212,473
Fund balances, beginning	96,929	33,905	680,036	189,798	1,000,669
Fund balances, ending	\$ 136,110	\$ 48,376	\$ 763,908	\$ 264,747	\$ 1,213,142

GRZELAK AND COMPANY, P.C.

Certified Public Accountants

Members – American Institute of CPA's (AICPA)
Member – AICPA Government Audit Quality Center (GAQC)
Member – AICPA Private Company Practice Section (PCPS)
Members – New Hampshire Society of CPA's

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and City Council
City of Franklin
Franklin, New Hampshire

We have audited the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Franklin, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 22, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

This report does not include the results of testing of internal control over financial reporting or compliance and other matters that are reported separately for the Franklin School District, a blended component unit of the City.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Franklin's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Franklin's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Franklin's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Franklin's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Grzelak and Co., P.C.

GRZELAK AND COMPANY, P.C., CPA's

Laconia, New Hampshire
October 22, 2013

GRZELAK AND COMPANY, P.C.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and City Council
City of Franklin
Franklin, New Hampshire

Compliance

We have audited City of Franklin's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Franklin's major federal programs for the year ended June 30, 2011. The City of Franklin's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Franklin's management. Our responsibility is to express an opinion on City of Franklin's compliance based on our audit.

The City of Franklin's basic financial statements include the operations of the Franklin School District, blended component unit of the City, which received \$732,936 in federal funds which is not included in the schedule during the year ended June 30, 2011. Our audit described below, did not include the operations of the Franklin School District as this component unit was audited separately in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Franklin's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Franklin's compliance with those requirements.

In our opinion, City of Franklin complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of City of Franklin is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Franklin's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Franklin's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of City of Franklin's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on City of Franklin's compliance but not to provide an opinion on the effectiveness of City of Franklin's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Franklin's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

Grzelak and Co., P.C.

GRZELAK AND COMPANY, P.C., CPA's

Laconia, New Hampshire
October 22, 2013

CITY OF FRANKLIN

Schedule of Expenditures of Federal Awards Year Ended June 30, 2011			
Federal Grantor / Pass-Through Grantor Program or Cluster Title	Federal CFDA #	Pass Through ID #	Expenditures of Federal Awards
U.S. DEPARTMENT OF AGRICULTURE			
Passed through the NH Department of Environmental Services			
Water and Waste Disposal Systems for Rural Communities - ARRA	10.781		\$ 2,529,130
			<u>2,529,130</u>
U.S. DEPARTMENT OF JUSTICE			
Direct			
Public Safety Partnership and Community Policing Grants	16.710	2009RKWX0614	52,861
Violence Against Women Formula Grants	16.588	VAWA14B	33,949
Violence Against Women Formula Grants	16.588	VAWA14	25,909
			<u>112,719</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Passed through the NH Department of Transportation			
Highway Planning and Construction	20.205		19,122
Passed through the NH Highway Safety Agency			
State and Community Highway Safety	20.600	315-10B-053	1,366
State and Community Highway Safety	20.600	304-11B-014	2,076
State and Community Highway Safety	20.600	215-11B-078	226
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	308-10B-038	1,595
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	308-10B-079	213
			<u>24,598</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through the NH Department of Health and Human Services			
Drug-Free Communities Support Program Grants	93.276	1H79SP017024-01	40,651
			<u>40,651</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,707,098</u>

The accompanying notes are an integral part of this schedule.

CITY OF FRANKLIN

Notes to Schedule of Expenditures of Federal Awards June 30, 2011

The schedule of expenditures of federal awards is prepared in accordance with the regulations defined in the Office of Management and Budget's (OMB), Circular No. A-133, "Audits of States, Local Governments, and Non-Profit Organizations." The schedule of expenditures of federal awards is prepared for the period covered by the related financial statements, the year ended June 30, 2011.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The operating activities of all federal awards are accounted for within the governmental funds (general and special revenue) of the City. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The expenditures reported in the schedule are based on requirements defined in OMB Circular A-133 and include, but are not limited to, expenditure/expense transactions associated with grants, cost reimbursement contracts, the receipt or use of program income and the distribution or consumption of food commodities. During the year ended June 30, 2011 the City expended funds associated with grants, received surplus commodities and received cost reimbursements for meals served.

Expenditures associated with grants are made on a reimbursement basis and any excess of expenditures over receipts are recorded as an accounts receivable at year-end.

2. RECONCILIATION TO FINANCIAL STATEMENT AMOUNT

The total expenditures of federal awards per the accompanying schedule of expenditures of federal awards reconciles to the Statement of Revenues, Expenditures and Changes in Fund Balances – Major and Other Governmental Funds as follows:

Schedule of Expenditures of Federal Awards	\$	2,707,098
Capital assets additions - Enterprise Fund - Water		(2,529,130)
	\$	<u>177,968</u>
Statement of Revenues, Expenditures, and Changes in Fund Balances		
Major Funds		
General Fund		
COPS Grant	\$	52,861
VAWA Grants		59,858
Highway Safety Agency Grants		3,174
Drug Free Communities		40,651
Manager Contingency Grants		2,302
Capital Projects Fund		
Downtown transportation		<u>19,122</u>
	\$	<u>177,968</u>

Financial Statements

The type of auditor's report issued – Unqualified.

Internal control over financial reporting:

- Material weaknesses identified – No.
- Significant deficiencies identified – No.
- Noncompliance material to financial statements noted? – No.

Federal Awards

Internal control over major programs:

- Material weaknesses identified – No.
- Significant deficiencies identified – No.

Type of auditor's report issued on compliance for major programs - Unqualified.

Are there any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 – No.

Identification of major programs:

- CFDA # 10.781 - Water and Waste Disposal Systems for Rural Communities - ARRA

Dollar Threshold used to distinguish between type A and type B Programs - \$300,000.

Auditee qualified as a low-risk auditee – No.