

TOWN OF CANAAN, NEW HAMPSHIRE

Financial Statements

December 31, 2016

and

Independent Auditor's Report

TOWN OF CANAAN, NEW HAMPSHIRE
FINANCIAL STATEMENTS
December 31, 2016

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FINANCIAL STATEMENTS
December 31, 2016**

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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, the 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, 2016, 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, Business-Type Activities, Water Fund and Sewer Fund

As discussed in Note 2 to the financial statements, management has not recorded a liability for other post-employment benefits in governmental activities, business-type activities, water fund and sewer fund, 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, business-type activities, water fund, and sewer fund. The amount by which this departure would affect the liabilities, net position, and expenses of the governmental activities, business-type activities, water fund, and sewer fund is not reasonably determinable.

Adverse Opinions

In our opinion, because of the significance of the matter described in the “Basis for Adverse Opinion on Governmental Activities, Business-Type Activities, Water Fund and Sewer Fund” paragraph, the financial statements referred to above do not present fairly the financial position of the governmental activities, business-type activities, water fund, and sewer fund of the Town of Canaan, New Hampshire, as of December 31, 2016, or the changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund other than the water fund and sewer fund, and the aggregate remaining fund information of the Town of Canaan, New Hampshire, as of December 31, 2016, and the respective changes in financial position 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, budgetary comparison information, the schedule of changes in the Town’s proportionate share of the net pension liability, and the schedule of Town contributions on pages i-ix and 31-33 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 governmental fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor governmental 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, the combining nonmajor governmental fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Vachon Aubrey & Company PC

Manchester, New Hampshire
October 12, 2017

TOWN OF CANAAN, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2016

Presented herewith please find the Management Discussion & Analysis Report for the Town of Canaan for the year ending December 31, 2016. 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 assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the remaining difference 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, 2016

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, 2016**

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 2016 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, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Capital and other assets:		
Capital assets	\$ 3,855,035	\$ 3,844,959
Other assets	<u>6,996,331</u>	<u>6,277,456</u>
Total assets	<u>10,851,366</u>	<u>10,122,415</u>
Deferred outflows related to pension	<u>600,136</u>	<u>189,788</u>
Total deferred outflows of resources	<u>600,136</u>	<u>189,788</u>
Long-term and other liabilities:		
Long-term liabilities	2,116,596	1,528,866
Other liabilities	<u>4,216,188</u>	<u>3,744,750</u>
Total liabilities	<u>6,332,784</u>	<u>5,273,616</u>
Deferred inflows related to pension	<u>26,728</u>	<u>74,596</u>
Total deferred inflows of resources	<u>26,728</u>	<u>74,596</u>
Net position:		
Net investment in capital assets	3,855,035	3,844,959
Restricted	870,425	855,212
Unrestricted	<u>366,530</u>	<u>263,820</u>
Total net position	<u>\$ 5,091,990</u>	<u>\$ 4,963,991</u>

TOWN OF CANAAN, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2016

Approximately 75.7% 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 17.1% 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 permanent 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.

Statement of Activities

Changes in net position of the Town's governmental activities for the years ending December 31, 2016 and 2015 are as follows:

Program revenues:		
Charges for services	\$ 128,819	\$ 113,375
Operating grants and contributions	399,080	263,543
Capital grants and contributions		20,804
Total program revenues	<u>527,899</u>	<u>397,722</u>
General revenues:		
Property and other taxes	2,298,902	2,297,411
Licenses and permits	723,078	706,351
Intergovernmental revenue	202,428	188,063
Interest and investment earnings	46,499	3,444
Miscellaneous	181,608	36,092
Total general revenues	<u>3,452,515</u>	<u>3,231,361</u>
Total revenues	<u>3,980,414</u>	<u>3,629,083</u>
Program expenses:		
General government	1,128,586	1,053,399
Public safety	1,260,297	1,136,431
Highways and streets	894,011	913,891
Sanitation	205,898	215,985
Health and welfare	105,359	96,415
Culture and recreation	271,570	270,662
Conservation	1,642	932
Economic development	6,031	6,031
Total expenses	<u>3,873,394</u>	<u>3,693,746</u>
Change in net position before gain on disposal of capital assets, contributions, and transfers	107,020	(64,663)
Gain on disposal of capital asset	35,200	8,500
Contributions to permanent fund principal	3,000	
Transfers		(15,844)
Change in net position	145,220	(72,007)
Net position at beginning of year, as restated	<u>4,946,770</u>	<u>5,035,998</u>
Net position at end of year	<u>\$ 5,091,990</u>	<u>\$ 4,963,991</u>

**TOWN OF CANAAN, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2016**

As shown in the above statement the Town's governmental activities experienced an increase in financial position of \$145,220 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, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Capital and other assets:		
Capital assets	\$ 3,282,031	\$ 3,410,831
Other assets	103,466	100,665
Total assets	<u>3,385,497</u>	<u>3,511,496</u>
Deferred outflows related to pension	<u>20,768</u>	<u>6,448</u>
Total deferred outflows of resources	<u>20,768</u>	<u>6,448</u>
Long-term and other liabilities:		
Long-term liabilities	73,250	55,884
Other liabilities	62	51
Total liabilities	<u>73,312</u>	<u>55,935</u>
Deferred inflows related to pension	<u>924</u>	<u>2,534</u>
Total deferred inflows of resources	<u>924</u>	<u>2,534</u>
Net position:		
Net investment in capital assets	3,282,031	3,410,831
Unrestricted	49,998	48,644
Total net position	<u>\$ 3,332,029</u>	<u>\$ 3,459,475</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, 2016 and 2015 are as follows:

**TOWN OF CANAAN, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2016**

	<u>2016</u>	<u>2015</u>
Program revenues:		
Charges for services	\$ 127,114	\$ 137,630
Total program revenues	<u>127,114</u>	<u>137,630</u>
General revenues:		
Interest and investment earnings	14	2
Total general revenues	<u>14</u>	<u>2</u>
Total revenues	<u>127,128</u>	<u>137,632</u>
Program expenses:		
Water	106,827	105,732
Sewer	<u>147,747</u>	<u>152,108</u>
Total expenses	<u>254,574</u>	<u>257,840</u>
Change in net position before transfers	(127,446)	(120,208)
Transfers	<u>-</u>	<u>15,844</u>
Change in net position	(127,446)	(104,364)
Net position at beginning of year	<u>3,459,475</u>	<u>3,563,839</u>
Net position at end of year	<u>\$ 3,332,029</u>	<u>\$ 3,459,475</u>

The main funding source for business-type activities is charges for services, which provided 49.9% and 53.4% of expenses in 2016 and 2015, respectively. Overall, there was a decrease of \$127,446 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 \$181,178. Additional fund balance components at year end amounted to \$781,253 and are detailed on pages 27 and 28 of the Notes to the Basic Financial Statements.

The total General Fund balance increased \$218,823 from December 31, 2015. A decrease in fund balance was anticipated as \$160,000 of the prior year fund balance was appropriated to fund 2016 warrant articles.

TOWN OF CANAAN, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2016

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, 2016, the balance of \$561,023 was nonspendable and \$254,933 was restricted. The total fund balance in the permanent funds increased \$19,620 from the prior year.

Other Governmental Funds

The total fund balance of \$212,851 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, Police Details 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 \$49,998 at December 31, 2016. Charges for services for water and sewer operations covered 49.9% of operating expenses. The water fund and sewer fund experienced a decrease in net position of \$50,346 and \$77,100, respectively.

Capital Assets and Long-term Obligations

Capital Assets

The Town of Canaan considers a capital asset to be an asset whose costs exceed or equal \$10,000 and has a useful life of greater than one year. Assets are depreciated using the straight-line method over the course of their useful life. See Note 4 to the basic financial statements for a complete schedule of capital asset activity for the year.

Long-Term Obligations

During 2016, the liability for the Town's proportionate share of the New Hampshire Retirement System's unfunded liability increased by \$533,730 in the governmental activities and \$17,366 in the business-type activities.

See Note 5 in the notes 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.

TOWN OF CANAAN, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2016

Actual revenues and transfers in on the budgetary basis were higher than the budgeted amount by \$134,975. This favorable variance represents approximately 3.4% of the estimated revenues projected when the property tax rate was established.

The Town underexpended its budgeted appropriations by \$233,572. 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 taxpayers have experienced increasing tax rates due primarily to significantly higher school taxes. Over the last three years, the school rate increased from \$14.36 to \$20.65 or an increase of 44%. Over the last 10 years, the rate increased from \$10.60 to \$20.65 or a 95% increase. During that same period of time, the Town tax rate decreased from \$7.31 to \$6.64. The Mascoma Valley School District Board has acknowledged that there is a problem with the high school tax rates after two successive default budgets. It is hoped that the School Board will exercise restraint in crafting the school FY 2018-2019 budget.

In light of this extraordinary increased tax burden, the Town supported an increase in the levels for elderly and handicapped tax exemptions. During the past five years, exemptions climbed from 40 to a high of 63 and now hover at 59. The total value of exempt property grew from \$1 million in 2013 to \$4 million in 2017.

A corollary to school taxes increasing much faster than other taxes is that the impact of delinquent taxes impacts the Town cash flow since we are absolutely bound to pay the full amount due to the schools. Our uncollected taxes in 2013 were \$493,746. In 2016, this number was \$662,887 or an increase of 35%.

To date, we are aggressively matching the collection of delinquent taxes to the new delinquent taxes. In 2013, the 3 year uncollected taxes totaled \$4,643. In 2016, the number was \$3,417. Taxpayers are trying very hard to maintain timely payments and avoid tax deeding.

To put these issues in perspective, we currently have no debt (as of 2015), we use no tax anticipation notes and we maintain a cash cushion at our lowest balance months of at least \$250,000. Our funding for capital reserves increased from \$85,000 in 2008 to \$270,000 in 2016. Further, we are addressing long term funding needs such as flood mitigation for the Village.

The Town is clearly managing our debt and tax rates conservatively. We recognize that significantly higher school taxes in the near future will impact home ownership of simple home such as manufactured homes for low income taxpayers.

The Town has lived frugally for many years but there is a need to increase our tax rate by about 2% a year which we started in 2017. Fortunately our tax base grew 1% and kept the increase to 1%. Town management will continue to conservatively manage the Town to maintain a low tax rate.

TOWN OF CANAAN, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2016

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, 2016

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 4,593,332	\$ 77,408	\$ 4,670,740
Investments	1,339,251	2,756	1,342,007
Taxes receivable, net	969,943		969,943
Accounts receivable	953	2,508	3,461
Unbilled charges for services		34,666	34,666
Due from other governments	5,547		5,547
Internal balances	13,872	(13,872)	-
Prepaid expenses	6,298		6,298
Tax dedeed property	61,613		61,613
Total Current Assets	<u>6,990,809</u>	<u>103,466</u>	<u>7,094,275</u>
Noncurrent Assets:			
Due from other governments	5,522		5,522
Capital assets:			
Non-depreciable capital assets	402,383	238,341	640,724
Depreciable capital assets, net	<u>3,452,652</u>	<u>3,043,690</u>	<u>6,496,342</u>
Total Noncurrent Assets	<u>3,860,557</u>	<u>3,282,031</u>	<u>7,142,588</u>
Total Assets	<u>10,851,366</u>	<u>3,385,497</u>	<u>14,236,863</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pension	<u>600,136</u>	<u>20,768</u>	<u>620,904</u>
Total Deferred Outflows of Resources	<u>600,136</u>	<u>20,768</u>	<u>620,904</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	77,789		77,789
Accrued expenses	53,047	62	53,109
Due to other governments	<u>4,085,352</u>		<u>4,085,352</u>
Total Current Liabilities	<u>4,216,188</u>	<u>62</u>	<u>4,216,250</u>
Noncurrent Liabilities:			
Net pension liability	<u>2,116,596</u>	<u>73,250</u>	<u>2,189,846</u>
Total Noncurrent Liabilities	<u>2,116,596</u>	<u>73,250</u>	<u>2,189,846</u>
Total Liabilities	<u>6,332,784</u>	<u>73,312</u>	<u>6,406,096</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension	<u>26,728</u>	<u>924</u>	<u>27,652</u>
Total Deferred Inflows of Resources	<u>26,728</u>	<u>924</u>	<u>27,652</u>
NET POSITION			
Net investment in capital assets	3,855,035	3,282,031	7,137,066
Restricted	870,425		870,425
Unrestricted	<u>366,530</u>	<u>49,998</u>	<u>416,528</u>
Total Net Position	<u>\$ 5,091,990</u>	<u>\$ 3,332,029</u>	<u>\$ 8,424,019</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, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Primary Government Governmental Activities	Business-type Activities	
Governmental Activities:						
General government	\$ 1,128,586	\$ 2,105	\$ 9,396	\$(1,117,085)		\$ (1,117,085)
Public safety	1,260,297	50,461	167,322	(1,042,514)		(1,042,514)
Highways and streets	894,011		210,796	(683,215)		(683,215)
Sanitation	205,898	15,840		(190,058)		(190,058)
Health and welfare	105,359	1,200		(104,159)		(104,159)
Culture and recreation	271,570	59,213	11,566	(200,791)		(200,791)
Conservation	1,642			(1,642)		(1,642)
Economic development	6,031			(6,031)		(6,031)
Total governmental activities	<u>3,873,394</u>	<u>128,819</u>	<u>399,080</u>	<u>(3,345,495)</u>	\$ -	<u>(3,345,495)</u>
Business-type activities:						
Water	106,827	56,467			(50,360)	(50,360)
Sewer	147,747	70,647			(77,100)	(77,100)
Total business-type activities	<u>254,574</u>	<u>127,114</u>	<u>-</u>	<u>-</u>	<u>(127,460)</u>	<u>(127,460)</u>
Total primary government	<u>\$ 4,127,968</u>	<u>\$ 255,933</u>	<u>\$ 399,080</u>	<u>(3,345,495)</u>	<u>(127,460)</u>	<u>(3,472,955)</u>
General revenues:						
Property and other taxes				2,298,902		2,298,902
Licenses and permits				723,078		723,078
Grants and contributions:						
Rooms and meals tax distribution				202,288		202,288
State and federal forest land				140		140
Interest and investment income				46,499	14	46,513
Miscellaneous				181,608		181,608
Net gain on disposal of capital assets				35,200		35,200
Contributions to permanent fund principal				3,000		3,000
Total general revenues, gain on disposal, and contributions to permanent fund principal				<u>3,490,715</u>	<u>14</u>	<u>3,490,729</u>
Change in net position				145,220	(127,446)	17,774
Net Position at beginning of year, as restated				<u>4,946,770</u>	<u>3,459,475</u>	<u>8,406,245</u>
Net Position at end of year				<u>\$ 5,091,990</u>	<u>\$ 3,332,029</u>	<u>\$ 8,424,019</u>

See accompanying notes to the basic financial statements

EXHIBIT C
TOWN OF CANAAN, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
December 31, 2016

	General Fund	Permanent Funds	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 4,501,803		\$ 91,529	\$ 4,593,332
Investments	384,755	\$ 815,956	138,540	1,339,251
Taxes receivable, net	969,943			969,943
Accounts receivable			953	953
Due from other funds	34,655		2,612	37,267
Prepaid expenses	6,298			6,298
Tax dedeed property	61,613			61,613
Total Assets	<u>5,959,067</u>	<u>815,956</u>	<u>233,634</u>	<u>7,008,657</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>\$ 5,959,067</u>	<u>\$ 815,956</u>	<u>\$ 233,634</u>	<u>\$ 7,008,657</u>
LIABILITIES				
Accounts payable	\$ 77,789			\$ 77,789
Accrued expenses	53,047			53,047
Due to other governments	4,085,352			4,085,352
Due to other funds	2,612		\$ 20,783	23,395
Total Liabilities	<u>4,218,800</u>	<u>\$ -</u>	<u>20,783</u>	<u>4,239,583</u>
DEFERRED INFLOWS OF RESOURCES				
Uncollected land use taxes	1,558			1,558
Uncollected property taxes	776,278			776,278
Total Deferred Inflows of Resources	<u>777,836</u>	<u>-</u>	<u>-</u>	<u>777,836</u>
FUND BALANCES				
Nonspendable	6,298	561,023		567,321
Restricted	54,469	254,933		309,402
Committed	453,081		212,851	665,932
Assigned	267,405			267,405
Unassigned	181,178			181,178
Total Fund Balances	<u>962,431</u>	<u>815,956</u>	<u>212,851</u>	<u>1,991,238</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 5,959,067</u>	<u>\$ 815,956</u>	<u>\$ 233,634</u>	<u>\$ 7,008,657</u>

See accompanying notes to the basic financial statements

EXHIBIT C-1
TOWN OF CANAAN, NEW HAMPSHIRE
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
December 31, 2016

Total Fund Balances - Governmental Funds (Exhibit C)	\$ 1,991,238
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	3,855,035
Property taxes are recognized on an accrual basis in the statement of net position, not the modified accrual basis	777,836
The long-term state aid grant receivable is recognized on an accrual basis in the statement of net position, not the modified accrual basis	11,069
Deferred outflows of resources and deferred inflows of resources that do not provide or require the use of current financial resources are not reported within the funds.	
Deferred outflow of resources attributable to net pension liability	600,136
Deferred inflow of resources attributable to net pension liability	(26,728)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Long-term liabilities at year end consist of:	
Net pension liability	<u>(2,116,596)</u>
Net Position of Governmental Activities (Exhibit A)	<u>\$ 5,091,990</u>

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, 2016

	General Fund	Permanent Funds	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 2,266,852		\$ 2,612	\$ 2,269,464
Licenses and permits	723,078			723,078
Intergovernmental	585,678		10,010	595,688
Charges for services	39,894		88,925	128,819
Interest and investment income	5,129	\$ 40,611	759	46,499
Miscellaneous	181,608	3,000	11,566	196,174
Total Revenues	<u>3,802,239</u>	<u>43,611</u>	<u>113,872</u>	<u>3,959,722</u>
Expenditures:				
Current operations:				
General government	1,098,842	7,528	573	1,106,943
Public safety	1,091,367		39,551	1,130,918
Highways and streets	720,340			720,340
Sanitation	195,928		86	196,014
Health and welfare	105,359			105,359
Culture and recreation	168,835		69,497	238,332
Conservation			1,642	1,642
Capital outlay	219,208			219,208
Total Expenditures	<u>3,599,879</u>	<u>7,528</u>	<u>111,349</u>	<u>3,718,756</u>
Excess revenues over (under) expenditures	<u>202,360</u>	<u>36,083</u>	<u>2,523</u>	<u>240,966</u>
Other financing sources (uses):				
Transfers in	16,463			16,463
Transfers out		(16,463)		(16,463)
Total other financing sources (uses)	<u>16,463</u>	<u>(16,463)</u>	<u>-</u>	<u>-</u>
Net change in fund balances	218,823	19,620	2,523	240,966
Fund balances at beginning of year, as restated	<u>743,608</u>	<u>796,336</u>	<u>210,328</u>	<u>1,750,272</u>
Fund balances at end of year	<u>\$ 962,431</u>	<u>\$ 815,956</u>	<u>\$ 212,851</u>	<u>\$ 1,991,238</u>

See accompanying notes to the basic financial statements

EXHIBIT D-1
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, 2016

Net Change in Fund Balances - Governmental Funds (Exhibit D)	\$ 240,966
Amounts reported for governmental activities in the statement of activities are different because:	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	29,438
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 gain of disposed capital assets reduced by the actual proceeds received from the sale of capital assets.	35,200
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.	(5,746)
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 depreciation exceeded capital outlay expense in the current period.	(25,124)
Governmental funds report pension contributions as expenditures. However, in the statement of activities, pension expense reflects the change in the net pension liability and related deferred outflows and inflows of resources, and do not require the use of current financial resources. This is the amount by which pension expense exceeded pension contributions in the current period.	<u>(129,514)</u>
Change in Net Position of Governmental Activities (Exhibit B)	<u>\$ 145,220</u>

See accompanying notes to the basic financial statements

EXHIBIT E
TOWN OF CANAAN, NEW HAMPSHIRE
Statement of Net Position
Proprietary Funds
December 31, 2016

	Business-type Activities		
	Water Fund	Sewer Fund	Totals
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 77,408		\$ 77,408
Investments	2,756		2,756
Accounts receivable	1,590	\$ 918	2,508
Unbilled charges for services	17,749	16,917	34,666
Due from other funds	75,036		75,036
Total Current Assets	<u>174,539</u>	<u>17,835</u>	<u>192,374</u>
Noncurrent Assets:			
Capital assets:			
Non-depreciable capital assets		238,341	238,341
Depreciable capital assets, net	<u>998,957</u>	<u>2,044,733</u>	<u>3,043,690</u>
Total Noncurrent Assets	<u>998,957</u>	<u>2,283,074</u>	<u>3,282,031</u>
Total Assets	<u>1,173,496</u>	<u>2,300,909</u>	<u>3,474,405</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pension	<u>10,384</u>	<u>10,384</u>	<u>20,768</u>
Total Deferred Outflows of Resources	<u>10,384</u>	<u>10,384</u>	<u>20,768</u>
LIABILITIES			
Current Liabilities:			
Accrued expenses	31	31	62
Due to other funds	<u>4,854</u>	<u>84,054</u>	<u>88,908</u>
Total Current Liabilities	<u>4,885</u>	<u>84,085</u>	<u>88,970</u>
Noncurrent Liabilities:			
Net pension liability	<u>36,625</u>	<u>36,625</u>	<u>73,250</u>
Total Noncurrent Liabilities	<u>36,625</u>	<u>36,625</u>	<u>73,250</u>
Total Liabilities	<u>41,510</u>	<u>120,710</u>	<u>162,220</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension	<u>462</u>	<u>462</u>	<u>924</u>
Total Deferred Inflows of Resources	<u>462</u>	<u>462</u>	<u>924</u>
NET POSITION			
Net investment in capital assets	998,957	2,283,074	3,282,031
Unrestricted (deficit)	<u>142,951</u>	<u>(92,953)</u>	<u>49,998</u>
Total Net Position	<u>\$ 1,141,908</u>	<u>\$ 2,190,121</u>	<u>\$ 3,332,029</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, 2016

	Business-type Activities		
	Water Fund	Sewer Fund	Totals
Operating revenues:			
Charges for services	\$ 56,467	\$ 70,647	\$ 127,114
Total operating revenues	<u>56,467</u>	<u>70,647</u>	<u>127,114</u>
Operating expenses:			
Personnel services	33,947	33,851	67,798
Contractual services	9,908	746	10,654
Repairs and maintenance	6,237	12,051	18,288
Materials and supplies	2,865	3,443	6,308
Utilities	4,320	18,406	22,726
Depreciation	49,550	79,250	128,800
Total operating expenses	<u>106,827</u>	<u>147,747</u>	<u>254,574</u>
Operating loss	<u>(50,360)</u>	<u>(77,100)</u>	<u>(127,460)</u>
Non-operating revenues:			
Interest revenue	14		14
Net non-operating revenues	<u>14</u>	<u>-</u>	<u>14</u>
Change in net position	(50,346)	(77,100)	(127,446)
Net Position at beginning of year	<u>1,192,254</u>	<u>2,267,221</u>	<u>3,459,475</u>
Net Position at end of year	<u>\$ 1,141,908</u>	<u>\$ 2,190,121</u>	<u>\$ 3,332,029</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, 2016

	Business-type Activities		
	Water Department	Sewer Department	Totals
Cash flows from operating activities:			
Cash received from customers	\$ 52,258	\$ 66,609	\$ 118,867
Cash paid to suppliers	(31,359)	(42,568)	(73,927)
Cash paid to employees	(25,200)	(25,200)	(50,400)
Net cash (used) by operating activities	<u>(4,301)</u>	<u>(1,159)</u>	<u>(5,460)</u>
Net (decrease) in cash and cash equivalents	(4,301)	(1,159)	(5,460)
Cash and cash equivalents (deficiency) at beginning of year	<u>151,891</u>	<u>(82,895)</u>	<u>68,996</u>
Cash and cash equivalents (deficiency) at end of year	<u>\$ 147,590</u>	<u>\$ (84,054)</u>	<u>\$ 63,536</u>
Reconciliation of operating loss to net cash (used) by operating activities:			
Operating loss	\$ (50,360)	\$ (77,100)	\$ (127,460)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:			
Depreciation expense	49,550	79,250	128,800
Change in deferred outflows related to pension	(7,160)	(7,160)	(14,320)
Change in deferred inflows related to pension	(805)	(805)	(1,610)
Changes in assets and liabilities:			
Accounts receivable	246	375	621
Unbilled charges for services	(4,455)	(4,413)	(8,868)
Accrued expenses		11	11
Net pension liability	<u>8,683</u>	<u>8,683</u>	<u>17,366</u>
Net cash (used) by operating activities	<u>\$ (4,301)</u>	<u>\$ (1,159)</u>	<u>\$ (5,460)</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, 2016

	Agency Funds
ASSETS	
Investments	\$ 799,497
Total Assets	<u>\$ 799,497</u>
LIABILITIES	
Due to other governments	\$ 799,497
Total Liabilities	<u>\$ 799,497</u>

See accompanying notes to the basic financial statements

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

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.

1. Government-Wide Financial Statements:

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

2. Fund Financial Statements:

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

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2016

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 main operating fund of the Town and is used to account for all financial resources 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 Town'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, respectively. 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 accounts for the capital reserve funds of the Mascoma Valley Regional School District, which are held by the Town's Trustees of Trust Funds in accordance with State law.

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2016

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 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 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.

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 9). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2016

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, charges for services, and interest on investments.

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

Grants received before the eligibility requirements are met are recorded as advances from grantors. On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred inflows of resources.

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.

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	\$ 77,408		\$ 77,408
Due from other funds	75,036		75,036
Due to other funds	<u>(4,854)</u>	<u>\$ (84,054)</u>	<u>(88,908)</u>
Totals	<u>\$ 147,590</u>	<u>\$ (84,054)</u>	<u>\$ 63,536</u>

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2016

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, 2016 are recorded as receivables net of reserves for estimated uncollectibles of \$50,608.

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 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 materially extend an asset’s life are not. Interest incurred during the construction phase of capital assets of business-type activities 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.

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	30-50
	Buildings and improvements	10-40
	Land improvements	7-15
	Vehicles and equipment	3-25

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. Vacation time is calculated on the anniversary date of hire. Five days of accumulated time may be carried into the next anniversary year. Upon retirement, termination, or death, employees are compensated for unused vacation at their current rates of pay.

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2016

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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New Hampshire Retirement System (NHRS) and additions to/deductions from NHRS's fiduciary net position have been determined on the same basis as they are reported by NHRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and 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 net 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.

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, 2016, the Town has not adopted a formal fund balance policy. Under GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, 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.

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2016

- Committed Fund Balance: Amounts constrained to specific purposes by a government itself using its highest level of decision-making authority (Annual Town Meeting). Commitments may be changed or lifted only by the governing body taking the same formal action that imposed the constraint originally. The governing body's action must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.
- 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 not obligated or specifically designated and is 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 and after non-operating revenues/expenses in the proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements.

Operating Revenues and Expenses

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

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2016

NOTE 2—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Other Post-Employment Benefits

The Town has not implemented 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—DEPOSITS AND INVESTMENTS

Deposits and investments as of December 31, 2016 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and cash equivalents	\$ 4,670,740
Investments	1,342,007
Statement of Fiduciary Net Position:	
Investments	799,497
	<u>\$ 6,812,244</u>

Deposits and investments as of December 31, 2016 consist of the following:

Cash on hand	\$ 287,561
Deposits with financial institutions	213,950
Investments	6,310,733
Total cash and investments	<u>\$ 6,812,244</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

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2016

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>< 1 Year</u>	<u>1-5 Years</u>	<u>> 5 Years</u>
U.S. Treasury notes	\$ 921,119	\$ 159,856	\$ 704,379	\$ 56,884
Federal agency securities	57,571		31,859	25,712
Municipal obligations	133,268		51,138	82,130
Corporate bonds	219,472		148,780	70,692
	<u>\$ 1,331,430</u>	<u>\$ 159,856</u>	<u>\$ 936,156</u>	<u>\$ 235,418</u>

Credit Risk

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

The Town's policy states that the Treasurer may place any excess funds into obligations of the United States government maturing in less than one year or the NHPDIP. The investment policy of the Trustees 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>Unrated</u>
Municipal obligations	\$ 133,268		\$ 133,268			
Corporate bonds	219,472		73,171	\$ 41,939	\$ 104,362	
Money market funds	484,870					\$ 484,870
State investment pool	72,178	\$ 72,178				
	<u>\$ 909,788</u>	<u>\$ 72,178</u>	<u>\$ 206,439</u>	<u>\$ 41,939</u>	<u>\$ 104,362</u>	<u>\$ 484,870</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.

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2016

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, 2016, 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	\$ 921,119
Federal agency securities	57,571
Municipal obligations	133,268
Corporate bonds	219,472
Equity securities	253,025
Overnight repurchase agreement	<u>4,169,230</u>
	<u>\$ 5,753,685</u>

Fair Value Measurement of Investments

In accordance with GASB Statement 72, *Fair Value Measurement and Application*, the Town categorizes the fair value measurements of its investments within the fair value hierarchy established by accounting principles generally accepted in the United States. The fair value hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows (in order of priority):

- *Level 1 Inputs* - Inputs that reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that the Town has the ability to access at the measurement date.
- *Level 2 Inputs* - Inputs other than quoted prices that are observable for assets or liabilities either directly or indirectly, including inputs in markets that are not considered to be active.
- *Level 3 Inputs* - Significant unobservable inputs.

As of December 31, 2016, the Town's investments measured at fair value, by type, were as follows:

<u>Investment Type</u>	<u>Fair Value Measurements Using:</u>			<u>Totals</u>
	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	
U.S. Treasury notes		\$ 921,119		\$ 921,119
Federal agency securities		57,571		57,571
Municipal obligations		133,268		133,268
Corporate bonds		219,472		219,472
Equity securities	\$ 253,025			253,025
	<u>\$ 253,025</u>	<u>\$ 1,331,430</u>	<u>\$ -</u>	<u>\$ 1,584,455</u>

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2016

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. Financial statements for the NHPDIP can be accessed through the NHPDIP's website at www.NHPDIP.com.

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 and have been measured at amortized cost.

NOTE 4—CAPITAL ASSETS

Governmental Activities

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

	Balance <u>01/01/16</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>12/31/16</u>
Governmental activities:				
Capital assets not depreciated:				
Land	\$ 402,383			\$ 402,383
Total capital assets not being depreciated	<u>402,383</u>	<u>\$ -</u>	<u>\$ -</u>	<u>402,383</u>
Other capital assets:				
Infrastructure	1,750,384			1,750,384
Buildings and improvements	1,758,563			1,758,563
Land improvements	13,100			13,100
Vehicles and equipment	<u>2,478,179</u>	<u>278,094</u>	<u>(177,504)</u>	<u>2,578,769</u>
Total other capital assets at historical cost	<u>6,000,226</u>	<u>278,094</u>	<u>(177,504)</u>	<u>6,100,816</u>
Less accumulated depreciation for:				
Infrastructure	(167,249)	(43,291)		(210,540)
Buildings and improvements	(877,805)	(60,448)		(938,253)
Land improvements	(3,566)	(873)		(4,439)
Vehicles and equipment	<u>(1,509,030)</u>	<u>(160,106)</u>	<u>174,204</u>	<u>(1,494,932)</u>
Total accumulated depreciation	<u>(2,557,650)</u>	<u>(264,718)</u>	<u>174,204</u>	<u>(2,648,164)</u>
Total other capital assets, net	<u>3,442,576</u>	<u>13,376</u>	<u>(3,300)</u>	<u>3,452,652</u>
Total capital assets, net	<u>\$ 3,844,959</u>	<u>\$ 13,376</u>	<u>\$ (3,300)</u>	<u>\$ 3,855,035</u>

Depreciation expense was charged to governmental functions as follows:

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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2016

General government	\$ 11,829
Public safety	54,711
Highways and streets	156,145
Sanitation	6,794
Culture and recreation	29,208
Economic development	6,031
Total governmental activities depreciation expense	<u>\$ 264,718</u>

Business-Type Activities

The following is a summary of changes in capital assets in the business-type activities:

	<u>Balance</u> <u>01/01/16</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/16</u>
Business-type activities:				
Capital assets not depreciated:				
Land	\$ 238,341			\$ 238,341
Total capital assets not being depreciated	<u>238,341</u>	<u>\$ -</u>	<u>\$ -</u>	<u>238,341</u>
Other capital assets:				
Infrastructure	5,619,767			5,619,767
Buildings and improvements	67,970			67,970
Land improvements	22,395			22,395
Vehicles and equipment	212,627			212,627
Total other capital assets at historical cost	<u>5,922,759</u>	<u>-</u>	<u>-</u>	<u>5,922,759</u>
Less accumulated depreciation for:				
Infrastructure	(2,544,640)	(112,396)		(2,657,036)
Buildings and improvements	(50,290)	(1,359)		(51,649)
Land improvements	(12,796)	(3,199)		(15,995)
Vehicles and equipment	(142,543)	(11,846)		(154,389)
Total accumulated depreciation	<u>(2,750,269)</u>	<u>(128,800)</u>	<u>-</u>	<u>(2,879,069)</u>
Total other capital assets, net	<u>3,172,490</u>	<u>(128,800)</u>	<u>-</u>	<u>3,043,690</u>
Total capital assets, net	<u>\$ 3,410,831</u>	<u>\$ (128,800)</u>	<u>\$ -</u>	<u>\$ 3,282,031</u>

Depreciation expense was charged to proprietary funds as follows:

Water fund	\$ 49,550
Sewer fund	79,250
Total business-type activities depreciation expense	<u>\$ 128,800</u>

NOTE 5—DEFINED BENEFIT PLAN

Plan Description

The Town contributes to the New Hampshire Retirement System (NHRS), a component unit of the State of New Hampshire, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*. The New Hampshire Retirement System is a public employee retirement system that administers a single cost-sharing multiple-

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2016

employer defined benefit pension plan. 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.

Substantially all full-time state and local employees, public school teachers, permanent firefighters and permanent police officers within the State are eligible and required to participate in the Pension Plan.

The Pension Plan is divided into two membership groups. State and local employees and teachers belong to Group I. Police and firefighters belong to Group II. All assets are held in a single trust and are available to pay retirement benefits to all members.

Benefits Provided

Group I members at age 60 or 65 (for members who commence service after July 1, 2011) qualify for a normal service retirement allowance based on years of creditable service and average final salary for the highest of either three or five years, depending on when their service commenced. The yearly pension amount is 1/60 or 1.667% of average final compensation (AFC), multiplied by years of creditable service. At age 65, the yearly pension amount is recalculated at 1/66 or 1.515% of AFC multiplied by years of creditable service.

Group II members vested by January 1, 2012, who are age 60, or members who are at least age 45 with at least 20 years of creditable service, can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years. Members commencing service on or after July 1, 2011 or members who have not attained status as of January 1, 2012 can receive a retirement allowance at age 52.5 with 25 years of service or age 60. The benefit shall be equal to 2% of AFC times creditable service up to 42.5 years. However, a member who commenced service on or after July 1, 2011 shall not receive a retirement allowance until attaining the age of 52.5, but may receive a reduced allowance after age 50 if the member has at least 25 years of creditable service where the allowance shall be reduced, for each month by which the benefit commencement date precedes the month after which the member attains 52.5 years of age by 1/4 of 1%. For Group II members who commenced service prior to July 1, 2011, who have not attained vested status prior to January 1, 2012, benefits are calculated depending on age and years of creditable service as follows:

<u>Years of Creditable Services as of January 1, 2012</u>	<u>Minimum Age</u>	<u>Minimum Service</u>	<u>Benefit Multiplier</u>
At least 3 but less than 10 years	46	21	2.4%
At least 6 but less than 8 years	47	22	2.3%
At least 4 but less than 6 years	48	23	2.2%
Less than 4 years	49	24	2.1%

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2016

Members of both groups may qualify for vested deferred allowances, disability allowances and death benefit allowances subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation and/or service.

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 22.54% and 10.86%, respectively. The Town contributes 100% of the employer cost for police officers and general employees of the Town.

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 pension contributions to the NHRS for the year ending December 31, 2016 were \$151,448.

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

At December 31, 2016, the Town reported a liability of \$2,189,846 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by a roll forward of the actuarial valuation from June 30, 2015. The Town's proportion of the net pension liability was based on actual contributions by the Town during the relevant fiscal year relative to the actual contributions of all participating plan members, excluding contributions to separately finance specific liabilities of individual employers or NHRS. At June 30, 2016, the Town's proportion was approximately 0.0412 percent, which was an increase of 0.0012 percentage points from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the Town recognized pension expense of \$282,653. At December 31, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience	\$ 6,086	\$ 27,652
Changes of assumptions	269,500	
Net difference between projected and actual earnings on pension plan investments	137,008	
Changes in proportion and differences between Town contributions and proportionate share of contributions	132,130	
Town contributions subsequent to the measurement date	<u>76,180</u>	
Total	<u>\$ 620,904</u>	<u>\$ 27,652</u>

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2016

The net amount of deferred outflows of resources and deferred inflows of resources related to pensions is reflected as an increase to unrestricted net position in the amount of \$593,252. The Town reported \$76,180 as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date. This amount will be recognized as a reduction of the net pension liability in the measurement period ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized as pension expense in the measurement period as follows:

<u>June 30.</u>	
2017	\$ 116,646
2018	116,646
2019	159,159
2020	118,826
2021	<u>5,795</u>
	<u>\$ 517,072</u>

Actuarial Assumptions

The total pension liability was determined by a roll forward of the actuarial valuation as of June 30, 2015, using the following actuarial assumptions.

Inflation	2.50 percent
Wage inflation	3.25 percent
Salary increases	5.6 percent, average, including inflation
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 employee generational mortality tables for males and females, adjusted for mortality improvements using Scale MP-2015, based on the last experience study. Retirement rates were based on a table of rates that are specific to the type of eligibility condition, last updated in 2015 pursuant to an experience study of the period July 1, 2010 – June 30, 2015.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of weighted average long-term expected real rates of return for each major asset class are summarized in the following table:

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2016

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Net of inflation assumption of 2.5%)</u>
Fixed income	25%	(0.25)-1.71%
Domestic equity	30%	4.25-4.50%
International equity	20%	4.75-6.25%
Real estate	10%	3.25%
Private equity	5%	6.25%
Private debt	5%	4.75%
Opportunistic	5%	3.68%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the collective pension liability was 7.25%, a decrease of .50% from the June 30, 2015 measurement date. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. For purposes of the projection, member contributions and employer contributions are projected based on the expected payroll of current members only. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the collective pension liability.

Sensitivity of the Town's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Town's proportionate share of the net pension liability	\$ 2,813,803	\$ 2,189,846	\$ 1,672,372

NOTE 6—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.

Interfund balances at December 31, 2016 are as follows:

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2016

	Due from				Totals
	General Fund	Nonmajor Governmental Funds	Water Fund	Sewer Fund	
General Fund		\$ 20,783	\$ 4,854	\$ 9,018	\$ 34,655
Nonmajor Governmental Funds	\$ 2,612				2,612
Water Fund				75,036	75,036
Totals	<u>\$ 2,612</u>	<u>\$ 20,783</u>	<u>\$ 4,854</u>	<u>\$ 84,054</u>	<u>\$ 112,303</u>

During the year an interfund transaction occurred between the General Fund and the Permanent Funds. Transfers out of the Permanent Funds to the General Fund in the amount of \$16,463, were made to distribute income earned on investments during the year to support the Town's programs.

NOTE 7—RESTRICTED NET POSITION

Net position is restricted for specific purposes as follows:

Permanent Fund - Principal	\$ 561,023
Permanent Fund - Income	254,933
Library	<u>54,469</u>
	<u>\$ 870,425</u>

NOTE 8—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 - Principal		\$ 561,023		\$ 561,023
Prepaid expenses	\$ 6,298			6,298
Restricted for:				
Permanent Funds - Income		254,933		254,933
Library	54,469			54,469
Committed for:				
Carryforward appropriations	8,982			8,982
Capital Reserves	444,099			444,099
Conservation			\$ 57,778	57,778
Expendable Trusts			83,374	83,374
Transfer Station			14,515	14,515
Police Outside Details			34,239	34,239
Recreation			22,945	22,945

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2016

Assigned for:			
Designated for subsequent year expenditures	265,265		265,265
Encumbrances	2,140		2,140
Unassigned:			
Unassigned - General operations	181,178		181,178
	<u>\$ 962,431</u>	<u>\$ 815,956</u>	<u>\$ 212,851</u>
			<u>\$ 1,991,238</u>

NOTE 9—PROPERTY TAXES

Taxes are levied on the assessed valuation of all taxable real property as of the prior April 1 (\$337,820,177 as of April 1, 2016) and are due in two installments on July 1, 2016 and December 12, 2016. 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 deeded 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 State of New Hampshire Education taxes, which are remitted directly to the school district. Total taxes appropriated during the year were \$7,765,577 and \$606,089 for the Mascoma Valley Regional School District and Grafton County, respectively. These taxes are not recognized as revenues in these financial statements. As of December 31, 2016, the balance of the property tax appropriation due to the Mascoma Valley Regional School District is \$4,085,352 and has been reported in the General Fund as “due to other governments”. The Town bears responsibility for uncollected taxes.

NOTE 10—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, 2016, the Town was a member of and participated in a public entity risk pool (Trust) for property and liability insurance and worker’s compensation coverage. Coverage has not been significantly reduced from the prior year and settled claims have not exceeded coverage in any of the past three years.

The Trust agreements permit the Trust 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 Trust foresees 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, 2016.

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2016

Property and Liability Insurance

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

The Trust 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 11—COMMITMENTS AND CONTINGENCIES

Litigation

There may be various claims and suits pending against the Town, which arise in the normal course of the Town's activities. In the opinion of Town management, 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 12—RESTATEMENT OF EQUITY

Government-Wide Statements

During the year ended December 31, 2016, it was determined that tax deeded property was overstated as previously reported. The impact of the restatement on net position of the Governmental Activities as of January 1, 2016 is as follows:

	Governmental <u>Activities</u>
Net Position - January 1, 2016 (as previously reported)	\$ 4,963,991
Amount of restatement due to:	
Overstatement of assets	<u>(17,221)</u>
Net Position - January 1, 2016, as restated	<u>\$ 4,946,770</u>

Governmental Funds

The impact of the above restatement on fund balance of the General Fund as of January 1, 2016 is as follows:

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2016

	General <u>Fund</u>
Fund Balance - January 1, 2016 (as previously reported)	\$ 760,829
Amount of restatement due to:	
Overstatement of assets	<u>(17,221)</u>
Fund Balance - January 1, 2016, as restated	<u>\$ 743,608</u>

SCHEDULE 1
TOWN OF CANAAN, NEW HAMPSHIRE
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis) - General Fund
For the Year Ended December 31, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Revenues:				
Taxes	\$ 2,272,328	\$ 2,272,328	\$ 2,294,732	\$ 22,404
Licenses and permits	704,070	704,070	723,078	19,008
Intergovernmental	520,847	529,829	532,833	3,004
Charges for services	46,500	46,500	39,894	(6,606)
Interest income	2,007	2,007	2,364	357
Miscellaneous	12,625	12,625	148,867	136,242
Total Revenues	<u>3,558,377</u>	<u>3,567,359</u>	<u>3,741,768</u>	<u>174,409</u>
Expenditures:				
Current operations:				
General government	1,060,514	1,060,514	1,021,000	39,514
Public safety	1,136,972	1,136,972	1,093,961	43,011
Highways and streets	866,302	866,302	714,790	151,512
Sanitation	179,323	179,323	194,274	(14,951)
Health and welfare	90,600	90,600	105,359	(14,759)
Culture and recreation	17,257	17,257	17,809	(552)
Capital outlay	235,002	235,002	219,208	15,794
Debt service:				
Interest and fiscal charges	<u>1</u>	<u>1</u>	<u>-</u>	<u>1</u>
Total Expenditures	<u>3,585,971</u>	<u>3,585,971</u>	<u>3,366,401</u>	<u>219,570</u>
Excess revenues over (under) expenditures	<u>(27,594)</u>	<u>(18,612)</u>	<u>375,367</u>	<u>393,979</u>
Other financing sources (uses):				
Transfers in	257,463	257,463	218,029	(39,434)
Transfers out	<u>(389,869)</u>	<u>(389,869)</u>	<u>(375,867)</u>	<u>14,002</u>
Total other financing sources (uses)	<u>(132,406)</u>	<u>(132,406)</u>	<u>(157,838)</u>	<u>(25,432)</u>
Net change in fund balance	(160,000)	(151,018)	217,529	368,547
Fund balance at beginning of year				
- Budgetary Basis	<u>1,037,845</u>	<u>1,037,845</u>	<u>1,037,845</u>	<u>-</u>
Fund balance at end of year				
- Budgetary Basis	<u>\$ 877,845</u>	<u>\$ 886,827</u>	<u>\$ 1,255,374</u>	<u>\$ 368,547</u>

See accompanying notes to the required supplementary information

SCHEDULE 2

TOWN OF CANAAN, NEW HAMPSHIRE

Schedule of Changes in the Town's Proportionate Share of the Net Pension Liability

For the Year Ended December 31, 2016

	For the Measurement Period Ended June 30:			
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Town's proportion of the net pension liability (asset)	0.0412%	0.0400%	0.0382%	0.0359%
Town's proportionate share of the net pension liability (asset)	\$ 2,189,846	\$ 1,584,750	\$ 1,435,635	\$ 1,547,025
Town's covered-employee payroll	\$ 948,172	\$ 931,817	\$ 860,676	\$ 781,213
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	230.95%	170.07%	166.80%	198.03%
Plan fiduciary net position as a percentage of the total pension liability	58.30%	65.47%	66.32%	59.81%

See accompanying notes to the required supplementary information

SCHEDULE 3
TOWN OF CANAAN, NEW HAMPSHIRE
Schedule of Town Contributions
For the Year Ended December 31, 2016

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 151,448	\$ 140,206	\$ 125,738	\$ 109,018
Contributions in relation to the contractually required contribution	<u>(151,448)</u>	<u>(140,206)</u>	<u>(125,738)</u>	<u>(109,018)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 973,044	\$ 936,284	\$ 879,027	\$ 839,363
Contributions as a percentage of covered-employee payroll	15.56%	14.97%	14.30%	12.99%

See accompanying notes to the required supplementary information

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2016

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 revenues and expenditures and budgetary transfers as follows:

	Revenues and Other Financing <u>Sources</u>	Expenditures and Other Financing <u>Uses</u>
Per Exhibit D	\$ 3,818,702	\$ 3,599,879
Difference in property taxes meeting susceptible to accrual criteria	27,880	
Accrued vacation - December 31, 2016		(23,398)
Accrued vacation - December 31, 2015		28,601
Encumbrances - December 31, 2016		2,140
Encumbrances - December 31, 2015		(11,660)
Non-budgetary revenues and expenditures	(88,351)	(229,161)
Budgetary transfers in and out	<u>201,566</u>	<u>375,867</u>
Per Schedule 1	<u>\$ 3,959,797</u>	<u>\$ 3,742,268</u>

NOTE 2—BUDGETARY FUND BALANCES

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

Nonspendable:	
Prepaid expenses	\$ 6,298
Assigned for:	
Designated for subsequent year expenditures	265,265
Unassigned:	
Unassigned - General operations	<u>983,811</u>
	<u>\$ 1,255,374</u>

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
For the Year Ended December 31, 2016

NOTE 3—SCHEDULE OF CHANGES IN THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND SCHEDULE OF TOWN CONTRIBUTIONS

In accordance with GASB Statement #68, *Accounting and Financial Reporting for Pensions*, the Town is required to disclose historical information for each of the prior ten years within a schedule of changes in the Town's proportionate share of the net pension liability, and schedule of Town contributions. The Town implemented the provisions of GASB Statement #68 during the year ended December 31, 2015. Accordingly, the historic information has only been presented for those years which information was readily available. Additional disclosures will be made in future years as the information becomes available.

Changes in Actuarial Assumptions

For the June 30, 2015 actuarial valuation, the New Hampshire Retirement System reduced its assumption for the investment rate of return from 7.75% to 7.25%, decreased the price inflation from 3.0% to 2.5%, decreased the wage inflation from 3.75% to 3.25%, and decreased the salary increases from 5.8% to 5.6%. Additionally, the mortality table was changed from the RP-2000 projected to 2020 with Scale AA to the RP-2014 employee generational mortality table for males and females, adjusted for mortality improvements using Scale MP-2015.

SCHEDULE A
TOWN OF CANAAN, NEW HAMPSHIRE
Combining Balance Sheet
Governmental Funds - All Nonmajor Funds
December 31, 2016

	Conservation Fund	Expendable Trust Funds	Transfer Station Fund	Police Outside Detail Fund	Recreation Revolving Fund	Total Nonmajor Governmental Funds
ASSETS						
Cash and cash equivalents			\$ 30,699	\$ 33,635	\$ 27,195	\$ 91,529
Investments	\$ 55,166	\$ 83,374				138,540
Accounts receivable				953		953
Due from other funds	<u>2,612</u>					<u>2,612</u>
Total Assets	<u>57,778</u>	<u>83,374</u>	<u>30,699</u>	<u>34,588</u>	<u>27,195</u>	<u>233,634</u>
DEFERRED OUTFLOWS OF RESOURCES						
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 57,778</u>	<u>\$ 83,374</u>	<u>\$ 30,699</u>	<u>\$ 34,588</u>	<u>\$ 27,195</u>	<u>\$ 233,634</u>
LIABILITIES						
Due to other funds			\$ 16,184	\$ 349	\$ 4,250	\$ 20,783
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>16,184</u>	<u>349</u>	<u>4,250</u>	<u>20,783</u>
DEFERRED INFLOWS OF RESOURCES						
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES						
Committed	<u>57,778</u>	<u>83,374</u>	<u>14,515</u>	<u>34,239</u>	<u>22,945</u>	<u>212,851</u>
Total Fund Balances	<u>57,778</u>	<u>83,374</u>	<u>14,515</u>	<u>34,239</u>	<u>22,945</u>	<u>212,851</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 57,778</u>	<u>\$ 83,374</u>	<u>\$ 30,699</u>	<u>\$ 34,588</u>	<u>\$ 27,195</u>	<u>\$ 233,634</u>

SCHEDULE B
TOWN OF CANAAN, NEW HAMPSHIRE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds - All Nonmajor Funds
For the Year Ended December 31, 2016

	Conservation Fund	Expendable Trust Funds	Transfer Station Fund	Police Outside Detail Fund	Recreation Revolving Fund	Total Nonmajor Governmental Funds
Revenues:						
Taxes	\$ 2,612					\$ 2,612
Intergovernmental				\$ 10,010		10,010
Charges for services			\$ 1,802	27,910	\$ 59,213	88,925
Interest and investment income	288	\$ 424	16	16	15	759
Miscellaneous					11,566	11,566
Total Revenues	<u>2,900</u>	<u>424</u>	<u>1,818</u>	<u>37,936</u>	<u>70,794</u>	<u>113,872</u>
Expenditures:						
Current operations:						
General government		573				573
Public safety				39,551		39,551
Sanitation			86			86
Culture and recreation					69,497	69,497
Conservation	<u>1,642</u>					<u>1,642</u>
Total Expenditures	<u>1,642</u>	<u>573</u>	<u>86</u>	<u>39,551</u>	<u>69,497</u>	<u>111,349</u>
Excess revenues over expenditures	<u>1,258</u>	<u>(149)</u>	<u>1,732</u>	<u>(1,615)</u>	<u>1,297</u>	<u>2,523</u>
Net change in fund balances	1,258	(149)	1,732	(1,615)	1,297	2,523
Fund balances at beginning of year	<u>56,520</u>	<u>83,523</u>	<u>12,783</u>	<u>35,854</u>	<u>21,648</u>	<u>210,328</u>
Fund balances at end of year	<u>\$ 57,778</u>	<u>\$ 83,374</u>	<u>\$ 14,515</u>	<u>\$ 34,239</u>	<u>\$ 22,945</u>	<u>\$ 212,851</u>