

CITY OF FRANKLIN

Franklin, New Hampshire

FINANCIAL STATEMENTS

With Schedule of Expenditures of Federal Awards

June 30, 2018

and

Independent Auditor's Report

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*

Independent Auditor's Report on Compliance for Each Major Federal Program
and on Internal Control Over Compliance Required by the Uniform Guidance

Schedule of Findings and Questioned Costs

CITY OF FRANKLIN, NEW HAMPSHIRE

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INDEPENDENT AUDITOR'S REPORT

ROBERGE AND COMPANY, P.C.

Certified Public Accountants

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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, 2018, and the related notes to the financial statements, which collectively comprise the City of Franklin'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, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Implementation of GASB Statement No. 75

As discussed in Note 1 to the financial statements, in 2018 the City of Franklin adopted new accounting guidance prescribed by GASB 75 for its other post-employment benefits (OPEB). Because GASB 75 implements new measurement criteria and reporting provisions, significant information has been added to the Government Wide Statements. The Statement of Net Position discloses the City of Franklin's Total OPEB Liability and some deferred outflows of resources and deferred inflows of resources related to the City of Franklin's other post-employment benefits actuarial valuation. The Statement of Activities discloses the adjustment to the City of Franklin's Beginning Net Position. Our opinion is not modified with respect to the matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in total OPEB liability, schedule of the city's proportionate share of net pension liability, and schedule of city contributions on pages 8 through 23 and 59 through 66 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 Title 2 U.S. *Code of Federal Regulations*, (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* 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 July 19, 2019, 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 the effectiveness of the City of Franklin's 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 the City of Franklin's internal control over financial reporting and compliance.

Roberge and Co. , P.C.

ROBERGE & COMPANY, P.C.

Franklin, New Hampshire

July 19, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2018

The City of Franklin's management team offers this narrative overview and analysis of the financial activities of the City of Franklin for the fiscal year ended June 30, 2018. The City's financial performance is discussed and analyzed in conjunction with the accompanying financial statements and disclosures following this section.

Financial Highlight

- As of the close of the current fiscal year, total assets and deferred outflows exceeded liabilities and deferred inflows for governmental and business activities by \$14,137,068 (net position). This is an increase of \$1,147,199 over the prior year.
- As of the close of the current fiscal year, total net position for governmental activities was \$1,468,872 (-\$15,973,666 unrestricted) and total net position for business like activities was \$12,668,196 (\$-481,021 unrestricted). The negative unrestricted net position for governmental activities is due to the implementation of Governmental Accounting Standards Board (GASB) Statement 68 which requires the City to record its proportionate share of unfunded pension liability of the New Hampshire Retirement System's cost sharing employer defined benefit pension plan and Statement 75 which requires the City to record its liability for other post employment benefits related to health insurance.
- As of the close of the current fiscal year, the City of Franklin's governmental funds reported combined ending fund balances of \$7,903,136, an increase of \$1,006,474 over the prior year. Of the combined ending fund balances, \$3,899,954, an increase of \$770,589 from 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 \$3,908,951, or 15.74 percent of total general fund expenditures.
- At the close of the current fiscal year, total bonds & notes outstanding was \$9,445,575, a decrease of \$976,595 from the prior year.

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. There are two basic governmental-wide financial statements: the statement of net position and the statement of activities. All activities included within the government-wide financial statements are measured and reported using the economic resources measurement focus and the accrual basis of accounting similar to a private-sector business.

- The *statement of net position* presents information on all of the City of Franklin's assets and deferred outflows and liabilities and deferred inflows, with the difference reported as *net position* as opposed to fund balance as shown on the fund statements. 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

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2018

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 vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Franklin and are represented by Statement A and Statement B of the accompanying financial statements.

- Governmental Activities represent most of the City's basic services and are principally supported by taxes, grants and intergovernmental revenues. The governmental activities of the City of Franklin include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation.
- Business-Type Activities are normally intended to recover all or a significant portion of their costs through user fees and charges. The business-type activities of the City of Franklin include water and sewer Activities.

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. Fund accounting is used 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 is considered to be a major fund. 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 one type of proprietary funds: enterprise funds. *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.

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2018

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 does not report any internal service funds. Because the nature of these funds is internal, internal service funds would be combined with governmental activities on the government-wide financial statements.

- ***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* which is required to be disclosed by the accounting principles generally accepted in the United States of America. The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information.

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2018

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial standing. Changes in net position may be observed and used to discuss the changing financial position of the City as a whole.

Financial Position. The following table provides a summary of the City's net position at June 30 for the current and prior two fiscal years:

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

	Governmental Activities			Business-Type Activities			Total Primary Government		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Current and other assets	17,307	15,784	15,886	2,258	2,291	2,472	19,565	18,075	18,358
Capital assets	18,320	18,041	18,068	19,339	19,415	19,649	37,659	37,456	37,717
Total assets	35,627	33,825	33,954	21,597	21,706	22,121	57,224	55,531	56,075
Deferred outflow of resources	4,237	6,063	1,685	187	187	53	4,424	6,250	1,738
Total assets and deferred outflow of resources	39,864	39,888	35,639	21,784	21,893	22,174	61,648	61,781	57,813
Current liabilities	2,955	1,552	2,559	1,855	1,800	1,284	4,810	3,352	3,843
Long term liabilities outstanding	26,221	28,370	21,230	7,232	7,291	6,965	33,453	35,661	28,195
Total liabilities	29,176	29,922	23,789	9,087	9,091	8,249	38,263	39,013	32,038
Deferred inflow of resources	9,219	7,177	7,520	30	13	1,139	9,249	7,190	8,659
Total liabilities and deferred inflow of resources	38,395	37,099	31,309	9,117	9,104	9,388	47,512	46,203	40,697
Net Position:									
Invested in capital assets, net of related debt	14,537	14,358	14,389	13,149	12,331	12,239	27,686	26,689	26,628
Restricted	2,906	3,491	2,024	0	0	152	2,906	3,491	2,176
Unrestricted	(15,974)	(15,060)	(12,083)	(481)	458	395	(16,455)	(14,602)	(11,688)
Total net position	1,469	2,789	4,330	12,668	12,789	12,786	14,137	15,578	17,116

The City of Franklin, assets and deferred outflows exceeded liabilities and deferred inflows by \$14.1 million, \$15.6 million and \$17.1 million at the close of fiscal years 2018, 2017 and 2016, respectively. Governmental activities assets exceeded liabilities by \$1.46 million, \$2.79 million and \$4.33 million at the close of fiscal years 2018, 2017 and 2016, respectively.

The largest portion of the City of Franklin's net position 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. As of year-end, net investment in capital assets is \$27,679,765, an increase of \$991,520 over the prior year. 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.

An additional portion of the City of Franklin's net position, \$2,905,729 or 20.06%, represents resources that are subject to external restrictions on how they may be used. The remaining balance is *unrestricted net position of* \$(16,454,687). 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 for business-type activities and positive balances in Net Investment in Capital Assets and Restricted categories for governmental activities and the City's net position as a whole. The negative Unrestricted

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2018

Net Position category is a result of the implementation of the Governmental Accounting Standards Board's Statements; GASB 68 Accounting and Financial Reporting for Pensions which requires the City to record its proportionate share of the unfunded liability of the New Hampshire Retirement System, a multiple employer cost sharing defined benefit plan, and GASB Statement 75 - *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, which requires governments to account for other post-employment benefits (OPEB) on an accrual basis, rather than on a pay-as-you-go basis. The City's governmental activities will continue to report a deficit until the funding mechanisms and asset returns improve in the state system. Please refer to financial statement note 4-A for additional information on the pension liability and financial statement note 4-B for additional information on the other post-employment benefits (OPEB) liability.

Financial Results. The following is a summary of condensed government-wide financial data of changes in net position for the current and prior two fiscal years:

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

	Governmental Activities			Business-Type Activities		
	2018	2017	2016	2018	2017	2016
<u>Revenues</u>						
Program Revenue:						
Charges for Services	1,662	1,184	1,530	2,978	2,806	2,748
Operating Grants and Contributions	13,808	11,022	9,885	11	8	7
Capital Grants and Contributions	-	-	207	-	59	59
General Revenues:						
Property Taxes	11,561	10,607	11,334	-	-	-
Other Taxes	-	224	248	-	-	-
Licenses and Permits	1,281	1,367	1,281	-	-	-
Grants and Contributions not restricted to specific programs	-	-	35	-	-	-
Interest Earnings	27	165	53	2	-	-
Miscellaneous	907	683	1,568	59	-	-
Total Revenues	29,246	25,252	26,141	3,050	2,873	2,814
<u>Expenses</u>						
Functional Expenditures:						
General Government	1,562	1,874	1,729	-	-	-
Public Safety	5,312	5,178	5,023	-	-	-
Highway and Streets	1,449	1,832	1,481	-	-	-
Sanitation	877	779	813	-	-	-
Health	191	164	188	-	-	-
Welfare	67	81	82	-	-	-
Culture and Recreation	1,203	723	918	-	-	-
Conservation	1	1	1	-	-	-
Economic Development	81	45	45	-	-	-
School	15,717	14,678	14,750	-	-	-
Debt Service	95	147	135	-	-	-
Capital Outlay	(34)	7	216	-	-	-
Other Financing Uses GASB 68/OPEB	2,001	1,290	-	-	-	-
Proprietary Activities	-	-	-	3,171	2,871	2,896
Total Expenses	28,522	26,799	25,381	3,171	2,871	2,896
Change in net position before transfers	724	(1,547)	760	(121)	2	(82)
Transfers	6	6	-	-	-	-
Increase (Decrease) in net position	730	(1,541)	760	(121)	2	(82)
Net Position, beginning, as restated	4,330	4,330	3,570	12,789	12,787	12,869
Net Position, ending	5,060	2,789	4,330	12,668	12,789	12,787

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2018

Governmental activities. Governmental activities increased the City of Franklin's net position by \$1,262,082. This is largely due to decreased liabilities for OPEB obligations and recording of the City's portion of the retirement system's net pension liability.

Business-type activities. Business-type activities decreased the City of Franklin's net position by \$121,144. The Water Fund decreased the net position by \$189,156 while the Sewer Fund increased the net position by \$68,012.

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 \$7,903,136, an increase of \$1,006,474 over the prior year. Of the combined ending fund balances, \$3,899,954 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 obligated 1) to liquidate contracts and purchase orders of the prior period (\$880,906), 2) committed for miscellaneous purposes (\$10,308), 3) legally restricted for permanent funds and other restricted purposes (\$1,826,743), 4) non-spendable permanent fund principal and prepaids (\$1,285,225).

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 \$3,908,951, while total fund balance reached \$5,469,597. 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 15.74 percent of total general fund expenditures, while total fund balance represents 22.02 percent of that same amount.

In June 2011, the City Council adopted a revision to the fund balance policy to come into compliance with GASB Statement No. 54. In addition, the Council moved the target unassigned fund balance from 5% to 15% of general fund expenditures. Since 2011, the City has increased its fund balance from 6% to 16% of appropriated expenditures.

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. Proprietary fund financial statements use the accrual basis of accounting, like the government-wide financial statements. Therefore, there is no reconciliation needed between the government-wide financial statements for business type activities and the proprietary fund financial statements.

Unrestricted net position of the proprietary funds at the end of the year amounted to \$-481,021. The total net position decreased over the prior year by \$121,144.

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2018

General Fund Budgetary Highlights

The difference between the original budget and the final amended budget was \$894,282 which represents the following:

- Prior year encumbrances/carryovers totaling \$894,282

The difference between the final amended budget and actual results is a positive variance of \$5,109,103. Revenues and budgetary fund balance exceeding budgeted amounts by \$3,515,941, budgetary fund balance exceeding budgeted amount by \$3,222,860 and total of other revenues coming in over estimates by \$293,081. Expenditures were less than the estimated budget by \$1,593,162. Significant budget variances include:

- Positive variance of \$3,222,860 in beginning budgetary fund balance represents the prior year fund balance not appropriated to support the current year budget but held for unanticipated and/or emergency expenditures
- Positive variance of \$155,905 in licenses, permits & fees largely represents motor vehicle registration revenues coming in higher than estimated
- Negative variance of \$783,161 in other local revenues estimated by the school
- Positive variance of \$329,224 in federal grant sources
- Positive variance of \$382,104 in charges for services
- Negative variance of \$235,394 in miscellaneous revenues
- Positive variance of 232,884 in other financing sources, primarily \$160,000 in loan proceeds
- Positive variance of \$247,586 in general government expenses
- Positive variance of \$209,087 in public safety expenses
- Positive variance of \$520,808 in highways, streets and bridges
- Positive variance of \$73,518 in welfare due to the director coordinating with other resources available for the needs of the clients
- Positive variance of \$765,642 in school expenses
- Negative variance of \$249,064 in capital outlay expenses

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2018

Capital Asset and Debt Administration

Capital Assets. The City of Franklin's total investment in capital assets for its governmental and business type activities as of June 30, 2018, amounts to \$37,052,463 (net of accumulated depreciation), a decrease of \$402,605 from the prior year. 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.

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

	Governmental Activities			Business-Type Activities			Total Primary Government		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Land	1,228	1,229	1,229	65	65	65	1,293	1,294	1,294
Monuments	61	61	61	-	-	-	61	61	61
Construction in Progress	57	89	127	468	98	334	525	187	461
Land Improvements	152	144	153	-	-	-	152	144	153
Buildings and Improvements	10,472	11,113	11,773	392	410	428	10,864	11,523	12,201
Machinery, Vehicles and Equipment	2,947	2,909	2,608	457	499	553	3,404	3,408	3,161
Infrastructure	2,796	2,496	2,118	17,958	18,342	18,269	20,754	20,838	20,387
Total	17,713	18,041	18,069	19,340	19,414	19,649	37,053	37,455	37,718

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

- 2 trucks and a sidewalk tractor
- Road improvements
- Miscellaneous equipment (school district)

Long-term debt. At the end of the current fiscal year, the City of Franklin had total bonded debt and notes outstanding of \$9,445,575. Of this amount, 100% comprises debt backed by the full faith and credit of the government; however, \$6,495,694 bonds & notes are attributable to the Water and Sewer proprietary funds, and \$50,000 is attributable to the District Courthouse. 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. Of the \$6,977,405 proprietary note debt, the State of New Hampshire has agreed to offset \$891,410 in the form of a revolving loan. The City of Franklin is also financially liable for general obligation debt outstanding for its component unit, Franklin School District, which amounts to approximately \$1,636,845 of the total \$9,445,575 of bonded/note debt. Further information regarding the School District's indebtedness may be found in their annual audit report.

City of Franklin, New Hampshire
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Fiscal Year Ended June 30, 2018

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

	Governmental Activities			Business-Type Activities			Total Primary Government		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
General Obligation Bonds and Notes	2,950	3,445	3,390	6,496	6,978	7,245	9,446	10,423	10,635
Accrued Landfill Postclosure	158	167	174	-	-	-	158	167	174
Compensated Absences	307	350	394	24	26	19	331	376	413
Capital Leases	233	239	289	80	106	164	313	345	453
Net Pension Liability	19,646	21,966	16,034	986	715	532	20,632	22,681	16,566
Other Post Employment Benefits	3,583	2,202	1,855	55	-	-	3,638	2,202	1,855
Total	26,877	28,369	22,136	7,641	7,825	7,960	34,518	36,194	30,096

During the current fiscal year, the City of Franklin's total debt decreased by \$3,160,810 (8 percent). Key factors in the net increase are:

- Reductions in outstanding bond/note debt principal in the amount of \$1,136,595
- Reductions in outstanding capital lease principal in the amount of \$96,302
- Reduction in landfill post-closure obligation in the amount of \$8,960
- Net Reduction in compensated absences payable of \$45,502
- Decrease in Other post-employment benefits obligations of \$48,234
- Note issued in the amount of \$160,000
- Capital Lease entered into in the amount of \$64,748
- Decrease in net pension liability of \$2,049,965

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 a percentage 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.

As of October 2017, Franklin's valuation was \$564,700,933 with an equalization ratio of 91.5%, yielding an estimated equalized base valuation of \$604,858,766. Per NH Statute, the City is required to maintain debt ratios with maximums as follows:

Debt Limits

Municipal Debt (3% of the base valuation per RSA 33:4-a)	\$	16,941,028
School Debt (7% of the base valuation per RSA 33:4-a)	\$	39,529,065
City (Municipal and School District combined debt limitation of 9.75% per RSA 33:4b)	\$	53,646,589
Water (10% of the base valuation per RSA 33:5-a)	\$	56,470,093
Sewer	Exempt	

Borrowing Capacity (As of June 30, 2018)

	<u>Maximum</u>	<u>Outstanding</u>	<u>Available</u>
General Debt	\$ 16,941,028	\$ 1,313,036	\$ 15,627,992
School Debt	\$ 39,529,065	\$ 1,636,845	\$ 37,892,220
Water	\$ 53,646,589	\$ 6,495,694	\$ 47,150,895

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, 2018

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.

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
2008	\$ 11,038,643	2.9%
2009	\$ 11,018,539	-0.2%
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%
2015	\$ 12,722,153	2.2%
2016	\$ 12,914,504	1.5%
2017	\$ 13,334,594	3.3%
2018	\$ 14,188,268	6.4%

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2018

The City's net valuation, or the taxable assessment on both land and buildings used to establish the tax rate, was \$564,700,933 in fiscal year 2018. The City has experienced a \$27.2 million increase in assessed valuation from the previous year.

Economics

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 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, similar to other New England mill communities, is striving to reinvent itself. To this end, Franklin continues to move forward with economic development efforts. Franklin has continued to embrace two branding concepts: outdoor recreation destination and Franklin for a lifetime. This 2-pronged approach to economic development is key to changing Franklin's image: one focusing on bringing in outside dollars supporting community businesses/services and the other focuses on services to retain and support Franklin residents of all ages.

To bring in outside dollars, the City is focusing on capitalizing, again, on our beautiful natural resources but this time with an eye toward preserving and protecting our environment. The City's downtown economic development coordinator, funded through 2 USDA Rural Technical Assistance grants beginning in FY2016, has been responsible for the receipt of over \$1 million in funding through grants, loans and tax credits supporting the economic development efforts so far. The economic development steering committee, consisting of the downtown coordinator, City officials, and FBIDC (the City's economic arm), have embraced the idea of the first white water park in New England. With the support of the City Council and working with the nonprofit group Mill City Park, this public private partnership will clean up and revitalize the Winnepesaukee River which flows at one end of the downtown corridor while bringing a new outdoor recreation industry to the City with benefits far exceeding the borders of Franklin to the greater Lakes Region and State of New Hampshire.

According to a study by the New Hampshire Office of Business and Economic Affairs, the white-water park will bring \$6.8 million of outside dollars into the community, especially the businesses in the downtown corridor. This has sparked interest in the City from restaurateurs, prominent mill developers and other stakeholders. In addition, the white-water park will attract not only white-water enthusiasts but outdoor enthusiasts who will support Franklin's other recreation gems: Northern rail trail, Winnepesaukee river trail, Veteran's Memorial Ski Area, Webster Lake, Franklin Falls Dam (disc golf and walking/biking trails), and many more. The City utilized funding from a federal grant award from the Economic Development Agency to fund engineers for both the design work and permitting of in water features for the white-water paddling enthusiast. The design engineer, Mike Harvey of Recreation Engineering and Planning, has designed 80% of the over 300 white water parks in North America. When asked about the fit of the Winnepesaukee River for a white-water park, he gave the river 5 out of 5 stars. This is very encouraging to City leaders and investors as well.

Because of the efforts to promote Mill City Park and the white water venue such as the 1st annual Winni River Days in June during Nh Department of Environmental Services warm water release from Lake Winnepesaukee in June and the Boat Bash Snow Crash in March where kayakers navigate the ski hill at Franklin's Veteran's Memorial Ski Area, people are educating themselves on the benefits of this new recreational venue. Investors are taking notice. The Buell Block in downtown was purchased and renovations are underway for a microbrewery. Chinburg Properties purchased the Stevens Mill which is the largest former Mill property on the river at 182,000 square feet. Chinburg, who is experienced in mill renovations as evidenced in Newmarket and Dover, New Hampshire, is looking to put in 120

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2018

market rate housing units along with commercial and light industrial spaces. Mr. Chinburg is currently putting together funding that will likely include New Market and Historical tax credits. In order to entice Chinburg properties the City utilized 79E tax credits and the Franklin Falls Mixed Use Tax Increment Financing district, authorizing \$1m project within the district to raze some delapidated buildings making room for a parking/green space project to benefit all of downtown.

Independent Financial Advisors (IFA) purchased some other run-down buildings in the downtown and continued façade improvements started by PermaCityLife in other portions of downtown last year. In addition, IFA is renovating spaces to accommodate their operations in downtown as well as provide market rate housing with the much-needed renovation of the units above.

The Elks Club purchased another dilapidated property, renovated it and moved into it during this period. The Elks club now provides the largest venue for community events. The former Elks property along with an adjoining City parcel and another private parcel were put under agreement by Cumberland Farms to restore the corner of the west side of downtown with a new convenience store and gas pumps.

Perhaps the largest new economic development tool, Opportunity Zones, was announced by governor Sununu in Franklin in May of 2018. Opportunity Zones is a federal economic development stimulus program aimed at investors with "patient capital" specifically the significant reduction or elimination of capital gains tax over a 10-year investment period. Governors in each State had to identify "tracts" within their States eligible for opportunity zone investment. New Hampshire has a total of 27 tracts of which 2 are within Franklin making the entire City eligible for opportunity zone investments. The City economic development steering committee is strategizing on how to utilize this program for further development and plans to implement that strategy in FY2019.

The City continues exploring new and innovative ways to address rising costs and more demand on services with police and fire departments as well as the rising costs and declining enrollment of the school system. Despite the much-improved relationship between the school board and city council, the City still struggles with internal efforts at combining efforts between municipal departments and school district. Global thinking of the City as one unit funded by the common taxpayer instead of 2 entities is key to moving forward with internal money saving efforts. Again, in FY18, management has continued the discussion of consolidating services between entities to improve efficiencies, eliminate duplication of effort, address areas of concern and realize cost savings. The City fire services continues looking at regionalization with several neighboring communities. This idea is gaining momentum as the municipalities see the benefits of working together to resolve a common problem and save money for all taxpayers. Capitalizing on our strengths and eliminating weaknesses will keep the City moving forward by placing resources where needed the most: public safety and education. Internal efforts are expected to continue in FY2019.

Water and Sewer Rates

The City has continued efforts to improve the quality and delivery of water.

The current big project for the water distribution system is the upgrade of the pressure reducing vault on Pleasant Street. The City has secured drinking water state revolving fund monies for this project. The next big project is the replacement of water mains on New Hampton Road which connects the City to the Sanbornton Well site for redundancy purposes. The City is in the process of securing funding for the project. In addition, Acme 2 well is scheduled to be refurbished in FY2019.

The ongoing Water Meter Replacement Program was completed in FY2018. This program replaced all 2314 outdated water meters. This enables the City to obtain accurate water usage consumption from all customers.

City of Franklin, New Hampshire
Management's Discussion and Analysis
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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 59% 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 2019 fiscal year. Water rates increased \$.08 per 100 cubic feet (1.2%) for fiscal 2019 budget year. This increase represents increased costs in payroll liabilities, specifically retirement and health care, as well as the placeholder for the future debt service for the Pleasant Street pressure reducing vault. Sewer rates increased by \$.05 per 100 cubic feet (0.7%) for the fiscal 2019 budget year. This increase is a result of increased costs in payroll liabilities like the water fund and capital projects funded by the rate payer verses retained earnings. In addition, revenues are down due to the capping of the ash fill by Concord Regional Solid Waste and a general decrease in flow from consumers.

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: Finance Director, City of Franklin Finance Office, 316 Central Street Franklin, NH 03235.

BASIC FINANCIAL STATEMENTS

CITY OF FRANKLIN, NEW HAMPSHIRE

Statement of Net Position June 30, 2018

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 10,477,627	\$ -	\$ 10,477,627
Investments	2,722,937	-	2,722,937
Receivables, net	2,074,191	1,662,474	3,736,665
Due from other governments	2,373,404		2,373,404
Internal balances due to/from other funds	(499,840)	468,978	(30,862)
Inventories	26,361	115,826	142,187
Prepaid	131,830	-	131,830
Other noncurrent assets	606,976	10,856	617,832
Capital assets:			
Land, improvements, and construction in progress	1,530,400	532,667	2,063,067
Other capital assets, net of accumulated depreciation	16,182,773	18,806,624	34,989,397
Total assets	35,626,659	21,597,425	57,224,084
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pensions	4,162,968	187,253	4,350,221
Deferred outflows of resources related to other post employment benefits	73,979	-	73,979
Total deferred outflows of resources	4,236,947	187,253	4,424,200
LIABILITIES			
Accounts payable	889,749	184,213	1,073,962
Accrued expenses	185,776	135,923	321,699
Due to other governments	258,720	-	258,720
Deferred revenue	237,262	982,626	1,219,888
Current portion of long-term liabilities	649,124	552,090	1,201,214
Other liabilities	734,295	-	734,295
Bonds payable	2,354,398	6,135,793	8,490,191
Compensated absences	306,711	-	306,711
Capital lease obligations	190,546	54,281	244,827
Landfill Closure	140,097	-	140,097
Post employment benefit obligation	3,583,477	55,440	3,638,917
Net pension liability	19,645,996	986,119	20,632,115
Total liabilities	29,176,151	9,086,485	38,262,636
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to property taxes	7,137,800	-	7,137,800
Deferred inflows of resources related to pensions	970,338	-	970,338
Deferred inflows of resources related to other post employment benefits	1,110,445	29,997	1,140,442
Total deferred inflows of resources	9,218,583	29,997	9,248,580
NET POSITION			
Net investment in capital assets	14,536,809	13,149,217	27,686,026
Restricted for:			
Capital reserves	472,190		472,190
Other nonmajor purposes	2,433,539		2,433,539
Unrestricted	(15,973,666)	(481,021)	(16,454,687)
Total net position	\$ 1,468,872	\$ 12,668,196	\$ 14,137,068

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

CITY OF FRANKLIN, NEW HAMPSHIRE

Statement of Activities Year Ended June 30, 2018

Functions / Programs	Net (Expense) Revenue and Changes in Net Position					
	Program Revenues			Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:						
General government						
Executive	\$ 350,028	\$ 58,762	\$ 1,486,563	\$ 1,195,297		\$ 1,195,297
Election and registration	211,015	-	-	332,530		332,530
Financial administration	346,755	-	-	(346,755)		(346,755)
Revaluation of property	654,215	-	-	(654,215)		(654,215)
Public safety						
Police	3,018,543	543,545	-	(2,474,998)		(2,474,998)
Ambulance	2,293,498	-	-	(2,293,498)		(2,293,498)
Highways and streets	897,233	7,769	-	(889,464)		(889,464)
Street lighting	85,080	-	-	(85,080)		(85,080)
Other highway	466,805	-	-	(466,805)		(466,805)
Sanitation	876,770	259,891	-	(616,879)		(616,879)
Health	191,139	-	-	(191,139)		(191,139)
Welfare	66,612	-	-	(66,612)		(66,612)
Culture and recreation	1,202,975	259,049	-	(943,926)		(943,926)
Conservation	363	-	-	(363)		(363)
Economic development	81,063	-	496,996	415,933		415,933
School district	15,717,525	532,649	11,824,421	(3,360,455)		(3,360,455)
Interest expense	95,503	-	-	(95,503)		(95,503)
Capital outlay	(34,427)	-	-	34,427		34,427
Other financing uses	622,126	-	-	(622,126)		(622,126)
Depreciation (unallocated)	1,378,844	-	-	(1,378,844)		(1,378,844)
Total governmental activities	<u>28,521,665</u>	<u>1,661,665</u>	<u>13,807,980</u>	<u>(12,508,475)</u>		<u>(12,508,475)</u>
Business Type Activities:						
Water Fund	1,865,336	1,615,394	-		\$ (249,942)	(249,942)
Sewer Fund	<u>1,305,897</u>	<u>1,362,545</u>	<u>10,886</u>		<u>67,534</u>	<u>67,534</u>
Total Business Type Activities:	<u>3,171,233</u>	<u>2,977,939</u>	<u>10,886</u>		<u>(182,408)</u>	<u>(182,408)</u>
Total Primary Government	<u>\$ 31,692,898</u>	<u>\$ 4,639,604</u>	<u>\$ 13,818,866</u>	<u>\$ (12,508,475)</u>	<u>\$ (182,408)</u>	<u>\$ (12,690,883)</u>
General revenues:						
Taxes				\$ 11,561,222	\$ -	\$ 11,561,222
Grants and contributions not restricted to specific purposes:						
Licenses, permits and fees				1,280,906	-	1,280,906
Investment Income				27,317	1,837	29,154
Charges for services				307,571	-	307,571
Miscellaneous revenues				591,666	59,427	651,093
Other financing sources				8,136	-	8,136
Total general revenues				<u>13,776,818</u>	<u>61,264</u>	<u>13,838,082</u>
Change in net position				1,268,343	(121,144)	1,147,199
Net position - beginning (as restated)				<u>200,529</u>	<u>12,789,340</u>	<u>12,989,869</u>
Net position - ending				<u>\$ 1,468,872</u>	<u>\$ 12,668,196</u>	<u>\$ 14,137,068</u>

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, 2018

	General Fund	School District Grants	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 9,797,517	\$ -	\$ 680,110	\$ 10,477,627
Investments	468,496	-	2,254,441	2,722,937
Property taxes receivable	1,160,396	-	-	1,160,396
Timber taxes receivable	835	-	-	835
Tax liens receivable	404,939	-	-	404,939
Welfare liens	38,548	-	-	38,548
Allowance for doubtful accounts	(120,358)	-	-	(120,358)
Other receivable	3,367	-	-	3,367
Receivables, net	584,186	-	2,278	586,464
Due from other governments	831,165	1,483,702	58,537	2,373,404
Due from other funds	1,266,834	-	262,168	1,529,002
Inventories	-	-	26,361	26,361
Prepays	131,830	-	-	131,830
Total assets	<u>\$ 14,567,755</u>	<u>\$ 1,483,702</u>	<u>\$ 3,283,895</u>	<u>\$ 19,335,352</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 824,834	\$ 50,077	\$ 14,838	\$ 889,749
Accrued expenses	138,998	-	6,550	145,548
Due to other governments	258,720	-	-	258,720
Due to other funds	625,982	1,310,866	91,994	2,028,842
Deferred revenue	7,249,257	122,759	3,046	7,375,062
Other liabilities	367	-	733,928	734,295
Total liabilities	<u>9,098,158</u>	<u>1,483,702</u>	<u>850,356</u>	<u>11,432,216</u>
Fund balances:				
Nonspendable	131,830	-	1,153,395	1,285,225
Restricted	551,982	-	1,274,761	1,826,743
Committed	-	-	10,308	10,308
Assigned	876,834	-	4,072	880,906
Unassigned	3,908,951	-	(8,997)	3,899,954
Total fund balance	<u>5,469,597</u>	<u>-</u>	<u>2,433,539</u>	<u>7,903,136</u>
Total liabilities and fund balances	<u>\$ 14,567,755</u>	<u>\$ 1,483,702</u>	<u>\$ 3,283,895</u>	<u>\$ 19,335,352</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, 2018

Total Fund Balances - Governmental Funds \$ 7,903,136

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in the governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Cost	\$ 40,321,666	
Less accumulated depreciation	<u>(22,608,493)</u>	17,713,173

Long-term liabilities, including bonds payable, are not due in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds payable	(2,943,620)	
Capital lease obligations	(232,744)	
Compensated absences	(306,711)	
Unamortized bond premium	(157,801)	
OPEB obligation	(3,583,477)	
Net pension liability	<u>(19,645,996)</u>	(26,870,349)

Deferred inflows and outflows of resources are not current financial sources and uses and therefore are not reported in the governmental funds.

Deferred inflows of resources	(2,080,783)	
Deferred outflows of resources	<u>4,236,947</u>	2,156,164

Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the governmental fund financial statements, an interest expenditure is reported when due. (40,228)

Tax Deeded Properties		<u>606,976</u>
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Total Net Position - Governmental Activities \$ 1,468,872

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 Year Ended June 30, 2018

	General Fund	School District Grants	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 11,448,852	\$ -	\$ -	\$ 11,448,852
Licenses, permits and fees	1,602,394	124,918	165,290	1,892,602
Grant Revenues	975,791	1,959,923	854,222	3,789,936
State of NH sources	10,010,027	-	8,017	10,018,044
Charges for services	1,307,768	-	77,089	1,384,857
Miscellaneous revenues	256,794	-	207,591	464,385
Investment income	74,750	-	52,531	127,281
Total revenues	<u>25,676,376</u>	<u>2,084,841</u>	<u>1,364,740</u>	<u>29,125,957</u>
Expenditures				
Current:				
General government	1,591,275	-	13,771	1,605,046
Public safety	5,334,236	-	37,324	5,371,560
Highways and streets	1,449,118	-	-	1,449,118
Sanitation	876,770	-	-	876,770
Health	191,139	-	-	191,139
Welfare	66,612	-	-	66,612
Culture and recreation	900,169	-	302,806	1,202,975
Conservation	-	-	363	363
Economic development	81,063	-	-	81,063
School district	13,129,937	2,088,832	570,867	15,789,636
Debt service:				
Principal	645,001	-	-	645,001
Interest	117,353	-	-	117,353
Capital outlay	458,370	-	497,361	955,731
Total expenditures	<u>24,841,043</u>	<u>2,088,832</u>	<u>1,422,492</u>	<u>28,352,367</u>
Excess (deficiency) of revenues over expenditures	835,333	(3,991)	(57,752)	773,590
Other Financing Sources (Uses)				
Transfers from general fund	-	3,991	343,603	347,594
Transfers from other funds	11,751	-	38,140	49,891
Transfers out	(347,594)	-	(49,891)	(397,485)
Proceeds from long-term notes and bonds	160,000	-	-	160,000
Other financing sources	72,884	-	-	72,884
	<u>(102,959)</u>	<u>3,991</u>	<u>331,852</u>	<u>232,884</u>
Net change in fund balances	732,374	-	274,100	1,006,474
Fund balances - beginning of year (as restated)	<u>4,737,223</u>	<u>-</u>	<u>2,159,439</u>	<u>6,896,662</u>
Fund balances - end of year	<u>\$ 5,469,597</u>	<u>\$ -</u>	<u>\$ 2,433,539</u>	<u>\$ 7,903,136</u>

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 Year Ended June 30, 2018

Total Net Change in Fund Balances - Governmental Funds		\$	1,006,474
Amounts reported for governmental activities in the statement of activities are different because:			
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.			
Capital outlays	\$	1,050,882	
Depreciation expense		(1,378,844)	
Loss on disposal of assets		-	(327,962)
Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net assets.			
			(64,748)
Bond proceeds provide current financial resources to governmental funds, but increase long-term liabilities in the statement of net assets.			
			(160,000)
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.			
Principal on bonds		661,143	
Principal on capital leases		70,906	732,049
Interest on long-term liabilities in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.			
Accrued interest (increase) decrease			(3,252)
In the statement of activities, certain operating expenses are measured by the amounts earned during the year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used.			
Compensated absences (increase) decrease		43,033	
Landfill closure (increase) decrease		8,960	
OPEB obligation (increase) decrease		103,674	
Net pension liability		2,321,010	2,476,677
The change in deferred inflows and outflows from the <i>Schedule of Pension Amounts by Employer</i> related to the New Hampshire Retirement System Cost-Sharing Employer Defined Benefit Pension Plan are reported against pension expense in the governmental activities.			
Deferred inflows (increase) decrease		(538,564)	
Deferred outflows increase (decrease)		(1,964,701)	(2,503,265)
Change in Tax Deeded Property			112,370
Change in Net Position of Governmental Activities		\$	<u>1,268,343</u>

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, 2018

	<u>Business Type Activities</u>		Total Proprietary Funds
	<u>Water Fund</u>	<u>Sewer Fund</u>	
ASSETS			
Cash and cash equivalents	\$ -	\$ -	\$ -
Receivables, net	1,249,475	412,999	1,662,474
Internal Balances Due To/From Other Funds	137,378	331,600	468,978
Inventories	110,357	5,469	115,826
Capital assets (Note 1):			
Land, Improvements, and Constr. In Progress	262,946	269,721	532,667
Other capital assets, net of depreciation	<u>16,002,161</u>	<u>2,804,463</u>	<u>18,806,624</u>
Total Assets	<u>17,762,317</u>	<u>3,824,252</u>	<u>21,586,569</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources	<u>143,484</u>	<u>54,625</u>	<u>198,109</u>
Total deferred outflows of resources	<u>143,484</u>	<u>54,625</u>	<u>198,109</u>
LIABILITIES			
Accounts Payable	81,086	103,127	184,213
Accrued Expenses	121,311	14,612	135,923
Deferred Revenue	891,410	91,216	982,626
Current portion of long-term debt	477,066	75,024	552,090
Bonds and Notes Payable	5,759,174	376,619	6,135,793
Capital Lease Obligations	-	54,281	54,281
Net Pension Liability	678,728	307,391	986,119
Other Post Employment Liability	<u>34,999</u>	<u>20,441</u>	<u>55,440</u>
Total Liabilities	<u>8,043,774</u>	<u>1,042,711</u>	<u>9,086,485</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources	<u>18,743</u>	<u>11,254</u>	<u>29,997</u>
Total deferred inflows of resources	<u>18,743</u>	<u>11,254</u>	<u>29,997</u>
NET POSITION			
Investment in Capital Assets, net of related debt	10,505,933	2,643,284	13,149,217
Restricted for:			
Unrestricted (Deficit)	<u>(662,649)</u>	<u>181,628</u>	<u>(481,021)</u>
Total Net Position	<u>\$ 9,843,284</u>	<u>\$ 2,824,912</u>	<u>\$ 12,668,196</u>

See accompanying notes to the basic financial statements.

CITY OF FRANKLIN, NEW HAMPSHIRE

Statement of Revenues, Expenditures, and Changes in Net Position Proprietary Funds Year Ended June 30, 2018

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
Operating revenues:			
State of NH sources	\$ -	\$ 10,886	\$ 10,886
Charges for services	<u>1,615,394</u>	<u>1,362,545</u>	<u>2,977,939</u>
Total operating revenues	<u>1,615,394</u>	<u>1,373,431</u>	<u>2,988,825</u>
Operating expenses:			
Sanitation	-	1,215,444	1,215,444
Water distribution and treatment	<u>1,321,549</u>	-	<u>1,321,549</u>
Depreciation	<u>384,639</u>	<u>75,160</u>	<u>459,799</u>
Total operating expenses	<u>1,706,188</u>	<u>1,290,604</u>	<u>2,996,792</u>
Operating income (loss)	<u>(90,794)</u>	<u>82,827</u>	<u>(7,967)</u>
Non operating revenues (expenses)			
Other financing sources	59,427	-	59,427
Interest earned	1,359	478	1,837
Interest expense	(159,148)	(15,293)	(174,441)
Other	-	-	-
Net non operating revenues (expenses)	<u>(98,362)</u>	<u>(14,815)</u>	<u>(113,177)</u>
Change in net position	(189,156)	68,012	(121,144)
Net position beginning of year	<u>10,032,440</u>	<u>2,756,900</u>	<u>12,789,340</u>
Net position end of year	<u>\$ 9,843,284</u>	<u>\$ 2,824,912</u>	<u>\$ 12,668,196</u>

See accompanying notes to the basic financial statements.

CITY OF FRANKLIN, NEW HAMPSHIRE

Statement of Cash Flows Proprietary Funds June 30, 2018

	Business Type Activities		
	Water Fund	Sewer Fund	Totals
Cash flows from operating activities:			
Cash received from customers	\$ 1,615,393	\$ 1,373,432	\$ 2,988,825
Cash paid to suppliers	(634,538)	(892,107)	(1,526,645)
Cash paid to employees	(634,551)	(279,426)	(913,977)
Net cash provided by operating activities	<u>346,304</u>	<u>201,899</u>	<u>548,203</u>
Cash flows from noncapital financing activities:			
Operating subsidies	-	-	-
Other	-	-	-
Net cash flows from operating subsidies	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from capital and related financing activities:			
Capital contributions	59,427	-	59,427
Purchases of capital assets	194,613	(122,531)	72,082
Principal paid on capital debt	(442,555)	(64,554)	(507,109)
Interest paid on capital debt	(159,148)	(15,293)	(174,441)
Net cash provided (used) by capital and related financing activities	<u>(347,663)</u>	<u>(202,378)</u>	<u>(550,041)</u>
Cash flows from investing activities:			
Interest and dividends	<u>1,359</u>	<u>479</u>	<u>1,838</u>
Net provided (used) by investing activities	<u>1,359</u>	<u>479</u>	<u>1,838</u>
Net increase (decrease) in cash and cash equivalents	-	-	-
Cash and cash equivalents at beginning of year	-	-	-
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (90,794)	\$ 82,827	\$ (7,967)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	384,639	75,160	459,799
Interest expense on debt	159,148	15,293	174,441
Interest earned	(1,359)	(479)	(1,838)
Changes in assets and liabilities:			
Receivables, net	49,688	30,640	80,328
Internal Balances Due To/From Other Funds	32,458	(85,380)	(52,922)
Inventories	18,156	(618)	17,538
Accounts Payable	35,927	65,156	101,083
Accrued Expenses	(7,069)	1,147	(5,922)
Deferred Revenue	(59,427)	-	(59,427)
Deferred Inflows	11,458	5,952	17,410
Deferred Outflows	6,476	(4,380)	2,096
Compensated Absences	-	663	663
OPEB Liability	(256)	(62,386)	(62,642)
Net Pension Liability	(192,741)	78,304	(114,437)
Net cash provided (used) by operating activities	<u>\$ 346,304</u>	<u>\$ 201,899</u>	<u>\$ 548,203</u>

See accompanying notes to the basic financial statements.

CITY OF FRANKLIN, NEW HAMPSHIRE

Statement of Net Position Fiduciary Funds June 30, 2018

	Charity Fund	School Scholarships	Total Private Purpose Trusts	Engineering Escrow	Student Activities	Total Agency Funds	Total Fiduciary Funds
Assets							
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ 151,392	\$ 151,392	\$ 151,392
Investments	288,458	1,185,398	1,473,856	-	-	-	1,473,856
Receivables, net	-	-	-	-	-	-	-
Due from other funds	1,000	-	1,000	5,000	-	5,000	6,000
Total assets	<u>\$ 289,458</u>	<u>\$ 1,185,398</u>	<u>\$ 1,474,856</u>	<u>\$ 5,000</u>	<u>\$ 151,392</u>	<u>\$ 156,392</u>	<u>\$ 1,631,248</u>
Liabilities							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-	-	-
Deferred Revenue	-	-	-	-	-	-	-
Due to others	-	1,000	1,000	5,000	151,392	156,392	157,392
Total liabilities	<u>\$ -</u>	<u>\$ 1,000</u>	<u>1,000</u>	<u>\$ 5,000</u>	<u>\$ 151,392</u>	<u>\$ 156,392</u>	<u>157,392</u>
Net Position							
Held in trust for private purposes	<u>\$ 289,458</u>	<u>\$ 1,184,398</u>	<u>\$ 1,473,856</u>				<u>\$ 1,473,856</u>
Total net position	<u>\$ 289,458</u>	<u>\$ 1,184,398</u>	<u>\$ 1,473,856</u>				<u>\$ 1,473,856</u>

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

CITY OF FRANKLIN, NEW HAMPSHIRE

Statement of Changes in Fiduciary Net Position Private Purpose Trust Funds Year Ended June 30, 2018

	Charity Fund	School Scholarships	Total Private Purpose Trust Funds
Additions:			
Licenses, permits and fees	\$ -	\$ -	\$ -
Miscellaneous revenues	15,648	67,187	82,835
Total additions	<u>15,648</u>	<u>67,187</u>	<u>82,835</u>
Deductions:			
General government	621	23,939	24,560
Total deductions	<u>621</u>	<u>23,939</u>	<u>24,560</u>
Operating income (loss)	<u>15,027</u>	<u>43,248</u>	<u>58,275</u>
Net position beginning of year	<u>274,431</u>	<u>1,141,150</u>	<u>1,415,581</u>
Net position end of year	<u>\$ 289,458</u>	<u>\$ 1,184,398</u>	<u>\$ 1,473,856</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

City of Franklin, New Hampshire
Notes to The Basic Financial Statements
As of And for The Fiscal Year Ended
June 30, 2018

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*.

City of Franklin, New Hampshire
Notes to The Basic Financial Statements
As of And for The Fiscal Year Ended
June 30, 2018

1-B Basis of Presentation, continued

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

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

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

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

Capital Fund - The capital fund is used to account for bond monies received for renovation or construction of a new asset. Currently, the 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 does not report any internal service funds.

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, 2018

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, 2018

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

City of Franklin, New Hampshire
Notes to The Basic Financial Statements
As of And for The Fiscal Year Ended
June 30, 2018

1-E-4 Inventory and Prepaid Items, continued

inventory in the governmental funds is equally offset by nonspendable fund balance reserve which indicates that the assets are not available for appropriation even though they are a component of reported assets.

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

1-E-5 Capital Assets

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

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

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

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

1-E-6 Compensated Absences

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

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

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

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

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

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

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
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1-E-8 Pensions

The City has adopted Governmental Accounting Standards Board Statement No. 68 – *Accounting and Financial Reporting for Pensions*. As a result, the City is required to report its proportionate share of the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, pension expense, and information about the fiduciary net position of the New Hampshire Retirement System, (NHRS) a Cost-Sharing Multiple Employer Defined Benefit Pension Plan.

1-E-9 Deferred Outflows/Inflows 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-10 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.

City of Franklin, New Hampshire
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1-E-10 Equity, continued

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

1-E-11 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-12 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 2016, \$276,981 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:

<u>Function</u>	<u>Amount</u>
Finance	\$ 10,480
City Manager	168,804
Information Technology	33,123
Police	84,943
Fire	13,765
Municipal Services	515,719
School District	50,000
Total Encumbrances	<u>\$ 876,834</u>

City of Franklin, New Hampshire
Notes to The Basic Financial Statements
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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, 2018 and includes encumbrances and reserves at June 30, 2017 as follows:

	<u>Amount</u>
2018 Original Adopted Budget - Appropriations	\$ 25,880,066
June 2017 Encumbrances Carried Forward	894,282
2017 Adopted Supplemental Appropriations	-
Prior Year Non-Lapsing Appropriations	-
Final Budget - Appropriations	-
	<hr/>
Total Encumbrances	<u>\$ 26,774,348</u>

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>
Per Statement of Revenues, Expenditures, and Changes in Fund Balance	\$ 25,676,376	\$ 24,841,043
Beginning Fund Balance	4,392,192	
Transfers To/From Capital Reserves	545,305	139,989
Transfers To/From Other Funds	11,751	347,594
Contributions to Capital Reserves	(50,340)	-
Interest Earned on Capital Reserves	(9,945)	-
Proceed from Long-term Debt	160,000	-
Other financing sources	72,884	-
	<hr/>	<hr/>
Per Schedule A - Budgetary Comparison	<u>\$ 30,798,223</u>	<u>\$ 25,328,626</u>

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 2018, the City was a member of Primex for property liability coverage and for workers' compensation coverage. The school district was a member of Primex for property liability and worker's compensation coverage. Primex is considered a public entity risk pool, currently operating as a common risk management and insurance program for member towns and cities.

Primex 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 Primex, 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. Primex policies cover property, auto physical damage, crime, general liability and public officials' liability subject to not more than a \$2,500 deductible.

Property/Liability contributions paid in 2018 recorded as an insurance expenditure totaled \$0. There were no unpaid contributions for the year ending June 30, 2018 and due in 2019. The City also paid \$136,507 for workers' compensation for the year ended June 30, 2018. The trust agreements permit the trusts to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. At this time, the Trust foresees no likelihood of any additional assessments for past years.

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

City of Franklin, New Hampshire
Notes to The Basic Financial Statements
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2-E Contingent Liabilities

Grants – Amounts received are subject to later year’s review and adjustment by grantor agencies, principally federal and state governments. At such time, any disallowed claims, including amounts already collected, may constitute a liability of the City and applicable funds. At June 30, 2018, the City believes that disallowed expenditures, if any, based on subsequent review will not have a material effect on any individual funds or the overall financial position of the City. Therefore, no provision for such contingencies has been recorded.

Litigation – The City is subject to various claims, and sometimes 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, 2018, the City’s debt totaled .6% of locally assessed equalized valuation; therefore, the City had not exceeded its legal debt limit.

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

3-A Cash and Investments

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure of the counterparty, the deposits may not be returned. The custodial credit risk for investments is the risk that, in the event of a 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 possession of another part.

Pursuant to New Hampshire State Statute, “the treasurer shall insure that prior to the acceptance of any moneys for deposit or investment, including repurchase agreements, the federally insured bank shall 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.” The City does not have a deposit policy for custodial credit risk.

As of June 30, 2018, \$0 of the City’s bank balance of \$10,849,297 was exposed to custodial credit risk as uninsured or uncollateralized.

As of June 30, 2018, the City had the following investments:

Cash Held by Trustees/Investment Firm	\$ 770,020
Mutual/Bond Funds	1,032,486
Fixed Income Investments	464,766
Hedge Funds	129,184
Tangible Assets	48,691
EFT's	1,751,646
Total	<u>\$ 4,196,793</u>

Of the City’s \$4,196,793 in investments, \$0 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.

City of Franklin, New Hampshire
Notes to The Basic Financial Statements
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3-A Cash and Investments, continued

Included in the City's cash equivalents at June 30, 2018, is a short-term investment in an insured cash sweep agreement issued by a local banking institution. Under this agreement, the bank will deposit excess funds over \$130,000 into a demand deposit account with destination institutions at which deposit accounts are insured by the Federal Deposit Insurance Corporation up to maximum deposit insurance amounts (currently \$250,000). The deposit accounts are held by BNY Mellon, not in the name of the City.

At June 30, 2018 the deposit balances under the insured cash sweep agreement totaled \$9,676,298 as follows:

Summary of Balances as of June 30, 2018

FDIC-Insured Institution	City/State	FDIC Cert No.	Balance
BB&T	Winston Salem, NC	9846	\$245,219.29
BOKF, National Association	Tulsa, OK	4214	245,282.07
Bank Midwest	Spirit Lake, IA	5170	245,282.07
Bank of Springfield	Springfield, IL	19506	245,151.50
Bank of the Ozarks	Little Rock, AR	110	245,254.92
Blackhawk Bank	Beloit, WI	14078	245,110.17
Centennial Bank	Conway, AR	11241	245,282.07
Centier Bank	Merrillville, IN	12854	74.94
City National Bank of Florida	Miami, FL	20234	245,282.07
Community Financial Services Bank	Benton, KY	287	245,034.88
East Boston Savings Bank	Peabody, MA	33510	245,092.74
Esquire Bank, National Association	Garden City, NY	58140	245,084.58
FVCbank	Fairfax, VA	58696	245,048.37
First Arkansas Bank and Trust	Jacksonville, AR	16849	245,112.79
First Green Bank	Orlando, FL	58874	245,282.07
First International Bank & Trust	Watford City, ND	10248	245,024.86
First National Bank of Michigan	Kalamazoo, MI	58259	214,773.17
First National Bank of Omaha	Omaha, NE	5452	245,282.07
First National Bank of Pennsylvania	Greenville, PA	7888	245,037.59
First Tennessee Bank Natl Assn	Memphis, TN	4977	245,055.50
Glacier Bank	Kalispell, MT	30788	245,018.79
Great Western Bank	Watertown, SD	15289	245,282.07
Iberiabank	Lafayette, LA	28100	245,282.07
Katahdin Trust Company	Patten, ME	12874	245,282.06
Manufacturers Bank	Los Angeles, CA	18618	245,112.79
Merchants Bank, National Association	Winona, MN	8866	245,112.79
MidFirst Bank	Oklahoma City, OK	4063	144,494.88
MidSouth Bank, National Association	Lafayette, LA	25884	245,112.79
New York Community Bank	Westbury, NY	16022	245,282.07
Pacific Western Bank	Beverly Hills, CA	24045	245,037.59
River Valley Bank	Wausau, WI	19772	245,112.79
Simmons Bank	Pine Bluff, AR	3890	245,270.55
Southern States Bank	Anniston, AL	58558	245,282.07
Sterling National Bank	Montebello, NY	30337	245,282.07
Stifel Bank and Trust	Saint Louis, MO	57311	245,282.07
The Bank of River Oaks	Houston, TX	58142	245,282.07
The Freedom Bank of Virginia	Vienna, VA	57184	245,041.54
The Park National Bank	Newark, OH	6653	245,282.07
Union Bank & Trust	Lincoln, NE	13421	245,282.07
United Bank	Fairfax, VA	22858	245,282.07
West Bank	West Des Moines, IA	15614	245,112.79

Concentration of Credit Risk

The trustees of the trust fund policy on the concentration of credit risk is to limit the amount that may be invested in any one issue to \$10,000 or 10% of the value of the account whichever is greater. The City's investment policy limits the amount that may be invested in one issuer to \$1 million.

City of Franklin, New Hampshire
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3-A Cash and Investments, continued

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. 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.

Foreign Credit Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The City's policy limits investment to domestic securities.

Fair Value

The City categorizes its fair value measurements within the fair value hierarchy established by Governmental Standards accounting Board Statement No. 72 Fair Value Measurement and Application (GASB 72). The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following fair value measurements as of June 30, 2018:

Description	Amount	Fair Market Using:		
		Quoted prices in active markets for identical assets	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Mutual Funds	\$ 770,020	\$ 770,020	\$ -	\$ -
Equities	1,032,486	1,032,486	-	-
ETFs	1,751,646	1,239,166	-	-
Fixed Income	464,766	464,766	-	-
Hedge Funds	129,184	-	-	129,184
Intangible Assets	48,691	-	-	48,691
Total	<u>\$ 4,196,793</u>	<u>\$ 3,506,438</u>	<u>\$ -</u>	<u>\$ 177,875</u>

3-B-1 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, 2017, upon which the 2017 (City FY2018) property tax levy was based is:

For the New Hampshire education tax	\$505,332,633
For all other taxes	\$564,700,933

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.

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3-B-1 Taxes Receivable, continued

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, 2018, were as follows:

<u>Entity</u>	<u>Per \$1000 of Assessed Valuation</u>	<u>Property Taxes Assessed</u>
Municipal Portion	\$ 13.51	\$ 7,630,188
School Portion:		
Local Education Taxes	6.84	3,862,005
State Education Taxes	2.30	1,160,674
County Portion	2.91	1,644,342
	<u>\$ 25.56</u>	<u>\$ 14,297,209</u>

During the current fiscal year, the tax collector executed a lien on April 10, 2017 for all uncollected 2015/2016 property taxes, \$374,347.

Taxes receivable at June 30, 2018, are as follows:

Property:	
Levy of 2018	\$ 1,160,396
Unredeemed (under tax lien)	404,879
Utility Liens	60
Yield Tax	835
Welfare Liens	38,548
Less: Allowance for estimated uncollectible taxes	(60,043)
Less: Allowance for estimated uncollectible welfare liens	(36,231)
Net taxes receivable	<u>\$ 1,508,444</u>

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.

City of Franklin, New Hampshire
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3-B-2 Tax Abatements

The City enters into property tax abatement agreements with local businesses in the downtown area under state statute 79-E. Under the state statute, the City Council may grant tax relief for approved improvements to qualifying structures in the core downtown area. The tax relief is granted for the added value to a property once improvements are completed for a period up to 5 years with an option of granting relief for additional years based on whether the structure creates new residential units, provides for affordable housing or is listed on the National Register of Historic Places. The City Council reviews applications for tax relief on a case by case basis and approvals are subject to covenants protecting the public benefits created through the improvements. The tax relief can be terminated for failure to adhere to the terms of the covenants.

For the year ended June 30, 2018, the City abated property taxes under RSA 79-E totaling \$39,278.

3-C Other Receivables

Other receivables at June 30, 2018, 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, 2018 are as follows:

	<u>Governmental Funds</u>	<u>Proprietary Funds</u>	<u>Total</u>
Accounts Receivable	\$ 589,831	\$ 658,231	1,248,062
Allowance for Doubtful Accounts	(84,127)	(28,043)	(112,170)
Net Accounts Receivable	<u>505,704</u>	<u>630,188</u>	<u>1,135,892</u>
 Intergovernmental Receivables	 2,373,404	 1,032,286	 3,405,690
Allowance for Doubtful Accounts	-	-	-
Net Intergovernmental Receivables	<u>2,373,404</u>	<u>1,032,286</u>	<u>3,405,690</u>
	<u>\$ 2,879,108</u>	<u>\$ 1,662,474</u>	<u>\$ 4,541,582</u>

City of Franklin, New Hampshire
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3-D Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities (at cost)				
Capital assets not being depreciated:				
Monuments	\$ 61,000	\$ -	\$ -	\$ 61,000
Land	1,228,504	-	-	1,228,504
Construction in progress	89,027	(31,995)	-	57,032
	<u>1,378,531</u>	<u>(31,995)</u>	<u>-</u>	<u>1,346,536</u>
Capital assets being depreciated:				
Land improvements	213,226	27,670	-	240,896
Buildings and improvements	24,975,776	23,249	-	24,999,025
Furniture, equipment and vehicles	8,981,289	534,413	-	9,515,702
Infrastructure	3,721,963	497,545	-	4,219,508
	<u>37,892,254</u>	<u>1,082,877</u>	<u>-</u>	<u>38,975,131</u>
Less accumulated depreciation:				
Land improvements	69,077	19,894	-	88,971
Buildings and improvements	13,862,517	664,969	-	14,527,486
Furniture, equipment and vehicles	6,072,254	496,517	-	6,568,771
Infrastructure	1,225,800	197,464	-	1,423,264
Accumulated depreciation	<u>21,229,648</u>	<u>1,378,844</u>	<u>-</u>	<u>22,608,492</u>
Capital assets being depreciated, net	<u>16,662,606</u>	<u>(295,967)</u>	<u>-</u>	<u>16,366,639</u>
Governmental activities capital assets, Net of accumulated depreciation	<u>\$ 18,041,137</u>	<u>\$ (327,962)</u>	<u>\$ -</u>	<u>\$ 17,713,175</u>
Business-Type Activities (at cost)				
Capital assets not being depreciated:				
Land and improvements	\$ 65,148	\$ -	\$ -	\$ 65,148
Construction in progress	97,835	369,683	-	467,518
	<u>162,983</u>	<u>369,683</u>	<u>-</u>	<u>532,666</u>
Capital assets being depreciated:				
Buildings and improvements	557,351	-	-	557,351
Machinery, equipment and vehicles	988,159	15,473	-	1,003,632
Infrastructure	24,235,998	-	-	24,235,998
	<u>25,781,508</u>	<u>15,473</u>	<u>-</u>	<u>25,796,981</u>
Less accumulated depreciation:				
Buildings and improvements	147,772	17,600	-	165,372
Machinery, equipment and vehicles	489,348	57,685	-	547,033
Infrastructure	5,893,438	384,514	-	6,277,952
Accumulated depreciation	<u>6,530,558</u>	<u>459,799</u>	<u>-</u>	<u>6,990,357</u>
Capital assets being depreciated, net	<u>19,250,950</u>	<u>(444,326)</u>	<u>-</u>	<u>18,806,624</u>
Business-Type activities capital assets, Net of accumulated depreciation	<u>\$ 19,413,933</u>	<u>\$ (74,643)</u>	<u>\$ -</u>	<u>\$ 19,339,290</u>

City of Franklin, New Hampshire
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3-D Capital Assets, continued

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

<u>Governmental Activities:</u>		
General Government	\$	104,679
Public Safety		219,552
Highways and Streets		341,443
Garage		8,451
Sanitation		5,318
Culture and Recreation		84,122
School District		615,279
Other		-
Total Governmental Activities	\$	1,378,844
<u>Business-Type Activities:</u>		
Water Fund	\$	384,639
Sewer Fund		75,160
Total Business-Type Activities	\$	459,799

3-E Prepaid Items

Prepaid items at June 30, 2018, totaling \$131,830, consisted of the following paid in the current period to benefit the following fiscal year governmental activities:

Description	Governmental Funds
LRMFA - Dispatch Services	\$ 32,053
Software Support	19,020
Northway Bank Fiber Project Prepayment	34,163
Insurance	17,810
LRPC Membership	6,376
NHMA Dues	3,291
Prepaid Postage	2,205
Other Miscellaneous Prepayments	16,912
	\$ 131,830

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3-F Interfund Balances and Transfers

Interfund balances at June 30, 2018 consist of interfund loans, services provided, reimbursements or budgetary transfers. The composition of interfund balances as of June 30, 2018 is as follows:

	<u>Due From</u>	<u>Due To</u>
Major Funds:		
General fund	\$ 1,266,834	\$ 625,982
Nonmajor Special Revenue Funds:		
Franklin Public Library	20,362	-
School Food Service	-	91,631
Conservation Commission	-	363
Drug Forfeiture	1,935	-
DARE Fund	402	-
School Grants Fund	-	1,310,866
Expendable Trusts	6,295	-
Parks and Recreation	46,583	-
Outside Police Detail	50,928	-
School Local Programs	135,663	-
Proprietary Funds:		
Water Fund	158,411	-
Sewer Fund	335,429	-
Fiduciary Funds:		
Private purpose trust funds	6,000	-
	<u>\$ 2,028,842</u>	<u>\$ 2,028,842</u>

Interfund transfers during the year were comprised of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Funds:		
General fund	\$ 11,751	\$ 347,594
Nonmajor Funds:		
Franklin Public Library	307,720	-
Food service fund	73,523	-
DARE Fund	500	-
Expendable Trusts	-	8,051
School Grants	3,991	-
Odell Park Trust	-	3,700
Library Buswell Trust	-	29,475
Other Library Trusts	-	8,665
	<u>\$ 397,485</u>	<u>\$ 397,485</u>

City of Franklin, New Hampshire
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3-G Unearned Revenue

Governmental Funds - Unearned revenue of \$7,375,062 at June 30, 2018 largely consists of property taxes levied but not due until the subsequent year (\$7,137,800). In addition, \$37,310 related to recreation program fees collected in advance; \$13,600 related to dispatch fees collected in advance; \$19,409 donations/grants collected in advance of expenditure; \$3,931 of miscellaneous receipts in advance; \$122,759 in school local grants received and not expended; \$3,046 in student lunch credits, and \$37,207 of unassigned tax credits.

Proprietary Funds – There was no unearned revenue in the Water department or Sewer department at June 30, 2018.

3-H Long-Term Liabilities

Changes in the City's long-term obligations during the year ended June 30, 2018, consisted of the following:

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Governmental Activities:</u>	(as restated)			
General Obligation Bonds/Notes	\$ 3,444,760	\$ 160,000	\$ 654,879	\$ 2,949,881
Capital Leases	238,902	64,748	70,906	232,744
Compensated Absences	349,744	23,964	66,997	306,711
Landfill Post Closure Care Costs	166,761	-	8,960	157,801
Other Post Employment Benefits	3,687,151	-	103,674	3,583,477
Net Pension Liability	21,967,006	-	2,321,010	19,645,996
Total Governmental Activities	\$ 29,854,324	\$ 248,712	\$ 3,226,426	\$ 26,876,610
<u>Business-Type Activities:</u>				
Bonds/Notes Payable	\$ 6,977,405	\$ -	\$ 481,713	\$ 6,495,692
Capital Leases	105,756	-	25,396	80,360
Compensated Absences	26,218	-	2,469	23,749
Net Pension Liability	715,074	326,485	-	1,041,559
Total Business-Type Activities	\$ 7,824,453	\$ 326,485	\$ 509,578	\$ 7,641,360

City of Franklin, New Hampshire
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3-H Long-Term Liabilities, continued

Long-term liabilities payable are comprised of the following:

	Issue Year	Interest Rate	Maturity Date	Original Amount of Issue	Amount Outstanding 6/30/18	Current Portion
Governmental Activities:						
<u>General Obligation Bonds</u>						
Police Station	1998	4.7-5.3%	2018	\$ 1,000,000	\$ -	\$ -
Courthouse	1999	4.7-5.3%	2018	1,000,000	-	-
Ambulance	2012	1.83%	2019	230,000	32,852	32,852
Roads	2016	2.75%	2026	505,000	414,608	47,046
Streetlights	2016	3.00%	2022	165,200	113,354	27,095
Fire Truck	2017	2.49%	2027	650,000	592,222	59,421
Fiber Connectivity Project	2018	4.21%	2023	160,000	160,000	30,703
City Subtotal					1,313,036	197,117
School Renovation	2001	4.5-5.25%	2020	5,010,386	500,000	250,000
School Renovation	2006	4.29%	2026	2,700,000	1,130,584	142,105
School Subtotal					1,630,584	392,105
Total General Obligation Debt					2,943,620	589,222
<u>Capital Lease Obligations</u>						
(2) 2015 Ford Interceptors - Police	2014	5.45%	2017	\$ 54,089	\$ -	\$ -
(2) 2015 Ford Interceptors - Police	2014	5.45%	2017	54,089	-	-
Energy Audit and Improvements Lease	2015	3.97%	2027	301,966	170,623	12,397
(2) 2016 Ford Interceptors - Police	2016	5.70%	2019	58,428	14,989	14,989
Ford Motor Credit - (2) Police Cruisers	2018	5.95%	2021	64,748	47,132	14,812
					232,744	42,198
<u>Other Long-Term Obligations</u>						
			City	School	Total	
Compensated absences			\$ 195,710	\$ 111,001	\$ 306,711	-
Landfill Post Closure Care Costs			157,801	-	157,801	17,704
Other post employment benefits			2,151,558	1,431,919	3,583,477	-
Net pension liability			9,726,586	9,919,410	19,645,996	-
			12,231,655	11,462,330	23,693,985	17,704
Total Governmental Activities:					\$ 26,870,349	\$ 649,124
Business-Type Activities:						
<u>Bonds/Notes Payable</u>						
USDA Bond	2012	2.25%	2040	\$ 3,645,000	\$ 2,863,920	\$ 130,180
Drinking Water State Revolving Fund	2012	1.10%	2014	3,226,055	2,717,154	136,622
Drinking Water State Revolving Fund	2015	1.00%	2017	677,395	497,529	52,627
Water Fund Subtotal					6,078,603	319,429
Revolving Loan	2006	3.35%	2026	784,061	417,088	40,470
Sewer Fund Subtotal					417,088	40,470
Total Business-Type Bonds/Notes					6,495,691	359,899
<u>Capital Lease Obligations</u>						
2016 Volvo Excavator	2017	2.72%	2017	105,756	80,360	26,079
					80,360	26,079
<u>Other Long-Term Obligations</u>						
			Water	Sewer	Total	
Compensated absences			\$ 17,182	\$ 6,567	\$ 23,749	23,749
Other post employment benefits			34,999	20,441	55,440	-
Net pension liability			678,728	307,391	986,119	-
			730,909	334,399	1,065,308	23,749
Total Business-Type Activities:					\$ 7,641,359	\$ 409,727

City of Franklin, New Hampshire
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3-H Long-Term Liabilities, continued

The annual requirements to amortize all general obligation debt outstanding as of June 30, 2018, including interest payments, are as follows:

Annual Requirements to Amortize Governmental Funds General Obligation Bonds/Notes Payable:

	<u>City Principal</u>	<u>School Principal</u>	<u>City Interest</u>	<u>School Interest</u>	<u>Total Principal</u>	<u>Total Interest</u>
2019	\$ 197,117	\$ 392,105	\$ 33,662	\$ 66,934	\$ 589,222	\$ 100,596
2020	168,421	392,105	29,053	47,712	560,526	76,765
2021	172,797	142,105	24,678	35,054	314,902	59,732
2022	177,352	142,105	20,421	28,958	319,457	49,379
2023	151,500	142,105	15,479	22,861	293,605	38,340
After	<u>445,849</u>	<u>420,059</u>	<u>27,099</u>	<u>32,004</u>	<u>865,908</u>	<u>59,103</u>
	<u>\$ 1,313,036</u>	<u>\$ 1,630,584</u>	<u>\$ 150,392</u>	<u>\$ 233,523</u>	<u>\$ 2,943,620</u>	<u>\$ 383,915</u>

Annual Requirements to Amortize Governmental Funds Leases Payable:

	<u>City Principal</u>	<u>City Interest</u>	<u>Total Payments</u>
2019	\$ 42,198	\$ 10,432	\$ 52,630
2020	29,157	8,205	37,362
2021	31,218	6,736	37,954
2022	15,781	5,168	20,949
2023	17,036	4,541	21,577
After	<u>97,354</u>	<u>10,862</u>	<u>108,216</u>
	<u>\$ 232,744</u>	<u>\$ 45,944</u>	<u>\$ 278,688</u>

Annual Requirements to Amortize Proprietary Funds General Obligation Bonds/Notes Payable:

	<u>Water Fund Principal</u>	<u>Sewer Fund Principal</u>	<u>Water Fund Interest</u>	<u>Sewer Fund Interest</u>	<u>Total Principal</u>	<u>Total Interest</u>
2019	\$ 319,429	\$ 40,470	\$ 99,798	\$ 9,810	\$ 359,899	\$ 109,608
2020	324,315	41,827	94,716	8,858	366,142	103,574
2021	329,339	43,229	89,579	7,874	372,568	97,453
2022	334,508	44,678	84,387	6,858	379,186	91,245
2023	339,825	46,176	79,135	5,807	386,001	84,942
After	<u>4,431,187</u>	<u>200,708</u>	<u>578,163</u>	<u>11,996</u>	<u>4,631,895</u>	<u>590,159</u>
	<u>\$ 6,078,603</u>	<u>\$ 417,088</u>	<u>\$ 1,025,778</u>	<u>\$ 51,203</u>	<u>\$ 6,495,691</u>	<u>\$ 1,076,981</u>

Annual Requirements to Amortize Proprietary Funds Leases Payable:

	<u>Sewer Fund Principal</u>	<u>Sewer Fund Interest</u>	<u>Total Payments</u>
2019	\$ 26,079	\$ 2,162	\$ 28,241
2020	26,780	1,460	28,240
2021	27,501	740	28,241
2022	-	-	-
After	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 80,360</u>	<u>\$ 4,362</u>	<u>\$ 84,722</u>

City of Franklin, New Hampshire
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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 \$157,801 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:

<u>Bond Issue</u>	<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, 2018, the City is due to receive the following annual amounts to offset debt payments:

<u>Fiscal Year Ending</u> <u>June 30</u>	<u>Amount</u>
2019	\$ 59,427
2020	59,427
2021	59,427
2022	59,427
2023	59,427
After	<u>594,270</u>
Total	<u>\$ 891,405</u>

3-J Operating Leases

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

City of Franklin, New Hampshire
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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	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:			
Inventories	\$ -	\$ 26,361	\$ 26,361
Prepaid expenditures	131,830	-	131,830
Endowment principal	-	1,127,034	1,127,034
Restricted:			
Tax Increment Financing (TIF)	79,792	-	79,792
Capital reserves	472,190	-	472,190
Public Library	-	329,344	329,344
Conservation	-	6,482	6,482
Drug Forfeiture	-	17,945	17,945
DARE	-	7,030	7,030
Expendable Trusts	-	276,066	276,066
Parks and Recreation	-	42,444	42,444
Outside Police Detail	-	50,234	50,234
Odell Park	-	10,579	10,579
Library Buswell Trust	-	29,023	29,023
Other Library Trusts	-	369,951	369,951
Local School Programs	-	135,663	135,663
Committed:			
Heritage Commission	-	10,308	10,308
Assigned:			
School	50,000	-	50,000
Encumbrances	826,834	4,072	830,906
Unassigned:	3,908,951	(8,997)	3,899,954
	<u>\$ 5,469,597</u>	<u>\$ 2,433,539</u>	<u>\$ 7,903,136</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 participates in the New Hampshire Retirement System (the "System"), a cost-sharing multiple-employer defined benefit pension plan and trust established in 1967 by RSA 100-A:2 administered by a Board of Trustees. The plan is a contributory plan that provides service, disability, death and vested retirement benefits to members and their beneficiaries. Benefit provisions are established and may be amended by the New Hampshire State Legislature. The System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to New Hampshire Retirement System, 4 Chenell Drive, Concord, New Hampshire 03301.

The System is funded by contributions from both the employees and the City. Per RSA-100:16, plan member contribution rates are established and may be amended by the New Hampshire State legislature while the employer contribution rates are determined by the System Board of Trustees based on an actuarial valuation. Plan members are required to contribute 7.0%

City of Franklin, New Hampshire
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4-A Pensions, continued

(employees & teachers), 11.55% (certified police officer) and 11.8% (firefighter) of their covered salary. The City's contribution rates for the year ended June 30, 2018 were 11.38%, 17.36%, 29.43% and 31.89% of covered payroll for employees, teachers, police and fire, respectively. The City's contributions to the System for the years ending June 30, 2018, 2017, and 2016 were \$1,778,145, \$1,778,145, and \$1,769,533, respectively, equal to the required contributions for each year.

4-B GASB 68, Accounting and Financial Reporting for Pensions

The City implemented GASB Statement 68, *Accounting and Financial Reporting for Pensions*. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense information about the fiduciary net position of the New Hampshire Retirement System Cost-Sharing Multiple Employer Defined Benefit Pension Plan (NHRS) and additions to/deductions from NHRS's fiduciary net position have been determined on the same basis as they are reported by NHRS.

General Information about the Pension Plan

Plan description. The New Hampshire Retirement System (NHRS) is a public employee retirement system that administers one cost-sharing multiple-employer defined benefit pension plan (Pension Plan). For additional NHRS information, please refer to the fiscal 2016 Comprehensive Annual Financial Report, which can be found on the NHRS website at www.nhrs.org.

Benefit formulas and eligibility requirements for the Pension Plan are set by state law (RSA 100-A). The Pension Plan is divided into two membership groups. State and local employees and teachers belong to Group I. Police and firefighters belong to Group II.

Group I benefits are provided based on creditable service and average final salary for the highest of either three or five years, depending on when service commenced.

Group II benefits are provided based on age, years of creditable service and a benefit multiplier depending on vesting status as of 1/1/12. The maximum retirement allowance for Group II members vested by January 1, 2012 (45 years of age with 20 years of service OR age 60 regardless of years of creditable service) is the average final compensation multiplied by 2.5% multiplied by creditable service. For Group II members not vested by January 1, 2012, the benefit is calculated the same way, but the multiplier used in the calculation will change depending on age and years of creditable service.

Contributions. By Statute, the Board of Trustees of the System is responsible for the certification of employer contribution rates, which are determined through the preparation of biennial valuation of the System's assets by the System's actuary using the entry age normal cost method.

The employer contributions used in the schedules of employer allocations as of and for the year ended June 30, 2017 is a component of total employer contributions presented in the System's financial statements for the corresponding period.

Actuarial assumptions. The collective pension liability was determined by a roll forward of the actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017, using the following actuarial assumptions:

Price Inflation	2.50%	per year
Wage Inflation	3.25%	per year
Salary increases	5.60%	average, including inflation
Municipal Bond Rate	3.56%	per year
Investment rate of return	7.25%	Net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 employee generational mortality tables for males and females, adjusted for mortality improvements using Scale MP-2015, based on the last experience study.

City of Franklin, New Hampshire
Notes to The Basic Financial Statements
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4-B GASB 68, Accounting and Financial Reporting for Pensions – continued

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of the most recent actuarial experience study, which was for the period July 1, 2010–June 30, 2015.

The long-term expected rate of return on pension plan investments was selected from a best-estimate range determined using the building block approach. Under this method, an expected future real return range is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. Following is a table presenting target allocations and long-term rates of return:

Asset Class	Target Allocation	Weighted average long-term expected real rate of return
Large Cap Equities	22.50%	4.25%
Small /Mid Cap Equities	7.50%	4.50%
Total domestic equity	30.00%	
Int'l Equities (unhedged)	13.00%	4.75%
Emerging Int'l Equities	7.00%	6.25%
Total international equity	20.00%	
Core Bonds	5.00%	0.64%
Short Duration	2.00%	-0.25%
Global Multi-Sector Fixed Income	11.00%	1.71%
Unconstrained Fixed Income	7.00%	1.08%
Total fixed income	25.00%	
Private Equity	5.00%	6.25%
Private Debt	5.00%	4.75%
Opportunistic	5.00%	3.68%
Total alternative investments	15.00%	
Real Estate	10.00%	3.25%
Total	100.00%	

Discount rate. The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. For purposes of the projection, member contributions and employer service cost contributions are projected based on the expected payroll of current members only. Employer contributions are determined based on the Pension Plan's actuarial funding policy and as required by RSA 100-A:16. Based on those assumptions, the Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on Pension Plan investments was applied to all periods of projected benefits payments to determine the collective total pension liability.

City of Franklin, New Hampshire
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4-B GASB 68, Accounting and Financial Reporting for Pensions - continued

Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate. The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current single rate assumption	1% Increase to
2018	<u>6.25%</u>	<u>7.25%</u>	<u>8.25%</u>
2017	<u>6.75%</u>	<u>7.75%</u>	<u>8.75%</u>
Employer's proportionate share of the net pension liability:			
June 30, 2018	\$ 13,347,633	\$ 10,031,981	\$ 7,253,363
June 30, 2017	\$ 14,641,463	\$ 11,394,739	\$ 8,702,095

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2018, the City reported a liability of \$10,031,981 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating members, actuarially determined. At June 30, 2018, the City's proportion was 0.20833975 percent.

For the year ended June 30, 2018, the City recognized pension expense of \$956,141. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 80,073	\$ 81,229
Changes of assumptions	694,263	-
Net differences between projected and actual earnings on pension plan investments	-	232,149
Changes in proportion and differences between Employer contributions and proportionate share of contributions	146,652	364,114
Employer contributions subsequent to the measurement date	<u>880,564</u>	<u>-</u>
Total	<u>\$ 1,801,552</u>	<u>\$ 677,492</u>

\$880,564 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

City of Franklin, New Hampshire
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4-C GASB 75, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions

GASB Statement 75, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, requires governments to account for other post-employment benefits (OPEB) on an accrual basis, rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially determined expense on the Statement of Activities when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. The post-employment benefit

liability is recognized on the Statement of Net Position over time.

GASB No. 75 requires that employers recognize the expected claims of the retiree population less the expected contributions by those retirees. This is not necessarily the same determination as the expected cash payments of the employer for retiree health benefits. The difference is that many post-employment health plans (including the City's program) charge the same premium rates for all participants in a non-Medicare plan regardless of their age. This single premium rate is called a blended premium rate because it blends the expected claims of both active and retired participants. Retirees are generally older than the average participant in a non-Medicare plan, which means they are expected to generate higher claims than the average participant of the plan; therefore, they are receiving a subsidy even if they pay 100% of the blended premium rate because they would be paying less in premiums than their claims costs. This subsidy is referred to as the "Implicit Rate Subsidy".

Another way of considering the Implicit Rate Subsidy is to assume the retirees were removed from a blended plan and, instead, separately rated. In this scenario, the premium rate for the remaining active population would be lower; therefore, the retirees' premium rate is being subsidized by the premiums for active employees. Since the employer generally pays a portion of the premiums for the active employees, this subsidy creates a liability for the employer.

By comparison, the cash costs are the actual dollars paid by the employer to cover a portion or all of the retirees' premium rates. This is sometimes referred to as the "Explicit Rate Subsidy". This is the benefit that is explicitly stated by the City that will be paid on behalf of retirees.

GASB 75 reports are required to value both the Implicit Rate Subsidy and the Explicit Rate Subsidy. The City values only the Implicit Rate Subsidy since retirees pay 100% of the premium, there is no explicit rate subsidy.

Plan Description

Benefits provided to retirees follow New Hampshire Statute 100-A:50 (Medical Insurance Coverage). Every political subdivision of the state that provides for its active employees any group medical insurance or group health care plan, including but not limited to hospitalization, hospital medical care, surgical care, dental care, or other group medical or health care plan, shall permit its employees upon retirement to continue to participate in the same medical insurance or health care group or plan as its active employees. Retired employees shall be deemed to be part of the same group as active employees of the same employer for purposes of determining medical insurance premiums. Coverage for spouses, other family members and beneficiaries of retirees shall also be permitted to the extent that coverage is provided for the spouses, other family members and beneficiaries of active employees. Present retirees not covered shall be permitted to rejoin the active employee health insurance or health care group. Persons retired prior to July 1, 1988, shall be given the opportunity to rejoin the group during a 2-year period, beginning on July 1, 1989, and ending on July 1, 1991. Such persons shall continue to participate in the same coverage as active employees without any benefit waiting period.

Each political subdivision, as employer, may elect to pay the full cost of group medical insurance or health care coverage for its retirees or may require each retiree to pay any part or all of the cost of the retiree's participation. Such election may be made separately for retirees from different job classifications. Since the same premiums are charged to active employees and retirees, and the City is unable to obtain age-adjusted premium information for the retirees, GASB 75 requires that the City calculate age-adjusted premiums for the purpose of projecting future benefits for retirees. This report values the implicit rate subsidy, which is the amount by which the age-adjusted premium exceeds the actual premium.

The implicit OPEB benefits valued in this plan end when the retiree and or the covered spouse reach age 65. Explicit benefits, if applicable, are generally for the lifetime of the retired employee.

City of Franklin, New Hampshire
Notes to The Basic Financial Statements
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4-C GASB 75, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions - continued

Employees covered by benefit terms

<u>As of July 1, 2017, the following employees were covered by the benefit terms:</u>	
Inactive employees or beneficiaries currently receiving benefit payments	11
Inactive employees entitled to but not yet receiving benefit payments	0
Active Employees	<u>241</u>
Total Participants covered by OPEB Plan	<u>252</u>

Total OPEB Liability

The City's total OPEB liability of \$3,801,610 was measured as of July 1, 2017 and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs

The total OPEB liability in the actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate	3.58%
Healthcare Cost Trend Rates:	
Current Trend	4.24%
Second Year Trend	9.50%
Ultimate Trend	5.00%
Year Ultimate Trend is Reached	2028
Salary Increases	3.00%

The discount rate was based on the index provided by *Bond Buyer 20-Bond General Obligation Index* based on the 20 year AA municipal bond rate as of July 1, 2017.

Mortality rates were based on the RP-2014 Total Dataset Mortality with Scale MP-2017 (Base Year 2006).

City of Franklin, New Hampshire
Notes to The Basic Financial Statements
As of And for The Fiscal Year Ended
June 30, 2018

4-C GASB 75, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions - continued

Changes in the Total OPEB Liability

	<u>Fiscal Year Ending</u> <u>June 30, 2018</u>
OPEB Liability Beginning of Year	\$ 3,687,151
Changes for the year:	
Service Cost	183,318
Interest	130,284
Changes of benefit terms	-
Assumption Changes and Differences Between Actual and Expected Experience	(103,300)
Change in Actuarial Cost Method	-
Benefit payments	(95,843)
OPEB Liability End of Year	<u>\$ 3,801,610</u>

Sensitivity of the total OPEB liability to changes in the discount rate

The July 1, 2017 was prepared using a discount rate of 3.87%. If the discount rate were 1% higher than what was used in this valuation, the Total OPEB Liability would decrease to \$3,490,519 or by 8.18%. If the discount rate were 1% lower than was used in this valuation, the total OPEB liability would increase to \$4,150,637 or by 9.18%.

	<u>Discount Rate</u>		
	<u>1% Decrease</u>	<u>Baseline Rate</u>	<u>1% Increase</u>
Total OPEB Liability	\$ 4,150,637	\$ 3,801,610	\$ 3,490,519

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rate

The June 30, 2018 was prepared using an initial trend rate of 4.24%. If the trend rate were 1% higher than what was used in this valuation, the Total OPEB Liability would increase to \$4,322,580 or by 13.70%. If the trend rate were 1% lower than was used in this valuation, the Total OPEB Liability would decrease to \$3,357,050 or by 11.69%.

	<u>Healthcare Cost Trend Rates</u>		
	<u>1% Decrease</u>	<u>Baseline Rate</u>	<u>1% Increase</u>
Total OPEB Liability	\$ 3,357,050	\$ 3,801,610	\$ 4,322,580

City of Franklin, New Hampshire
Notes to The Basic Financial Statements
As of And for The Fiscal Year Ended
June 30, 2018

4-C GASB 75, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions - continued

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the City recognized an OPEB expense of \$53,451. At June 30, 2018, the City reported deferred inflows and outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Increase in July 1 2017 OPEB liability due to actuarial experience different from expected and actuarial assumption	\$ 96,998	\$ 1,437,022
Changes in assumptions or other inputs	-	-
Amortization	(19,755)	(292,673)
Total	<u>\$ 77,243</u>	<u>\$ 1,144,349</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

For the Year Ending June 30,	Inflows	Outflows
2019	\$ 292,673	\$ 19,755
2020	292,673	19,755
2021	292,673	19,755
2022	266,330	17,978
2023	-	-
Thereafter	-	-
Total	<u>\$ 1,144,349</u>	<u>\$ 77,243</u>

NOTE 5 - RESTATEMENT OF NET POSITION

Implementation of GASB 75 results in the restatement of the government-wide net position as follows:

	Governmental Activities
Net position as of July 1, 2017	\$ 15,578,375
Change in Total OPEB Obligation as a result of the implementation of GASB 75	(1,322,566)
Deferred outflows - actuarial gain as a result of the implementation of GASB 75	138,382
Deferred inflows - actuarial loss as a result of the implementation of GASB 75	(1,404,322)
Net position as of July 1, 2017 - Restated	<u>\$ 12,989,869</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FRANKLIN, NEW HAMPSHIRE

Budgetary Comparison Schedule - General Fund Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance
Budgetary Fund Balance - Beginning	\$ -	\$ 894,282	\$ 4,392,192	\$ 3,497,910
Resources (inflows):				
Taxes				
Property taxes	18,021,889	18,021,889	18,050,273	28,384
Land use change taxes	4,000	4,000	22,100	18,100
Timber taxes	6,000	6,000	19,925	13,925
Payments in lieu of taxes	39,570	39,570	19,462	(20,108)
Other taxes	-	-	625	625
Interest and penalties on delinquent taxes	165,000	165,000	139,447	(25,553)
Excavation tax	200	200	60	(140)
Provision for overlay and abatements	(33,550)	(33,550)	(144,131)	(110,581)
Other	-	-	8,112	8,112
School Assessment	(5,022,679)	(5,022,679)	(5,022,679)	-
County Assessment	(1,644,342)	(1,644,342)	(1,644,342)	-
Licenses, permits and fees				
Business licenses and permits	800	800	1,000	200
Motor vehicle permit fees	1,125,001	1,125,001	1,280,906	155,905
Building permits	25,000	25,000	27,317	2,317
Other licenses, permits and fees	46,600	46,600	50,730	4,130
Local school revenues	1,025,602	1,025,602	242,441	(783,161)
Grant Revenues				
Grant Revenues	413,067	413,067	606,851	193,784
School federal revenues	233,500	233,500	368,940	135,440
State of NH sources				
Meals and rental tax distribution	440,884	440,884	440,884	-
Highway block grant	385,006	385,006	384,886	(120)
State and federal forest land reimbursemen	80	80	77	(3)
Flood control reimbursement	53,865	53,865	53,865	-
School state revenues	9,091,036	9,091,036	9,130,315	39,279
Charges for services				
Income from departments	424,894	424,894	526,133	101,239
Ambulance and dispatch	-	-	474,840	474,840
Other charges	500,770	500,770	306,795	(193,975)
Miscellaneous revenues				
Sale of municipal property	54,363	54,363	69,361	14,998
Interest on investments	30,000	30,000	64,805	34,805
Contributions and donations	-	-	35,956	35,956
Other miscellaneous sources	422,290	422,290	101,137	(321,153)
Interfund operating transfers in				
Transfers from special revenue funds	67,520	67,520	-	(67,520)
Transfers from capital reserves	3,700	3,700	545,305	541,605
Transfers from other funds	-	-	11,751	11,751
Other financing sources				
Proceeds from long-term notes and bonds	-	-	160,000	160,000
Other financing sources	-	-	72,884	72,884
Amounts available for appropriation	<u>25,880,066</u>	<u>26,774,348</u>	<u>30,798,223</u>	<u>4,023,875</u>

See the accompanying notes to the required supplementary information.

CITY OF FRANKLIN, NEW HAMPSHIRE

Budgetary Comparison Schedule - General Fund Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance
Charges to appropriations (outflows):				
General government				
Executive	463,296	587,468	393,061	194,407
Election and registration	207,053	215,652	211,015	4,637
Financial administration	513,852	539,272	346,755	192,517
Revaluation of property	-	-	152,011	(152,011)
Legal expense	38,100	38,100	31,317	6,783
Planning and zoning	159,641	159,641	159,497	144
General government building	164,920	164,920	166,319	(1,399)
Insurance not otherwise allocated	107,962	107,962	109,628	(1,666)
Other general government	25,846	25,846	21,672	4,174
Public safety				
Police	3,098,094	3,216,412	3,078,062	138,350
Ambulance	141,198	141,198	129,600	11,598
Fire	2,157,715	2,182,546	2,123,347	59,199
Emergency management	3,167	3,167	3,227	(60)
Highways and streets				
Administration	123,662	123,662	95,450	28,212
Highways and streets	866,301	1,359,243	801,783	557,460
Street lighting	110,500	110,500	85,080	25,420
Other highway	376,521	376,521	466,805	(90,284)
Sanitation				
Solid waste collection	204,307	204,307	183,747	20,560
Solid waste disposal	595,992	595,992	693,023	(97,031)
Health				
Pest control	20,000	20,000	-	20,000
Health agencies and hospitals	165,067	165,067	191,139	(26,072)
Welfare				
Direct assistance	135,130	135,130	56,612	78,518
Vendor payments	5,000	5,000	10,000	(5,000)
Culture and recreation				
Parks and recreation	911,008	911,008	888,074	22,934
Patriotic purposes	1,000	1,000	-	1,000
Other culture and recreation	9,500	9,500	12,095	(2,595)
Economic development				
Redevelopment and housing	45,000	45,000	81,063	(36,063)
School district				
Instruction	8,401,658	8,401,658	7,961,129	440,529
Support	5,393,921	5,493,921	5,168,808	325,113
Debt service				
Principal on long term bonds and notes	652,892	652,892	645,001	7,891
Interest on long term bonds and notes	119,342	119,342	117,353	1,989
Capital outlay				
Buildings	7,000	7,000	12,418	(5,418)
Improvements other than buildings	202,306	202,306	445,152	(242,846)
Other	-	-	800	(800)
Operating transfers out				
Special revenue funds	331,400	331,400	347,594	(16,194)
Transfer to capital reserve	233,411	233,411	139,989	93,422
Total charges to appropriations	<u>25,991,762</u>	<u>26,886,044</u>	<u>25,328,626</u>	<u>1,557,418</u>
Budgetary Fund Balance - Ending	<u>\$ (111,696)</u>	<u>\$ (111,696)</u>	<u>\$ 5,469,597</u>	<u>\$ 5,581,293</u>

See the accompanying notes to the required supplementary information.

**City of Franklin, New Hampshire
Required Supplementary Information
As Of And For The Fiscal Year Ended
June 30, 2018**

Pensions

In accordance with GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions*, the city is required to disclose historical data for each of the prior ten years within the following schedules:

- **Schedule of the City's Proportionate Share of Net Pension Liability**
- **Schedule of City Contributions**

The information presented in the *Schedule of the City's Proportionate Share of Net Pension Liability* is determined as of the measurement date of the collective net pension liability of the PLAN.

The information presented in the *Schedule of City Contributions* is determined as of the EMPLOYER's most recent fiscal year-end.

Subsequent year's information will be added as it becomes available until the ten-year requirement is met.

**Schedule of the City's Proportionate Share of NHRS Net Pension Liability
Year Ended June 30, 2018**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
City's proportion of the net pension liability (asset)	0.21197910%	0.21380978%	0.21162846%	0.21428368%	0.20833975%
School District's proportion of the net pension liability (asset)	0.20696690%	0.20190132%	0.20653651%	0.21226401%	0.20169631%
City's proportionate share of the net pension liability (asset)	\$ 9,123,214	\$ 8,025,533	\$ 8,383,719	\$ 11,394,739	\$ 10,031,981
School District's proportionate share of the net pension liability (asset)	\$ 8,907,409	\$ 7,578,539	\$ 8,182,000	\$ 11,287,341	\$ 9,919,410
City's covered-employee payroll	\$ 4,265,321	\$ 4,374,065	\$ 4,469,253	\$ 4,628,936	\$ 4,698,401
School District's covered-employee payroll	\$ 5,787,685	\$ 5,633,965	\$ 6,138,957	\$ 5,972,930	\$ 6,411,463
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	213.89%	183.48%	187.59%	246.16%	213.52%
School District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	153.90%	134.52%	133.28%	188.97%	154.71%
Plan fiduciary net position as a percentage of the total pension liability	59.81%	66.32%	65.47%	58.30%	58.30%

**City of Franklin, New Hampshire
Required Supplementary Information
As Of And For The Fiscal Year Ended
June 30, 2018**

Schedule of City Pension Contributions

	2014		2015		2016		2017		2018	
Statutorily required pension contribution:										
City	\$	693,648	\$	713,625	\$	767,305	\$	797,994	\$	880,564
School District	\$	655,974	\$	692,906	\$	760,073	\$	739,194	\$	917,033
Contributions reported by the PLAN:										
City	\$	(693,648)	\$	(709,988)	\$	(767,305)		NA		NA
School District	\$	(655,015)	\$	(692,906)	\$	(760,073)	\$	(738,901)		NA
Contribution deficiency (excess):										
City	\$	-	\$	3,637	\$	-		NA		NA
School District	\$	959	\$	-	\$	-	\$	293		NA
City's covered-employee payroll:										
City	\$	4,265,321	\$	4,374,065	\$	4,469,253	\$	4,628,936	\$	4,698,401
School District	\$	5,787,685	\$	5,633,965	\$	6,138,957	\$	5,792,930	\$	6,411,463
Contributions as a percentage of covered-employee payroll:										
City		16.26%		16.31%		17.17%		17.24%		18.74%
School District		11.33%		12.30%		12.38%		12.76%		14.30%

Other Post-Employment Benefits

The City is required to prepare its financial statements in accordance with accounting principles generally accepted in the United States. Accordingly, the district is required to disclose its obligations for post-employment benefits. In addition to pensions, these benefits include health insurance paid on behalf of retirees. Guidance for the disclosure required is contained in Governmental Accounting Standards Board Statement No. 75 - "Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions" (GASB No. 75). No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75 to pay related benefits. GASB No. 75 requires the City to include as required supplementary information a Schedule of Changes in Total OPEB Liability for the most recent 10 years. Subsequent year's information will be added as it becomes available.

**Schedule of Changes in Total OPEB Liability
Year Ended June 30, 2018
(Unaudited)**

	<u>2018</u>
Total OPEB Liability Beginning of Year	\$ 3,687,151
Changes for the Year:	
Service Cost	183,318
Interest	130,284
Changes in benefit terms	-
Assumption Changes and Difference Between Actual and	(103,300)
Change in Actuarial Cost Method	-
Benefit payments	(95,843)
Total OPEB Liability End of Year	<u>\$ 3,801,610</u>
City's covered-employee payroll	10,277,034
Total OPEB Liability as a percentage of covered payroll	36.99%

OTHER SUPPLEMENTARY INFORMATION

CITY OF FRANKLIN, NEW HAMPSHIRE

**Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2018**

	Franklin Public Library	School Food Service Fund	Conservati on Commissio n	Drug Forfeiture	Dare Fund	Heritage Commissio n	Expendable Trusts	Parks and Recreation	Outside Detail	School Local Programs	Odell Park	Other General Funds	Library Buswell Trust	Other Library Trusts	Total Nonmajor Governmental Funds
Assets															
Cash and cash equivalents	\$ 316,829	\$ 27,536	\$ -	\$ 17,945	\$ 7,030	\$ -	\$ 108,879	\$ -	\$ -	\$ -	\$ -	\$ 201,891	\$ -	\$ -	\$ 680,110
Investments	-	-	6,845	-	-	10,308	168,943	-	-	-	207,410	602,134	888,850	369,951	2,254,441
Receivables, net	-	-	-	-	-	-	-	416	1,862	-	-	-	-	-	2,278
Due from other governments	-	58,537	-	-	-	-	-	-	-	-	-	-	-	-	58,537
Due from other funds	20,362	-	-	1,935	402	-	6,295	46,583	50,928	135,663	-	-	-	-	262,168
Inventories	-	26,361	-	-	-	-	-	-	-	-	-	-	-	-	26,361
Total assets	<u>\$ 337,191</u>	<u>\$ 112,434</u>	<u>\$ 6,845</u>	<u>\$ 19,880</u>	<u>\$ 7,432</u>	<u>\$ 10,308</u>	<u>\$ 284,117</u>	<u>\$ 46,999</u>	<u>\$ 52,790</u>	<u>\$ 135,663</u>	<u>\$ 207,410</u>	<u>\$ 804,025</u>	<u>\$ 888,850</u>	<u>\$ 369,951</u>	<u>\$ 3,283,895</u>
Liabilities and Fund Balances															
Liabilities:															
Accounts payable	\$ 3,853	\$ 393	\$ -	\$ 1,935	\$ 402	\$ -	\$ -	\$ 4,555	\$ -	\$ -	\$ 3,700	\$ -	\$ -	\$ -	\$ 14,838
Accrued expenses	3,994	-	-	-	-	-	-	-	2,556	-	-	-	-	-	6,550
Due to other funds	-	91,631	363	-	-	-	-	-	-	-	-	-	-	-	91,994
Deferred revenue	-	3,046	-	-	-	-	-	-	-	-	-	-	-	-	3,046
Other liabilities	-	-	-	-	-	-	8,051	-	-	-	-	725,877	-	-	733,928
Total liabilities	<u>7,847</u>	<u>95,070</u>	<u>363</u>	<u>1,935</u>	<u>402</u>	<u>-</u>	<u>8,051</u>	<u>4,555</u>	<u>2,556</u>	<u>-</u>	<u>3,700</u>	<u>725,877</u>	<u>-</u>	<u>-</u>	<u>850,356</u>
Fund balances:															
Nonspendable	-	26,361	-	-	-	-	-	-	-	-	193,131	74,076	859,827	-	1,153,395
Restricted	329,344	-	6,482	17,945	7,030	-	276,066	42,444	50,234	135,663	10,579	-	29,023	369,951	1,274,761
Committed	-	-	-	-	-	10,308	-	-	-	-	-	-	-	-	10,308
Assigned	-	-	-	-	-	-	-	-	-	-	-	4,072	-	-	4,072
Unassigned	-	(8,997)	-	-	-	-	-	-	-	-	-	-	-	-	(8,997)
Total fund balances	<u>329,344</u>	<u>17,364</u>	<u>6,482</u>	<u>17,945</u>	<u>7,030</u>	<u>10,308</u>	<u>276,066</u>	<u>42,444</u>	<u>50,234</u>	<u>135,663</u>	<u>203,710</u>	<u>78,148</u>	<u>888,850</u>	<u>369,951</u>	<u>2,433,539</u>
Total liabilities and fund balances	<u>\$ 337,191</u>	<u>\$ 112,434</u>	<u>\$ 6,845</u>	<u>\$ 19,880</u>	<u>\$ 7,432</u>	<u>\$ 10,308</u>	<u>\$ 284,117</u>	<u>\$ 46,999</u>	<u>\$ 52,790</u>	<u>\$ 135,663</u>	<u>\$ 207,410</u>	<u>\$ 804,025</u>	<u>\$ 888,850</u>	<u>\$ 369,951</u>	<u>\$ 3,283,895</u>

CITY OF FRANKLIN, NEW HAMPSHIRE

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2018**

	Franklin Public Library	School Food Service Fund	CDBG Grant Fund	Conservation Commission	Drug Forfeiture	Dare Fund	Heritage Commission	Expendable Trusts	Parks and Recreation	Outside Detail	School Local Programs	Odell Park	Other General Funds	Library Buswell Trust	Other Library Trusts	Total Nonmajor Governmental Funds
Revenues																
Licenses, permits and fees	\$ -	\$ 139,846	\$ 365	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,079	\$ -	\$ -	\$ -	\$ -	\$ 165,290
Grant Revenues	-	357,226	496,996	-	-	-	-	-	-	-	-	-	-	-	-	854,222
State of NH sources	-	8,017	-	-	-	-	-	-	-	-	-	-	-	-	-	8,017
Charges for services	5,616	-	-	-	776	-	-	-	23,782	46,915	-	-	-	-	-	77,089
Miscellaneous revenues	664	-	-	79	14	1,004	120	19,194	-	-	120,203	14,714	4,241	79,737	20,152	260,122
Interfund operating transfers in	307,720	73,523	-	-	-	500	-	-	-	-	-	-	-	-	-	381,743
Total revenues and other financing sources	314,000	578,612	497,361	79	790	1,504	120	19,194	23,782	46,915	145,282	14,714	4,241	79,737	20,152	1,746,483
Expenditures																
General government	-	-	-	-	-	-	-	345	-	-	-	-	169	13,257	-	13,771
Public safety	-	-	-	-	2,860	401	-	-	-	34,063	-	-	-	-	-	37,324
Culture and recreation	275,847	-	-	-	-	-	-	-	17,738	-	-	436	-	7,981	804	302,806
Conservation	-	-	-	363	-	-	-	-	-	-	-	-	-	-	-	363
School district	-	561,248	-	-	-	-	-	-	-	-	9,619	-	-	-	-	570,867
Capital outlay	-	-	497,361	-	-	-	-	-	-	-	-	-	-	-	-	497,361
Operating transfers out	-	-	-	-	-	-	-	8,051	-	-	-	3,700	-	29,475	8,665	49,891
Total expenditures and other financing sources	275,847	561,248	497,361	363	2,860	401	-	8,396	17,738	34,063	9,619	4,136	169	50,713	9,469	1,472,383
Excess revenue and other financing sources over (under) expenditures and other financing uses	38,153	17,364	-	(284)	(2,070)	1,103	120	10,798	6,044	12,852	135,663	10,578	4,072	29,024	10,683	274,100
Fund balances - beginning of year	291,191	-	-	6,766	20,015	5,927	10,188	265,268	36,400	37,382	-	193,132	74,076	859,826	359,268	2,159,439
Fund balances - end of year	\$ 329,344	\$ 17,364	\$ -	\$ 6,482	\$ 17,945	\$ 7,030	\$ 10,308	\$ 276,066	\$ 42,444	\$ 50,234	\$ 135,663	\$ 203,710	\$ 78,148	\$ 888,850	\$ 369,951	\$ 2,433,539

FEDERAL SUPPLEMENTARY INFORMATION

ROBERGE AND COMPANY, P.C.

Certified Public Accountants

Member – American Institute of CPA's (AICPA)
Member – AICPA Government Audit Quality Center (GAQC)
Member – AICPA Private Company Practice Section (PCPS)
Member – 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, 2018, 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 July 19, 2019.

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.

Roberge and Co. , P.C.

ROBERGE & COMPANY, P.C.

Franklin, New Hampshire
July 19, 2019

ROBEREGE AND COMPANY, P.C.

Certified Public Accountants

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

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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 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, 2018. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2018.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Roberge and Co. , P.C.

ROBERGE & COMPANY, P.C.

Franklin, New Hampshire
July 19, 2019

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CITY OF FRANKLIN, NEW HAMPSHIRE

Schedule of Expenditures of Federal Awards Year Ended June 30, 2018

Federal Grantor / Pass-Through Grantor Program or Cluster Title	Federal CFDA #	Pass Through ID #	Expenditures of Federal Awards	Expenditures to Subrecipients
U.S. DEPARTMENT OF AGRICULTURE				
Direct				
Rural Business Development Grant	10.351	34-007-026000292	9,410	-
			<u>9,410</u>	<u>-</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Passed through the Community Development Finance Authority Community Development Block Grants/State's program and Non- Entitlement Grants in Hawaii	14.228	15-154-CDHS	496,996	496,996
			<u>496,996</u>	<u>496,996</u>
U.S. DEPARTMENT OF JUSTICE				
Direct				
Violence Against Women Formula Grants	16.588	2017W098	17,653	-
Violence Against Women Formula Grants	16.588	2018W098	16,752	-
			<u>34,405</u>	<u>-</u>
U.S. DEPARTMENT OF TRANSPORTATION				
Passed through the NH Highway Safety Agency				
State and Community Highway Safety	20.600	315-17B-071	6,528	-
State and Community Highway Safety	20.600	315-18B-089	6,222	-
			<u>12,750</u>	<u>-</u>
U.S. DEPARTMENT OF COMMERCE				
Direct				
Economic Development Technical Assistance	11.303	ED17PHI3030014	31,606	-
			<u>31,606</u>	<u>-</u>
U.S. DEPARTMENT OF INTERIOR				
Passed through the NH Department of Natural & Cultural Resources				
Outdoor Recreation Acquisition, Development and Planning	15.916	2018W098	67,841	-
			<u>67,841</u>	<u>-</u>
U.S. DEPARTMENT OF HOMELAND SECURITY				
Passed through the NH Department of Emergency Management				
Hazard Mitigation Grant	97.039	FEMA-4105-DR-NH-2R	280,424	-
Homeland Security Grant Program	97.067	EMW-2014-SS-00070-S01	365	-
			<u>280,789</u>	<u>-</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	120,439	-
			<u>120,439</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,054,236</u>	<u>\$ 496,996</u>

The accompanying notes are an integral part of this schedule.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards includes the federal award activity of the City of Franklin under programs of the federal government for the year ended June 30, 2018. The City of Franklin's reporting entity is defined in Note 1 to the City's basic financial statements. The information in the Schedule of Expenditures of Federal Awards is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Guidance, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedule of Expenditures of Federal Awards presents only a selected portion of the operations of the City of Franklin and is not intended to and does not present the financial position or changes in net position of the City of Franklin.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting 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 of Expenditures of Federal Awards are recognized following the applicable cost principles of OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments (codified in 2 CFR Part 225), or Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Guidance, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and include, but are not limited to, expenditure transactions associated with grants, and cost reimbursement grants and contracts.

3. RELATIONSHIP AND RECONCILIATION TO THE BASIC FINANCIAL STATEMENTS

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	\$ 1,054,236
State/Nonfederal grant programs	-
	<u>\$ 1,054,236</u>
 Statement of Revenues, Expenditures, and Changes in Fund Balances	
Major Fund	
General Fund	
Project Code 196	\$ 120,439
Project Code 403	34,405
Project Code 432	280,424
Project Code 433	496,996
Project Code 429	365
Project Code 436	12,750
Project Code 435	9,410
Project Code 302	31,606
Project Code 440	67,841
	<u>\$ 1,054,236</u>

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Financial Statements

The type of auditor's report issued – Unmodified – All Reporting Units

Internal control over financial reporting:

- Material weaknesses identified – No.
- Significant deficiencies identified – None Reported.
- Noncompliance material to financial statements noted? – No.

Federal Awards

Internal control over major programs:

- Material weaknesses identified – No.
- Significant deficiencies identified – None Reported.

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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Guidance, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) 2 CFR 200.516 Audit Findings – No.

Identification of major programs:

CFDA # 14.228 – Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii

Dollar Threshold used to distinguish between type A and type B Programs - \$750,000.

Auditee qualified as a low-risk auditee – No.

Schedule of Findings and Questioned Costs 2 - Financial Statement Findings June 30, 2018

There were no findings relating to the financial statements required to be reported by standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Schedule of Findings and Questioned Costs **3 – Federal Award Findings and Questioned Costs** **June 30, 2018**

There were no findings or questioned costs required to be reported under Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Guidance, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) 2 CFR 200.516 Audit Findings.