

CITY OF FRANKLIN

Franklin, New Hampshire

Financial Statements

June 30, 2014

CITY OF FRANKLIN, NEW HAMPSHIRE

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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

Report on the Financial Statements

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 the City of Franklin as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2014, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 16 and 49 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Franklin's basic financial statements. 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 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 basic financial statements. Such 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2015, 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* in considering City of Franklin's internal control over financial reporting and compliance.

Grzelak and Co., P.C.

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

Laconia, New Hampshire

September 24, 2015

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2014

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, 2014. 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 \$32.9 million (net position). Of this amount, \$4.6 million (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors. Total net position for governmental activities was \$19.36 million (\$3.27 million unrestricted) and total net position for business like activities was \$13.5 million (\$1.34 million unrestricted).
- As of the close of the current fiscal year, the City of Franklin's governmental funds reported combined ending fund balances of \$6.39 million, an increase of \$882 thousand over the prior year. Of the combined ending fund balances, \$2.63 million, an increase of \$320 thousand over the prior year, 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 \$2.63 million, or 11.19 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 position* presents information on all of the City of Franklin's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 and Sewer Activities.

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2014

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 sixteen 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 and capital fund 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 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, 2014

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 position may serve over time as a useful indicator of a government's financial standing. In the case of the City of Franklin, assets exceeded liabilities by \$32.9 million at the close of fiscal year 2014 and \$32.5 million at the close of fiscal year 2013. Governmental activities assets exceeded liabilities by \$19.36 million and \$18.57 million at the close of fiscal years 2014 and 2013, respectively.

The largest portion of the City of Franklin's net position (79.2%) 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 Position (in Thousands)										
		Governmental Activities			Business-Type Activities			Total Primary Government		
		2014	2013	2012	2014	2013	2012	2014	2013	2012
Current and other assets		14,809	13,807	13,039	2,947	2,576	2,413	17,756	16,383	15,452
Capital assets		18,220	18,781	18,790	19,184	18,621	15,665	37,404	37,402	34,455
Total assets		33,029	32,588	31,829	22,131	21,197	18,078	55,160	53,785	49,907
Deferred outflow of resources		-	-	-	-	-	-	-	-	-
Total assets and deferred outflow of resources		33,029	32,588	31,829	22,131	21,197	18,078	55,160	53,785	49,907
Current liabilities		1,496	1,397	7,397	185	769	577	1,681	2,166	7,974
Long term liabilities outstanding		5,890	6,404	6,681	7,197	6,410	4,546	13,087	12,814	11,227
Total liabilities		7,386	7,801	14,078	7,382	7,179	5,123	14,768	14,980	19,201
Deferred inflow of resources		6,281	6,213	-	1,242	120	-	7,523	6,333	-
Total liabilities and deferred inflow of resources		13,667	14,014	14,078	8,624	7,299	5,123	22,291	21,313	19,201
Net Position:										
Invested in capital assets, net of related debt		14,041	13,861	13,334	12,007	12,231	11,138	26,048	26,092	24,472
Restricted		2,055	2,405	2,160	152	152	152	2,207	2,557	2,312
Unrestricted		3,266	2,308	2,257	1,348	1,515	1,665	4,614	3,823	3,922
Total net position		19,362	18,574	17,751	13,507	13,898	12,955	32,869	32,472	30,706

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2014

An additional portion of the City of Franklin's net position (6.7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$4.6 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 position, 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 Position (in Thousands)									
	Governmental Activities			Business-Type Activities			Total Primary Government		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Revenues									
Program Revenue:									
Charges for Services	2,051	1,773	1,739	2,485	2,515	2,620	4,536	4,288	4,359
Operating Grants and Contributions	9,564	10,052	11,648	7	7	10	9,571	10,059	11,658
Capital Grants and Contributions	18	51	-	173	874	2,508	191	925	2,508
General Revenues:							-	-	-
Property Taxes	10,914	10,706	9,022	-	-	-	10,914	10,706	9,022
Other Taxes	311	196	304	-	-	-	311	196	304
Licenses and Permits	1,113	1,180	1,038	-	-	-	1,113	1,180	1,038
Grants and Contributions not restricted to specific programs	753	776	832	-	-	-	753	776	832
Interest Earnings	73	90	36	-	-	-	73	90	36
Miscellaneous	788	634	716	-	-	-	788	634	716
Total Revenues	25,585	25,458	25,335	2,665	3,396	5,138	28,250	28,854	30,473
Expenses									
Functional Expenditures:									
General Government	1,950	1,631	1,761	-	-	-	1,950	1,631	1,761
Public Safety	4,855	4,491	4,292	-	-	-	4,855	4,491	4,292
Highway and Streets	1,573	1,612	1,761	-	-	-	1,573	1,612	1,761
Sanitation	724	714	753	-	-	-	724	714	753
Health	194	159	217	-	-	-	194	159	217
Welfare	71	135	231	-	-	-	71	135	231
Culture and Recreation	813	857	586	-	-	-	813	857	586
Conservation	1	1	-	-	-	-	1	1	-
Economic Development	45	45	45	-	-	-	45	45	45
School	14,313	14,932	14,654	-	-	-	14,313	14,932	14,654
Debt Service	26	35	44	-	-	-	26	35	44
Capital Outlay	232	23	-	-	-	-	232	23	-
Proprietary Activities	-	-	-	3,056	2,453	2,299	3,056	2,453	2,299
Total Expenses	24,797	24,635	24,344	3,056	2,453	2,299	27,853	27,088	26,643
Change in net assets before transfers	788	823	991	(391)	943	2,839	397	1,766	3,830
Transfers	-	-	-	-	-	-	-	-	-
Increase (Decrease) in net assets	788	823	991	(391)	943	2,839	397	1,766	3,830
Net Assets, beginning	18,574	17,751	16,760	13,898	12,955	10,116	32,472	30,706	26,876
Net Assets, ending	19,362	18,574	17,751	13,507	13,898	12,955	32,869	32,472	30,706

Governmental activities. Governmental activities increased the City of Franklin's net position by \$787,857.

Business-type activities. Business-type activities decreased the City of Franklin's net position by \$391,438, which, net with the increase in net position from governmental activities, accounts for the City's total increase in net position of \$396,418.

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2014

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 \$6.4 million, an increase of \$883 thousand over the prior year. Of the combined ending fund balances, \$2.63 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 (\$993,993), 2) legally restricted for permanent fund and capital purchase purposes (\$2,035,006), or 3) for a variety of other restricted purposes (\$735,071).

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 \$2.63 million, while total fund balance reached \$4.33 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 11.19 percent of total general fund expenditures, while total fund balance represents 18.43 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 position of the proprietary funds at the end of the year amounted to \$1,348,464. The total net position decreased over the prior year by \$391,438. 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 \$645,941 increase in appropriations which can be briefly summarized as follows:

- \$208,934, programs, allocated to school district
- \$30,000, industrial park drive engineering, allocated to capital outlay
- \$10,000, New Hampshire Attorney General Drug Task Force grant, allocated to police
- \$372,307, energy performance contract, allocated to capital outlay
- \$17,700, equip rescue storage and workstation trailer, allocated to fire
- \$7,000, working dog foundation grant for K9 officer, allocated to police

Of this increase, \$17,000 was funded from grant sources, \$130,000 from capital reserve funds, \$17,700 from trusts funds, \$279,275 from private sources and \$201,966 from capital lease proceeds. No supplemental appropriation was budgeted from available fund balance in fiscal year 2014.

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2014

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, 2014, amounts to \$26,047,934 (net of accumulated depreciation and related debt). 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:

- Water Tank Renovations (in progress, partially grant funded)
- Water Air Scour System
- Route 11, Lawndale Ave & Chance Pond Road Water Mains (partially grant funded)
- Dearborn Street and Dana Court sewer main extension
- Dump Truck
- Water Treatment Plant (partially grant funded)
- Tannery Street storage shed
- Babbitt Road Pumping Station Refurb
- Downtown Transportation Project (grant funded)
- Route 3 water main relocation (in progress)
- City Hall security cameras
- Sewer main cover replacements Chance Pond Road
- Forest Street water line replacement
- Proulx Center renovations
- Willow Hill & North Main Street paving
- City Hall tower roof
- Municipal Services garage floor jacks
- Haynes Brook Culvert (in progress)
- Library renovations (trust funds)
- Odell Park tennis court fencing
- K9 Officer (grant funded)
- Police cruiser
- Bessie Rowell Community Center renovations (in progress, grant funded)
- GIS mapping
- (2) Defibrillators
- Building 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		
		2014	2013	2012	2014	2013	2012	2014	2013	2012
Land		906	906	906	65	65	65	971	971	971
Monuments		61	61	61	-	-	-	61	61	61
Construction in Progress		102	73	234	88	5,711	3,983	190	5,784	4,217
Land Improvements		171	179	188	-	-	-	171	179	188
Buildings and Improvements		12,242	12,620	12,763	442	452	453	12,684	13,072	13,216
Machinery, Vehicles and Equipment		2,579	2,724	2,327	230	259	297	2,809	2,983	2,624
Infrastructure		2,159	2,219	2,311	18,359	12,134	10,867	20,518	14,353	13,178
Total		18,220	18,782	18,790	19,184	18,621	15,665	37,404	37,403	34,455

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2014

Long-term debt. At the end of the current fiscal year, the City of Franklin had total bonded debt outstanding of \$7,120,219 and \$3,891,290 in notes. Of this amount, 100% comprises debt backed by the full faith and credit of the government; however, \$3,449,954 bonds & \$3,727,006 notes are attributable to the Water and Sewer proprietary funds, and \$200,000 is attributable to the District Courthouse. Of the \$3,727,006 proprietary note debt, the State of New Hampshire has agreed to offset \$1,242,330 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 \$3,205,263 of the total bonded debt of \$7,120,219. 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		
		2014	2013	2012	2014	2013	2012	2014	2013	2012
General Obligation Bond		3,670	4,424	4,784	3,450	3,565	3,833	7,120	7,989	8,617
Accrued Landfill Postclosure		187	193	206	-	-	-	187	193	206
Compensated Absences		321	400	376	20	20	19	341	420	395
Capital Leases		344	500	672	-	-	-	344	500	672
Other Notes		164	-	-	3,727	2,825	694	3,891	2,825	694
Other Post Employment Benefits		1,204	887	642	-	-	-	1,204	887	642
Total		5,890	6,404	6,680	7,197	6,410	4,546	13,087	12,814	11,226

During the current fiscal year, the City of Franklin's total debt increased by \$273,140 (2 percent). This increase is the net effect of current year bond/note debt service amounts paid (\$804,463), current year capital lease debt service amounts paid (\$221,273), decrease in compensated absences (\$79,560), decrease in landfill post closure obligations (\$5,465) increase in other post employment benefits (\$316,555), new capital lease for defibrillators (\$65,615) and new debt for the water tank rehabilitation project (\$1,001,731).

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 \$50 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, 2014

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 manager's 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.

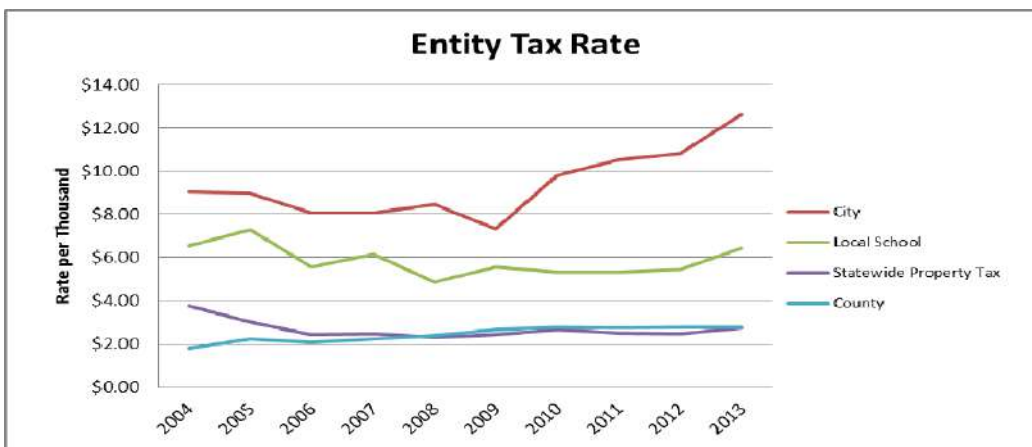
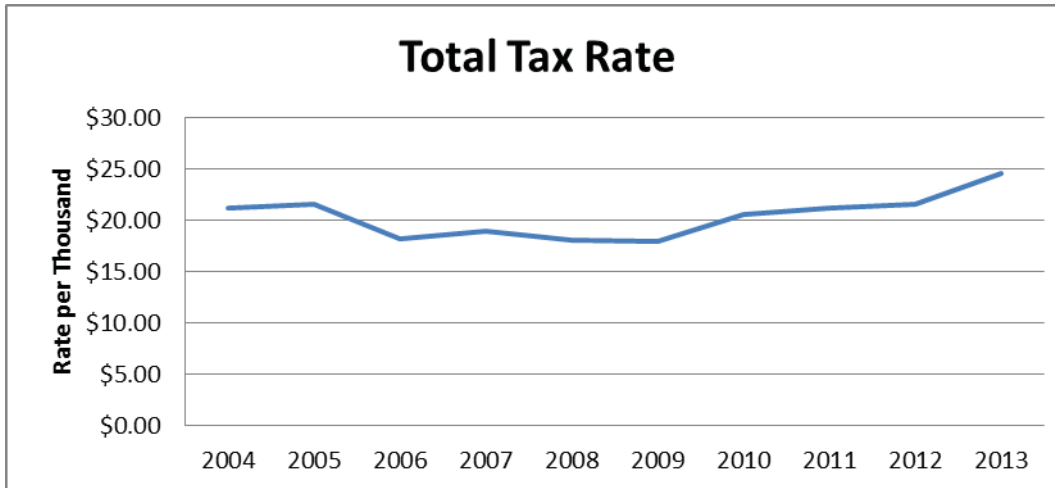
In October 2002, the Charter was amended again and the tax cap was modified to include a calculation to include newly assessed property value from the prior year (April 1). The calculation includes all new value from April 1 of the prior tax year multiplied by the prior calendar year's tax rate.

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, 2014



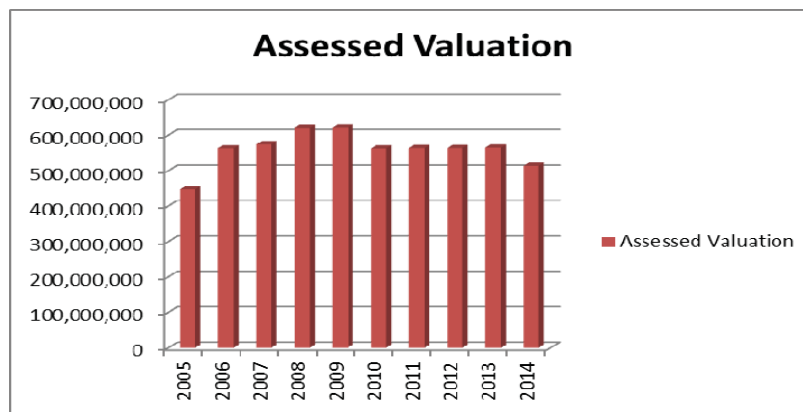
The total city tax commitment as opposed to the city's gross budget reflects how much taxes were raised as a result of changes in the gross budget and property assessment.

Fiscal Year	Total Taxes	Percentage Change
2002	\$8,838,708	2.1%
2003	\$9,144,701	3.5%
2004	\$9,483,601	3.7%

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2014

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%
2012	\$11,955,968	1.9%
2013	\$12,356,447	3.3%
2014	\$12,442,736	0.7%

The City's net valuation, or the taxable assessment on both land and buildings used to establish the tax rate, was \$514,177,200 in fiscal year 2014. As a result of the recession, the City has experienced a \$50m decrease in assessed valuation from the previous year.



Economics

The City of Franklin is at the confluence of the Pemigewasset and Winnepesaukee Rivers, forming the headwaters 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 similar to other New England mill communities.

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 Lakes Region recreational destinations has renewed interest in the community and drawn attention to revitalizing its main street corridor. The community promotes a stable tax rate, access to various recreational amenities, its historic downtown and a wide variety of City services which similar sized communities don't offer.

The City recognizes the key to growth is economic development and striking that balance between residential and commercial properties. A dilapidated property was purchased and converted to active commercial space in FY14. The conversion aided in the beautification by eradicating the blight of the dilapidated property located on Central Street which is the main street going through Franklin's downtown.

Through the Brownsfield grant program, the cleanup work was completed on the former garage property secured by the City through tax deed as discussed in FY13's management discussion and analysis. The City is actively

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2014

soliciting buyers for the property in order to get the piece back on the tax roll. There are a few potential prospects currently interested in the property.

Continuing on the "Franklin Goes Green" and economic development initiatives, the City is currently applying for a Brownsfield grant for the cleanup of another property acquired through the tax deed process on chance pond road so that the City can evaluate options for reuse possibly placing it back on the tax roll in the near future.

The City is continuing to make great strides in the project discussed in FY12 to turn a former elementary school into the new City recreational community center. The City secured similar programs to occupy the remaining portions of the former school sharing in building related expenditures with the City. Occupants include Tiny Twisters Daycare, Head Start and the Twin Rivers Intergenerational Program. All share the building with the City's recreation department, creating a multigenerational facility serving area children and seniors alike. The City previously secured two Community Development Block Grants for the renovation of the Tiny Twisters and Head Start program areas of the building. Renovations for both the Tiny Twisters and Head Start programs were completed by the end of the current fiscal year. Both programs are utilizing the facility full time. The City was successful in securing a third Community Development Block Grant for the Twin Rivers Intergenerational Program space at the community center. Twin River renovations are in the beginning of the design phase. When the Twin Rivers Intergenerational Program moves into the community center, the building will be fully occupied. The (3) programs and the City will share in the building maintenance expenses.

The City contracted for a City wide energy audit during the period identifying areas where improvements, boiler, lighting, etc., could be made in order to realize savings in electrical and heating fuel costs. The savings will be utilized to pay for the cost of implementing the energy audit. The payback period for the project is conservatively estimated at 12 years. The City will enjoy the savings for 20-25 years useful life of the improvements.

The City completed engineering plans for the renovation of industrial park drive during FY14. The renovations will assist the commercial entities in the industrial park as well as attract new businesses to the park.

Due to the nationwide recession, especially in the construction industry, residential growth had decreased in the past few years; however, the City is now seeing reverse of this past trend and has remained somewhat flat in the current fiscal year. Slight growth did occur as both retirees and commuting professionals seek property tax stability, centralized location in the State of New Hampshire, close proximity to the Lakes Region, affordable housing stock, recreational access, and the amenities generally provided by cities. In addition, the City is starting to see an increase in housing values although the growth is slow.

The City continues to rally around the Franklin Mayor's Drug Task Force, funded entirely by a federal grant. In addition to many education efforts to keep Franklin's youth drug free, the community was successful in obtaining a K9 officer and is actively fundraising for the upkeep of that officer. The Task Force has been so successful in its initiatives; the director of the federal drug enforcement agency recently visited Franklin to commend their efforts.

In addition to the Mayor's Drug Task Force efforts, the police department was awarded a State of New Hampshire Attorney General Drug Task Force grant to offset overtime costs of investigating drug related cases.

The City received a grant to update the City wide emergency management plan and was successful in doing so. The plan, which benefits all residents and businesses, was approved by the City Council during this period.

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

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2014

in the city's drinking water which is causing aesthetic issues with the drinking water as well as having adverse effects on the water distribution system. The city secured funding (\$3,345,000) through a USDA bond for the remainder of the project. The project was completed in fiscal year 2014 and the system users are already reaping the benefits.

In addition, the City secured funding (totaling \$3,370,000) through the State of New Hampshire Drinking Water State Revolving Fund (DWSRF) with a 40% forgiveness for the replacement of two 500 thousand gallon water tanks on the west side of Franklin along with additional distribution system improvements. The annual payment of debt is replacing previous debt that was paid off in FY14; therefore, not impacting the current water rate. This project was also completed by the end of the fiscal year.

The ongoing Water Meter Replacement Program continues to replace all 2314 outdated water meters. This enables the City to obtain accurate water usage consumption from all customers. Additionally, the City continues to repair and replace various pieces of aging water equipment and infrastructure.

The City sanitary sewer collection system is piped to the Winnepesaukee River Basin Program (WRBP) interceptor which then flows to a state owned and operated waste water treatment plant located at the end of River Street in Franklin. WRBP was created by special legislation by the State of New Hampshire and was constructed in the early 1980's. WRBP is a regional wastewater collection system operated by the State serving 10 municipalities each paying a proportional assessment for the operation, maintenance, capital and debt service for the program. 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 from WRBP in the coming years that will pass to the City and impact the rate payer. As part of the WRBP, each member community has an appointed advisory board member who works with New Hampshire Department of Environmental Services (NHDES). The role of the advisory board has become more involved in the operation of the program, funding and implementation of capital projects as well as other operational issues in the current fiscal period providing better oversight and management of expenses.

All of the above factors were considered in preparing the City of Franklin's water and sewer budgets for the 2015 fiscal year. Water rates increased \$.25 per 100 cubic feet (5.56%) for fiscal 2015 budget year to fully support the new water treatment facility and offset operational increases since the previous rate increase (FY08) that the City was able to manage previously by offsetting with capital projects. The Council decided to offset \$.50 of the needed \$.75 increase with retained earnings to spread the increase over 3 years. Sewer rates increased \$.14 per 100 cubic feet (2.21%) in FY15 as a result of the 2% increase from the Winnepesaukee River Basin Program whose costs are largely outside of the City's control.

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 Position
June 30, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Assets			
Cash and equivalents	\$ 5,440,038	\$ -	\$ 5,440,038
Investments	3,141,469	-	3,141,469
Receivables, net of allowances for uncollectables			
Taxes	4,663,308	-	4,663,308
Accounts	554,245	617,003	1,171,248
Intergovernmental receivable, current	1,302,999	1,457,382	2,760,381
Internal Balances	(813,834)	813,834	(0)
Prepaid items	52,815	-	52,815
Inventory	45,329	59,661	104,990
Tax deeded property, subject to resale	422,872	-	422,872
Other Assets	-	-	-
Capital assets not being depreciated			
Monuments	61,000	-	61,000
Land	905,806	65,148	970,954
Construction in progress	102,094	88,146	190,239
Capital assets, net of accumulated depreciation			
Land improvements	170,810	-	170,810
Buildings and improvements	12,241,741	441,605	12,683,347
Machinery, equipment, and vehicles	2,579,737	229,424	2,809,161
Infrastructure	2,158,765	18,359,272	20,518,037
Total assets	33,029,193	22,131,475	55,160,668
DEFERRED OUTFLOW OF RESOURCES			
	-	-	-
LIABILITIES			
Classified Liabilities			
Accounts Payable	1,104,402	34,879	1,139,281
Accrued payroll and benefits	221,470	11,128	232,598
Contracts payable	-	-	-
Retainage payable	-	-	-
Accrued interest payable	9,387	139,703	149,089
Intergovernmental payable	35,413	-	35,413
Unearned revenues	125,148	-	125,148
Noncurrent liabilities:			
Due within one year:			
Bonds	557,105	195,494	752,599
Notes	32,858	93,378	126,236
Leases	168,908	-	168,908
Landfill postclosure care costs	9,458	-	9,458
Compensated absences	320,560	19,636	340,196
Other post employment benefits	1,203,850	-	1,203,850
Due in more than one year:			
Bonds, long term	3,113,160	3,254,460	6,367,620
Compensated absences	-	-	-
Notes, long term	131,426	3,633,628	3,765,054
Leases	175,196	-	175,196
Landfill postclosure care, long term	177,904	-	177,904
Total Liabilities	7,386,246	7,382,305	14,768,551
DEFERRED INFLOW OF RESOURCES			
Property taxes levied in current year to finance FY2015 budget	6,280,922	-	6,280,922
Grant from State of New Hampshire to offset portion over the life of the 2006 State revolving fund loan (sewer) & 2014 State revolving fund loan (water)		1,242,330	1,242,330
Total Deferred Inflow of Resources	6,280,922	1,242,330	7,523,252
NET POSITION			
Net investment in capital assets	14,041,299	12,006,634	26,047,934
Restricted	2,054,573	151,741	2,206,314
Unrestricted	3,266,153	1,348,464	4,614,617
Total net position	\$ 19,362,025	\$ 13,506,840	\$ 32,868,864

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, 2014

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Primary government							
Governmental activities:							
General Government	\$ 1,949,824	\$ 7,596	\$ 183,168	\$ -	\$ (1,759,060)		\$ (1,759,060)
Public Safety	4,854,832	555,394	81,533	-	(4,217,904)		(4,217,904)
Highways and streets	1,572,525	72,926	175,122	12,477	(1,311,999)		(1,311,999)
Sanitation	723,533	189,533	-	-	(534,000)		(534,000)
Health	193,503	-	131,818	-	(61,686)		(61,686)
Welfare	71,324	-	-	-	(71,324)		(71,324)
Culture and recreation	812,612	150,265	2,154	5,665	(654,528)		(654,528)
Conservation	820	-	-	-	(820)		(820)
Economic Development	45,000	-	-	-	(45,000)		(45,000)
School	14,312,824	1,074,707	8,989,453	-	(4,248,664)		(4,248,664)
Interest on long term debt	26,179	-	-	-	(26,179)		(26,179)
Capital Outlay	232,133	-	-	-	(232,133)		(232,133)
Total governmental activities:	24,795,109	2,050,422	9,563,249	18,142	(13,163,296)		(13,163,296)
Business-type activities:							
Water operations	1,968,200	1,180,916	-	172,452		\$ (614,831)	(614,831)
Sewer operations	1,087,688	1,304,220	6,861	-		223,393	223,393
Total business-type activities	3,055,888	2,485,136	6,861	172,452		(391,438)	(391,438)
Total primary government	27,850,996	4,535,558	9,570,110	190,594	(13,163,296)	(391,438)	(13,554,734)
General Revenues:							
Property Taxes					10,914,223		10,914,223
Other Taxes					310,779		310,779
Licenses and Permits					1,112,418		1,112,418
Grants Not Restricted to Specific Programs					753,208		753,208
Interest Earnings					72,870		72,870
Change in Fair Market Value					206,603		206,603
Miscellaneous					581,052		581,052
Transfers - Internal Activity					-	-	-
Total General Revenues					13,951,153	-	13,951,153
Change in Net Position					787,857	(391,438)	396,418
Net Position - Beginning					18,574,168	13,898,278	32,472,447
Net Position - Ending					\$ 19,362,025	\$ 13,506,840	\$ 32,868,865

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, 2014

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and equivalents	\$ 5,050,564	\$ -	\$ 389,475	5,440,038
Investments	816,159	-	2,325,310	3,141,469
Receivables, net of allowances for uncollectables				
Taxes	4,663,308	-	-	4,663,308
Accounts	530,954	-	5,097	536,051
Intergovernmental receivable	366,276	-	732,775	1,099,052
Interfund receivable	791,797	-	85,546	877,343
Prepaid items	52,815	-	-	52,815
Inventory	205	-	9,131	9,336
Other Assets	-	-	-	-
Total assets	<u>\$ 12,272,077</u>	<u>\$ -</u>	<u>\$ 3,547,334</u>	<u>15,819,411</u>
LIABILITIES AND FUND BALANCES				
Classified Liabilities				
Accounts payable	\$ 414,842	\$ -	\$ 679,756	1,094,598
Accrued payroll and benefits	184,983	-	5,078	190,061
Retainage payable	-	-	-	-
Intergovernmental payable	35,413	-	-	35,413
Interfund payable	913,489	-	789,537	1,703,026
Unearned revenue	6,398,229	-	7,841	6,406,070
Total liabilities	<u>7,946,956</u>	<u>-</u>	<u>1,482,212</u>	<u>9,429,168</u>
Fund balances:				
Nonspendable	53,020	-	1,069,990	1,123,010
Restricted	-	-	911,996	911,996
Committed	671,503	-	63,569	735,071
Assigned	974,426	-	19,567	993,993
Unassigned	2,626,173	-	-	2,626,173
Total fund balances	<u>4,325,121</u>	<u>-</u>	<u>2,065,122</u>	<u>6,390,242</u>
Total liabilities and fund balances	<u><u>\$ 12,272,077</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,547,334</u></u>	<u><u>15,819,411</u></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 Position
June 30, 2014

Total Fund Balances - Governmental Funds	\$ 6,390,242
Amounts reported for governmental activities in the Statement of Net Position 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.	18,219,953
Certain long term assets are not available to pay for current fund liabilities and, therefore, are deferred in the funds:	
Tax Deeded Property	422,872
Receivables from other governments	203,947
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 Position.	56,232
Certain long term liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds:	
Accrued interest payable	(40,796)
Due to other governments	-
Capital lease obligations payable	(344,104)
General obligation bonds payable	(3,670,265)
Notes payable	(164,284)
Landfill postclosure costs	(187,362)
Accrued compensated absences	(320,560)
Other post employment benefits	(1,203,850)
Unearned revenue	-
	<u>(5,931,222)</u>
Total Net Position - Governmental Activities	<u><u>\$ 19,362,025</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, 2014

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 11,232,217	\$ -	\$ -	\$ 11,232,217
Licenses and Permits	1,112,418	-	-	1,112,418
Intergovernmental	9,858,579	2,733	675,501	10,536,812
Charges for Services	915,362	-	228,292	1,143,655
Miscellaneous	1,298,952	-	20,237	1,319,189
Interest	10,012	-	62,858	72,870
Change in fair market value	-	-	206,603	206,603
Total Revenues	24,427,540	2,733	1,193,491	25,623,764
Expenditures:				
General Government	1,834,831	-	13,089	1,847,920
Public Safety	4,768,467	-	41,127	4,809,594
Highways and Streets	1,369,486	-	-	1,369,486
Sanitation	857,956	-	-	857,956
Health	203,135	-	-	203,135
Welfare	71,368	-	-	71,368
Culture and Recreation	492,505	-	339,389	831,894
Conservation	500	-	320	820
Economic Development	45,000	-	-	45,000
School	13,023,823	-	690,439	13,714,262
Debt Service	802,462	-	-	802,462
Capital Outlay	-	4,233	248,659	252,891
Total Expenditures	23,469,532	4,233	1,333,023	24,806,788
Excess of Revenues Over Expenditures	958,008	(1,500)	(139,532)	816,976
Other Financing Sources (Uses):				
Transfers In	16,933	1,500	295,066	313,499
Transfers Out	(257,772)	-	(55,728)	(313,499)
Proceeds from capital leases	65,615	-	-	65,615
Total Other Financing Sources(Uses)	(175,224)	1,500	239,338	65,615
Net Change in Fund Balances	782,784	-	99,806	882,591
Fund Balances, Beginning	3,542,337	-	1,965,315	5,507,652
Fund Balances, Ending	\$ 4,325,121	\$ -	\$ 2,065,122	\$ 6,390,243

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, 2014

Total Net Change in Fund Balances - Governmental Funds	\$	882,591
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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		719,260
Loss on disposal of capital assets		(8,607)
Depreciation expense		(1,272,157)
		(561,504)

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

Tax Deeded Properties		(7,216)
Unearned revenue		-
Accounts receivable		(50,975)
		(58,191)

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

Notes payable proceeds received		-
Capital lease proceeds received		(65,615)
Capital lease obligation principle payments		221,274
Notes payable obligation payments		32,858
General obligation bond principle payments		557,106
		745,623

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		8,170
Landfill postclosure		5,465
Accrued compensated absences		(24,324)
Severance bonus provision		103,618
Other post employment benefits		(316,555)
		(223,627)

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 Position of Governmental Activities	\$	787,857
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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 Position
Proprietary Funds
June 30, 2014

	Enterprise Funds		Total Enterprise Funds	Governmental Activity - Fuel Depot Internal Service Fund
	Water	Sewer		
ASSETS				
Current Assets:				
Accounts Receivable, Net of Allowance for Uncollectible	\$ 293,269	\$ 323,734	\$ 617,003	\$ 16,934
Intergovernmental Receivable	1,129,119	328,263	1,457,382	-
Interfund Receivable	274,328	539,506	813,834	13,108
Inventory	58,410	1,251	59,661	35,993
Total Current Assets	1,755,127	1,192,753	2,947,881	66,036
Noncurrent Assets:				
Capital Assets:				
Land	65,148	-	65,148	-
Construction in Progress	66,263	21,883	88,146	-
Buildings	448,119	87,565	535,684	70,737
Accumulated Depreciation, Buildings	(89,669)	(4,410)	(94,079)	(70,737)
Machinery and Equipment	387,812	171,477	559,289	-
Accumulated Depreciation, M&E Infrastructure	(271,023)	(58,842)	(329,865)	-
Accumulated Depreciation, Infra	20,276,118	2,837,038	23,113,157	-
Total Capital Assets, Net	(4,227,923)	(525,962)	(4,753,885)	-
Total Capital Assets, Net	16,654,845	2,528,749	19,183,594	-
Total Assets	18,409,972	3,721,503	22,131,475	66,036
DEFERRED OUTFLOW OF RESOURCES	-	-	-	-
LIABILITIES				
Current liabilities:				
Accounts Payable	32,742	2,137	34,879	9,804
Accrued Payroll and Benefits	8,528	2,599	11,128	-
Accrued Interest Payable	126,857	12,846	139,703	-
Interfund Payable	-	-	-	-
Unearned Revenue	-	-	-	-
General Obligation Debt Payable, Current:				-
Notes and Bonds	253,401	35,470	288,872	-
Compensated Absences	14,174	5,462	19,636	-
Total Current Liabilities	435,703	58,514	494,217	9,804
Noncurrent Liabilities:				
General Obligation Bonds Payable	3,254,460	-	3,254,460	-
General Obligation Notes Payable	3,102,834	530,794	3,633,628	-
Total Noncurrent Liabilities	6,357,294	530,794	6,888,088	-
Total Liabilities	6,792,997	589,308	7,382,305	9,804
DEFERRED INFLOW OF RESOURCES				
Grant from State of New Hampshire to offset portion over the life of the 2006 State revolving fund loan (sewer) & 2014 State revolving fund loan (water)	1,129,119	113,211	1,242,330	-
NET POSITION:				
Net investment in capital assets	10,044,149	1,962,485	12,006,634	-
Restricted	112,218	39,523	151,741	-
Unrestricted	331,489	1,016,975	1,348,464	56,232
Total Net Position	\$ 10,487,856	\$ 3,018,983	\$ 13,506,840	\$ 56,232

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 Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2014

	Enterprise Funds		Total	Governmental
	Water	Sewer	Enterprise	Activity - Fuel
	Fund	Fund	Funds	Depot Internal
				Service Fund
Operating revenues:				
User Charges	\$ 1,173,487	\$ 1,304,220	\$ 2,477,707	\$ 297,665
Miscellaneous	7,429	-	7,429	-
Grants	-	6,861	6,861	-
Sale of Municipal Property	-	-	-	-
Total operating revenues	1,180,916	1,311,081	2,491,997	297,665
Operating expenses:				
Salaries, wages and benefits	473,684	218,221	691,905	-
Purchased services, professional and technical	59,948	13,186	73,134	-
Purchased services, property and miscellaneous	477,354	805,903	1,283,257	294,700
Depreciation	790,124	35,957	826,082	-
Total operating expenses	1,801,111	1,073,268	2,874,379	294,700
Operating income (loss)	(620,194)	237,812	(382,382)	2,965
Capital Grants and Contributions:				
Capital Grants	172,452	-	172,452	-
Total capital grants and contributions	172,452	-	172,452	-
Nonoperating revenues (expenses):				
Interest	(167,090)	(14,419)	(181,509)	-
Total nonoperating revenues (expenses)	(167,090)	(14,419)	(181,509)	-
Income (loss) before transfers	(614,831)	223,393	(391,438)	2,965
Transfers:				
In	-	-	-	-
Out	-	-	-	-
Total transfers	-	-	-	-
Net change in position	(614,831)	223,393	(391,438)	2,965
Net position, beginning	11,102,688	2,795,590	13,898,278	53,267
Net position, ending	\$ 10,487,856	\$ 3,018,983	\$ 13,506,840	\$ 56,232

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, 2014

	Enterprise Funds		Total Enterprise Funds	Governmental Activity - Fuel Depot Internal Service Fund
	Water Fund	Sewer Fund		
Cash Flows from Operating Activities				
Receipts from Users	\$ 1,173,487	\$ 1,304,220	\$ 2,477,707	\$ 297,665
Payments to Providers	(1,801,111)	(1,073,268)	(2,874,379)	(294,700)
Other Receipts (Payments)	246,772	(151,230)	95,542	(2,965)
Net Cash Provided by (Used in) Operating Activities	(380,851)	79,721	(301,130)	0
Cash Flows from Noncapital Financing Activities				
Transfers from Other Funds	-	-	-	-
Transfers to Other Funds	-	-	-	-
Net Cash Provided by (Used in) Noncapital Financing Activities	-	-	-	-
Cash Flows from Capital and Related Financing Activities				
Capital Assets	(547,515)	(15,151)	(562,666)	-
Long Term Debt	923,004	(50,151)	872,853	-
Interest	(167,090)	(14,419)	(181,509)	-
Capital Grants	172,452	-	172,452	-
Net Cash Provided by (Used in) Capital and Related Financing Activities	380,851	(79,721)	301,130	-
Net Increase (Decrease) in Cash and Cash Equivalents	-	-	-	0
Balances - Beginning of Year	-	-	-	-
Balances - End of Year	\$ -	\$ -	\$ -	\$ 0
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating Income (Loss)	\$ (620,194)	\$ 237,812	\$ (382,382)	\$ 2,965
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Change in Assets and Liabilities:				
Inventory	2,834	(494)	2,341	5,349
Receivables, net	(12,537)	6,288	(6,249)	(7,947)
Unearned Revenue	(584)	(141)	(725)	-
Deferred Inflows	1,129,119	(6,861)	1,122,258	-
Due from Other Funds	269,814	(43,898)	225,916	10,107
Accounts Payable	(662,986)	(7,956)	(670,942)	(10,475)
Accrued Payroll	2,180	60	2,241	-
Due to Other Funds	-	-	-	-
Due from Other Governments	(489,202)	(104,122)	(593,323)	-
Accrued Compensated Absences	703	(968)	(266)	-
Net Cash Provided By (Used in) Operating Activities	\$ (380,851)	\$ 79,721	\$ (301,130)	\$ 0

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

City of Franklin, New Hampshire
Statement of Net Position
Fiduciary Funds
June 30, 2014

	Agency Funds			Private Purpose Trust Funds		
	Engineering Escrow	Student Activities	Total	Charity	School Scholarship	Total
ASSETS						
Cash and Cash Equivalents	\$ 1,586	\$ 136,329	\$ 137,915	\$ -	\$ -	\$ -
Investments	-	-	-	250,800	850,639	1,101,439
Due from General Fund	-	-	-	1,000	-	1,000
Total Assets	1,586	136,329	137,915	251,800	850,639	1,102,439
LIABILITIES						
Accounts Payable	-	-	-	-	240	240
Due to Developers	86	-	86	-	-	-
Due to General Fund	1,500	-	1,500	-	760	760
Due to Student Groups	-	136,329	136,329	-	-	-
Total Liabilities	1,586	136,329	137,915	-	1,000	1,000
NET POSITION						
Held in Trust for Special Purposes	\$ -	\$ -	\$ -	\$ 251,800	\$ 849,639	\$ 1,101,439

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 Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2014

	Private Purpose Trust Funds		
	Charity	School Scholarship	Total
ADDITIONS			
Investment earnings:			
Interest and dividends	\$ 10,020	\$ 33,870	\$ 43,890
Net increase in fair market value of investments	33,642	116,134	149,776
New Funds	-	2,638	2,638
DEDUCTIONS			
Scholarship and charity distributions	2,463	23,503	25,966
Change in net position	41,198	129,140	170,338
Net position, beginning	210,602	720,499	931,101
Net position, ending	<u>\$ 251,800</u>	<u>\$ 849,639</u>	<u>\$ 1,101,439</u>

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, 2014

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 City Council, comprised of a Mayor and (9) Councilors, 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 position 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 position 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 position 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 position.

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*.

Fund Financial Statements - During the year, the City segregates transactions related to certain functions or activities in

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
As Of And For The Fiscal Year Ended
June 30, 2014

1-B Basis of Presentation, continued

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 downtown transportation project is reflected in the capital 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 position. 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 position. 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 position. The statement of activities reports revenues, expenses and changes in net position.

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

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
As Of And For The Fiscal Year Ended
June 30, 2014

1-C Measurement Focus, continued

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 position. The statement of changes in fiduciary net position reports additions and deductions to net position 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 unearned revenue, and in the presentation of expenses versus expenditures.

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.

Unearned Revenue - Unearned 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 unearned 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 Unearned revenue in the governmental funds and on the government-wide financial statements.

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.

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
As Of And For The Fiscal Year Ended
June 30, 2014

1-E Assets, Liabilities and Net Position 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.

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 position. 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

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
As Of And For The Fiscal Year Ended
June 30, 2014

1-E-4 Inventory and Prepaid Items, continued

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.

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 position.

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
As Of And For The Fiscal Year Ended
June 30, 2014

1-E-8 Deferred Outflow/Inflow of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until the applicable future period.

A deferred inflow of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until the applicable future period.

1-E-9 Equity

Fund equity at the governmental fund financial reporting level is classified as fund balance. Equity for all other reporting is classified as net position. 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) Non Spendable funds are funds not available for expenditure due to restrictions placed on the funds from external sources. The City does not expend these funds.
- 2) 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.
- 3) Committed funds are reported and expended as a result of resolutions adopted by the appropriate majority of the City Council.
- 4) Assigned funds are used for specific purposes as established by management and approved by the City Manager. 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.
- 5) 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 Position - Net position represent the difference between assets and liabilities. Net investment 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 position is 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 position is reported as unrestricted.

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

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
As Of And For The Fiscal Year Ended
June 30, 2014

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 excepted 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 2014, \$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	\$423,350
Information Technology	23,120
Municipal Services	119,541
Fire	9,331
Police	113,657
City Clerk	92
Finance	19,170
Recreation	4,790
City Manager	11,375
Total	\$724,426

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
As Of And For The Fiscal Year Ended
June 30, 2014

2-C Budgetary Basis

The general fund appropriations appearing on Schedule A of the fund financial statements represents the adopted budget plus adopted supplemental budget resolutions as of June 30, 2014 and includes encumbrances and reserves at June 30, 2013 as follows:

FY2014 Adopted Budget Appropriations	\$24,256,339
June 2013 Encumbrances	662,540
Original Budgeted Amounts	\$24,918,879
FY2014 Adopted Supplemental Appropriations	645,941
Final Budgeted Amounts	\$25,564,820

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	\$24,427,540	\$23,469,532
Transfers From/To Other Funds	16,933	257,772
Budgetary Beginning Fund Balance	3,033,906	
Non Budgeted Activity – Capital Reserve	(45,196)	113,489
Non Budgeted Activity – Capital Lease		(65,615)
Revenues/Expenditures Budgetary Basis	\$27,433,183	\$23,775,178

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 2014, the City, with the exception of the school district, was a member of the Property-Liability Trust, LLC for both property liability and workers' compensation coverage. 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.

Property-Liability Trust, LLC is a trust organized to provide certain property and liability insurance coverages to member towns, cities and other qualified political subdivisions of New Hampshire. As a member of 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 2014 recorded as an insurance expenditure totaled \$125,843. There were no unpaid contributions for the year ending June 30, 2014 and due in 2015. The City also paid \$110,347 for workers' compensation for the year ended June 30, 2014. 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.

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, 2014, 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

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
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June 30, 2014

2-E Contingent Liabilities, continued

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, 2014, 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, 2014, 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, 2014, the City held investments in the following repurchase agreement:

<u>Amount</u>	<u>Interest Rate %</u>	<u>Maturity Date</u>	<u>Underlying Securities</u>	<u>Collateral Pledged</u> <u>Market Value</u>
\$960,414	.15	9/1/2018	FNMA	\$960,928
660,037	.15	2/20/2042	GNMA	678,184
426,644	.15	1/20/2041	GNMA	443,064
128,978	.15	5/15/2028	FHR	132,433
439,261	.15	11/1/2035	FHNV	467,942
251,379	.15	3/20/2034	GNC	257,701
298,908	.15	11/15/2032	FHR	307,709
643,835	.15	2/1/2040	FNMV	686,393
114,867	.15	7/25/2033	FNR	115,274
1,000,000	.15	7/1/2019	FNMA	1,015,848

Investments

As of June 30, 2014, the City had the following investments:

Certificate of deposit	\$ 77,435
Mutual/Bond Funds	224,841
Common stocks	3,105,441
New Hampshire Public Deposit Investment Pool	<u>835,191</u>
Total	<u>\$4,242,908</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
Notes To The Basic Financial Statements
As Of And For The Fiscal Year Ended
June 30, 2014

3-A Investment Risks, continued

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 \$4,242,908 in investments, \$3,330,282 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, 2013, upon which the 2013 property tax levy was based is:

For the New Hampshire education tax	\$514,177,200
For all other taxes	\$485,607,900

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 subject to lien 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, 2013, were as follows:

	Per \$1000 of Assessed Valuation	Property Taxes Assessed
Municipal portion	12.63	6,496,717
School portion:		
State of New Hampshire	2.75	1,334,615
Local	6.42	3,299,945
County portion	2.80	1,438,917
Total	24.60	12,570,194

During the current fiscal year, the tax collector executed a lien on March 18, 2014 for all uncollected 2012/2013 property taxes, \$537,421.

Taxes receivable at June 30, 2014, are as follows:

Property:	
Levy of 2013	\$ 4,071,610
Unredeemed (under tax lien)	633,229
Yield Tax	2,494
Gravel Tax	104
Less: allowance for estimated uncollectible taxes	<u>(44,129)</u>
Net taxes receivable	<u>\$4,663,308</u>

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
As Of And For The Fiscal Year Ended
June 30, 2014

3-B Taxes Receivable, continued

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, 2014, 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, 2014 are as follows:

	Governmental	Proprietary
Accounts	\$ 557,592	\$630,954
Intergovernmental	1,099,052	1,457,382
Voluntary liens	61,820	-
Less: allowance for uncollectible or unavailable amount	(83,361)	(13,951)
Net receivables	\$1,635,103	\$2,074,385

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
As Of And For The Fiscal Year Ended
June 30, 2014

3-D Capital Assets

Capital asset activity for the year ended June 30, 2014 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	73,179	28,915	102,094
Total capital assets not being depreciated	1,039,985	28,915	1,068,900
Being depreciated:			
Land improvements	213,226	0	213,226
Buildings	23,793,747	278,014	24,071,761
Machinery and equipment	7,212,575	296,816	7,509,392
Infrastructure	2,944,127	59,875	3,004,002
Total capital assets being depreciated	34,163,675	634,705	34,798,381
Total all capital assets	35,203,660	663,620	35,867,281
Less accumulated depreciation:			
Land improvements	33,537	8,879	42,416
Buildings	11,174,339	655,681	11,830,020
Machinery and equipment	4,489,188	440,467	4,929,655
Infrastructure	725,140	120,097	845,237
Total accumulated depreciation	16,422,203	1,225,124	17,647,327
Net book value, all capital assets	18,781,457	(561,504)	18,219,953
Business-type activities:			
At cost:			
Not being depreciated:			
Land	65,148	0	65,148
Construction in progress	5,711,468	(5,623,322)	88,146
Total capital assets not being depreciated	5,776,616	(5,623,322)	153,294
Being depreciated:			
Buildings	528,998	6,686	535,684
Machinery and equipment	550,590	8,698	559,289
Infrastructure	16,200,895	6,912,262	23,113,157
Total capital assets being depreciated	17,280,483	6,927,646	24,208,129
Total all capital assets	23,057,099	1,304,324	24,361,423
Less accumulated depreciation:			
Buildings	77,200	16,879	94,079
Machinery and equipment	291,762	38,103	329,865
Infrastructure	4,067,209	686,676	4,753,885
Total accumulated depreciation	4,436,171	741,658	5,177,829
Net book value, all capital assets	18,620,928	562,666	19,183,594

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
As Of And For The Fiscal Year Ended
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3-D Capital Assets, continued

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

Governmental activities:	
General government	\$ 35,952
Public Safety	222,043
Highways and streets	269,764
Garage	12,361
Sanitation	5,318
Culture and recreation	78,047
School district	648,672
Total depreciation expense - governmental activities	\$ 1,272,157
Business-type activities:	
Water	\$ 790,124
Sewer	36,574
Total depreciation expense - business-type activities	\$ 826,698

3-E Prepaid Items

Prepaid items at June 30, 2014, totaling \$52,815, consisted of the following paid in the current period to benefit the following fiscal year governmental activities:

Purpose	Amount
Software support	11,751
Maintenance contracts	3,359
Mutual aid	28,773
Dues	3,955
Postage	263
Employee Benefits	2,455
Prepaid Gas Vouchers	150
Summer Library activities	1,307
Subscription	802
Total	52,815

3-F Interfund Balances and Transfers

Interfund balances at June 30, 2014 consist of interfund loans, services provided, reimbursements or budgetary transfers. The composition of interfund balances as of June 30, 2014 is as follows:

Fund	Due From	Due To
General	791,797	913,489
Capital Projects	-	-
Water	274,328	-
Sewer	539,506	-
Pass Through Grant	-	11,963
Fuel Depot	13,108	-
Parks & Recreation	18,929	-
Outside Police Detail	20,531	-
Library	46,086	-
Expendable Trusts	-	7,738
Engineering Escrows	-	1,500
Food Service	-	761,135
Odell Trust	-	8,700
Scholarships	-	760
Charity	1,000	-
Totals	1,705,285	1,705,285

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
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3-F Interfund Balances and Transfers, continued

Interfund transfers during the year were comprised of the following:

Fund	Transfer In	Transfer Out
General	16,933	257,772
Capital	1,500	-
DARE	500	-
Conservation	400	-
Heritage	400	-
Expendable Trusts	-	14,033
Library	293,766	-
Odell Trust	-	2,900
Buswell Trust	-	34,845
Other Library Trusts	-	3,949
Totals	313,499	313,499

3-G Unearned Revenue

Governmental Funds - Unearned revenue of \$6,406,070 at June 30, 2014 largely consists of property taxes levied but not due until the subsequent year (\$6,280,922). In addition, \$29,337 related to recreation program fees collected in advance; \$38,885 related to dispatch fees collected in advance; \$1,383 rent collected in advance; \$38,329 donations collected in advance of expenditure; \$9,373 City Clerk/Tax Collector credits on accounts and \$7,841 related to student meal money collected in advance of the meals being served.

Proprietary Funds – There was no unearned revenue in the Water department or Sewer department at June 30, 2014.

3-H Long-Term Liabilities

Changes in the City's long-term obligations during the year ended June 30, 2014, consisted of the following:

	Balances, Beginning	Additions	Reductions	Balances, Ending
Governmental activities:				
General obligation bonds	\$4,424,513	\$ -	\$ (589,964)	\$3,834,549
Compensated absences	399,854	233,069	(312,363)	320,560
Capital leases	499,763	65,615	(221,274)	344,104
Landfill post closure care costs	192,827	-	(5,465)	187,362
Other post employment benefits	887,295	461,399	(144,844)	1,203,850
Total - governmental activities	6,404,252	760,083	(1,273,910)	5,890,425
Business-type activities:				
General obligation bonds/notes	6,389,728	1,001,732	(214,501)	7,176,960
Compensated absences	19,902	19,636	(19,902)	19,636
Total - business-type activities	\$6,409,630	\$1,021,368	\$ (234,402)	\$7,196,596

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
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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, 2014	Current Portion
Governmental Activities:						
<u>General obligation bonds/notes payable</u>						
Bridge Project	1,300,000	1994	2015	4.7-7.0	65,000	65,000
Police Station	1,000,000	1998	2018	4.7-5.3	200,000	50,000
Courthouse	1,000,000	1999	2018	4.7-5.3	200,000	50,000
School Renovation	5,010,386	2001	2020	4.5-5.25	1,500,000	250,000
School Renovation	2,700,000	2006	2026	4.29	1,705,265	142,105
Ambulance	230,000	2012	2019	1.83	164,284	32,858
Total general obligation bonds payable					3,834,549	589,963
<u>Capital leases payable</u>						
Automated Collection & Recycling Program	948,000	2009	2015	4.08	287,187	140,640
(2) Monitor Defibrillators	65,615	2013	2016	0.00	43,743	21,871
2013 Ford Interceptor - Police	26,392	2013	2016	5.95	13,174	6,397
Total capital leases payable					344,104	168,908
<u>Other long term obligations</u>						
Compensated Absences					320,560	233,069
Lanfill Post Closure Care Costs					187,362	9,458
Post Employment Benefits - Health					1,203,850	-
Total Governmental Activities					5,890,425	1,001,398
Business-Type Activities:						
<u>Bonds/notes payable</u>						
Sewer Revolving Loan	784,061	2006	2026	3.35	566,265	35,470
Water USDA Bond	3,645,000	2012	2040	2.25	3,384,640	130,180
Water Drinking Water State Revolving Fund	3,226,055	2012	2014	1.00	3,226,055	123,221
Total bonds/notes payable					7,176,960	288,871
<u>Other long term obligations</u>						
Compensated Absences					19,636	19,636
Total Business-Type Activities					7,196,597	308,507

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
As Of And For The Fiscal Year Ended
June 30, 2014

3-H Long-Term Liabilities, continued

The annual requirements to amortize all general obligation debt outstanding as of June 30, 2014, including interest payments, are as follows:

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

Fiscal Year Ending, June 30	Principal	Interest	Total
2015	589,962	167,116	757,078
2016	524,962	140,078	665,040
2017	524,962	114,980	639,943
2018	524,962	89,858	614,820
2019	424,962	67,385	492,347
2020-2024	960,526	151,350	1,111,876
2025-2026	284,211	15,241	299,451
Totals	3,834,549	746,007	4,580,556

Annual Requirements To Amortize Governmental Funds' Leases Payable:

Fiscal Year Ending, June 30	Principal	Interest	Total
2015	168,908	12,846	181,754
2016	175,196	6,558	181,754
Totals	344,104	19,404	363,508

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

Fiscal Year Ending, June 30	Principal	Interest	Total
2015	288,872	192,144	481,016
2016	291,490	186,597	478,087
2017	296,588	178,570	475,158
2018	301,847	170,382	472,229
2019	307,273	162,027	469,300
2020-2024	1,623,950	678,613	2,302,564
2025-2029	1,677,059	443,375	2,120,435
2030-2040	2,389,882	272,697	2,662,578
Totals	7,176,960	2,284,406	9,461,366

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
As Of And For The Fiscal Year Ended
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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 \$187,362 is reflected in the City's Government Wide Statement of Net position 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:

Bond Issue	<u>Amount</u>
Sewer Revolving Loan	\$600,584
Drinking Water State Revolving Fund	\$1,129,119

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, 2014, the City is due to receive the following annual amounts to offset debt payments:

Fiscal Year Ending	<u>Amount</u>
<u>June 30</u>	
2015	66,518
2016	66,756
2017	67,002
2018	67,256
2019	67,518
2020-2033	<u>907,280</u>
Total	<u>\$1,242,330</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
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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	52,815	-	52,815
Inventory	205	9,131	9,336
Permanent fund principal	-	1,060,859	1,060,859
Restricted:			
Conservation	-	108,440	108,440
Fire	-	106,834	106,834
Library	-	531,715	531,715
Parks	-	117,515	117,515
Police	-	4,077	4,077
School	-	43,417	43,417
Committed:			
Conservation	-	10,128	10,128
Fire	1	-	1
Heritage	-	8,904	8,904
Buildings	101,821	-	101,821
Municipal services	271,219	-	271,219
Other capital	4,938	-	4,938
Parks	27,485	18,066	45,551
Police	-	26,471	26,471
School	261,652	-	261,652
Tax Increment Financing			
District - Industrial Park	4,386	-	4,386
Assigned:			
Fire	9,331	-	9,331
General government	53,757	-	53,757
Municipal services	119,541	-	119,541
Police	113,657	-	113,657
Recreation	4,790	-	4,790
School	673,350	19,567	692,917
Unassigned	2,626,173	-	2,626,173
	<u>4,325,121</u>	<u>2,065,122</u>	<u>6,390,242</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.

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

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
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actuarial valuation. All employees except police officers and firefighters are required to contribute 7% of earnable

4-A Pensions, continued

compensation. Police officers and firefighters are required to contribute 11.55% and 11.8%, respectively, of gross earnings. For 2014, the City contributed 25.30% for police, 27.74% for fire, 14.16% for teachers and 10.77% for other employees. The contribution requirements for the City of Franklin for the fiscal years 2012, 2013 and 2014 were \$1,237,201, \$1,235,282 and \$1,545,303, respectively, which were paid in full in each year.

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 position 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 position 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 July 1, 2013, there were approximately 19 retiree subscribers, including eligible spouses and dependents, and 270 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.

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 2014 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, 2014, 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, 2013.

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
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June 30, 2014

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

Annual OPEB Cost and Net OPEB Obligation

	6/30/2014	6/30/2013	6/30/2012	6/30/2011	6/30/2010
Annual Required Contribution	477,225	394,350	375,510	317,696	301,174
Interest on Net OPEB Obligation	35,492	25,691	16,098	8,142	0
Adjustment to annual required contribution	(51,318)	(37,147)	(23,276)	(11,772)	0
Annual OPEB cost	461,399	382,894	368,332	314,066	301,174
Employer contributions (including subsidy)	(144,844)	(137,865)	(128,513)	(115,161)	(97,632)
Change in Net OPEB Obligation	316,555	245,029	239,819	198,905	203,542
Net OPEB Obligation - beginning of year	887,295	642,266	402,447	203,542	0
Net OPEB Obligation - end of year	1,203,850	887,295	642,266	402,447	203,542

Plan History

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Increase in Net OPEB Obligation
6/30/2014	461,399	31%	1,203,850
6/30/2013	382,894	36%	245,029
6/30/2012	368,332	35%	239,819
6/30/2011	314,066	37%	198,905
6/30/2010	301,174	32%	203,542

The City's net OPEB obligation as of June 30, 2014 is recorded as a component of long term liabilities on the City's Statement of Net position.

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)
7/1/2013	0	4,110,940	4,110,940	0.0%	10,385,109	39.6%
7/1/2011	0	3,083,840	3,083,840	0.0%	10,158,174	30.4%
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.

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
As Of And For The Fiscal Year Ended
June 30, 2014

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

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 July 1, 2013 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 7% 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.

4-C Significant Effects of Subsequent Events

Subsequent Year Fund Balance Reserve of Contingent Obligations

For the year ended June 30, 2014, the Franklin school district, reported as a blended component unit in these City financial statements, determined that grant expenditures administered by School Administrative Unit #18, on behalf of grant program services and costs for the benefit of the school district for years prior to June 30, 2012, were over expended by an estimated \$250,000. The over expenditure was absorbed by the general fund of the School Administrative Unit; however, management has estimated that the district would likely reimburse the School Administrative Unit directly for the amount of the over expenditures or indirectly via the annual School Administrative Unit assessment. As a result, the school district reserved \$250,000 in available fund balance pending resolution.

City of Franklin, New Hampshire
Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
Beginning Budgetary Fund Balance	\$ 662,540	\$ 662,540	\$ 3,033,906	\$ 2,371,366
Resources (Inflows)				
Taxes:				
Property	10,961,034	10,964,085	10,921,439	(42,647)
Other	324,291	324,291	310,779	(13,512)
Licenses, Permits & Fees	971,200	971,200	1,067,373	96,173
Intergovernmental:				
Highway Block Grant	176,715	174,491	175,122	631
Meals & Rooms Tax	378,000	376,896	376,896	(0)
Forest Land Reimbursement	146	95	39	(56)
Flood Control Reimbursement	36,341	36,669	39,669	3,000
Department of Education	8,503,967	8,503,967	8,518,044	14,077
Department of Environmental Services	195,000	195,000	183,168	(11,832)
Department of Justice	42,500	52,500	57,180	4,680
Department of Health & Human Services	265,855	265,855	378,598	112,743
Office of Emergency Management	-	-	-	-
Other Grant	152,732	159,732	129,862	(29,870)
Charges for Services:				
City Clerk/Tax Collector	-	-	-	-
Finance	800	800	1,555	755
Fire	339,765	339,765	423,163	83,398
Municipal Services	246,000	246,000	262,459	16,459
Planning & Zoning	4,200	4,200	6,041	1,841
Police	91,088	91,088	98,382	7,294
Recreation	133,700	133,700	123,762	(9,938)
School	846,525	1,055,459	704,553	(350,906)
Welfare	45,000	45,000	56,975	11,975
Interest	24,000	24,000	9,861	(14,139)
Sale of Municipal Property	35,000	35,000	52,317	17,317
Other	479,580	549,921	485,106	(64,815)
Transfers from Other Funds	2,900	150,600	16,933	(133,667)
Capital Lease Proceeds	-	201,966	-	(201,966)
Amounts Available for Appropriation	24,918,879	25,564,820	27,433,183	1,868,363
Charges to Appropriations (Outflows)				
General Government:				
Executive	629,539	629,539	588,282	41,257
Election, Registration & Vital Statistics	209,112	209,112	207,655	1,458
Financial Administration	565,612	565,612	517,958	47,654
Planning & Zoning	166,180	166,180	164,486	1,694
Insurance & Legal	111,397	111,397	110,199	1,198
Buildings	221,325	221,325	222,797	(1,472)
Other	26,916	26,916	23,453	3,463
Public Safety:		-		
Police	2,677,014	2,694,014	2,621,513	72,501
Fire, Ambulance, Emergency Management	2,110,214	2,127,914	2,081,340	46,574
Municipal Services:				
Administration	106,069	106,069	104,047	2,022
Highways, Streets & Bridges	1,209,238	1,209,238	1,265,439	(56,201)
Solid Waste	858,597	858,597	857,956	641
Health Agencies & Hospitals	71,379	71,379	71,379	-
Mayor's Drug & Alcohol Abuse Task Force	125,855	125,855	131,756	(5,901)
Welfare	176,418	176,418	71,368	105,050
Culture & Recreation:		-		
Parks & Recreation	529,902	529,902	482,460	47,442
Economic Development	45,000	45,000	45,000	-
Other	10,500	10,500	10,545	(45)
Capital Outlay	-	402,307	-	402,307
Debt Service:		-		
Principle	609,286	609,286	557,106	52,180
Interest	194,462	194,462	192,436	2,026
Other	-	-	52,920	(52,920)
School	13,886,786	14,095,720	13,023,823	1,071,897
Transfers to Other Funds	378,078	378,078	371,261	6,817
Total Charges to Appropriations	24,918,879	25,564,820	23,775,178	1,789,642
Ending Budgetary Fund Balance	\$ -	\$ -	\$ 3,658,005	\$ 3,658,005

City of Franklin, New Hampshire
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2014

	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	\$ 192,964	\$ 81,577	\$ -	\$ -	\$ 4,077	\$ 2,418	\$ -	\$ 108,440	\$ -	\$ -	\$ 389,475
Investments	-	-	-	10,128	-	-	8,904	159,112	-	-	178,144
Receivables, net of allowances for uncollectables	-	12	-	-	-	-	-	-	-	5,085	5,097
Intergovernmental Receivable	-	707,491	25,284	-	-	-	-	-	-	-	732,775
Interfund receivable	46,086	-	-	-	-	-	-	-	18,929	20,531	85,546
Prepaid items	-	-	-	-	-	-	-	-	-	-	-
Inventory	-	9,131	-	-	-	-	-	-	-	-	9,131
Total assets	239,050	798,211	25,284	10,128	4,077	2,418	8,904	267,551	18,929	25,616	1,400,168
LIABILITIES AND FUND BALANCES											
Classified Liabilities											
Accounts payable	2,858	537	13,321	-	-	-	-	-	863	-	17,580
Contracts payable	-	-	-	-	-	-	-	-	-	-	-
Accrued payroll & benefits	3,516	-	-	-	-	-	-	-	-	1,563	5,078
Intergovernmental payable	-	-	-	-	-	-	-	-	-	-	-
Interfund payable	-	761,135	11,963	-	0	-	-	7,738	-	-	780,837
Unearned Revenue	-	7,841	-	-	-	-	-	-	-	-	7,841
Total liabilities	6,374	769,513	25,284	-	0	-	-	7,738	863	1,563	811,336
Fund balances:											
Nonspendable:											
Inventory	-	9,131	-	-	-	-	-	-	-	-	9,131
Restricted:											
Conservation	-	-	-	-	-	-	-	108,440	-	-	108,440
Fire	-	-	-	-	-	-	-	106,834	-	-	106,834
Library	232,676	-	-	-	-	-	-	-	-	-	232,676
Parks	-	-	-	-	-	-	-	1,123	-	-	1,123
Police	-	-	-	-	4,077	-	-	-	-	-	4,077
School	-	-	-	-	-	-	-	43,417	-	-	43,417
Committed:											
Conservation	-	-	-	10,128	-	-	-	-	-	-	10,128
Heritage	-	-	-	-	-	-	8,904	-	-	-	8,904
Parks	-	-	-	-	-	-	-	-	18,066	-	18,066
Police	-	-	-	-	-	2,418	-	-	-	24,053	26,471
School	-	-	-	-	-	-	-	-	-	-	-
Assigned:											
School	-	19,567	-	-	-	-	-	-	-	-	19,567
Total fund balances	232,676	28,698	-	10,128	4,077	2,418	8,904	259,813	18,066	24,053	588,832
Total liabilities and fund balances	\$ 239,050	\$ 798,211	\$ 25,284	\$ 10,128	\$ 4,077	\$ 2,418	\$ 8,904	\$ 267,551	\$ 18,929	\$ 25,616	\$ 1,400,168

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, 2014

	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	\$ -	\$ 426,842	\$ 248,659	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 675,501
Charges for Services	3,529	167,940	-	-	-	-	-	-	22,974	33,849	228,292
Interest	88	40	-	3	1	0	3	6,823	-	-	6,958
Change in Fair Market	-	-	-	-	-	-	-	21,343	-	-	21,343
Miscellaneous	11,926	-	-	-	3,791	400	-	625	3,494	-	20,237
Total revenues	15,543	594,822	248,659	3	3,792	400	3	28,791	26,469	33,849	952,331
Expenditures											
Public Safety	-	-	-	-	-	68	-	23	-	41,036	41,127
Culture and recreation	323,468	-	-	-	-	-	-	-	15,921	-	339,389
Conservation	-	-	-	320	-	-	-	-	-	-	320
School	-	690,431	-	-	-	-	-	8	-	-	690,439
Capital Outlay	-	-	248,659	-	-	-	-	-	-	-	248,659
Total expenditures	323,468	690,431	248,659	320	-	68	-	31	15,921	41,036	1,319,934
Excess (deficiency) of revenues over (under) expenditures	(307,925)	(95,609)	-	(317)	3,792	332	3	28,760	10,548	(7,187)	(367,603)
Other financing sources (uses):											
Transfers in	293,766	-	-	400	-	500	400	-	-	-	295,066
Transfers Out	-	-	-	-	-	-	-	(14,033)	-	-	(14,033)
Total other financing sources and uses	293,766	-	-	400	-	500	400	(14,033)	-	-	281,033
Net change in fund balances	(14,159)	(95,609)	-	83	3,792	832	403	14,726	10,548	(7,187)	(86,570)
Fund balances, beginning	246,835	124,307	-	10,045	284	1,586	8,501	245,087	7,518	31,240	675,403
Fund balances, ending	\$ 232,676	\$ 28,698	\$ -	\$ 10,128	\$ 4,077	\$ 2,418	\$ 8,904	\$ 259,813	\$ 18,066	\$ 24,053	\$ 588,832

City of Franklin, New Hampshire
Combining Balance Sheet
Nonmajor Permanent Funds
June 30, 2014

	Odell Park	Other General Trusts	Library Buswell Trust	Other Library Trusts	Total Permanent Funds
ASSETS					
Assets					
Investments	\$ 191,978	\$ 750,055	\$ 856,774	\$ 348,360	\$ 2,147,166
Intergovernmental receivable	-	-	-	-	-
Total Assets	191,978	750,055	856,774	348,360	2,147,166
LIABILITIES AND FUND BALANCES					
Classified Liabilities					
Accounts payable	-	662,177	-	-	662,177
Interfund Payable	8,700	-	-	0	8,700
Total Liabilities	8,700	662,177	-	0	670,877
Fund balances:					
Nonspendable:					
Permanent fund principal	125,039	29,725	646,985	259,109	1,060,859
Restricted:					
Library	-	-	209,788	89,250	299,039
Parks	58,239	58,152	-	-	116,392
Total fund balances	183,278	87,878	856,774	348,360	1,476,289
Total liabilities and fund balances	\$ 191,978	\$ 750,055	\$ 856,774	\$ 348,360	\$ 2,147,166

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, 2014

	Odell Park	Other General Trusts	Library Buswell Trust	Other Library Trusts	Total Permanent Funds
Revenues					
Revenues Gov Funds					
Interest/Dividends	\$ 7,703	\$ 11,916	\$ 22,180	\$ 14,101	\$ 55,900
Change in Fair Value	25,752	9,074	103,706	46,728	185,260
Miscellaneous	-	-	-	-	-
Total revenues	33,455	20,990	125,886	60,830	241,161
Expenditures:					
Functional Expenditures					
General government	36	12	12,977	64	13,089
Total expenditures	36	12	12,977	64	13,089
Excess of revenues over expenditures	33,419	20,978	112,909	60,765	228,071
Other financing sources (uses):					
Transfers In	-	-	-	-	-
Transfers Out	(2,900)	-	(34,845)	(3,949)	(41,694)
Total other financing sources (uses)	(2,900)	-	(34,845)	(3,949)	(41,694)
Net change in fund balances	30,519	20,978	78,064	56,816	186,377
Fund balances, beginning	152,759	66,900	778,710	291,544	1,289,913
Fund balances, ending	\$ 183,278	\$ 87,878	\$ 856,774	\$ 348,360	\$ 1,476,289

GRZELAK AND COMPANY, P.C.

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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, in accordance with the 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, 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, 2014, and the related notes to the financial statements, which collectively comprise City of Franklin's basic financial statements, and have issued our report thereon dated September 24, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Franklin's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of City of Franklin's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Franklin's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Grzelak and Co., P.C.

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

Laconia, New Hampshire
September 24, 2015

GRZELAK AND COMPANY, P.C.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

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, 2014. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Franklin's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of City of Franklin's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Franklin, complied, in all material respects, with the types of 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, 2014.

Report on Internal Control Over Compliance

Management of City of Franklin, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Franklin's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Grzelak and Co., P.C.

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

Laconia, New Hampshire

September 24, 2015

CITY OF FRANKLIN, NEW HAMPSHIRE

Schedule of Expenditures of Federal Awards Year Ended June 30, 2014			
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			
Wetland Reserve Program	10.072	NHDES 2013	\$ 116
Wetland Reserve Program	10.072	NHDES 2014	1,500
<u>Water and Waste Program Cluster</u> - Water and Waste Disposal Systems for Rural Communities	10.781	Loan NH-91-02	188,283
			<u>189,899</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed through the Community Development Finance Authority			
<u>CDBG - State Administered CDBG Cluster</u>			
CDBG / State's Program	14.228	13-154-CDPF	3,932
			<u>3,932</u>
U.S. DEPARTMENT OF JUSTICE			
Direct			
Public Safety Partnership and Community Policing Grants	16.710	2009RKWX0614	13,629
Violence Against Women Formula Grants	16.588	2014W098	15,000
Violence Against Women Formula Grants	16.588	2013W098	15,000
			<u>43,629</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Passed through the NH Department of Transportation			
<u>Highway Planning and Construction Cluster</u> - Highway Planning and Construction	20.205	X-A000(806)	2,733
Passed through the NH Highway Safety Agency			
State and Community Highway Safety	20.600	315-13B-010	332
State and Community Highway Safety	20.600	315-13B-191	82
State and Community Highway Safety	20.600	315-14B-032	1,477
State and Community Highway Safety	20.600	304-14B-023	1,130
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601	308-14B-076	715
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601	308-13B-101	637
			<u>7,106</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY OFFICE OF THE CHIEF FINANCIAL OFFICER			
Passed through the NH Department of Environmental Services			
Congressionally Mandated Projects	66.202	EM-96127101-0	200,000
			<u>200,000</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY OFFICE OF WATER			
Passed through the NH Department of Environmental Services			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	0851010-03	1,076,318
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	96163301	183,168
			<u>1,259,486</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed through the NH Department of Emergency Management			
Emergency Management Performance Grants	97.042	23EM128092	2,500
Homeland Security Grant Program	97.067	EMW-2013-SS-00041	44,726
			<u>47,226</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	131,838
			<u>131,838</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,883,116</u>

The accompanying notes are an integral part of this schedule.

CITY OF FRANKLIN, NEW HAMPSHIRE

Notes to Schedule of Expenditures of Federal Awards June 30, 2014

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, 2014.

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, 2014 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	\$	1,883,116
Capital assets additions - Enterprise Fund - Water		(1,190,015)
Retainage accrued in prior year for financial statement purposes - recorded cash basis for SEFA		(74,586)
	\$	618,515
 Statement of Revenues, Expenditures, and Changes in Fund Balances		
Major Funds		
General Fund		
COPS Grant	\$	13,629
VAWA Grants		30,000
Drug and Alcohol Task Force		131,838
Highway Safety Agency Grants		82
Watershed Grant		1,616
EMPG Contingent Grant		2,500
DWI Patrols		715
EPA Grant		183,168
DWI Checkpoint		637
Safe Commute		1,809
Seat Belt		1,130
Nonmajor Funds		
Grants Fund - CDBG		248,658
Capital Projects Fund		
Downtown transportation		2,733
	\$	618,515

Financial Statements

The type of auditor's report issued – Unmodified.

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 - Unmodified.

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 # 66.468 - Capitalization Grants for Drinking Water State Revolving Funds

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

Auditee qualified as a low-risk auditee – No.