

TOWN OF CANAAN, NEW HAMPSHIRE

Financial Statements

December 31, 2012

and

Independent Auditor's Report

TOWN OF CANAAN, NEW HAMPSHIRE
FINANCIAL STATEMENTS
December 31, 2012

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	<u>Page(s)</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS	i-viii
BASIC FINANCIAL STATEMENTS	
EXHIBITS:	
A Statement of Net Position	1
B Statement of Activities	2
C Balance Sheet – Governmental Funds	3
D Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	4
E Statement of Net Position – Proprietary Funds	5
F Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds	6
G Statement of Cash Flows – Proprietary Funds	7
H Statement of Fiduciary Net Position – Fiduciary Funds	8
NOTES TO BASIC FINANCIAL STATEMENTS	9-25
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE:	
1 Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis) – General Fund	26
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION	27-28
SUPPLEMENTAL SCHEDULES	
SCHEDULES:	
A Combining Balance Sheet – Governmental Funds - All Nonmajor Funds	29
B Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds - All Nonmajor Funds	30

INDEPENDENT AUDITOR'S REPORT

To the Board of Selectmen
Town of Canaan, New Hampshire

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Canaan, New Hampshire as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Adverse Opinion on Governmental Activities

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 position, and change the expenses of the governmental activities. The amount by which this departure would affect the liabilities, net position, and expenses of the governmental activities is not reasonably determinable.

Adverse Opinion

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Governmental Activities" paragraph, the financial statements referred to above do not present fairly the financial position of the governmental activities of the Town of Canaan, New Hampshire, as of December 31, 2012, or the changes in financial position thereof for the year then ended.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of business-type activities, each major fund and the aggregate remaining fund information of the Town of Canaan, New Hampshire, as of December 31, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages i-viii and 26-28 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Canaan, New Hampshire's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and

reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the procedures performed as described above, the combining nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Vachon Chukay & Company PC

Manchester, New Hampshire
December 12, 2013

TOWN OF CANAAN, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2012

Presented herewith please find the Management Discussion & Analysis Report for the Town of Canaan for the year ending December 31, 2012. 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. These statements (Statement of Net Position and the Statement of Activities) provide both short-term and long-term information about the Town's overall financial position. These statements are prepared using the accrual basis of accounting.

The Statement of Net Position presents information on all of the Town's (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources with the difference between the two reported as net position. Over time, increases and decreases in net position 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 position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future periods (such as uncollected taxes and interest on long-term obligations).

TOWN OF CANAAN, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2012

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 position and statement of activities.

The Town maintains several individual governmental 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, 2012

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 2012 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 Position

Net position of the Town of Canaan's governmental activities as of December 31, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Current and other assets:		
Capital assets	\$ 3,332,533	\$ 3,245,482
Other assets	<u>5,071,230</u>	<u>5,564,523</u>
Total assets	<u>8,403,763</u>	<u>8,810,005</u>
Deferred outflows of resources	<u>-</u>	<u>-</u>
Long-term and other liabilities:		
Other liabilities	<u>2,596,081</u>	<u>2,898,548</u>
Total liabilities	<u>2,596,081</u>	<u>2,898,548</u>
Deferred inflows of resources	<u>9,220</u>	<u>3,727</u>
Net position:		
Net investment in capital assets	3,332,533	3,245,482
Restricted	765,161	748,080
Unrestricted	<u>1,700,768</u>	<u>1,914,168</u>
Total net position	<u>\$ 5,798,462</u>	<u>\$ 5,907,730</u>

Approximately 57.5% of the Town's net position reflects the investment in capital assets such as land, buildings, infrastructure, and equipment less the outstanding debt used to acquire those assets. Another 13.2% of the net position is restricted in regards to how it 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 position available to finance day-to-day operations.

TOWN OF CANAAN, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2012

Statement of Activities

Changes in net position of the Town's governmental activities for the years ending December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Program revenues:		
Charges for services	\$ 95,112	\$ 85,822
Operating grants and contributions	212,621	305,179
Capital grants and contributions	-	21,394
Total program revenues	<u>307,733</u>	<u>412,395</u>
General revenues:		
Property and other taxes	2,029,172	2,081,709
Licenses and permits	592,544	566,103
Intergovernmental revenue	174,212	174,857
Interest and investment earnings	43,836	43,929
Miscellaneous	53,391	58,033
Transfers	<u>(18,338)</u>	<u>(23,472)</u>
Total general revenues	<u>2,874,817</u>	<u>2,901,159</u>
Total revenues	<u>3,182,550</u>	<u>3,313,554</u>
Program expenses:		
General government	1,025,911	1,009,166
Public safety	900,171	907,088
Highways and streets	886,594	971,409
Sanitation	172,926	194,123
Health and welfare	95,160	91,552
Culture and recreation	205,025	153,677
Economic development	6,031	6,031
Interest	<u>-</u>	<u>587</u>
Total expenses	<u>3,291,818</u>	<u>3,333,633</u>
Change in net position	(109,268)	(20,079)
Net position - beginning of year	<u>5,907,730</u>	<u>5,927,809</u>
Net position - ending of year	<u>\$ 5,798,462</u>	<u>\$ 5,907,730</u>

As shown in the above statement the Town's governmental activities experienced a decrease in financial position of \$109,268 on the full accrual basis of accounting.

Business-Type Activities

Statement of Net Position

Net position of the business-type activities as of December 31, 2012 and 2011 is as follows:

TOWN OF CANAAN, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2012

	<u>2012</u>	<u>2011</u>
Current and other assets:		
Capital assets	\$ 3,791,088	\$ 3,800,966
Other assets	<u>214,573</u>	<u>256,376</u>
Total assets	<u>4,005,661</u>	<u>4,057,342</u>
Deferred outflows of resources	<u>-</u>	<u>-</u>
Long-term and other liabilities:		
General obligation debt	160,950	60,000
Other long-term obligations	-	218,820
Other liabilities	<u>6,537</u>	<u>1,252</u>
Total liabilities	<u>167,487</u>	<u>280,072</u>
Deferred inflows of resources	<u>-</u>	<u>-</u>
Net position:		
Net investment in capital assets	3,630,138	3,522,146
Unrestricted	<u>208,036</u>	<u>255,124</u>
Total net position	<u>\$ 3,838,174</u>	<u>\$ 3,777,270</u>

The largest portion of the Town's net position 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 position of the Town's business-type activities for the years ending December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Program revenues:		
Charges for services	\$ 155,729	\$ 110,899
Capital grants and contributions	<u>115,949</u>	<u>17,530</u>
Total program revenues	<u>271,678</u>	<u>128,429</u>
General revenues:		
Interest and investment earnings	222	208
Transfers	<u>18,338</u>	<u>23,472</u>
Total general revenues	<u>18,560</u>	<u>23,680</u>
Total revenues	<u>290,238</u>	<u>152,109</u>
Program expenses:		
Water distribution and treatment	90,537	95,104
Sanitation	<u>138,797</u>	<u>148,306</u>
Total expenses	<u>229,334</u>	<u>243,410</u>
Change in net position	60,904	(91,301)
Net position - beginning of year	<u>3,777,270</u>	<u>3,868,571</u>
Net position - ending of year	<u>\$ 3,838,174</u>	<u>\$ 3,777,270</u>

TOWN OF CANAAN, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2012

The main funding source for business-type activities is charges for services, which provided 67.9% and 45.6% of expenses in 2012 and 2011 respectively. Overall, there was an increase of \$60,904 in the net position.

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

The General Fund is the main operating fund of the Town. At the end of the current year, the General Fund had an unassigned fund balance of \$-0-. Additional fund balance components at year end amounted to \$801,938 and are detailed on page 25 of the Notes to the Basic Financial Statements.

The total General Fund balance decreased \$301,597 from December 31, 2011. A decrease in fund balance was anticipated since \$197,000 of the prior year fund balance was appropriated to fund 2012 warrant articles. Another \$85,851 is the result of an increase in the uncollected taxes that were not collected within 60 days of year end.

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, 2012, the balance of \$490,984 was nonspendable and \$245,134 was restricted. The total fund balance in the permanent funds increased \$17,952 from the prior year.

Other Governmental Funds

The total fund balance of \$180,113 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 position, much as it might be for a private-sector business.

The Town's proprietary funds had a combined unrestricted net position of \$208,036 at December 31, 2012. Charges for services for water and sewer operations covered 67.9% of operating expenses. The

TOWN OF CANAAN, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2012

water fund had an increase in net position of \$102,546 as a result of the recognition of the forgiveness of debt in the amount of \$115,949. Although there was a transfer of \$18,338 from the General Fund for debt service payments, the sewer fund had a decrease in net position of \$41,642.

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 2012, the Town had a reduction of \$117,870 in the long-term obligations of its business-type activities. The Town received the final drawdowns on a state revolving loan of \$13,079 which was converted to long-term debt during 2012. Total payments of \$15,000 were made during the year, and an additional \$115,949 of principal was forgiven.

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.

Actual revenues and transfers in on the budgetary basis were higher than the budgeted amount by \$57,106. This favorable variance represents approximately 1.8% of the estimated revenues projected when the property tax rate was established.

The Town underexpended its budgeted appropriations by \$1,730. 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 stable General Fund balance. Town management appreciates the need to conservatively manage the Town to maintain a low tax rate. Since 2008, the Board of Selectmen in conjunction with the Budget Committee has worked diligently to restructure operations to reduce spending. The 2012 budget was about \$3,000 less than the 2011 budget and included money to increase road reconstruction, buy highway equipment and sand and salt storage, repair the Meeting House Tower, purchase a new phone system, purchase new tools for the mechanic, pay for insurance increases and provide a nominal cost of living increase for employees. We also revamped the water and sewer fee structure to cover actual costs and fund a capital replacement account after 14 years with the same fee structure that funded only 60% of the actual cost. We continued

TOWN OF CANAAN, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2012

to restructure operations to improve services 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. The 2012 tax year was the last year of restructuring to save money. Starting in 2013, we anticipate that costs will increase after many years of stable or lower costs. We also expect that non-tax revenue will increase to offset the increased cost. As stated last year, this increased revenue will only be applied after at least one complete year's experience in actually receiving the higher revenue. We anticipate that existing revenues will keep our town tax rate stable over the next two years but recognize that eventually the tax rate will need to increase. Annual taxes raised for Town government have remained flat or reduced since 2007. Delinquent tax collections are keeping our cash flow balanced at the moment but will require vigilance over the next three years.

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 Position
December 31, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 2,695,609	\$ 53,651	\$ 2,749,260
Investments	1,411,514	159,785	1,571,299
Taxes receivable, net	800,901		800,901
Accounts receivable	3,792	38,601	42,393
Due from other governments	21,727		21,727
Internal balances	37,464	(37,464)	-
Prepaid expenses	4,671		4,671
Total Current Assets	<u>4,975,678</u>	<u>214,573</u>	<u>5,190,251</u>
Noncurrent Assets:			
Tax deeded property	67,444		67,444
Due from other governments	28,108		28,108
Capital assets:			
Non-depreciable capital assets	508,770	238,341	747,111
Depreciable capital assets, net	<u>2,823,763</u>	<u>3,552,747</u>	<u>6,376,510</u>
Total Noncurrent Assets	<u>3,428,085</u>	<u>3,791,088</u>	<u>7,219,173</u>
Total Assets	<u>8,403,763</u>	<u>4,005,661</u>	<u>12,409,424</u>
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	36,618		36,618
Accrued expenses	23,102	6,537	29,639
Due to other governments	2,535,760		2,535,760
Deposits	601		601
Current portion of bonds payable		130,950	130,950
Total Current Liabilities	<u>2,596,081</u>	<u>137,487</u>	<u>2,733,568</u>
Noncurrent Liabilities:			
Bonds payable		30,000	30,000
Total Noncurrent Liabilities	<u>-</u>	<u>30,000</u>	<u>30,000</u>
Total Liabilities	<u>2,596,081</u>	<u>167,487</u>	<u>2,763,568</u>
DEFERRED INFLOWS OF RESOURCES			
Unearned tax revenue	9,220		9,220
Total Deferred Inflows of Resources	<u>9,220</u>	<u>-</u>	<u>9,220</u>
NET POSITION			
Net investment in capital assets	3,332,533	3,630,138	6,962,671
Restricted	765,161		765,161
Unrestricted	<u>1,700,768</u>	<u>208,036</u>	<u>1,908,804</u>
Total Net Position	<u>\$ 5,798,462</u>	<u>\$ 3,838,174</u>	<u>\$ 9,636,636</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, 2012

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		<u>Total</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		
					<u>Governmental Activities</u>	<u>Business-type Activities</u>	
Governmental Activities:							
General government	\$ 1,025,911	\$ 1,566	\$ 2,747		\$(1,021,598)		\$(1,021,598)
Public safety	900,171	58,677	67,529		(773,965)		(773,965)
Highways and streets	886,594		138,345		(748,249)		(748,249)
Sanitation	172,926	22,639			(150,287)		(150,287)
Health and welfare	95,160	8,182			(86,978)		(86,978)
Culture and recreation	205,025	4,048	4,000		(196,977)		(196,977)
Economic development	6,031				(6,031)		(6,031)
Total governmental activities	<u>3,291,818</u>	<u>95,112</u>	<u>212,621</u>	<u>\$ -</u>	<u>(2,984,085)</u>	<u>\$ -</u>	<u>(2,984,085)</u>
Business-type activities:							
Water	90,537	76,912		115,949		102,324	102,324
Sewer	138,797	78,817				(59,980)	(59,980)
Total business-type activities	<u>229,334</u>	<u>155,729</u>	<u>-</u>	<u>115,949</u>	<u>-</u>	<u>42,344</u>	<u>42,344</u>
Total primary government	<u>\$ 3,521,152</u>	<u>\$ 250,841</u>	<u>\$ 212,621</u>	<u>\$ 115,949</u>	<u>(2,984,085)</u>	<u>42,344</u>	<u>(2,941,741)</u>
General revenues:							
Property and other taxes					2,029,172		2,029,172
Licenses and permits					592,544		592,544
Grants and contributions:							
Rooms and meals tax distribution					173,978		173,978
State and federal forest land					234		234
Interest and investment income					43,836	222	44,058
Miscellaneous					53,391		53,391
Transfers, net					(18,338)	18,338	-
Total general revenues and transfers					<u>2,874,817</u>	<u>18,560</u>	<u>2,893,377</u>
Change in net position					(109,268)	60,904	(48,364)
Net position - beginning					<u>5,907,730</u>	<u>3,777,270</u>	<u>9,685,000</u>
Net position - ending					<u>\$ 5,798,462</u>	<u>\$ 3,838,174</u>	<u>\$ 9,636,636</u>

See accompanying notes to the basic financial statements

EXHIBIT C
TOWN OF CANAAN, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
December 31, 2012

	General <u>Fund</u>	Permanent <u>Funds</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
ASSETS				
Cash and cash equivalents	\$ 2,659,388		\$ 36,221	\$ 2,695,609
Investments	522,603	\$ 755,312	133,599	1,411,514
Taxes receivable, net	800,901			800,901
Accounts receivable			3,792	3,792
Due from other governments	16,180			16,180
Due from other funds	92,103		41,946	134,049
Prepaid expenses	4,671			4,671
Tax deeded property	67,444			67,444
Total Assets	<u>4,163,290</u>	<u>755,312</u>	<u>215,558</u>	<u>5,134,160</u>
DEFERRED OUTFLOWS OF RESOURCES				
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 4,163,290</u>	<u>\$ 755,312</u>	<u>\$ 215,558</u>	<u>\$ 5,134,160</u>
LIABILITIES				
Accounts payable	\$ 36,618			\$ 36,618
Accrued expenses	23,102			23,102
Due to other governments	2,535,760			2,535,760
Due to other funds	41,946	\$ 19,194	\$ 35,445	96,585
Deposits	601			601
Total Liabilities	<u>2,638,027</u>	<u>19,194</u>	<u>35,445</u>	<u>2,692,666</u>
DEFERRED INFLOWS OF RESOURCES				
Unearned tax revenue	<u>723,325</u>			<u>723,325</u>
Total Deferred Inflows of Resources	<u>723,325</u>	<u>-</u>	<u>-</u>	<u>723,325</u>
FUND BALANCES				
Nonspendable	4,671	490,984		495,655
Restricted	29,043	245,134		274,177
Committed	453,076		180,113	633,189
Assigned	315,148			315,148
Total Fund Balances	<u>801,938</u>	<u>736,118</u>	<u>180,113</u>	<u>1,718,169</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 4,163,290</u>	<u>\$ 755,312</u>	<u>\$ 215,558</u>	

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

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

3,332,533

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

714,105

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

33,655

Net position of governmental activities

\$ 5,798,462

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, 2012

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, 2012

	General Fund	Permanent Funds	Nonmajor Governmental Funds	Total Governmental Funds	
Revenues:					
Taxes	\$ 1,939,808		\$ 3,513	\$ 1,943,321	
Licenses and permits	592,544			592,544	
Intergovernmental	391,192		6,735	397,927	
Charges for services	57,718		37,394	95,112	
Interest and investment income	4,073	\$ 37,163	2,600	43,836	
Miscellaneous	30,438		22,953	53,391	
Total Revenues	<u>3,015,773</u>	<u>37,163</u>	<u>73,195</u>	<u>3,126,131</u>	\$ (265,900)
Expenditures:					
Current operations:					
General government	1,095,025		76	1,095,101	
Public safety	817,080		28,688	845,768	
Highways and streets	763,942			763,942	
Sanitation	167,448			167,448	
Health and welfare	54,312			54,312	
Culture and recreation	136,192	17	10,569	146,778	
Capital outlay	284,227		16,117	300,344	
Total Expenditures	<u>3,318,226</u>	<u>17</u>	<u>55,450</u>	<u>3,373,693</u>	95,036
Excess revenues over (under) expenditures	<u>(302,453)</u>	<u>37,146</u>	<u>17,745</u>	<u>(247,562)</u>	
Other financing sources (uses):					
Transfers in	19,194			19,194	
Transfers out	(18,338)	(19,194)		(37,532)	
Total other financing sources (uses)	<u>856</u>	<u>(19,194)</u>	<u>-</u>	<u>(18,338)</u>	(7,985)
Net change in fund balances	<u>(301,597)</u>	<u>17,952</u>	<u>17,745</u>	<u>(265,900)</u>	
Fund balances at beginning of year	<u>1,103,535</u>	<u>718,166</u>	<u>162,368</u>	<u>1,984,069</u>	
Fund balances at end of year	<u>\$ 801,938</u>	<u>\$ 736,118</u>	<u>\$ 180,113</u>	<u>\$ 1,718,169</u>	\$ (109,268)

Net Change in Fund Balances--Total Governmental Funds

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.

95,036

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

85,851

Revenues in the governmental fund financial statements that reduce long-term assets recorded on the statement of net position are not reported as revenues in the statement of activities.

(16,270)

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.

(7,985)

Change in Net Position of Governmental Activities

\$ (109,268)

See accompanying notes to the basic financial statements

EXHIBIT E
TOWN OF CANAAN, NEW HAMPSHIRE
Statement of Net Position
Proprietary Funds
December 31, 2012

	Business-type Activities		
	Water Fund	Sewer Fund	Totals
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 53,651		\$ 53,651
Investments	159,785		159,785
Accounts receivable	21,063	\$ 17,538	38,601
Due from other funds	118,804		118,804
Total Current Assets	<u>353,303</u>	<u>17,538</u>	<u>370,841</u>
Noncurrent Assets:			
Capital assets:			
Non-depreciable capital assets		238,341	238,341
Depreciable capital assets, net	1,189,090	2,363,657	3,552,747
Total Noncurrent Assets	<u>1,189,090</u>	<u>2,601,998</u>	<u>3,791,088</u>
Total Assets	<u>1,542,393</u>	<u>2,619,536</u>	<u>4,161,929</u>
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
LIABILITIES			
Current Liabilities:			
Accrued expenses	5,595	942	6,537
Due to other funds	33,525	122,743	156,268
Current portion of bonds payable	115,950	15,000	130,950
Total Current Liabilities	<u>155,070</u>	<u>138,685</u>	<u>293,755</u>
Noncurrent Liabilities:			
Bonds payable		30,000	30,000
Total Noncurrent Liabilities	<u>-</u>	<u>30,000</u>	<u>30,000</u>
Total Liabilities	<u>155,070</u>	<u>168,685</u>	<u>323,755</u>
DEFERRED INFLOWS OF RESOURCES			
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION			
Net investment in capital assets	1,073,140	2,556,998	3,630,138
Unrestricted (deficit)	314,183	(106,147)	208,036
Total Net Position	<u>\$ 1,387,323</u>	<u>\$ 2,450,851</u>	<u>\$ 3,838,174</u>

See accompanying notes to the basic financial statements

EXHIBIT F
TOWN OF CANAAN, NEW HAMPSHIRE
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2012

	Business-type Activities		
	Water Fund	Sewer Fund	Totals
Operating revenues:			
Charges for services	\$ 76,912	\$ 78,817	\$ 155,729
Total operating revenues	<u>76,912</u>	<u>78,817</u>	<u>155,729</u>
Operating expenses:			
Contractual services	34,050	28,520	62,570
Repairs and maintenance	3,335	6,982	10,317
Materials and supplies	3,089	2,271	5,360
Utilities	5,388	17,185	22,573
Depreciation	<u>39,080</u>	<u>80,811</u>	<u>119,891</u>
Total operating expenses	<u>84,942</u>	<u>135,769</u>	<u>220,711</u>
Operating loss	<u>(8,030)</u>	<u>(56,952)</u>	<u>(64,982)</u>
Non-operating revenues (expenses):			
Interest revenue	222		222
Interest expense	<u>(5,595)</u>	<u>(3,028)</u>	<u>(8,623)</u>
Net non-operating expenses	<u>(5,373)</u>	<u>(3,028)</u>	<u>(8,401)</u>
Loss before capital contributions and transfers	(13,403)	(59,980)	(73,383)
Capital contributions	115,949		115,949
Transfers in	<u></u>	<u>18,338</u>	<u>18,338</u>
Change in net position	102,546	(41,642)	60,904
Total net position at beginning of year	<u>1,284,777</u>	<u>2,492,493</u>	<u>3,777,270</u>
Total net position at end of year	<u>\$ 1,387,323</u>	<u>\$ 2,450,851</u>	<u>\$ 3,838,174</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, 2012

	Business-type Activities		
	Water Department	Sewer Department	Totals
Cash flows from operating activities:			
Cash received from customers	\$ 69,233	\$ 73,975	\$ 143,208
Cash paid to suppliers	(45,862)	(54,958)	(100,820)
Net cash provided by operating activities	<u>23,371</u>	<u>19,017</u>	<u>42,388</u>
Cash flows from capital financing activities:			
Purchases of capital assets	(106,004)	(4,009)	(110,013)
Transfers from other funds		18,338	18,338
Proceeds from other long-term obligations	14,334		14,334
Principal paid on long-term debt		(15,000)	(15,000)
Interest paid on long-term debt		(3,338)	(3,338)
Net cash (used) for capital financing activities	<u>(91,670)</u>	<u>(4,009)</u>	<u>(95,679)</u>
Cash flows from investing activities:			
Interest on investments	222		222
Net cash provided by investing activities	<u>222</u>	<u>-</u>	<u>222</u>
Net increase (decrease) in cash and cash equivalents	(68,077)	15,008	(53,069)
Cash and cash equivalents (deficiency) at beginning of year	<u>366,792</u>	<u>(137,751)</u>	<u>229,041</u>
Cash and cash equivalents (deficiency) at end of year	<u>\$ 298,715</u>	<u>\$ (122,743)</u>	<u>\$ 175,972</u>
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	\$ (8,030)	\$ (56,952)	\$ (64,982)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation expense	39,080	80,811	119,891
Changes in assets and liabilities:			
Accounts receivable	(7,679)	(4,842)	(12,521)
Net cash provided by operating activities	<u>\$ 23,371</u>	<u>\$ 19,017</u>	<u>\$ 42,388</u>
Noncash Transactions Affecting Financial Position:			
Forgiveness of bonds payable	<u>\$ 115,949</u>	<u>\$ -</u>	<u>\$ 115,949</u>

See accompanying notes to the basic financial statements

EXHIBIT H
TOWN OF CANAAN, NEW HAMPSHIRE
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2012

	Agency Funds
ASSETS	
Investments	\$ 736,054
Total assets	<u>\$ 736,054</u>
LIABILITIES	
Due to other governments	\$ 736,054
Total liabilities	<u>\$ 736,054</u>

See accompanying notes to the basic financial statements

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2012

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 position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

During the year ended December 31, 2012, the Town implemented GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*." Under this new standard, financial statements will include deferred outflows of resources and deferred inflows of resources, in addition to assets and liabilities, and will report net position instead of net assets.

1. Government-Wide Financial Statements:

The statement of net position 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 position 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.

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2012

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 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 deferred outflows of resources and liabilities and deferred inflows of resources 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 position, 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 position and changes in net position. 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

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2012

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.

Measurement Focus

1. Government-Wide Financial Statements:

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

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, deferred outflows of resources, current liabilities, and deferred inflows of resources 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, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. 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 unearned revenue, and in the presentation of expenses versus expenditures.

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 (CONTINUED)
December 31, 2012

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 are recorded as revenues when received in cash because they are generally not measurable until actually received.

2. Unearned Revenue:

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

Unearned 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 unearned 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 unearned 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 (CONTINUED)
December 31, 2012

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 <u>Fund</u>	Sewer <u>Fund</u>	<u>Totals</u>
Cash	\$ 53,651		\$ 53,651
Investments in NHPDIP	159,785		159,785
Due from other funds	118,804		118,804
Due to other funds	(33,525)	\$ (122,743)	(156,268)
Totals	<u>\$ 298,715</u>	<u>\$ (122,743)</u>	<u>\$ 175,972</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, 2012 are recorded as receivables net of reserves for estimated uncollectibles of \$222,690.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond December 31, 2012 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 position, but are not reported in the governmental fund financial statements.

All capital assets including infrastructure and intangible assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their estimated fair values as of the date received. The Town maintains a capitalization threshold of \$10,000. The Town's infrastructure 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

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2012

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) or its intangible assets. Infrastructure records have been maintained effective January 1, 2004 and are included in these financial statements. During the year ended December 31, 2012, the Town did not incur any costs for intangible assets that are required to be capitalized in accordance with the Town's policy.

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	10-40
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 Position

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets 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 position is 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. Unrestricted net position is the residual amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2012

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

Fund Balance Policy

As of December 31, 2012, the Town has not adopted a fund balance policy. GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, established new fund balance classifications and changed 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.

Spending Prioritizations

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.

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2012

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 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 (\$321,856,615 as of April 1, 2012) and are due in two installments on July 1, 2012 and December 10, 2012. 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 \$5,089,089 and \$563,742 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, 2012, the Town was a member of the New Hampshire Public Risk Management Exchange

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2012

(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.

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, 2012.

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. For the year ended December 31, 2012, the Trust retained \$500,000 of each loss, up to an aggregate of \$5,000,000. Each property loss is subject to a \$1,000 deductible. All losses over the aggregate are covered by insurance policies.

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.

Deposits and investments as of December 31, 2012 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and cash equivalents	\$ 2,749,260
Investments	1,571,299
Statement of Fiduciary Net Position:	
Investments	736,054
	<u>\$ 5,056,613</u>

Deposits and investments as of December 31, 2012 consist of the following:

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2012

Deposits with financial institutions	\$ 182,306
Investments	<u>4,874,307</u>
Total cash and investments	<u>\$ 5,056,613</u>

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.

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:

<u>Investment Type</u>	<u>Remaining Maturity (In Years)</u>			
	<u>Fair Value</u>	<u>0-1 Years</u>	<u>1-5 Years</u>	<u>> 5 Years</u>
U.S. Treasury notes	\$ 11,271		\$ 11,271	
Federal agency securities	62,843	\$ 20,609	731	\$ 41,503
Municipal obligations	159,202	30,326	97,125	31,751
Corporate bonds	206,433		101,237	105,196
Foreign bonds	59,759			59,759
	<u>\$ 499,508</u>	<u>\$ 50,935</u>	<u>\$ 210,364</u>	<u>\$ 238,209</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.

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2012

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 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>Baa</u>	<u>Not Rated</u>
Municipal obligations	\$ 159,202		\$ 31,751	\$ 96,928		\$ 30,523
Corporate bonds	206,433	\$ 31,304	36,045	81,676	57,408	
Foreign bonds	59,759		59,759			
Money market mutual funds	49,805					49,805
State investment pool	1,510,905					1,510,905
	<u>\$ 1,986,104</u>	<u>\$ 31,304</u>	<u>\$ 127,555</u>	<u>\$ 178,604</u>	<u>\$ 57,408</u>	<u>\$ 1,591,233</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. 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, 2012, 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	\$ 11,271
Federal agency securities	62,843
Municipal obligations	159,202
Corporate bonds	206,433
Foreign bonds	59,759
Equity securities	230,270
Overnight repurchase agreement	2,583,819
	<u>\$ 3,313,597</u>

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2012

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, 2012, the Town held \$59,759 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, 2012 consist of reimbursements from the school district and state grant funding. 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:

Governmental activities:

Current assets:

Mascoma Valley Regional School District	\$ 16,180
State of New Hampshire - State Aid Grant	5,547
	<u>21,727</u>

Noncurrent assets:

State of New Hampshire - State Aid Grant	28,108
	<u>\$ 49,835</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 (CONTINUED)
December 31, 2012

	Balance 01/01/12	Additions	Reductions	Balance 12/31/12
Governmental activities:				
Capital assets not depreciated:				
Land	\$ 402,383			\$ 402,383
Construction in progress	83,674	\$ 22,713		106,387
Total capital assets not being depreciated	486,057	22,713	\$ -	508,770
Other capital assets:				
Infrastructure	1,114,955			1,114,955
Buildings and improvements	1,550,164	124,725		1,674,889
Land improvements	13,100			13,100
Vehicles and equipment	2,052,496	174,525	(139,143)	2,087,878
Total other capital assets at historical cost	4,730,715	299,250	(139,143)	4,890,822
Less accumulated depreciation for:				
Infrastructure	(55,925)	(22,299)		(78,224)
Buildings and improvements	(645,226)	(51,233)		(696,459)
Land improvements	(73)	(873)		(946)
Vehicles and equipment	(1,270,066)	(133,527)	112,163	(1,291,430)
Total accumulated depreciation	(1,971,290)	(207,932)	112,163	(2,067,059)
Total other capital assets, net	2,759,425	91,318	(26,980)	2,823,763
Total capital assets, net	\$ 3,245,482	\$ 114,031	\$ (26,980)	\$ 3,332,533

Depreciation expense was charged to governmental functions as follows:

General government	\$ 14,109
Public safety	55,403
Highways and streets	103,281
Sanitation	5,478
Culture and recreation	23,630
Economic development	6,031
Total governmental activities depreciation expense	\$ 207,932

Business-Type Activities

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

	Balance 01/01/12	Additions	Reductions	Balance 12/31/12
Business-type activities:				
Capital assets not depreciated:				
Land	\$ 238,341			\$ 238,341
Construction in progress	123,850	\$ 4,009	\$ (127,859)	-
Total capital assets not being depreciated	362,191	4,009	(127,859)	238,341

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2012

Other capital assets:

Infrastructure	5,491,908	127,859		5,619,767
Buildings and improvements	67,970			67,970
Land improvements	12,195	10,200		22,395
Vehicles and equipment	101,980	95,804		197,784
Total other capital assets at historical cost	<u>5,674,053</u>	<u>233,863</u>	<u>-</u>	<u>5,907,916</u>
Less accumulated depreciation for:				
Infrastructure	(2,095,060)	(112,392)		(2,207,452)
Buildings and improvements	(44,854)	(2,920)		(47,774)
Land improvements		(3,199)		(3,199)
Vehicles and equipment	(95,364)	(1,380)		(96,744)
Total accumulated depreciation	<u>(2,235,278)</u>	<u>(119,891)</u>	<u>-</u>	<u>(2,355,169)</u>
Total other capital assets, net	<u>3,438,775</u>	<u>113,972</u>	<u>-</u>	<u>3,552,747</u>
Total capital assets, net	<u>\$ 3,800,966</u>	<u>\$ 117,981</u>	<u>\$ (127,859)</u>	<u>\$ 3,791,088</u>

Depreciation expense was charged to proprietary funds as follows:

Water fund	\$ 39,080
Sewer fund	80,811
Total business-type activities depreciation expense	<u>\$ 119,891</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, 2012, the balance of the property tax appropriation due to the Mascoma Valley Regional School District is \$2,535,760.

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 police officers are required to contribute 11.55% of their covered salary, whereas general employees are required to contribute 7.0% of their covered salary. 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 19.95% and 8.8%, respectively. The Town contributed 100% of the employer cost for public safety and general employees of the Town.

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2012

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, 2012, 2011, and 2010 were \$103,334, \$96,215, and \$84,278, 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, 2012 are as follows:

	Balance 01/01/12	Additions	Reductions	Balance 12/31/12	Due Within One Year
Business-type activities:					
Bonds payable	\$ 60,000	\$ 231,899	\$ (130,949)	\$ 160,950	\$ 130,950
Other long-term obligations	218,820	13,079	(231,899)	-	-
Total business-type activities	<u>\$ 278,820</u>	<u>\$ 244,978</u>	<u>\$ (362,848)</u>	<u>\$ 160,950</u>	<u>\$ 130,950</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, 2012 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%	\$ 45,000
\$231,899 State Revolving Loan, due in one installment of \$115,950, net of principal forgiveness of \$115,949, on January 1, 2013, interest at 1%.	115,950
	<u>\$ 160,950</u>

Debt service requirements to retire general obligation bonds outstanding at December 31, 2012 are as follows:

Year Ending December 31,	Principal	Interest	Totals
2013	\$ 130,950	\$ 8,107	\$ 139,057
2014	15,000	1,688	16,688
2015	15,000	842	15,842
	<u>\$ 160,950</u>	<u>\$ 10,637</u>	<u>\$ 171,587</u>

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2012

As included on the Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds (Exhibit F), interest expense for the year ended December 31, 2012 was \$8,623 on general obligation debt for business-type activities.

Authorized and Unissued Debt

As of December 31, 2012, 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, 2012 are as follows:

	Due to			Totals
	General Fund	Nonmajor Governmental Funds	Water Fund	
General Fund		\$ 41,946		\$ 41,946
Permanent Fund	\$ 19,194			19,194
Nonmajor Governmental Funds	35,445			35,445
Water Fund	33,525			33,525
Sewer Fund	<u>3,939</u>		<u>\$ 118,804</u>	<u>122,743</u>
Totals	<u>\$ 92,103</u>	<u>\$ 41,946</u>	<u>\$ 118,804</u>	<u>\$ 252,853</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 authorizations. Interfund transfers for the year ended December 31, 2012 are as follows:

	Transfer from		Totals
	General Fund	Permanent Funds	
General Fund		\$ 19,194	\$ 19,194
Sewer Fund	<u>\$ 18,338</u>		<u>18,338</u>
	<u>\$ 18,338</u>	<u>\$ 19,194</u>	<u>\$ 37,532</u>

NOTE 12—RESTRICTED NET POSITION

Net position is restricted for specific purposes as follows:

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2012

Permanent Fund - Endowments	\$ 490,984
Permanent Fund - Income	245,134
CDBG Funds	27,132
Library building renovations	1,911
	<u>\$ 765,161</u>

NOTE 13—COMPONENTS OF FUND BALANCE

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

<u>Fund Balances</u>	<u>General Fund</u>	<u>Permanent Funds</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable:				
Permanent Funds - Endowments		\$ 490,984		\$ 490,984
Prepaid expenses	\$ 4,671			4,671
Restricted for:				
Permanent Funds - Income		245,134		245,134
CDBG Fund	27,132			27,132
Library building renovations	1,911			1,911
Committed for:				
Capital Reserve	453,076			453,076
Conservation Fund			\$ 47,850	47,850
Expendable Trust Funds			72,494	72,494
Transfer Station Fund			21,074	21,074
Police Outside Detail Fund			34,100	34,100
Recreation Revolving Fund			4,595	4,595
Assigned for:				
Library operations	53,474			53,474
Designated for subsequent year expenditures	164,000			164,000
Encumbrances	97,674			97,674
	<u>\$ 801,938</u>	<u>\$ 736,118</u>	<u>\$ 180,113</u>	<u>\$ 1,718,169</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—SUBSEQUENT EVENT

During May 2013, the Town entered into a capital lease agreement in the amount of \$90,395 for an excavator. The lease is due in monthly installments of \$7,632, including interest at 2.40%, through May 2014.

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, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Revenues:				
Taxes	\$ 2,032,003	\$ 2,032,003	\$ 2,025,659	\$ (6,344)
Licenses and permits	541,900	541,900	592,544	50,644
Intergovernmental	388,985	388,985	387,192	(1,793)
Charges for services	49,253	49,253	57,718	8,465
Interest income	2,400	2,400	3,484	1,084
Miscellaneous	4,000	4,000	6,856	2,856
Total Revenues	<u>3,018,541</u>	<u>3,018,541</u>	<u>3,073,453</u>	<u>54,912</u>
Expenditures:				
Current operations:				
General government	961,789	961,789	963,416	(1,627)
Public safety	850,656	850,656	854,132	(3,476)
Highways and streets	819,089	819,089	766,718	52,371
Sanitation	148,682	148,682	150,448	(1,766)
Health and welfare	58,854	58,854	55,072	3,782
Culture and recreation	11,656	11,656	11,034	622
Capital outlay	231,125	231,125	279,364	(48,239)
Debt service:				
Interest and fiscal charges	<u>1</u>	<u>1</u>	<u>-</u>	<u>1</u>
Total Expenditures	<u>3,081,852</u>	<u>3,081,852</u>	<u>3,080,184</u>	<u>1,668</u>
Excess revenues over (under) expenditures	<u>(63,311)</u>	<u>(63,311)</u>	<u>(6,731)</u>	<u>56,580</u>
Other financing sources (uses):				
Transfers in	139,275	139,275	141,469	2,194
Transfers out	<u>(269,964)</u>	<u>(269,964)</u>	<u>(269,902)</u>	<u>62</u>
Total other financing sources (uses)	<u>(130,689)</u>	<u>(130,689)</u>	<u>(128,433)</u>	<u>2,256</u>
Net change in fund balance	(194,000)	(194,000)	(135,164)	58,836
Fund balance at beginning of year				
- Budgetary Basis	<u>1,018,936</u>	<u>1,018,936</u>	<u>1,018,936</u>	<u>-</u>
Fund balance at end of year				
- Budgetary Basis	<u>\$ 824,936</u>	<u>\$ 824,936</u>	<u>\$ 883,772</u>	<u>\$ 58,836</u>

See accompanying notes to the required supplementary information

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2012

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 other financing sources and expenditures and other financing uses were adjusted for non-budgetary activity and budgetary transfers as follows:

	Revenues and Other Financing Sources	Expenditures and Other Financing Uses
Per Exhibit D	\$ 3,034,967	\$ 3,336,564
Difference in property taxes meeting susceptible to accrual criteria	85,851	
Accrued vacation - December 31, 2012		(19,430)
Accrued vacation - December 31, 2011		19,430
Encumbrances - December 31, 2012		116,108
Encumbrances - December 31, 2011		(186,699)
Non-budgetary revenues and expenditures	(28,171)	(167,451)
Budgetary transfers in and out	122,275	251,564
Per Schedule 1	<u>\$ 3,214,922</u>	<u>\$ 3,350,086</u>

NOTE 2—BUDGETARY FUND BALANCES

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

Nonspendable:	
Prepaid expenses	\$ 4,671
Tax deeded property	67,444
Assigned for:	
Designated for subsequent year expenditures	164,000
Unassigned:	
Unassigned - General operations	647,657
	<u>\$ 883,772</u>

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
December 31, 2012

NOTE 3—RECLASSIFICATION OF FUND BALANCE COMPONENTS

The budgetary fund balance components of the General Fund as of December 31, 2011 have been reclassified. Encumbrances as of December 31, 2011 were understated by \$10,050. Accordingly, the budgetary fund balance has been decreased from \$1,028,986 to \$1,018,936.

SCHEDULE A

Combining Balance Sheet

Governmental Funds - All Nonmajor Funds

December 31, 2012

ASSETS

Cash and cash equivalents

Investments

Accounts receivable

Due from other funds

Total Assets

DEFERRED OUTFLOWS OF RESOURCES

Total Deferred Outflows of Resources

Total Assets and Deferred Outflows of Resources

LIABILITIES

Due to other funds

Total Liabilities

DEFERRED INFLOWS OF RESOURCES

Total Deferred Inflows of Resources

FUND BALANCES

Committed

Total Fund Balances

Total Liabilities, Deferred Inflows of

Resources and Fund Balances

Special Revenue Funds							
Conservation Fund	Expendable Trust Funds	Transfer Station Fund	Police Outside Detail Fund	Recreation Revolving Fund	Total Special Revenue Funds	River Road Bridge Capital Projects Fund	Total Nonmajor Funds
\$ 44,240	\$ 72,494	\$ 16,865	\$ 31,190	\$ 5,031	\$ 36,221		\$ 36,221
					133,599		133,599
3,610		4,209	3,792		3,792		3,792
47,850	72,494	21,074	34,982	5,031	7,819	\$ 34,127	41,946
					181,431	34,127	215,558
\$ 47,850	\$ 72,494	\$ 21,074	\$ 34,982	\$ 5,031	\$ 181,431	\$ 34,127	\$ 215,558
\$ -	\$ -	\$ -	\$ 882	\$ 436	\$ 1,318	\$ 34,127	\$ 35,445
			882	436	1,318	34,127	35,445
47,850	72,494	21,074	34,100	4,595	180,113		180,113
47,850	72,494	21,074	34,100	4,595	180,113	-	180,113
\$ 47,850	\$ 72,494	\$ 21,074	\$ 34,982	\$ 5,031	\$ 181,431	\$ 34,127	\$ 215,558

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, 2012

	Special Revenue Funds					Total Nonmajor Funds
	Conservation Fund	Expendable Trust Funds	Transfer Station Fund	Police Outside Detail Fund	Recreation Revolving Fund	Total Special Revenue Funds
Revenues:						
Taxes	\$ 3,513			\$ 6,735		\$ 3,513
Intergovernmental						6,735
Charges for services		\$ 2,500	\$ 4,209	29,137	\$ 4,048	37,394
Interest and investment income	46		32	20	2	2,600
Miscellaneous		13,000			9,953	22,953
Total Revenues	<u>3,559</u>	<u>15,500</u>	<u>4,241</u>	<u>35,892</u>	<u>14,003</u>	<u>73,195</u>
Expenditures:						
Current operations:						
General government						76
Public safety				28,688		28,688
Culture and recreation					10,569	10,569
Capital outlay		16,117				16,117
Total Expenditures	<u>-</u>	<u>16,193</u>	<u>-</u>	<u>28,688</u>	<u>10,569</u>	<u>55,450</u>
Net change in fund balances	3,559	(693)	4,241	7,204	3,434	17,745
Fund balances at beginning 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>
Fund balances at end of year	<u>\$ 47,850</u>	<u>\$ 72,494</u>	<u>\$ 21,074</u>	<u>\$ 34,100</u>	<u>\$ 4,595</u>	<u>\$ 180,113</u>