

TOWN OF CANAAN, NEW HAMPSHIRE

Financial Statements

December 31, 2011

and

Independent Auditor's Report

**TOWN OF CANAAN, NEW HAMPSHIRE
FINANCIAL STATEMENTS
December 31, 2011**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Selectmen
Town of Canaan, New Hampshire

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Canaan, New Hampshire (the Town) as of and for the year ended December 31, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 2 to the financial statements, management has not recorded a liability for other post-employment benefits in governmental activities and, accordingly, has not recorded an expense for the current period change in that liability. Accounting principles generally accepted in the United States of America require that other post-employment benefits attributable to employee services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee be accrued as liabilities and expenses as employees earn the rights to the benefits, which would increase the liabilities, reduce the net assets, and change the expenses of the governmental activities. The amount by which this departure would affect the liabilities, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the Town of Canaan, New Hampshire as of December 31, 2011, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities, each major fund and the aggregate remaining fund information of the Town of Canaan, New Hampshire as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages i-viii and 28-29 be presented to supplement the basic financial statements. Such information, although not a part of the

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Canaan, New Hampshire's financial statements as a whole. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Jachon Chikay & Company PC

November 26, 2012

TOWN OF CANAAN, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2011

Presented herewith please find the Management Discussion & Analysis Report for the Town of Canaan for the year ending December 31, 2011. The responsibility for accuracy of the data, the completeness and fairness of this documentation (including all disclosures) rests with management. To the best of our knowledge and belief, the data contained herein is accurate in material aspects. This report and its content have been designed to fairly present the Town's financial position, including the result of operations of all the funds of the Town. All the disclosures necessary to enable and to assist the reader in acquiring an accurate understanding of the Town's financial activities have been included.

The Town's management is responsible for establishing accounting and internal control structures designed to ensure that the physical, data, informational, intellectual, and human resource assets of the Town are protected from loss, theft and misuse, and to ensure that adequate accounting information is maintained and reported in conformity with generally accepted accounting principles (GAAP). Management also strives to ensure that these assets are put to good and effective use. The internal control structure is designed to provide reasonable assurances that these objectives are attained.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the Town of Canaan using the integrated approach as prescribed by GASB Statement 34.

This discussion and analysis is intended to serve as an introduction to the Town of Canaan's financial statements. The basic financial statements comprise three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements

This report also contains supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to most private-sector companies.

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

The statement of activities presents information showing how the Town's net assets changed during the most recent fiscal year. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

TOWN OF CANAAN, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2011

Both of the government-wide financial statements have separate sections for two types of activities:

Governmental activities – represent most of the Town's basic services.

Business-type activities – account for the Town's water and sewer operations and receive a majority of their revenue from user fees.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain the control over resources that have been segregated for specific activities or objectives. The Town uses fund accounting to ensure and to demonstrate compliance with finance-related legal requirements. The Town maintains three fund types: governmental, proprietary, and fiduciary 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 expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Town'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, our readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between the governmental activities statement of net assets and statement of activities.

The Town maintains several individual government funds. Information is presented separately in the governmental fund balance sheet and the statement of revenues, expenditures and changes in fund balances for the General Fund and the Permanent Funds which are considered major funds. Other governmental funds are aggregated as nonmajor funds.

The Town adopts an annual budget for its governmental funds. A budgetary comparison has been provided for the General Fund to demonstrate compliance with this budget.

Proprietary funds provide water and sewer services to customers and charge a user fee. They are presented on the accrual basis of accounting.

Fiduciary funds are used to account for resources held for the benefit of parties outside of town government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's programs.

Notes to the Basic 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.

TOWN OF CANAAN, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2011

Required Supplementary Information

The basic financial statements and accompanying notes are followed by a section of required supplementary information. This section includes a budgetary comparison schedule for the Town's major governmental fund and includes a reconciliation between the reported activity of the General Fund's revenues, expenditures and transfers for budgetary purposes (Schedule 1) and the activity as presented in the governmental fund financial statements (Exhibit D). The Town's major governmental fund during 2011 with an adopted budget is the General Fund.

Other Supplementary Information

Other supplemental information includes combining financial statements for nonmajor governmental funds.

Government-Wide Financial Analysis

Governmental Activities

Statement of Net Assets

Net assets of the Town of Canaan's governmental activities as of December 31, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Current and other assets:		
Capital assets	\$ 3,245,482	\$ 2,941,286
Other assets	<u>5,564,523</u>	<u>5,448,409</u>
Total assets	<u>8,810,005</u>	<u>8,389,695</u>
Long-term and other liabilities:		
Other liabilities	<u>2,902,275</u>	<u>2,461,886</u>
Total liabilities	<u>2,902,275</u>	<u>2,461,886</u>
Net assets:		
Invested in capital assets, net of related debt	3,245,482	2,941,286
Restricted	748,080	759,190
Unrestricted	<u>1,914,168</u>	<u>2,227,333</u>
Total net assets	<u>\$ 5,907,730</u>	<u>\$ 5,927,809</u>

Approximately 55% of the Town's net assets reflect the investment in capital assets such as land, buildings, infrastructure, and equipment less the outstanding debt used to acquire those assets. Another 13% of the net assets are restricted in regard to how they may be used. For the Town of Canaan, those restrictions include those related to non-expendable trust funds and the unexpended balance of restricted grants and donations. The remaining unrestricted portion represents the part of net assets available to finance day-to-day operations.

TOWN OF CANAAN, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2011

Statement of Activities

Changes in net assets of the Town's governmental activities for the years ending December 31, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Program revenues:		
Charges for services	\$ 85,822	\$ 83,417
Operating grants and contributions	305,179	201,917
Capital grants and contributions	21,394	497,216
Total program revenues	<u>412,395</u>	<u>782,550</u>
General revenues:		
Property and other taxes	2,081,709	2,311,331
Licenses and permits	566,103	560,828
Intergovernmental revenue	174,857	162,102
Interest and investment earnings	43,929	64,264
Miscellaneous	58,033	73,989
Transfers	<u>(23,472)</u>	<u>(280,640)</u>
Total general revenues	<u>2,901,159</u>	<u>2,891,874</u>
Total revenues	<u>3,313,554</u>	<u>3,674,424</u>
Program expenses:		
General government	1,009,166	884,022
Public safety	907,088	840,400
Highways and streets	971,409	831,142
Sanitation	194,123	182,336
Health and welfare	91,552	84,360
Culture and recreation	153,677	145,031
Economic development	6,031	6,031
Interest	<u>587</u>	<u>3,973</u>
Total expenses	<u>3,333,633</u>	<u>2,977,295</u>
Change in net assets	(20,079)	697,129
Net assets - beginning of year	<u>5,927,809</u>	<u>5,230,680</u>
Net assets - ending of year	<u>\$ 5,907,730</u>	<u>\$ 5,927,809</u>

As shown in the above statement the Town's governmental activities experienced a slight decrease in financial position of \$20,079 on the full accrual basis of accounting.

Business-Type Activities

Statement of Net Assets

Net assets of the business-type activities as of December 31, 2011 and 2010 are as follows:

TOWN OF CANAAN, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2011

	<u>2011</u>	<u>2010</u>
Current and other assets:		
Capital assets	\$ 3,800,966	\$ 3,844,011
Other assets	<u>256,376</u>	<u>339,756</u>
Total assets	<u>4,057,342</u>	<u>4,183,767</u>
Long-term and other liabilities:		
General obligation debt	60,000	90,000
Other long-term obligations	218,820	218,820
Other liabilities	<u>1,252</u>	<u>6,376</u>
Total liabilities	<u>280,072</u>	<u>315,196</u>
Net assets:		
Invested in capital assets, net of related debt	3,522,146	3,535,191
Unrestricted	<u>255,124</u>	<u>333,380</u>
Total net assets	<u>\$ 3,777,270</u>	<u>\$ 3,868,571</u>

The largest portion of the Town's net assets for its business-type activities reflects its investment in capital assets, primarily utility plant in service and equipment less any related outstanding debt used to acquire those assets. These assets are not available for future spending.

Statement of Activities

Changes in net assets of the Town's business-type activities for the years ending December 31, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Program revenues:		
Charges for services	\$ 110,899	\$ 115,496
Capital grants and contributions	<u>17,530</u>	<u>12,497</u>
Total program revenues	<u>128,429</u>	<u>127,993</u>
General revenues:		
Interest and investment earnings	208	574
Transfers	<u>23,472</u>	<u>280,640</u>
Total general revenues	<u>23,680</u>	<u>281,214</u>
Total revenues	<u>152,109</u>	<u>409,207</u>
Program expenses:		
Water distribution and treatment	95,104	95,203
Sanitation	<u>148,306</u>	<u>148,831</u>
Total expenses	<u>243,410</u>	<u>244,034</u>
Change in net assets	(91,301)	165,173
Net assets - beginning of year	<u>3,868,571</u>	<u>3,703,398</u>
Net assets - ending of year	<u>\$ 3,777,270</u>	<u>\$ 3,868,571</u>

TOWN OF CANAAN, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2011

The main funding source for business-type activities is charges for services, which provided 45.6% and 47.3% of expenses in 2011 and 2010 respectively. Depreciation expense of \$114,135 contributed to the decrease in net assets of \$91,301 in 2011.

Financial Analysis of the Town's Funds

As noted previously, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

General Fund

During the year ended December 31, 2011, the Town implemented GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Under Statement 54, the Town has segregated fund balance into five classifications: Nonspendable, Restricted, Committed, Assigned and Unassigned. Complete descriptions of these classifications may be found on page 15 of the Notes to the Basic Financial Statements. One major example of the effects caused by implementation of GASB 54 is that the Capital Reserve Funds, Library Fund, and the CDBG Fund balances are now reported as part of the General Fund.

The General Fund is the main operating fund of the Town. At the end of the current fiscal year, the General Fund had an unassigned fund balance of \$182,723. Additional fund balance components at year end amounted to \$920,812 and are detailed on pages 25-26 of the Notes to the Basic Financial Statements.

The total General Fund balance decreased \$321,039 from December 31, 2010. A decrease in fund balance was anticipated since \$167,000 of the prior year fund balance was applied to reduce the current year's tax rate. In addition, \$355,000 of capital reserve funds were budgeted to offset current year appropriations.

Permanent Funds

Permanent funds account for resources that are legally restricted to the extent that only earnings and not principal may be used for purposes that support the Town's programs. At December 31, 2011, the balance of \$475,530 was nonspendable and \$242,636 was restricted. The total fund balance in the permanent funds increased \$11,414 from the prior year.

TOWN OF CANAAN, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2011

Other Governmental Funds

The total fund balance of \$162,368 in the other governmental funds is committed for the purposes of the individually established fund. The largest portion of this total represents the balance in the Conservation Fund and the Expendable Trust Funds.

Proprietary Funds

The focus of the Town's proprietary funds is on total economic resources, and changes to net assets, much as it might be for a private-sector business.

The Town's proprietary funds had combined unrestricted net assets of \$255,124 at December 31, 2011. Charges for services for water and sewer operations covered 45.6% of operating expenses. Although there were annual scheduled capital contributions from the State of New Hampshire and General Fund transfers for debt service payments, the water and sewer funds had a decrease in net assets of \$36,167 and \$55,134, respectively.

Capital Assets and Long-term Obligations

Capital Assets

The Town of Canaan considers a capital asset to be an asset whose costs exceed or equal \$10,000 and has a useful life of greater than one year. Assets are depreciated using the straight-line method over the course of their useful life. See Note 7 to the basic financial statements for a complete schedule of capital asset activity for the year.

Long-Term Obligations

During 2011, the Town had a reduction in its general obligation bonds in business-type activities of \$30,000 from payments made during the year. There is no general obligation debt in the Town's governmental activities. See Note 10 to the basic financial statements for additional information on the long-term obligations of the Town.

Budgetary Highlights

Budgetary information for the General Fund (a major governmental fund) is included in the Required Supplementary Information section.

During the year, the original estimated revenues and appropriations increased by \$80,789. This is the result of unanticipated revenue accepted in accordance with RSA 31:95b.

Actual revenues and transfers in on the budgetary basis were higher than the budgeted amount by \$94,371. This favorable variance represents approximately 2.73% of the estimated revenues projected when the property tax rate was established.

TOWN OF CANAAN, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2011

The Town underexpended its budgeted appropriations by \$28,200. Demonstrating fiscal restraint, town officials were able to manage the town's business under budget. Detailed budgetary results may be found in Schedule 1 in the financial statements.

Economic Factors

The Town continues to be in good financial condition with little long-term debt and a healthy General Fund balance. Town management appreciates the need to conservatively manage the Town during the current economic recovery. Since 2008, the Board of Selectmen in conjunction with the Budget Committee has worked diligently to restructure operations to reduce spending. The 2011 budget was actually slightly less than the 2010 budget but included money to repair the Meeting House Tower, replace computer equipment, fund additional property appraisal work, remove dead trees from the cemeteries, cover higher fuel and insurance costs and increase wages to meet the 2010 rate of inflation. Through restructuring of services, we were able to improve the level of service with no increase in the Town tax rate. The efforts of the Board and Committees as well as the employees have resulted in very stable tax rates during the past four years. This effort will continue during the 2012 tax year as well as the 2013 tax year. Both 2012 and 2013 will move from cutting expenses as the primary vehicle for tax stability to using more non-tax revenue to keep the tax rate constant. This increased revenue will only be applied after at least one complete year's experience in actually receiving the higher revenue. This conservative approach should assure no surprises from lost revenue. Even with the addition of more than \$65,000 additional cost for dirt and paved road reconstruction and increases in retirement and insurance in 2012, the expectation is no increase in the tax rate.

Contacting the Town of Canaan's Financial Management

This financial report is to provide our citizens and creditors with a general overview of the Town's finances and to show a measure of accountability for the money it receives. If you have any questions about this report or need to get additional information, contact the Board of Selectmen at, PO Box 38, Canaan, NH 03741, telephone number 603-523-4501.

EXHIBIT A
TOWN OF CANAAN, NEW HAMPSHIRE
Statement of Net Assets
December 31, 2011

ASSETS	Governmental Activities	Business-Type Activities	Total
Current Assets:			
Cash and cash equivalents	\$ 3,300,707	\$ 13,469	\$ 3,314,176
Investments	1,398,086	240,633	1,638,719
Taxes receivable, net	744,064		744,064
Accounts receivable, net	3,090	26,080	29,170
Due from other governments	21,279	1,255	22,534
Internal balances	25,061	(25,061)	-
Prepaid expenses	6,180		6,180
Total Current Assets	<u>5,498,467</u>	<u>256,376</u>	<u>5,754,843</u>
Noncurrent Assets:			
Tax deeded property	21,678		21,678
Due from other governments	44,378		44,378
Capital assets:			
Non-depreciable capital assets	486,057	362,191	848,248
Depreciable capital assets, net	2,759,425	3,438,775	6,198,200
Total Noncurrent Assets	<u>3,311,538</u>	<u>3,800,966</u>	<u>7,112,504</u>
Total Assets	<u>\$ 8,810,005</u>	<u>\$ 4,057,342</u>	<u>\$ 12,867,347</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 72,009		\$ 72,009
Accrued expenses	56,439	\$ 1,252	57,691
Deferred revenue	3,727		3,727
Due to other governments	2,765,899		2,765,899
Deposits	4,201		4,201
Current portion of bonds payable		15,000	15,000
Total Current Liabilities	<u>2,902,275</u>	<u>16,252</u>	<u>2,918,527</u>
Noncurrent Liabilities:			
Bonds payable		45,000	45,000
Other long-term obligations		218,820	218,820
Total Noncurrent Liabilities	<u>-</u>	<u>263,820</u>	<u>263,820</u>
Total Liabilities	<u>2,902,275</u>	<u>280,072</u>	<u>3,182,347</u>
NET ASSETS			
Invested in capital assets, net of related debt	3,245,482	3,522,146	6,767,628
Restricted	748,080		748,080
Unrestricted	1,914,168	255,124	2,169,292
Total Net Assets	<u>5,907,730</u>	<u>3,777,270</u>	<u>9,685,000</u>
Total Liabilities and Net Assets	<u>\$ 8,810,005</u>	<u>\$ 4,057,342</u>	<u>\$ 12,867,347</u>

See accompanying notes to the basic financial statements

EXHIBIT B
TOWN OF CANAAN, NEW HAMPSHIRE
Statement of Activities
For the Year Ended December 31, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	
Governmental Activities:							
General government	\$ 1,009,166	\$ 2,589			\$(1,006,577)		\$(1,006,577)
Public safety	907,088	55,331	\$ 73,792	\$ 2,488	(775,477)		(775,477)
Highways and streets	971,409		230,136	18,906	(722,367)		(722,367)
Sanitation	194,123	24,619			(169,504)		(169,504)
Health and welfare	91,552				(91,552)		(91,552)
Culture and recreation	153,677	3,283	1,251		(149,143)		(149,143)
Economic development	6,031				(6,031)		(6,031)
Interest and other fiscal charges	587				(587)		(587)
Total governmental activities	<u>3,333,633</u>	<u>85,822</u>	<u>305,179</u>	<u>21,394</u>	<u>(2,921,238)</u>	<u>\$ -</u>	<u>(2,921,238)</u>
Business-type activities:							
Water	95,104	52,921		5,808		(36,375)	(36,375)
Sewer	148,306	57,978		11,722		(78,606)	(78,606)
Total business-type activities	<u>243,410</u>	<u>110,899</u>	<u>-</u>	<u>17,530</u>	<u>-</u>	<u>(114,981)</u>	<u>(114,981)</u>
Total primary government	<u>\$ 3,577,043</u>	<u>\$ 196,721</u>	<u>\$ 305,179</u>	<u>\$ 38,924</u>	<u>(2,921,238)</u>	<u>(114,981)</u>	<u>(3,036,219)</u>
General revenues:							
Property and other taxes					2,081,709		2,081,709
Licenses and permits					566,103		566,103
Grants and contributions:							
Rooms and meals tax distribution					174,602		174,602
State and federal forest land					255		255
Interest and investment income					43,929	208	44,137
Miscellaneous					58,033		58,033
Transfers, net					(23,472)	23,472	-
Total general revenues and transfers					<u>2,901,159</u>	<u>23,680</u>	<u>2,924,839</u>
Change in net assets					(20,079)	(91,301)	(111,380)
Net assets - beginning, as restated					<u>5,927,809</u>	<u>3,868,571</u>	<u>9,796,380</u>
Net assets - ending					<u>\$ 5,907,730</u>	<u>\$ 3,777,270</u>	<u>\$ 9,685,000</u>

See accompanying notes to the basic financial statements

EXHIBIT C
TOWN OF CANAAN, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
December 31, 2011

	General Fund	Permanent Funds	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 3,274,206		\$ 26,501	\$ 3,300,707
Investments	545,799	\$ 738,971	113,316	1,398,086
Taxes receivable, net	744,064			744,064
Accounts receivable			3,090	3,090
Due from other governments	15,732			15,732
Due from other funds	81,527		55,122	136,649
Prepaid expenses	6,180			6,180
Tax dedeed property	21,678			21,678
Total Assets	<u>\$ 4,689,186</u>	<u>\$ 738,971</u>	<u>\$ 198,029</u>	<u>\$ 5,626,186</u>
LIABILITIES				
Accounts payable	\$ 72,009			\$ 72,009
Accrued expenses	56,439			56,439
Deferred revenue	631,981			631,981
Due to other governments	2,765,899			2,765,899
Due to other funds	55,122	\$ 20,805	\$ 35,661	111,588
Deposits	4,201			4,201
Total Liabilities	<u>3,585,651</u>	<u>20,805</u>	<u>35,661</u>	<u>3,642,117</u>
FUND BALANCES				
Nonspendable	6,180	475,530		481,710
Restricted	29,914	242,636		272,550
Committed	476,311		162,368	638,679
Assigned	408,407			408,407
Unassigned	182,723			182,723
Total Fund Balances	<u>1,103,535</u>	<u>718,166</u>	<u>162,368</u>	<u>1,984,069</u>
Total Liabilities and Fund Balances	<u>\$ 4,689,186</u>	<u>\$ 738,971</u>	<u>\$ 198,029</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds 3,245,482

Property taxes are recognized on an accrual basis in the statement of net assets, not the modified accrual basis 628,254

The long-term state aid grant receivable is recognized on an accrual basis in the statement of net assets, not the modified accrual basis 49,925

Net assets of governmental activities \$ 5,907,730

See accompanying notes to the basic financial statements

EXHIBIT D

TOWN OF CANAAN, NEW HAMPSHIRE

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2011

	General Fund	Permanent Funds	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 2,078,346		\$ 5,000	\$ 2,083,346
Licenses and permits	566,103			566,103
Intergovernmental	479,192		27,785	506,977
Charges for services	44,316		41,506	85,822
Interest and investment income	8,687	\$ 34,968	274	43,929
Miscellaneous	49,805		12,228	62,033
Total Revenues	<u>3,226,449</u>	<u>34,968</u>	<u>86,793</u>	<u>3,348,210</u>
Expenditures:				
Current operations:				
General government	952,299	3,448		955,747
Public safety	819,993		34,924	854,917
Highways and streets	857,943			857,943
Sanitation	188,095			188,095
Health and welfare	52,429			52,429
Culture and recreation	129,150	2,390	2,195	133,735
Capital outlay	560,142		38,234	598,376
Debt service:				
Interest and fiscal charges	587			587
Total Expenditures	<u>3,560,638</u>	<u>5,838</u>	<u>75,353</u>	<u>3,641,829</u>
Excess revenues over (under) expenditures	<u>(334,189)</u>	<u>29,130</u>	<u>11,440</u>	<u>(293,619)</u>
Other financing sources (uses):				
Transfers in	36,622			36,622
Transfers out	(23,472)	(17,716)	(18,906)	(60,094)
Total other financing sources (uses)	<u>13,150</u>	<u>(17,716)</u>	<u>(18,906)</u>	<u>(23,472)</u>
Net change in fund balances	(321,039)	11,414	(7,466)	(317,091)
Fund balances at beginning of year, as restated	<u>1,424,574</u>	<u>706,752</u>	<u>169,834</u>	<u>2,301,160</u>
Fund balances at end of year	<u>\$ 1,103,535</u>	<u>\$ 718,166</u>	<u>\$ 162,368</u>	<u>\$ 1,984,069</u>

TOWN OF CANAAN, NEW HAMPSHIRE

Reconciliation of the Statement of Revenues, Expenditures

and Changes in Fund Balances of Governmental Funds

to the Statement of Activities

For the Year Ended December 31, 2011

Net Change in Fund Balances--Total Governmental Funds	\$ (317,091)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.	315,081
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(7,184)
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss of disposed capital assets reduced by the actual proceeds received from the sale of capital assets.	(10,885)
Change in Net Assets of Governmental Activities	<u>\$ (20,079)</u>

See accompanying notes to the basic financial statements

EXHIBIT E
TOWN OF CANAAN, NEW HAMPSHIRE
Statement of Net Assets
Proprietary Funds
December 31, 2011

	Business-type Activities		
	Water Fund	Sewer Fund	Totals
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 13,469		\$ 13,469
Investments	240,633		240,633
Accounts receivable	13,384	\$ 12,696	26,080
Due from other governments	1,255		1,255
Due from other funds	112,690		112,690
Total Current Assets	381,431	12,696	394,127
Noncurrent Assets:			
Capital assets:			
Non-depreciable capital assets		362,191	362,191
Depreciable capital assets, net	1,122,166	2,316,609	3,438,775
Total Noncurrent Assets	1,122,166	2,678,800	3,800,966
Total Assets	\$ 1,503,597	\$ 2,691,496	\$ 4,195,093
LIABILITIES			
Current Liabilities:			
Accrued expenses		\$ 1,252	\$ 1,252
Due to other funds		137,751	137,751
Current portion of bonds payable		15,000	15,000
Total Current Liabilities	\$ -	154,003	154,003
Noncurrent Liabilities:			
Bonds payable		45,000	45,000
Other long-term obligations	218,820		218,820
Total Noncurrent Liabilities	218,820	45,000	263,820
Total Liabilities	218,820	199,003	417,823
NET ASSETS			
Invested in capital assets, net of related debt	903,346	2,618,800	3,522,146
Unrestricted (deficit)	381,431	(126,307)	255,124
Total Net Assets	1,284,777	2,492,493	3,777,270
Total Liabilities and Net Assets	\$ 1,503,597	\$ 2,691,496	\$ 4,195,093

See accompanying notes to the basic financial statements

EXHIBIT F
TOWN OF CANAAN, NEW HAMPSHIRE
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended December 31, 2011

	Business-type Activities		
	Water Fund	Sewer Fund	Totals
Operating revenues:			
Charges for services	\$ 52,921	\$ 57,978	\$ 110,899
Total operating revenues	<u>52,921</u>	<u>57,978</u>	<u>110,899</u>
Operating expenses:			
Contractual services	34,245	34,743	68,988
Repairs and maintenance	14,747	10,643	25,390
Materials and supplies	1,723	1,274	2,997
Utilities	8,508	19,026	27,534
Depreciation	<u>35,881</u>	<u>78,254</u>	<u>114,135</u>
Total operating expenses	<u>95,104</u>	<u>143,940</u>	<u>239,044</u>
Operating loss	<u>(42,183)</u>	<u>(85,962)</u>	<u>(128,145)</u>
Non-operating revenues (expenses):			
Interest revenue	208		208
Interest expense		<u>(4,366)</u>	<u>(4,366)</u>
Net non-operating expenses	<u>208</u>	<u>(4,366)</u>	<u>(4,158)</u>
Loss before capital contributions and transfers	(41,975)	(90,328)	(132,303)
Capital contributions	5,808	11,722	17,530
Transfers in		<u>23,472</u>	<u>23,472</u>
Change in net assets	(36,167)	(55,134)	(91,301)
Total net assets at beginning of year, as restated	<u>1,320,944</u>	<u>2,547,627</u>	<u>3,868,571</u>
Total net assets at end of year	<u>\$ 1,284,777</u>	<u>\$ 2,492,493</u>	<u>\$ 3,777,270</u>

See accompanying notes to the basic financial statements

EXHIBIT G
TOWN OF CANAAN, NEW HAMPSHIRE
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2011

	Business-type Activities		
	Water Department	Sewer Department	Totals
Cash flows from operating activities:			
Cash received from customers	\$ 52,850	\$ 57,896	\$ 110,746
Cash paid to suppliers	(59,893)	(69,312)	(129,205)
Net cash provided (used) by operating activities	<u>(7,043)</u>	<u>(11,416)</u>	<u>(18,459)</u>
Cash flows from capital financing activities:			
Purchases of capital assets	(12,195)	(58,895)	(71,090)
Capital contributions	5,808	11,722	17,530
Transfers from other funds		23,472	23,472
Principal paid on long-term debt		(30,000)	(30,000)
Interest paid on long-term debt		(5,194)	(5,194)
Net cash (used) for capital financing activities	<u>(6,387)</u>	<u>(58,895)</u>	<u>(65,282)</u>
Cash flows from investing activities:			
Interest on investments	208		208
Net cash provided by investing activities	<u>208</u>	<u>-</u>	<u>208</u>
Net decrease in cash and cash equivalents	(13,222)	(70,311)	(83,533)
Cash and cash equivalents (deficiency) at beginning of year	<u>380,014</u>	<u>(67,440)</u>	<u>312,574</u>
Cash and cash equivalents (deficiency) at end of year	<u>\$ 366,792</u>	<u>\$ (137,751)</u>	<u>\$ 229,041</u>
Reconciliation of operating loss to net cash (used) by operating activities:			
Operating loss	\$ (42,183)	\$ (85,962)	\$ (128,145)
Adjustments to reconcile operating loss to net cash (used) by operating activities:			
Depreciation expense	35,881	78,254	114,135
Changes in assets and liabilities:			
Accounts receivable	(71)	(82)	(153)
Accounts payable	(670)	(3,626)	(4,296)
Net cash (used) by operating activities	<u>\$ (7,043)</u>	<u>\$ (11,416)</u>	<u>\$ (18,459)</u>

See accompanying notes to the basic financial statements

EXHIBIT H
TOWN OF CANAAN, NEW HAMPSHIRE
Statement of Fiduciary Net Assets
Fiduciary Funds
 December 31, 2011

	ASSETS	Agency Funds
Investments		\$ 721,840
Total assets		<u>\$ 721,840</u>
	LIABILITIES	
Due to other governments		\$ 721,840
Total liabilities		<u>\$ 721,840</u>

See accompanying notes to the basic financial statements

**TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2011**

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Canaan, New Hampshire conform to accounting principles generally accepted in the United States of America for local governmental units, except as indicated hereinafter. The following is a summary of significant accounting policies.

Financial Reporting Entity

The Town of Canaan, New Hampshire (the "Town") was incorporated on July 9, 1761. The Town operates under the Town Meeting/Board of Selectmen form of government and performs local governmental functions authorized by State law.

The financial statements include those of the various departments governed by the Board of Selectmen and other elected officials with financial responsibility. The Town has no other separate organizational units, which meet criteria for inclusion in the financial statements as defined by the Governmental Accounting Standards Board (GASB).

Basis of Presentation

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

1. Government-Wide Financial Statements:

The statement of net assets and the statement of activities display information about the Town as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities and business-type activities of the Town at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Town's governmental and business-type activities. Direct expenses are those that are specifically associated with a service, program or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Town. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Town.

2. Fund Financial Statements:

During the year, the Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Town at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2011

presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

Fund Accounting

The Town uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Town employs the use of three categories of funds: governmental, proprietary, and fiduciary.

1. 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. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Town's major governmental funds:

The *General Fund* is the Town's main operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Permanent Funds* are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

2. Proprietary Funds:

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as enterprise or internal service. The Town has no internal service funds. The following are the Town's major proprietary funds:

The *Water and Sewer Funds* account for all revenues and expenses pertaining to the Town's water and wastewater operations. The Water and Sewer Funds are utilized to account for operations that are financed and operated in a manner similar to private business enterprises. The stated intent is that the cost (i.e. expenses including depreciation) of providing goods or services to the residents on a continuing basis are financed or recovered primarily through user charges.

3. Fiduciary Funds:

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category has one classification: agency fund. The Town's agency fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. The Town's agency fund accounts for the capital reserve funds of the Mascoma Valley Regional School District, which are held by the Town's Trustees of Trust Funds in accordance with State law.

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2011

Measurement Focus

1. Government-Wide Financial Statements:

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Town are included on the Statement of Net Assets.

2. 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 on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenues, expenses and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Town finances and meets the cash flow needs of its proprietary activities.

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. Proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

In the government-wide financial statements and proprietary fund statements, private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Town has elected not to follow the FASB pronouncements issued subsequent to November 30, 1989.

1. Revenues – Exchange and Non-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 a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the Town, available means expected to be received within sixty days of year end.

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2011

Non-exchange transactions, in which the Town receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied (see Note 3). Revenue from grants, entitlements and donations is recognized in the year in which all 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 Town must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Town on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: property taxes and interest on investments.

Licenses and permits, charges for services, and miscellaneous revenues (except interest on investments) are recorded as revenues when received in cash because they are generally not measurable until actually received.

2. Deferred Revenue:

Under both the accrual and the modified accrual basis of accounting, revenue may be recognized only when it is earned.

Deferred revenue arises when assets are recognized before the revenue recognition criteria have been met. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Under the modified accrual basis of accounting, revenue must also be susceptible to accrual (measurable and available). Accordingly, receivables that will not be collected within the available period have been reported as deferred revenue on the governmental fund financial statements.

3. Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization are not recognized in governmental funds.

Budgetary Data

The Town's budget represents functional appropriations as authorized by annual or special Town meetings. The Selectmen may transfer funds between operating categories as they deem necessary. The Town adopts its budget under State regulations, which differ somewhat from accounting principles generally accepted in the United States of America in that the focus is on the entire governmental unit rather than on the basis of fund types.

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2011

State law requires balanced budgets but permits the use of beginning fund balance to reduce the property tax rate. For the year ended December 31, 2011, the Town applied \$167,000 of its unassigned fund balance to reduce taxes.

Encumbrance Accounting

Encumbrance accounting, under which purchase orders and other commitments for expenditure of monies are recorded in order to reserve a portion of the applicable appropriation, is employed as an extension of formal budgetary integration in Governmental Funds. Encumbrances outstanding at year end are reported as a component of fund balance since they do not constitute expenditures or liabilities, but rather commitments related to unperformed contracts for goods and services.

Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of the following:

	Water Fund	Sewer Fund	<u>Totals</u>
Cash	\$ 13,469		\$ 13,469
Investments in NHPDIP	240,633		240,633
Due from other funds	112,690		112,690
Due to other funds		\$ (137,751)	(137,751)
Totals	<u>\$ 366,792</u>	<u>\$ (137,751)</u>	<u>\$ 229,041</u>

Investments

Investments are stated at their fair value in all funds. Certificates of deposit and repurchase agreements with a maturity of greater than ninety days from the date of issuance are included in investments.

Taxes Receivable

Taxes levied during the current year and prior and uncollected at December 31, 2011 are recorded as receivables net of reserves for estimated uncollectibles of \$62,000.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond December 31, 2011 are recorded as prepaid items.

Capital Assets

General capital assets result from expenditures in the governmental funds. These assets are reported in the government-wide statement of net assets, but are not reported in the governmental fund financial statements.

All capital assets including infrastructure 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 values as of the date received. The Town maintains a capitalization threshold of \$10,000. The Town's infrastructure

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2011

consists of roads, bridges, sidewalks, water purification and distribution system, sewer collection and treatment system, and similar items. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

The Town is not required to retroactively report its general infrastructure (e.g. roads, bridges, and sidewalks). Infrastructure records have been maintained effective January 1, 2004 and are included in these financial statements.

All reported capital assets except for land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the Town's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

	<u>Description</u>	<u>Years</u>
	Infrastructure	50
	Buildings and improvements	20-40
	Land improvements	15
	Vehicles and equipment	5-10

Compensated Absences

Full time employees may accumulate sick leave days at a rate of one day per month, cumulative to a maximum of sixty days. No payment for unused sick leave is made upon termination. Employees earn vacation dependent on the length of service. Accrued/unused vacation has been included as a liability in the governmental funds in these fund financial statements.

Accrued Liabilities and Long-Term Obligations

Except for the obligation for other post-employment benefits (see Note 2), 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 resources, are reported as obligations of the funds. General obligation bonds and other long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

Net Assets

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

The Town's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2011

Fund Balance Policy

During the year ended December 31, 2011, the Town implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Statement 54 established new fund balance classifications and changes the definition of governmental fund types.

Under Statement 54, the Town has segregated fund balance into five classifications: Nonspendable, Restricted, Committed, Assigned, and Unassigned. These components of fund balance are defined as follows:

- *Nonspendable Fund Balance*: Amounts that are not in a spendable form or are required to be maintained intact.
- *Restricted Fund Balance*: Amounts constrained to specific purposes by their providers through constitutional provisions or by enabling legislation. Restrictions may be changed or lifted only upon the consent of the external resource provider or enabling legislation.
- *Committed Fund Balance*: Amounts constrained to specific purposes by a government itself using its highest level of decision-making authority: to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.
- *Assigned Fund Balance*: Amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- *Unassigned Fund Balance*: Amounts that are available for any purpose; these amounts are reported only in the General Fund, except for any deficit fund balance of another governmental fund.

As of December 31, 2011, the Town has not adopted a fund balance policy. In circumstances where expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, restricted fund balance is considered to have been spent first. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used, committed amounts should be reduced first, followed by assigned amounts then unassigned amounts.

Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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 for repayment are reported as interfund transfers. 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 in the financial statements.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the water fund and sewer fund, these revenues are charges to customers for sales and services. Operating expenses, which include depreciation on capital assets, are necessary costs

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2011

incurred to provide the service that is the primary activity of the proprietary fund. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates. Significant estimates include depreciation expense and the allowance for uncollectible taxes.

NOTE 2—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The Town did not implement GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. Statement 45 requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The provisions of GASB 45 were required to be implemented by the Town during the year ended December 31, 2009.

NOTE 3—PROPERTY TAXES

Taxes are levied on the assessed valuation of all taxable real property as of the prior April 1 (\$321,253,126 as of April 1, 2011) and are due in two installments on July 1, 2011 and December 5, 2011. Taxes paid after the due dates accrue interest at 12% per annum. Property taxes are recognized as revenue when received in cash or if available to finance current period operations (within sixty days of year end).

Under State law, the Tax Collector obtains tax liens on properties which have unpaid taxes in the year after taxes were due for the amount of unpaid taxes, interest and costs. These priority tax liens accrue interest at 18% per annum. If the property is not redeemed within a two year redemption period, the property may be tax dedeed to the Town.

In accordance with State law, the Town collects taxes for the Mascoma Valley Regional School District and Grafton County, both independent governmental units, which are remitted to them as required by law. The Town also collects education taxes for the State of New Hampshire which are remitted to the school district. Total taxes appropriated during the year were \$4,938,206 and \$530,759 for the Mascoma Valley Regional School District and Grafton County, respectively. These taxes are not recognized as revenues in these financial statements. The Town bears responsibility for uncollected taxes.

NOTE 4—RISK MANAGEMENT

The Town is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2011, the Town was a member of the New Hampshire Public Risk Management Exchange (PRIMEX). The Town currently reports all of its risk management activities in its General Fund. This Trust is classified as a "Risk Pool" in accordance with accounting principles generally accepted in the United States of America.

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
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The Trust agreements permit the Trusts to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. Accounting principles generally accepted in the United States of America require members of pools with a sharing of risk to determine whether or not such assessment is probable and, if so, a reasonable estimate of such assessment. At this time, the Trusts foresee no likelihood of an additional assessment for any of the past years. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Based on the best available information there is no liability at December 31, 2011.

Property and Liability Insurance

PRIMEX provides certain property and liability insurance coverage to member towns, cities, and other qualified political subdivisions of New Hampshire. As a member of PRIMEX, the Town shares in contributing to the cost of and receiving benefit from a self-insured pooled risk management program. The program includes a Self Insured Retention Fund from which is paid up to \$500,000 for each and every covered property, crime and/or liability loss that exceeds \$1,000.

Worker's Compensation

PRIMEX provides statutory worker's compensation coverage to member towns, cities, and other qualified political subdivisions of New Hampshire. The Trust is self-sustaining through annual member premiums and provides coverage for the statutorily required workers' compensation benefits and employer's liability coverage up to \$2,000,000. The program includes a Loss Fund from which is paid up to \$500,000 for each and every covered claim.

NOTE 5—DEPOSITS AND INVESTMENTS

The Town has combined the cash resources of its governmental and proprietary fund types. For accounting and reporting purposes, that portion of the pooled cash balance is reported in the specific fund as an interfund balance.

The Town's investment policy for governmental and proprietary fund types requires that deposits be made in New Hampshire based financial institutions that are participants in one of the federal depository insurance programs. The Town limits its investments to the New Hampshire Public Deposit Investment Pool (NHPDIP), an external investment pool in accordance with New Hampshire State law (RSA 197:23-a). Town funds may also be deposited into solvent banks within the State of New Hampshire, short-term obligations of United States government agency, or repurchase agreements with banks chartered by the State of New Hampshire and fully collateralized by United States Treasury Bills.

Responsibility for the investments of the expendable trust funds, permanent funds, and agency funds is with the Board of Trustees. The Trustees of Trust Funds have employed professional banking assistance in accordance with New Hampshire State law (RSA 31:38a). Investments of the library funds are at the discretion of the Library Trustees.

Deposits and investments as of December 31, 2011 are classified in the accompanying financial statements as follows:

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2011

Statement of Net Assets:	
Cash and cash equivalents	\$ 3,314,176
Investments	1,638,719
Statement of Fiduciary Net Assets:	
Investments	<u>721,840</u>
	<u>\$ 5,674,735</u>

Deposits and investments as of December 31, 2011 consist of the following:

Deposits with financial institutions	\$ 167,356
Investments	<u>5,507,379</u>
Total cash and investments	<u>\$ 5,674,735</u>

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. One of the ways that the Town manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time.

The Town's investment policy for the General Fund, other governmental funds and proprietary funds indicates that investments shall be limited to instruments maturing within one year at the time of purchase or the NHPDIP. The Trustees of Trust Funds and the Library Trustees have no policy with respect to interest rate risk.

Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is provided by the following table that shows the distribution of investments by maturity:

Investment Type	Remaining Maturity (In Years)			
	Fair Value	0-1 Years	1-5 Years	> 5 Years
U.S. Treasury notes	\$ 11,562		\$ 11,562	
Federal agency securities	90,534		22,865	\$ 67,669
Municipal obligations	128,149		128,149	
Corporate bonds	235,202	\$ 30,162	42,339	162,701
Foreign bonds	<u>58,763</u>			<u>58,763</u>
	<u>\$ 524,210</u>	<u>\$ 30,162</u>	<u>\$ 204,915</u>	<u>\$ 289,133</u>

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The Town's policy states that the Treasurer may place any excess funds into obligations of the United States government maturing in less than one year or the NHPDIP. The investment policy of the Trustees

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2011

of Trust Funds states that all investments should be undertaken in a manner that seeks to preserve capital. The Library Trustees have no policy with respect to credit risk.

The following is the actual rating at year end for each investment type.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Rating as of Year End</u>			
		<u>Aaa</u>	<u>Aa</u>	<u>A</u>	<u>Not Rated</u>
Municipal obligations	\$ 128,149			\$ 96,969	\$ 31,180
Corporate bonds	235,202	\$ 31,763	\$ 47,033	156,406	
Foreign bonds	58,763		58,763		
Money market mutual funds	40,265				40,265
State investment pool	1,606,165				1,606,165
	<u>\$ 2,068,544</u>	<u>\$ 31,763</u>	<u>\$ 105,796</u>	<u>\$ 253,375</u>	<u>\$ 1,677,610</u>

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The Town's policy for governmental and proprietary funds states that deposits shall be fully collateralized with the delivery of United States government obligations, United States government agency obligations, or obligations of the State of New Hampshire in market value at least equal to 100% of the cash deposit. The Trustees of Trust Funds policy states that its investments shall be diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity, industry or specific issuer. The Trustees shall also use prudence in the selection of securities. The Library Trustees have no policy with respect to custodial credit risk.

The Town has no deposits with financial institutions at year end that are exposed to custodial credit risk. As of December 31, 2011, Town investments in the following investment types were held by the same counterparty that was used to buy the securities.

<u>Investment Type</u>	<u>Reported Amount</u>
U.S. Treasury notes	\$ 11,562
Federal agency securities	90,534
Municipal obligations	128,149
Corporate bonds	235,202
Foreign bonds	58,763
Money market mutual funds	40,265
Equity securities	183,984
Overnight repurchase agreement	3,152,755
	<u>\$ 3,901,214</u>

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2011

Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair values of an investment or deposit. As of December 31, 2011, the Town held \$58,763 in foreign bonds. The Town and the Trustees of Trust Funds do not have an investment policy for assurance against foreign currency risk.

Investment in NHPDIP

The Town is a voluntary participant in the New Hampshire Public Deposit Investment Pool (NHPDIP), an external investment pool. The NHPDIP is not registered with the United States Securities and Exchange Commission as an investment company. The NHPDIP was created by state law and is administered by a public body of state, local and banking officials.

Investments in the NHPDIP are not investment securities and, as such, are not categorized by risk. The Town's exposure to derivatives is indirect through its participation in the NHPDIP. The Town's proportional share of these derivatives is not available. The fair value of the position in the investment pool is equal to the value of the pool shares.

NOTE 6—DUE FROM OTHER GOVERNMENTS

Receivables from other governments at December 31, 2011 consist of various federal and state fundings. All receivables are considered collectible in full. The sewer state aid grant reimbursement is to be received over the life of the original bond issuance and as such, is classified as current and noncurrent. A summary of the principal items of intergovernmental receivables is as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Current assets:		
School resource officer	\$ 14,036	
State aid grant	5,547	
State Revolving Loan funds		\$ 1,255
Miscellaneous intergovernmental receivables	<u>1,696</u>	<u>1,255</u>
	<u>21,279</u>	<u>1,255</u>
Noncurrent assets:		
State aid grant	<u>44,378</u>	<u>-</u>
	<u>\$ 65,657</u>	<u>\$ 1,255</u>

NOTE 7—CAPITAL ASSETS

Governmental Activities

The following is a summary of changes in capital assets in the governmental funds:

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2011

	Balance 01/01/11	Additions	Reductions	Balance 12/31/11
Governmental activities:				
Capital assets not depreciated:				
Land	\$ 402,383			\$ 402,383
Construction in progress	286,638		\$ (202,964)	83,674
Total capital assets not being depreciated	<u>689,021</u>	<u>\$ -</u>	<u>(202,964)</u>	<u>486,057</u>
Other capital assets:				
Infrastructure	1,114,955			1,114,955
Buildings and improvements	1,301,278	248,886		1,550,164
Land improvements		13,100		13,100
Vehicles and equipment	<u>1,653,790</u>	<u>471,134</u>	<u>(72,428)</u>	<u>2,052,496</u>
Total other capital assets at historical cost	<u>4,070,023</u>	<u>733,120</u>	<u>(72,428)</u>	<u>4,730,715</u>
Less accumulated depreciation for:				
Infrastructure	(33,626)	(22,299)		(55,925)
Buildings and improvements	(602,496)	(42,730)		(645,226)
Land improvements		(73)		(73)
Vehicles and equipment	<u>(1,181,636)</u>	<u>(139,973)</u>	<u>51,543</u>	<u>(1,270,066)</u>
Total accumulated depreciation	<u>(1,817,758)</u>	<u>(205,075)</u>	<u>51,543</u>	<u>(1,971,290)</u>
Total other capital assets, net	<u>2,252,265</u>	<u>528,045</u>	<u>(20,885)</u>	<u>2,759,425</u>
Total capital assets, net	<u>\$ 2,941,286</u>	<u>\$ 528,045</u>	<u>\$ (223,849)</u>	<u>\$ 3,245,482</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 14,109
Public safety	46,761
Highways and streets	114,420
Economic development	6,031
Sanitation	6,028
Culture and recreation	<u>17,726</u>
Total governmental activities depreciation expense	<u>\$ 205,075</u>

Business-Type Activities

The following is a summary of changes in capital assets in the proprietary funds:

	Balance 01/01/11	Additions	Reductions	Balance 12/31/11
Business-type activities:				
Capital assets not depreciated:				
Land	\$ 238,341			\$ 238,341
Construction in progress	<u>300,036</u>	<u>\$ 58,895</u>	<u>\$ (235,081)</u>	<u>123,850</u>
Total capital assets not being depreciated	<u>538,377</u>	<u>58,895</u>	<u>(235,081)</u>	<u>362,191</u>

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2011

Other capital assets:			
Infrastructure	5,256,827	235,081	5,491,908
Buildings and improvements	67,970		67,970
Land improvements		12,195	12,195
Vehicles and equipment	101,980		101,980
Total other capital assets at historical cost	<u>5,426,777</u>	<u>247,276</u>	<u>5,674,053</u>
Less accumulated depreciation for:			
Infrastructure	(1,985,225)	(109,835)	(2,095,060)
Buildings and improvements	(43,495)	(1,359)	(44,854)
Vehicles and equipment	(92,423)	(2,941)	(95,364)
Total accumulated depreciation	<u>(2,121,143)</u>	<u>(114,135)</u>	<u>(2,235,278)</u>
Total other capital assets, net	<u>3,305,634</u>	<u>133,141</u>	<u>3,438,775</u>
Total capital assets, net	<u>\$ 3,844,011</u>	<u>\$ 192,036</u>	<u>\$ 3,800,966</u>

Depreciation expense was charged to proprietary funds as follows:

Water fund	\$ 35,881
Sewer fund	78,254
Total business-type activities depreciation expense	<u>\$ 114,135</u>

NOTE 8—DUE TO OTHER GOVERNMENTS

In accordance with State law, the Town collects taxes for the Mascoma Valley Regional School District and Grafton County, both independent governmental units, which are remitted to them as required by law. At December 31, 2011, the balance of the property tax appropriation due to the Mascoma Valley Regional School District is \$2,765,899.

NOTE 9—DEFINED BENEFIT PLAN

Plan Description

The Town contributes to the New Hampshire Retirement System (NHRS), a cost-sharing multiple-employer defined benefit pension plan administered by the NHRS Board of Trustees. The plan provides service, disability, death and vested retirement allowances to plan members and beneficiaries. Benefit provisions are established and may be amended by the New Hampshire State legislature. The NHRS issues a publicly available financial report that includes financial statements and required supplementary information for NHRS. That report may be obtained by writing to New Hampshire Retirement System, 54 Regional Drive, Concord, New Hampshire 03301.

Funding Policy

Covered public safety employees are required to contribute 9.3% of their covered salary, whereas general employees are required to contribute 5.0% of their covered salary, through June 30, 2011, and 11.55% and 7%, respectively, thereafter. The Town is required to contribute at an actuarially determined rate. The Town's contribution rates for the covered payroll of police officers and general employees were 14.63% and 9.16%, respectively through June 30, 2011, 25.57% and 11.09%, respectively in July 2011, and 19.95% and 8.8%, respectively, thereafter. The Town contributes 75% of the employer cost for

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2011

public safety officers employed by the Town, and the State contributes the remaining 25% of the employer cost, through June 30, 2011 and the Town contributes 100% thereafter. The Town contributes 100% of the employer cost for general employees of the Town. In accordance with accounting principles generally accepted in the United States of America (GASB Statement #24), on-behalf fringe benefits contributed by the State of New Hampshire of \$6,951 have been reported as a revenue and expenditure in the General Fund in these financial statements.

Per RSA-100:16, plan member contribution rates are established and may be amended by the New Hampshire State legislature and employer contribution rates are determined by the NHRS Board of Trustees based on an actuarial valuation. The Town's contributions to the NHRS for the years ending December 31, 2011, 2010, and 2009 were \$96,215, \$84,278, and \$81,480, respectively, equal to the required contributions for each year.

NOTE 10—LONG-TERM OBLIGATIONS

Changes in Long-Term Obligations

The changes in the Town's long-term obligations for the year ended December 31, 2011 are as follows:

	<u>Balance</u> <u>01/01/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/11</u>	<u>Due Within</u> <u>One Year</u>
Business-type activities:					
Bonds/Notes payable	\$ 90,000		\$ (30,000)	\$ 60,000	\$ 15,000
Other long-term obligations	<u>218,820</u>			<u>218,820</u>	<u>-</u>
Total business-type activities	<u>\$ 308,820</u>	<u>\$ -</u>	<u>\$ (30,000)</u>	<u>\$ 278,820</u>	<u>\$ 15,000</u>

Payments on the general obligation bonds of the business-type activities are paid out of the General Fund and recognized as a transfer to the Sewer Fund.

Business-Type Activities

Bonds payable at December 31, 2011 are comprised of the following individual issues:

\$315,000 Sewer System bonds of August 1995, due in annual installments of \$15,000 to \$20,000 through August 2015; interest at 5.25% to 5.625%	<u>\$ 60,000</u>
--	------------------

Debt service requirements to retire general obligation bonds outstanding at December 31, 2011 are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	\$ 15,000	\$ 3,338	\$ 18,338
2013	15,000	2,512	17,512
2014	15,000	1,688	16,688
2015	<u>15,000</u>	<u>842</u>	<u>15,842</u>
	<u>\$ 60,000</u>	<u>\$ 8,380</u>	<u>\$ 68,380</u>

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2011

As included on the Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds (Exhibit F), interest expense for the year ended December 31, 2011 was \$4,366 on general obligation debt for business-type activities.

Other Long-Term Obligations

The Town has drawn \$218,820 of \$594,000 in funds under the State of New Hampshire, State Drinking Water Revolving Loan Fund Program for the water filter plant upgrade project. Payments are not scheduled to commence until the first anniversary of the scheduled completion date of the project or the date of substantial completion, whichever is earliest. Interest is accrued at 1% during the construction period of the project and is to be paid upon completion of the construction project within the following year.

As authorized by the American Recovery and Reinvestment Act, the Town shall be provided federal financial assistance whereby 50% of the borrowed funds and directly related interest are to be forgiven, not to exceed \$297,000. The principal and related interest forgiveness will be applied at the time of each loan repayment over a period of twenty years.

Authorized and Unissued Debt

As of December 31, 2011, the Town had the following debt authorized and unissued:

Canaan Village Water Improvements	\$ 223,700
Municipal Sewerage System Project	435,000
Goose Pond Road Bridge	<u>220,000</u>
	<u>\$ 878,700</u>

NOTE 11—INTERFUND BALANCES AND TRANSFERS

The Town has combined the cash resources of its governmental and proprietary fund types. For accounting and reporting purposes, that portion of the pooled cash balance is reported in the specific fund as an interfund balance. Additional interfund balances at year end pertain to income distributions out of the Permanent Funds distributed after year end to the General Fund.

Interfund balances at December 31, 2011 are as follows:

		Due to			
		General	Nonmajor Governmental	Water	
		Fund	Funds	Fund	Totals
Due From	General Fund		\$ 55,122		\$ 55,122
	Permanent Fund	\$ 20,805			20,805
	Nonmajor Governmental Funds	35,661			35,661
	Sewer Fund	25,061		\$ 112,690	137,751
	Totals	<u>\$ 81,527</u>	<u>\$ 55,122</u>	<u>\$ 112,690</u>	<u>\$ 249,339</u>

During the year, several interfund transactions occurred between funds. The various transfers between the General Fund, Permanent Funds, and Sewer Fund were made in accordance with budgetary

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2011

authorizations. Transfers of \$18,906 out of the Nonmajor Governmental Funds to the General Fund represents additional state funding received on a bridge project that was previously funded with Capital Reserve Funds. Interfund transfers for the year ended December 31, 2011 are as follows:

	Transfer from			Totals
	General Fund	Permanent Funds	Nonmajor Governmental Funds	
Transfer to General Fund		\$ 17,716	\$ 18,906	\$ 36,622
Sewer Fund	\$ 23,472			23,472
	<u>\$ 23,472</u>	<u>\$ 17,716</u>	<u>\$ 18,906</u>	<u>\$ 60,094</u>

NOTE 12—RESTRICTED NET ASSETS

Net assets are restricted for specific purposes as follows:

Permanent Fund - Endowments	\$ 475,530
Permanent Fund - Income	242,636
CDBG Funds	27,102
Library building renovations	2,812
	<u>\$ 748,080</u>

NOTE 13—COMPONENTS OF FUND BALANCE

The Town's fund balance components are comprised as follows:

Fund Balances	General Fund	Permanent Funds	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:				
Permanent Funds - Endowments		\$ 475,530		\$ 475,530
Prepaid expenses	\$ 6,180			6,180
Restricted for:				
Permanent Funds - Income		242,636		242,636
CDBG Fund	27,102			27,102
Library building renovations	2,812			2,812
Committed for:				
Capital Reserve	476,311			476,311
Conservation Fund			\$ 44,291	44,291
Expendable Trust Funds			73,187	73,187
Transfer Station Fund			16,833	16,833
Police Outside Detail Fund			26,896	26,896
Recreation Revolving Fund			1,161	1,161

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2011

Assigned for:			
Library operations	37,758		37,758
Designated for subsequent year expenditures	194,000		194,000
Encumbrances	176,649		176,649
Unassigned	<u>182,723</u>		<u>182,723</u>
	<u>\$ 1,103,535</u>	<u>\$ 718,166</u>	<u>\$ 162,368</u>
			<u>\$ 1,984,069</u>

NOTE 14—COMMITMENTS AND CONTINGENCIES

Litigation

The Town's general counsel estimates that any potential claims against the Town, which are not covered by insurance, are immaterial and would not affect the financial position of the Town.

NOTE 15—RECLASSIFICATION

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

NOTE 16—RESTATEMENT OF EQUITY

Governmental Funds

Effective January 1, 2011, the Town retroactively changed its method of financial reporting to conform to a recent pronouncement of the Governmental Accounting Standards Board (Statement No. 54). This new standard changes how fund balance is reported for governmental fund types. As a result, several of the Town's previously reported nonmajor governmental funds have been reclassified into the General Fund for reporting purposes. In addition, the Expendable Trust Funds (previously reported as major governmental fund) is now reported as a nonmajor governmental fund.

The impact of the restatement on the governmental funds is as follows:

	General Fund	Expendable Trust Funds	Nonmajor Governmental Funds
Fund Balance - January 1, 2011 (as previously reported)	\$ 612,997	\$ 820,369	\$ 161,042
Amount of restatement due to conversion to GASB Statement No. 54:			
Capital Reserve Funds	721,222	(721,222)	
Library Fund	63,272		(63,272)
CDBG Fund	27,083		(27,083)
Reclassification of previously reported major fund		(99,147)	99,147
Fund Balance - January 1, 2011, as restated	<u>\$ 1,424,574</u>	<u>\$ -</u>	<u>\$ 169,834</u>

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2011

Government-Wide Statements and Proprietary Funds

During the year ended December 31, 2011, it was determined that the receivable balance for the state aid grant was overstated in the Business-Type Activities and the Water Proprietary Fund. The recognized receivable was overstated by an additional annual receipt. In addition, the long-term bond obligations of the Water Fund were paid in full as of December 31, 2010 with funding from the General Fund. Accordingly, the remaining state aid grant is to be recognized as income in the General Fund and as a long-term receivable in the Governmental Activities in the Government-Wide statements.

The impact of the restatement on the governmental activities, business-type activities, and the Water Fund is as follows:

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	Water <u>Fund</u>
Net Assets - January 1, 2011 (as previously reported)	\$ 5,872,337	\$ 3,929,860	\$ 1,382,233
Amount of restatement due to:			
State aid grant receivable	<u>55,472</u>	<u>(61,289)</u>	<u>(61,289)</u>
Net Assets - January 1, 2011, as restated	<u>\$ 5,927,809</u>	<u>\$ 3,868,571</u>	<u>\$ 1,320,944</u>

SCHEDULE 1
TOWN OF CANAAN, NEW HAMPSHIRE
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis) - General Fund
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Revenues:				
Taxes	\$ 2,053,291	\$ 2,053,291	\$ 2,076,709	\$ 23,418
Licenses and permits	502,000	502,000	566,103	64,103
Intergovernmental	330,744	411,533	470,990	59,457
Charges for services	104,002	104,002	44,316	(59,686)
Interest income	5,000	5,000	8,080	3,080
Miscellaneous	26,000	26,000	23,522	(2,478)
Total Revenues	<u>3,021,037</u>	<u>3,101,826</u>	<u>3,189,720</u>	<u>87,894</u>
Expenditures:				
Current operations:				
General government	928,932	928,932	1,029,880	(100,948)
Public safety	834,249	840,789	815,644	25,145
Highways and streets	837,041	909,594	789,512	120,082
Sanitation	158,474	158,474	187,863	(29,389)
Health and welfare	64,654	64,654	52,429	12,225
Culture and recreation	12,906	12,906	7,521	5,385
Capital outlay	430,765	432,461	442,175	(9,714)
Debt service:				
Principal retirement	18,278	-	-	-
Interest and fiscal charges	11,195	6,001	587	5,414
Total Expenditures	<u>3,296,494</u>	<u>3,353,811</u>	<u>3,325,611</u>	<u>28,200</u>
Excess revenues over (under) expenditures	<u>(275,457)</u>	<u>(251,985)</u>	<u>(135,891)</u>	<u>116,094</u>
Other financing sources (uses):				
Transfers in	355,000	355,000	361,477	6,477
Transfers out	(246,543)	(270,015)	(270,015)	-
Total other financing sources (uses)	<u>108,457</u>	<u>84,985</u>	<u>91,462</u>	<u>6,477</u>
Net change in fund balance	(167,000)	(167,000)	(44,429)	122,571
Fund balance at beginning of year				
- Budgetary Basis	<u>1,073,415</u>	<u>1,073,415</u>	<u>1,073,415</u>	<u>-</u>
Fund balance at end of year				
- Budgetary Basis	<u>\$ 906,415</u>	<u>\$ 906,415</u>	<u>\$ 1,028,986</u>	<u>\$ 122,571</u>

See accompanying notes to the required supplementary information

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2011

NOTE 1--BUDGET TO ACTUAL RECONCILIATION

General Fund

Amounts recorded as budgetary amounts in the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis) – General Fund (Schedule 1) are reported on the basis budgeted by the Town under state regulations. Those amounts differ from those reported in conformity with accounting principles generally accepted in the United States of America in the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (Exhibit D). Property tax budgetary revenues are recognized when levied rather than when susceptible to accrual. Expenditures were adjusted for accrued vacation, which is budgeted on a “pay as you go” basis and encumbrances. Budgetary revenues and expenditures were adjusted for on-behalf payments for fringe benefits, non-budgetary activity, and budgetary transfers as follows:

	<u>Revenues and Transfers</u>	<u>Expenditures and Transfers</u>
Per Exhibit D	\$ 3,263,071	\$ 3,584,110
Difference in property taxes meeting susceptible to accrual criteria	(1,637)	
Accrued vacation - December 31, 2011		(19,430)
Accrued vacation - December 31, 2010		24,515
Encumbrances - December 31, 2011		176,649
Encumbrances - December 31, 2010		(193,988)
On-behalf fringe benefits	(6,951)	(6,951)
Non-budgetary activity	(293,590)	(559,583)
Budgetary transfers	<u>590,304</u>	<u>590,304</u>
Per Schedule 1	<u>\$ 3,551,197</u>	<u>\$ 3,595,626</u>

NOTE 2—BUDGETARY FUND BALANCES

The components of the budgetary fund balance for the General Fund are as follows:

Nonspendable:	
Prepaid expenses	\$ 4,579
Tax deeded property	21,678
Assigned for:	
Designated for subsequent year expenditures	194,000
Unassigned	<u>808,729</u>
	<u>\$ 1,028,986</u>

SCHEDULE A
TOWN OF CANAAN, NEW HAMPSHIRE
Combining Balance Sheet
Governmental Funds - All Nonmajor Funds
December 31, 2011

	Special Revenue Funds						River Road Bridge Capital Projects Fund	Total Nonmajor Funds
	Conservation Fund	Expendable Trust Funds	Transfer Station Fund	Police Outside Detail Fund	Recreation Revolving Fund	Total Special Revenue Funds		
ASSETS								
Cash and cash equivalents				\$ 24,953	\$ 1,548	\$ 26,501		\$ 26,501
Investments	\$ 34,194	\$ 73,187	\$ 5,935			113,316		113,316
Accounts receivable				3,090		3,090		3,090
Due from other funds	10,097		10,898			20,995	\$ 34,127	55,122
Total Assets	<u>\$ 44,291</u>	<u>\$ 73,187</u>	<u>\$ 16,833</u>	<u>\$ 28,043</u>	<u>\$ 1,548</u>	<u>\$ 163,902</u>	<u>\$ 34,127</u>	<u>\$ 198,029</u>
LIABILITIES								
Due to other funds				\$ 1,147	\$ 387	\$ 1,534	\$ 34,127	\$ 35,661
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>1,147</u>	<u>387</u>	<u>1,534</u>	<u>34,127</u>	<u>35,661</u>
FUND BALANCES								
Committed	44,291	73,187	16,833	26,896	1,161	162,368		162,368
Total Fund Balances	<u>44,291</u>	<u>73,187</u>	<u>16,833</u>	<u>26,896</u>	<u>1,161</u>	<u>162,368</u>	<u>-</u>	<u>162,368</u>
Total Liabilities and Fund Balances	<u>\$ 44,291</u>	<u>\$ 73,187</u>	<u>\$ 16,833</u>	<u>\$ 28,043</u>	<u>\$ 1,548</u>	<u>\$ 163,902</u>	<u>\$ 34,127</u>	<u>\$ 198,029</u>

SCHEDULE B
TOWN OF CANAAN, NEW HAMPSHIRE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds - All Nonmajor Funds
For the Year Ended December 31, 2011

	Special Revenue Funds					Total Special Revenue Funds	River Road Bridge Capital Projects Fund	Total Nonmajor Funds
	Conservation Fund	Expendable Trust Funds	Transfer Station Fund	Police Outside Detail Fund	Recreation Revolving Fund			
Revenues:								
Taxes	\$ 5,000					\$ 5,000		\$ 5,000
Intergovernmental				\$ 8,879		8,879	\$ 18,906	27,785
Charges for services			\$ 6,156	32,067	\$ 3,283	41,506		41,506
Interest and investment income	25	\$ 58	190		1	274		274
Miscellaneous		12,218			10	12,228		12,228
Total Revenues	<u>5,025</u>	<u>12,276</u>	<u>6,346</u>	<u>40,946</u>	<u>3,294</u>	<u>67,887</u>	<u>18,906</u>	<u>86,793</u>
Expenditures:								
Current operations:								
Public safety				34,924		34,924		34,924
Culture and recreation	60	2			2,133	2,195		2,195
Capital outlay		38,234				38,234		38,234
Total Expenditures	<u>60</u>	<u>38,236</u>	<u>-</u>	<u>34,924</u>	<u>2,133</u>	<u>75,353</u>	<u>-</u>	<u>75,353</u>
Excess revenues over (under) expenditures	<u>4,965</u>	<u>(25,960)</u>	<u>6,346</u>	<u>6,022</u>	<u>1,161</u>	<u>(7,466)</u>	<u>18,906</u>	<u>11,440</u>
Other financing uses:								
Transfers out						-	(18,906)	(18,906)
Total other financing uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(18,906)</u>	<u>(18,906)</u>
Net change in fund balances	4,965	(25,960)	6,346	6,022	1,161	(7,466)	-	(7,466)
Fund balances at beginning of year	<u>39,326</u>	<u>99,147</u>	<u>10,487</u>	<u>20,874</u>	<u>-</u>	<u>169,834</u>	<u>-</u>	<u>169,834</u>
Fund balances at end of year	<u>\$ 44,291</u>	<u>\$ 73,187</u>	<u>\$ 16,833</u>	<u>\$ 26,896</u>	<u>\$ 1,161</u>	<u>\$ 162,368</u>	<u>\$ -</u>	<u>\$ 162,368</u>