

TOWN OF CANAAN, NEW HAMPSHIRE

Financial Statements

December 31, 2013

and

Independent Auditor's Report

**TOWN OF CANAAN, NEW HAMPSHIRE
FINANCIAL STATEMENTS
December 31, 2013**

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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, 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, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Adverse Opinion on Governmental Activities

As discussed in Note 2 to the financial statements, management has not recorded a liability for other post-employment benefits in governmental activities and, accordingly, has not recorded an expense

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

Adverse Opinion

In our opinion, because of the significance of the matter described in the “Basis for Adverse Opinion on Governmental Activities” paragraph, the financial statements referred to above do not present fairly the financial position of the governmental activities of the Town of Canaan, New Hampshire, as of December 31, 2013, or the changes in financial position thereof for the year then ended.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of business-type activities, each major fund and the aggregate remaining fund information of the Town of Canaan, New Hampshire, as of December 31, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and budgetary comparison information on pages i-viii and 26-27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and

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

Vachon Clutkey & Company PC

Manchester, New Hampshire
August 6, 2014

TOWN OF CANAAN, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2013

Presented herewith please find the Management Discussion & Analysis Report for the Town of Canaan for the year ending December 31, 2013. 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, 2013

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, 2013**

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 2013 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, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Capital and other assets:		
Capital assets	\$ 3,473,567	\$ 3,332,533
Other assets	<u>5,493,511</u>	<u>5,071,230</u>
Total assets	<u>8,967,078</u>	<u>8,403,763</u>
	<hr/>	<hr/>
Total deferred outflows of resources	-	-
Long-term and other liabilities:		
Long-term liabilities	37,930	
Other liabilities	<u>2,937,491</u>	<u>2,596,081</u>
Total liabilities	<u>2,975,421</u>	<u>2,596,081</u>
	<hr/>	<hr/>
Unearned tax revenue	3,182	9,220
Total deferred inflows of resources	<u>3,182</u>	<u>9,220</u>
Net position:		
Net investment in capital assets	3,435,637	3,332,533
Restricted	809,313	765,161
Unrestricted	<u>1,743,525</u>	<u>1,700,768</u>
Total net position	<u>\$ 5,988,475</u>	<u>\$ 5,798,462</u>

Approximately 57.4% of the Town's net position reflects the investment in capital assets such as land, buildings, infrastructure, and equipment less the outstanding debt used to acquire those assets. Another 13.5% of the net position is restricted in regards to how it may be used. For the Town of Canaan, those

TOWN OF CANAAN, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2013

restrictions include those related to non-expendable trust funds and the unexpended balance of restricted grants and donations. The remaining unrestricted portion represents the part of net position available to finance day-to-day operations.

Statement of Activities

Changes in net position of the Town's governmental activities for the years ending December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Program revenues:		
Charges for services	\$ 83,784	\$ 95,112
Operating grants and contributions	250,780	212,621
Capital grants and contributions	50,456	-
Total program revenues	<u>385,020</u>	<u>307,733</u>
General revenues:		
Property and other taxes	2,235,181	2,029,172
Licenses and permits	605,051	592,544
Intergovernmental revenue	174,127	174,212
Interest and investment earnings	75,897	43,836
Miscellaneous	127,149	53,391
Total general revenues	<u>3,217,405</u>	<u>2,893,155</u>
Total revenues	<u>3,602,425</u>	<u>3,200,888</u>
Program expenses:		
General government	1,018,146	1,025,911
Public safety	993,399	900,171
Highways and streets	912,568	886,594
Sanitation	163,809	172,926
Health and welfare	92,319	95,160
Culture and recreation	207,178	205,025
Conservation	1,449	
Economic development	6,032	6,031
Total expenses	<u>3,394,900</u>	<u>3,291,818</u>
Change in net position before transfers	207,525	(90,930)
Transfers	<u>(17,512)</u>	<u>(18,338)</u>
Change in net position	190,013	(109,268)
Net position - beginning of year	<u>5,798,462</u>	<u>5,907,730</u>
Net position - ending of year	<u>\$ 5,988,475</u>	<u>\$ 5,798,462</u>

As shown in the above statement the Town's governmental activities experienced an increase in financial position of \$190,013 on the full accrual basis of accounting.

**TOWN OF CANAAN, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2013**

Business-Type Activities

Statement of Net Position

Net position of the business-type activities as of December 31, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Capital and other assets:		
Capital assets	\$ 3,672,528	\$ 3,791,088
Other assets	<u>89,795</u>	<u>214,573</u>
Total assets	<u>3,762,323</u>	<u>4,005,661</u>
	<hr/>	<hr/>
Total deferred outflows of resources	-	-
Long-term and other liabilities:		
Long-term liabilities	30,000	160,950
Other liabilities	<u>638</u>	<u>6,537</u>
Total liabilities	<u>30,638</u>	<u>167,487</u>
	<hr/>	<hr/>
Total deferred inflows of resources	-	-
Net position:		
Net investment in capital assets	3,642,528	3,630,138
Unrestricted	<u>89,157</u>	<u>208,036</u>
Total net position	<u>\$ 3,731,685</u>	<u>\$ 3,838,174</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, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Program revenues:		
Charges for services	\$ 157,075	\$ 155,729
Capital grants and contributions	<u> </u>	<u>115,949</u>
Total program revenues	<u>157,075</u>	<u>271,678</u>
General revenues:		
Interest and investment earnings	<u>5</u>	<u>222</u>
Total general revenues	<u>5</u>	<u>222</u>
Total revenues	<u>157,080</u>	<u>271,900</u>

**TOWN OF CANAAN, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2013**

Program expenses:		
Water	132,889	90,537
Sewer	<u>148,192</u>	<u>138,797</u>
Total expenses	<u>281,081</u>	<u>229,334</u>
Change in net position before transfers	(124,001)	42,566
Transfers	<u>17,512</u>	<u>18,338</u>
Change in net position	(106,489)	60,904
Net position - beginning of year	<u>3,838,174</u>	<u>3,777,270</u>
Net position - ending of year	<u>\$ 3,731,685</u>	<u>\$ 3,838,174</u>

The main funding source for business-type activities is charges for services, which provided 55.9% and 67.9% of expenses in 2013 and 2012 respectively. Overall, there was a decrease of \$106,489 in the net position. During the year ended December 31, 2012, the Town recognized a one-time principal forgiveness of \$115,949 on outstanding water bond obligations as authorized by the American Recovery and Reinvestment Act, which resulted in an increase 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 \$77,527. Additional fund balance components at year end amounted to \$735,957 and are detailed on page 25 of the Notes to the Basic Financial Statements.

The total General Fund balance increased \$11,546 from December 31, 2012. A decrease in fund balance was anticipated since \$164,000 of the prior year fund balance was appropriated to fund 2013 warrant articles.

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, 2013, the balance of \$539,037 was nonspendable and \$241,224 was restricted. The total fund balance in the permanent funds increased \$44,143 from the prior year.

TOWN OF CANAAN, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2013

Other Governmental Funds

The total fund balance of \$219,678 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 \$89,157 at December 31, 2013. Charges for services for water and sewer operations covered 55.9% of operating expenses. The water fund had a decrease in net position of \$58,930. Although there was a transfer of \$17,512 from the General Fund for debt service payments, the sewer fund also had a decrease in net position of \$47,559.

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 6 to the basic financial statements for a complete schedule of capital asset activity for the year.

Long-Term Obligations

During 2013, the Town increased the long-term obligations of the governmental activities by \$37,930 through the acquisition of a capital lease. The Town had a reduction of \$130,950 in the long-term obligations of its business-type activities from scheduled payments on bonds.

See Note 9 to the basic financial statements for additional information on the long-term obligations of the Town.

Budgetary Highlights

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

During the year, the original estimated revenue and budgeted appropriations increased by \$40,097. This increase is the result of unanticipated income accepted under RSA 31:95b.

Actual revenues and transfers in on the budgetary basis were higher than the budgeted amount by \$199,565. This favorable variance represents approximately 6.0% of the estimated revenues projected when the property tax rate was established.

TOWN OF CANAAN, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2013

The Town underexpended its budgeted appropriations by \$73,405. Demonstrating fiscal restraint, town officials were able to manage the town's business under budget. Detailed budgetary results may be found in Schedule 1 in the financial statements.

Economic Factors

The Town continues to be in good financial condition with little long-term debt and a stable General Fund balance. Town management will continue to conservatively manage the Town to maintain a low tax rate. Since 2008, the Board of Selectmen in conjunction with the Budget Committee has worked diligently to restructure operations to reduce spending. In 2013, spending increased but was offset by increased non-property tax revenue. The 2013 budget was about \$100,000 more than the 2012 budget and included additional money for equipment repairs, road reconstruction, mandated retirement contributions, cost of living wage increase and health insurance expense. The Town has had little change in its tax rates during the past five years due to program adjustments. The 2014 tax year may be our last year of restructuring to save money. We anticipate savings in health insurance in 2014. Starting in 2015, we anticipate that costs will increase after many years of steady or lower costs. The increases will be the result of energy (heat, lights, truck and car fuel), paving, wage and insurance cost increases. Wages will generally increase only at the rate of inflation which is less than 2% per year. We also expect that non-tax revenue will increase to offset the increased costs. Increases will occur in motor vehicle and timber taxes, interest and penalties on delinquent taxes and SRO and Cemetery reimbursements. As stated last year, this increased revenue will only be applied after at least one complete year's experience in actually receiving the higher revenue. Historically, our cost increases are about \$100,000 a year or 3%. We anticipate that existing revenues will keep our town tax rate stable over the next two years but recognize that eventually the tax rate will need to increase. We are hopeful that with the end of the recession, new residential and commercial construction will help our tax revenue without increasing the rate. New construction is less than 1% per year at the moment. Even at the lower rate, that new construction does generate about \$20,000 a year in new tax revenue. In years prior to 2009, new construction accounted for an annual increase of 2% in property tax revenue. Annual taxes raised for Town government have remained flat or reduced since 2007. In 2014, total tax revenue will increase by \$26,000 even though the tax rate remains relatively the same. This will be the result of a larger tax base with the new construction. Delinquent tax collections are keeping our cash flow balanced at the moment but will require vigilance over the next three years.

Contacting the Town of Canaan's Financial Management

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

EXHIBIT A
TOWN OF CANAAN, NEW HAMPSHIRE
Statement of Net Position
December 31, 2013

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 3,116,739	\$ 64,817	\$ 3,181,556
Investments	1,392,051	2,740	1,394,791
Taxes receivable, net	792,429		792,429
Accounts receivable	541	40,627	41,168
Due from other governments	100,090		100,090
Internal balances	18,389	(18,389)	-
Tax deeded property	<u>50,711</u>		<u>50,711</u>
Total Current Assets	<u>5,470,950</u>	<u>89,795</u>	<u>5,560,745</u>
Noncurrent Assets:			
Due from other governments	22,561		22,561
Capital assets:			
Non-depreciable capital assets	493,349	238,341	731,690
Depreciable capital assets, net	<u>2,980,218</u>	<u>3,434,187</u>	<u>6,414,405</u>
Total Noncurrent Assets	<u>3,496,128</u>	<u>3,672,528</u>	<u>7,168,656</u>
Total Assets	<u>8,967,078</u>	<u>3,762,323</u>	<u>12,729,401</u>
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	61,800		61,800
Accrued expenses	32,144	638	32,782
Due to other governments	2,842,183		2,842,183
Deposits	1,364		1,364
Current portion of bonds payable		15,000	15,000
Current portion of capital leases payable	<u>37,930</u>		<u>37,930</u>
Total Current Liabilities	<u>2,975,421</u>	<u>15,638</u>	<u>2,991,059</u>
Noncurrent Liabilities:			
Bonds payable		<u>15,000</u>	<u>15,000</u>
Total Noncurrent Liabilities	<u>-</u>	<u>15,000</u>	<u>15,000</u>
Total Liabilities	<u>2,975,421</u>	<u>30,638</u>	<u>3,006,059</u>
DEFERRED INFLOWS OF RESOURCES			
Unearned tax revenue	<u>3,182</u>		<u>3,182</u>
Total Deferred Inflows of Resources	<u>3,182</u>	<u>-</u>	<u>3,182</u>
NET POSITION			
Net investment in capital assets	3,435,637	3,642,528	7,078,165
Restricted	809,313		809,313
Unrestricted	<u>1,743,525</u>	<u>89,157</u>	<u>1,832,682</u>
Total Net Position	<u>\$ 5,988,475</u>	<u>\$ 3,731,685</u>	<u>\$ 9,720,160</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, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	
Governmental Activities:							
General government	\$ 1,018,146	\$ 1,620	\$ 305		\$(1,016,221)		\$(1,016,221)
Public safety	993,399	53,746	75,945		(863,708)		(863,708)
Highways and streets	912,568		174,530	\$ 50,456	(687,582)		(687,582)
Sanitation	163,809	19,083			(144,726)		(144,726)
Health and welfare	92,319				(92,319)		(92,319)
Culture and recreation	207,178	9,335			(197,843)		(197,843)
Conservation	1,449				(1,449)		(1,449)
Economic development	6,032				(6,032)		(6,032)
Total governmental activities	<u>3,394,900</u>	<u>83,784</u>	<u>250,780</u>	<u>50,456</u>	<u>(3,009,880)</u>	<u>\$ -</u>	<u>(3,009,880)</u>
Business-type activities:							
Water	132,889	73,954				(58,935)	(58,935)
Sewer	148,192	83,121				(65,071)	(65,071)
Total business-type activities	<u>281,081</u>	<u>157,075</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(124,006)</u>	<u>(124,006)</u>
Total primary government	<u>\$ 3,675,981</u>	<u>\$ 240,859</u>	<u>\$ 250,780</u>	<u>\$ 50,456</u>	<u>(3,009,880)</u>	<u>(124,006)</u>	<u>(3,133,886)</u>
General revenues:							
Property and other taxes					2,235,181		2,235,181
Licenses and permits					605,051		605,051
Grants and contributions:							
Rooms and meals tax distribution					173,983		173,983
State and federal forest land					144		144
Interest and investment income					75,897	5	75,902
Miscellaneous					127,149		127,149
Transfers, net					(17,512)	17,512	
Total general revenues and transfers					<u>3,199,893</u>	<u>17,517</u>	<u>3,217,410</u>
Change in net position					190,013	(106,489)	83,524
Net position - beginning					5,798,462	3,838,174	9,636,636
Net position - ending					<u>\$ 5,988,475</u>	<u>\$ 3,731,685</u>	<u>\$ 9,720,160</u>

See accompanying notes to the basic financial statements

EXHIBIT C
TOWN OF CANAAN, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
December 31, 2013

	<u>General Fund</u>	<u>Permanent Funds</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 3,039,776	\$ 641	\$ 76,322	\$ 3,116,739
Investments	447,209	802,415	142,427	1,392,051
Taxes receivable, net	792,429			792,429
Accounts receivable			541	541
Due from other governments	94,543			94,543
Due from other funds	47,448		6,652	54,100
Tax dedeed property	50,711			50,711
Total Assets	<u>4,472,116</u>	<u>803,056</u>	<u>225,942</u>	<u>5,501,114</u>
DEFERRED OUTFLOWS OF RESOURCES				
Total Deferred Outflows of Resources	-	-	-	-
Total Assets and Deferred Outflows of Resources	<u>\$ 4,472,116</u>	<u>\$ 803,056</u>	<u>\$ 225,942</u>	<u>\$ 5,501,114</u>
LIABILITIES				
Accounts payable	\$ 61,800			\$ 61,800
Accrued expenses	32,144			32,144
Due to other governments	2,842,183			2,842,183
Due to other funds	6,652	\$ 22,795	\$ 6,264	35,711
Deposits	1,364			1,364
Total Liabilities	<u>2,944,143</u>	<u>22,795</u>	<u>6,264</u>	<u>2,973,202</u>
DEFERRED INFLOWS OF RESOURCES				
Unearned tax revenue	714,489			714,489
Total Deferred Inflows of Resources	<u>714,489</u>	<u>-</u>	<u>-</u>	<u>714,489</u>
FUND BALANCES				
Nonspendable		539,037		539,037
Restricted	29,052	241,224		270,276
Committed	450,324		219,678	670,002
Assigned	256,581			256,581
Unassigned	77,527			77,527
Total Fund Balances	<u>813,484</u>	<u>780,261</u>	<u>219,678</u>	<u>1,813,423</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 4,472,116</u>	<u>\$ 803,056</u>	<u>\$ 225,942</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds 3,473,567

Property taxes are recognized on an accrual basis in the statement of net position, not the modified accrual basis 711,307

The long-term state aid grant receivable is recognized on an accrual basis in the statement of net position, not the modified accrual basis 28,108

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:

Capital leases payable (37,930)

Net position of governmental activities \$ 5,988,475

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, 2013

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, 2013

	General Fund	Permanent Funds	Nonmajor Governmental Funds	Total Governmental Funds	
Revenues:					
Taxes	\$ 2,235,312		\$ 2,667	\$ 2,237,979	\$ 95,254
Licenses and permits	605,051			605,051	
Intergovernmental	471,147		9,763	480,910	
Charges for services	40,347		43,437	83,784	
Interest and investment income	1,139	\$ 72,681	2,077	75,897	
Miscellaneous	73,797		38,352	112,149	
Total Revenues	<u>3,426,793</u>	<u>72,681</u>	<u>96,296</u>	<u>3,595,770</u>	
Expenditures:					
Current operations:					
General government	997,989	5,743		1,003,732	126,034
Public safety	900,980		35,402	936,382	
Highways and streets	887,742			887,742	(2,798)
Sanitation	159,572			159,572	
Health and welfare	92,319		19,880	92,319	
Culture and recreation	144,663	641	1,449	165,184	
Conservation					(5,547)
Capital outlay	274,554		1,449	274,554	
Total Expenditures	<u>3,457,819</u>	<u>6,384</u>	<u>56,731</u>	<u>3,520,934</u>	
Excess revenues over (under) expenditures	(31,026)	66,297	39,565	74,836	(37,930)
Other financing sources (uses):					
Proceeds from capital lease	37,930			37,930	
Transfers in	22,154			22,154	
Transfers out	(17,512)	(22,154)		(39,666)	15,000
Total other financing sources (uses)	<u>42,572</u>	<u>(22,154)</u>	<u>-</u>	<u>20,418</u>	
Net change in fund balances	11,546	44,143	39,565	95,254	
Fund balances at beginning of year	801,938	736,118	180,113	1,718,169	
Fund balances at end of year	<u>\$ 813,484</u>	<u>\$ 780,261</u>	<u>\$ 219,678</u>	<u>\$ 1,813,423</u>	<u>\$ 190,013</u>

Net Change in Fund Balances--Total Governmental Funds

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.

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

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.

Proceeds from capital leases are reported as other financing sources in the funds, but a capital lease increases long-term liabilities in the statement of net position.

Governmental funds only report the disposal of assets to the extent the gain of disposed capital assets reduced by the actual proceeds received from the sale of capital assets.

Change in Net Position of Governmental Activities

See accompanying notes to the basic financial statements

EXHIBIT E
TOWN OF CANAAN, NEW HAMPSHIRE
Statement of Net Position
Proprietary Funds
December 31, 2013

	Business-type Activities		
	Water Fund	Sewer Fund	Totals
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 64,817		\$ 64,817
Investments	2,740		2,740
Accounts receivable	20,189	\$ 20,438	40,627
Due from other funds	100,230		100,230
Total Current Assets	<u>187,976</u>	<u>20,438</u>	<u>208,414</u>
Noncurrent Assets:			
Capital assets:			
Non-depreciable capital assets		238,341	238,341
Depreciable capital assets, net	1,147,989	2,286,198	3,434,187
Total Noncurrent Assets	<u>1,147,989</u>	<u>2,524,539</u>	<u>3,672,528</u>
Total Assets	<u>1,335,965</u>	<u>2,544,977</u>	<u>3,880,942</u>
DEFERRED OUTFLOWS OF RESOURCES			
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
LIABILITIES			
Current Liabilities:			
Accrued expenses	25	613	638
Due to other funds	7,547	111,072	118,619
Current portion of bonds payable		15,000	15,000
Total Current Liabilities	<u>7,572</u>	<u>126,685</u>	<u>134,257</u>
Noncurrent Liabilities:			
Bonds payable		15,000	15,000
Total Noncurrent Liabilities	<u>-</u>	<u>15,000</u>	<u>15,000</u>
Total Liabilities	<u>7,572</u>	<u>141,685</u>	<u>149,257</u>
DEFERRED INFLOWS OF RESOURCES			
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION			
Net investment in capital assets	1,147,989	2,494,539	3,642,528
Unrestricted (deficit)	180,404	(91,247)	89,157
Total Net Position	<u>\$ 1,328,393</u>	<u>\$ 2,403,292</u>	<u>\$ 3,731,685</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, 2013

	Business-type Activities		
	Water Fund	Sewer Fund	Totals
Operating revenues:			
Charges for services	\$ 73,954	\$ 83,121	\$ 157,075
Total operating revenues	<u>73,954</u>	<u>83,121</u>	<u>157,075</u>
Operating expenses:			
Personnel services	29,552	29,551	59,103
Contractual services	11,088	4,028	15,116
Repairs and maintenance	32,299	9,078	41,377
Materials and supplies	3,344	2,452	5,796
Utilities	5,687	18,391	24,078
Depreciation	50,919	82,484	133,403
Total operating expenses	<u>132,889</u>	<u>145,984</u>	<u>278,873</u>
Operating loss	<u>(58,935)</u>	<u>(62,863)</u>	<u>(121,798)</u>
Non-operating revenues (expenses):			
Interest revenue	5		5
Interest expense		(2,208)	(2,208)
Net non-operating expenses	<u>5</u>	<u>(2,208)</u>	<u>(2,203)</u>
Loss before transfers	(58,930)	(65,071)	(124,001)
Transfers in		17,512	17,512
Change in net position	(58,930)	(47,559)	(106,489)
Total net position at beginning of year	<u>1,387,323</u>	<u>2,450,851</u>	<u>3,838,174</u>
Total net position at end of year	<u>\$ 1,328,393</u>	<u>\$ 2,403,292</u>	<u>\$ 3,731,685</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, 2013

	Business-type Activities		
	Water Department	Sewer Department	Totals
Cash flows from operating activities:			
Cash received from customers	\$ 74,828	\$ 80,221	\$ 155,049
Cash paid to suppliers	(59,445)	(41,025)	(100,470)
Cash paid to employees	(22,500)	(22,500)	(45,000)
Net cash provided (used) by operating activities	<u>(7,117)</u>	<u>16,696</u>	<u>9,579</u>
Cash flows from capital financing activities:			
Purchases of capital assets	(9,818)	(5,025)	(14,843)
Transfers from other funds		17,512	17,512
Principal paid on long-term debt	(115,950)	(15,000)	(130,950)
Interest paid on long-term debt	(5,595)	(2,512)	(8,107)
Net cash used for capital financing activities	<u>(131,363)</u>	<u>(5,025)</u>	<u>(136,388)</u>
Cash flows from investing activities:			
Redemptions of investments	157,045		157,045
Interest on investments	5		5
Net cash provided by investing activities	<u>157,050</u>	<u>-</u>	<u>157,050</u>
Net increase in cash and cash equivalents	18,570	11,671	30,241
Cash and cash equivalents (deficiency) at beginning of year	138,930	(122,743)	16,187
Cash and cash equivalents (deficiency) at end of year	<u>\$ 157,500</u>	<u>\$ (111,072)</u>	<u>\$ 46,428</u>
Reconciliation of operating loss to net cash provided (used) by operating activities:			
Operating loss	\$ (58,935)	\$ (62,863)	\$ (121,798)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:			
Depreciation expense	50,919	82,484	133,403
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:			
Accounts receivable	874	(2,900)	(2,026)
Accrued expenses	25	(25)	-
Net cash provided (used) by operating activities	<u>\$ (7,117)</u>	<u>\$ 16,696</u>	<u>\$ 9,579</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, 2013

	Agency Funds
ASSETS	
Investments	\$ 757,657
Total Assets	<u>\$ 757,657</u>
LIABILITIES	
Due to other governments	\$ 757,657
Total Liabilities	<u>\$ 757,657</u>

See accompanying notes to the basic financial statements

**TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2013**

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

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

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)
December 31, 2013

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

Fund Accounting

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

1. Governmental Funds:

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following are the Town's major governmental funds:

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

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

2. Proprietary Funds:

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

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

3. Fiduciary Funds:

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category has one classification: agency fund. The Town's agency fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. The Town's agency fund 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)
December 31, 2013

Measurement Focus

1. Government-Wide Financial Statements:

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

2. Fund Financial Statements:

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of unearned revenue, and in the presentation of expenses versus expenditures.

1. Revenues – Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the Town, available means expected to be received within sixty days of year end.

Non-exchange transactions, in which the Town receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied (see Note 3). Revenue from grants,

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the Town must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Town on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

2. Unearned Revenue:

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

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

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

3. Expenses/Expenditures:

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

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

Budgetary Data

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

State law requires balanced budgets but permits the use of beginning fund balance to reduce the property tax rate. For the year ended December 31, 2013, the Town applied \$164,000 of its unappropriated fund balance to reduce taxes.

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

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	\$ 64,817		\$ 64,817
Due from other funds	100,230		100,230
Due to other funds	<u>(7,547)</u>	<u>\$ (111,072)</u>	<u>(118,619)</u>
Totals	<u>\$ 157,500</u>	<u>\$ (111,072)</u>	<u>\$ 46,428</u>

Investments

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

Taxes Receivable

Taxes levied during the current year and prior and uncollected at December 31, 2013 are recorded as receivables net of reserves for estimated uncollectibles of \$138,988.

Capital Assets

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

All capital assets including infrastructure and intangible assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their estimated fair values as of the date received. The Town maintains a capitalization threshold of \$10,000. The Town's infrastructure consists of roads, bridges, sidewalks, water purification and distribution system, sewer collection and treatment system, and similar items. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

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

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:

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

	<u>Description</u>	<u>Years</u>
	Infrastructure	50
	Buildings and improvements	10-40
	Land improvements	7-15
	Vehicles and equipment	5-25

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. Unused vacation has been included as a liability in the governmental funds in these fund financial statements.

Accrued Liabilities and Long-Term Obligations

Except for the obligation for other post-employment benefits (see Note 2), all payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current resources, are reported as obligations of the funds. General obligation bonds and other long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

Net Position

Net position represents the difference between 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, 2013, the Town has not adopted a fund balance policy. Under GASB Statement 54, the Town has segregated fund balance into five classifications: Nonspendable, Restricted, Committed, Assigned, and Unassigned. These components of fund balance are defined as follows:

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

- *Nonspendable Fund Balance*: Amounts that are not in a spendable form or are required to be maintained intact.
- *Restricted Fund Balance*: Amounts constrained to specific purposes by their providers through constitutional provisions or by enabling legislation. Restrictions may be changed or lifted only upon the consent of the external resource provider or enabling legislation.
- *Committed Fund Balance*: Amounts constrained to specific purposes by a government itself using its highest level of decision-making authority (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. 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.

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

Estimates

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

NOTE 2—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

NOTE 3—PROPERTY TAXES

Taxes are levied on the assessed valuation of all taxable real property as of the prior April 1 (\$322,943,643 as of April 1, 2013) and are due in two installments on July 1, 2013 and December 1, 2013. Taxes paid after the due dates accrue interest at 12% per annum. Property taxes are recognized as revenue when received in cash or if available to finance current period operations (within sixty days of year end).

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

In accordance with State law, the Town collects taxes for the Mascoma Valley Regional School District and Grafton County, both independent governmental units, which are remitted to them as required by law. The Town also collects education taxes for the State of New Hampshire which are remitted to the school district. Total taxes appropriated during the year were \$5,479,700 and \$575,918 for the Mascoma Valley Regional School District and Grafton County, respectively. These taxes are not recognized as revenues in these financial statements. The Town bears responsibility for uncollected taxes.

NOTE 4—RISK MANAGEMENT

The Town is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2013, the Town participated in public entity risk pools (Trusts) 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 Trusts to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. Accounting principles generally accepted in the United States of America require members of pools with a sharing of risk to determine whether or not such assessment is probable and, if so, a reasonable estimate of such assessment. At this time, the Trusts foresee no likelihood of an additional assessment for any of the past years. Claims expenditures and

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

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, 2013.

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 5—DEPOSITS AND INVESTMENTS

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

Deposits and investments as of December 31, 2013 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and cash equivalents	\$ 3,181,556
Investments	1,394,791
Statement of Fiduciary Net Position:	
Investments	<u>757,657</u>
	<u>\$ 5,334,004</u>

Deposits and investments as of December 31, 2013 consist of the following:

Cash on hand	\$ 641
Deposits with financial institutions	275,370
Investments	<u>5,057,993</u>
Total cash and investments	<u>\$ 5,334,004</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

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

Pool (NHPDIP), an external investment pool in accordance with New Hampshire State law (RSA 197:23-a). Town funds may also be deposited into solvent banks within the State of New Hampshire, short-term obligations of United States government agency, or repurchase agreements with banks chartered by the State of New Hampshire and fully collateralized by United States Treasury Bills.

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Town manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time.

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

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

<u>Investment Type</u>	<u>Remaining Maturity (In Years)</u>			
	<u>Fair Value</u>	<u>0-1 Years</u>	<u>1-5 Years</u>	<u>> 5 Years</u>
U.S. Treasury notes	\$ 10,865		\$ 10,865	
Federal agency securities	83,494		33,488	\$ 50,006
Municipal obligations	146,078	\$ 65,349	30,732	49,997
Corporate bonds	185,308	18,355	112,707	54,246
Foreign bonds	74,658			74,658
	<u>\$ 500,403</u>	<u>\$ 83,704</u>	<u>\$ 187,792</u>	<u>\$ 228,907</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.

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

<u>Investment Type</u>	<u>Fair Value</u>	<u>Rating as of Year End</u>				
		<u>Aaa</u>	<u>Aa</u>	<u>A</u>	<u>Baa</u>	<u>Not Rated</u>
Municipal obligations	\$ 146,078		\$ 49,997	\$ 65,349		\$ 30,732
Corporate bonds	185,308	\$ 18,355	34,317	68,302	\$ 54,246	10,088
Foreign bonds	74,658		74,658			
Money market funds	23,432					23,432
State investment pool	1,302,030					1,302,030
	<u>\$ 1,731,506</u>	<u>\$ 18,355</u>	<u>\$ 158,972</u>	<u>\$ 133,651</u>	<u>\$ 54,246</u>	<u>\$ 1,366,282</u>

Custodial Credit Risk

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

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

The Town has no deposits with financial institutions at year end that are exposed to custodial credit risk. As of December 31, 2013, 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	\$ 10,865
Federal agency securities	83,494
Municipal obligations	146,078
Corporate bonds	185,308
Foreign bonds	74,658
Equity securities	305,439
Overnight repurchase agreement	2,926,689
	<u>\$ 3,732,531</u>

Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair values of an investment or deposit. As of December 31, 2013, the Town held \$74,658 in foreign bonds. The Town and the Trustees of Trust Funds do not have an investment policy for assurance against foreign currency risk.

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

Investment in NHPDIP

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

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

NOTE 6—CAPITAL ASSETS

Governmental Activities

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

	<u>Balance</u> <u>01/01/13</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/13</u>
Governmental activities:				
Capital assets not depreciated:				
Land	\$ 402,383			\$ 402,383
Construction in progress	106,387	\$ 68,253	\$ (83,674)	90,966
Total capital assets not being depreciated	<u>508,770</u>	<u>68,253</u>	<u>(83,674)</u>	<u>493,349</u>
Other capital assets:				
Infrastructure	1,114,955			1,114,955
Buildings and improvements	1,674,889	83,674		1,758,563
Land improvements	13,100			13,100
Vehicles and equipment	2,087,878	296,105	(75,699)	2,308,284
Total other capital assets at historical cost	<u>4,890,822</u>	<u>379,779</u>	<u>(75,699)</u>	<u>5,194,902</u>
Less accumulated depreciation for:				
Infrastructure	(78,224)	(22,299)		(100,523)
Buildings and improvements	(696,459)	(60,449)		(756,908)
Land improvements	(946)	(873)		(1,819)
Vehicles and equipment	<u>(1,291,430)</u>	<u>(139,703)</u>	75,699	<u>(1,355,434)</u>
Total accumulated depreciation	<u>(2,067,059)</u>	<u>(223,324)</u>	75,699	<u>(2,214,684)</u>
Total other capital assets, net	<u>2,823,763</u>	<u>156,455</u>	-	<u>2,980,218</u>
Total capital assets, net	<u>\$ 3,332,533</u>	<u>\$ 224,708</u>	<u>\$ (83,674)</u>	<u>\$ 3,473,567</u>

Depreciation expense was charged to governmental functions as follows:

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

General government	\$ 14,109
Public safety	57,017
Highways and streets	112,721
Sanitation	4,237
Culture and recreation	29,208
Economic development	<u>6,032</u>
Total governmental activities depreciation expense	<u>\$ 223,324</u>

The balance of the assets acquired through capital leases as of December 31, 2013 is as follows:

Vehicles and equipment	\$ 90,395
Less: accumulated depreciation	<u>(5,273)</u>
	<u>\$ 85,122</u>

Business-Type Activities

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

	<u>Balance</u> <u>01/01/13</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/13</u>
Business-type activities:				
Capital assets not depreciated:				
Land	\$ 238,341	<u> </u>	<u> </u>	\$ 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	197,784	14,843		212,627
Total other capital assets at historical cost	<u>5,907,916</u>	<u>14,843</u>	<u> </u>	<u>5,922,759</u>
Less accumulated depreciation for:				
Infrastructure	(2,207,452)	(112,396)		(2,319,848)
Buildings and improvements	(46,213)	(1,359)		(47,572)
Land improvements	(3,199)	(3,199)		(6,398)
Vehicles and equipment	(98,305)	(16,449)		(114,754)
Total accumulated depreciation	<u>(2,355,169)</u>	<u>(133,403)</u>	<u> </u>	<u>(2,488,572)</u>
Total other capital assets, net	<u>3,552,747</u>	<u>(118,560)</u>	<u> </u>	<u>3,434,187</u>
Total capital assets, net	<u>\$ 3,791,088</u>	<u>\$ (118,560)</u>	<u>\$ -</u>	<u>\$ 3,672,528</u>

Depreciation expense was charged to proprietary funds as follows:

Water fund	\$ 50,919
Sewer fund	<u>82,484</u>
Total business-type activities depreciation expense	<u>\$ 133,403</u>

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

NOTE 7—DUE TO OTHER GOVERNMENTS

In accordance with State law, the Town collects taxes for the Mascoma Valley Regional School District and Grafton County, both independent governmental units, which are remitted to them as required by law. At December 31, 2013, the balance of the property tax appropriation due to the Mascoma Valley Regional School District is \$2,842,183.

NOTE 8—DEFINED BENEFIT PLAN

Plan Description

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

Funding Policy

Covered public safety employees are required to contribute 11.55% of their covered salary, whereas general employees are required to contribute 7.0% of their covered salary. The Town is required to contribute at an actuarially determined rate. The Town's contribution rates for the covered payroll of police officers and general employees were 19.95% and 8.8% through June 30, 2013, and 25.30% and 10.77%, respectively thereafter. The Town contributed 100% of the employer cost for public safety 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 contributions to the NHRS for the years ending December 31, 2013, 2012, and 2011 were \$123,271, \$103,334, and \$96,215 respectively, equal to the required contributions for each year.

NOTE 9—LONG-TERM OBLIGATIONS

Changes in Long-Term Obligations

The changes in the Town's long-term obligations for the year ended December 31, 2013 are as follows:

	Balance 01/01/13	Additions	Reductions	Balance 12/31/13	Due Within One Year
Governmental activities:					
Capital leases payable	\$ -	\$ 37,930	\$ -	\$ 37,930	\$ 37,930
Total governmental activities	<u>\$ -</u>	<u>\$ 37,930</u>	<u>\$ -</u>	<u>\$ 37,930</u>	<u>\$ 37,930</u>

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

Business-type activities:

Bonds payable	\$ 160,950	\$ -	\$ (130,950)	\$ 30,000	\$ 15,000
Total business-type activities	<u>\$ 160,950</u>	<u>\$ -</u>	<u>\$ (130,950)</u>	<u>\$ 30,000</u>	<u>\$ 15,000</u>

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

General Obligation Bonds

Business-Type Activities

Bonds payable at December 31, 2013 are comprised of the following individual issue:

\$315,000 Sewer System bonds of August 1995, due in annual installments of \$15,000 to \$20,000 through August 2015; interest at 5.25% to 5.625%	<u>\$ 30,000</u>
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Debt service requirements to retire general obligation bonds outstanding at December 31, 2013 are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2014	\$ 15,000	\$ 1,688	\$ 16,688
2015	15,000	843	15,843
	<u>\$ 30,000</u>	<u>\$ 2,531</u>	<u>\$ 32,531</u>

As included on the Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds (Exhibit F), interest expense for the year ended December 31, 2013 was \$2,208 on general obligation debt for business-type activities.

Capital Lease Obligations

Capital lease obligations represent lease agreements entered into for the financing of equipment acquisitions. These contracts are subject to cancellation should funds not be appropriated to meet payment obligations. Amounts are annually budgeted in the applicable function. The following is the individual capital lease obligation for governmental activities at December 31, 2013:

Excavator, due in monthly installments of \$7,632 through May 2014, including interest at 2.396%	<u>\$ 37,930</u>
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Debt service requirements to retire capital lease obligations outstanding for governmental activities at December 31, 2013 are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2014	<u>\$ 37,930</u>	<u>\$ 230</u>	<u>\$ 38,160</u>

**TOWN OF CANAAN, NEW HAMPSHIRE
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2013**

Authorized and Unissued Debt

As of December 31, 2013, the Town had the following debt authorized and unissued:

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

NOTE 10—INTERFUND BALANCES AND TRANSFERS

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

Interfund balances at December 31, 2013 are as follows:

	Due to			Totals
	General Fund	Nonmajor Governmental Funds	Water Fund	
Due from:		\$ 6,652		\$ 6,652
General Fund				22,795
Permanent Funds	\$ 22,795			6,264
Nonmajor Governmental Funds	6,264			7,547
Water Fund	7,547			100,230
Sewer Fund	<u>10,842</u>		<u>\$ 100,230</u>	<u>111,072</u>
Totals	<u>\$ 47,448</u>	<u>\$ 6,652</u>	<u>\$ 100,230</u>	<u>\$ 154,330</u>

During the year, several interfund transactions occurred between funds. The various transfers between the General Fund, Permanent Funds, and Sewer Fund were made in accordance with budgetary authorizations. Interfund transfers for the year ended December 31, 2013 are as follows:

	Transfer from		Totals
	General Fund	Permanent Funds	
Transfer to:		\$ 22,154	\$ 22,154
General Fund			17,512
Sewer Fund	\$ 17,512		<u>17,512</u>
	<u>\$ 17,512</u>	<u>\$ 22,154</u>	<u>\$ 39,666</u>

NOTE 11—RESTRICTED NET POSITION

Net position is restricted for specific purposes as follows:

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013

Permanent Fund - Endowments	\$ 539,037
Permanent Fund - Income	241,224
CDBG Funds	27,141
Library building renovations	<u>1,911</u>
	<u>\$ 809,313</u>

NOTE 12—COMPONENTS OF FUND BALANCE

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

<u>Fund Balances</u>	<u>General Fund</u>	<u>Permanent Funds</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable:				
Permanent Funds - Endowments		\$ 539,037		\$ 539,037
Restricted for:				
Permanent Funds - Income		241,224		241,224
CDBG Fund	\$ 27,141			27,141
Library building renovations	1,911			1,911
Committed for:				
Capital Reserve	450,324			450,324
Conservation Fund			\$ 49,084	49,084
Expendable Trust Funds			74,962	74,962
Transfer Station Fund			25,033	25,033
Police Outside Detail Fund			38,690	38,690
Recreation Revolving Fund			31,909	31,909
Assigned for:				
Library operations	59,878			59,878
Designated for subsequent year expenditures	179,813			\$ 179,813
Encumbrances	16,890			16,890
Unassigned:				
Unassigned - General operations	<u>77,527</u>			<u>77,527</u>
	<u>\$ 813,484</u>	<u>\$ 780,261</u>	<u>\$ 219,678</u>	<u>\$ 1,813,423</u>

NOTE 13—COMMITMENTS AND CONTINGENCIES

Litigation

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

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, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	\$ 2,107,118	\$ 2,107,118	\$ 2,232,514	\$ 125,396
Licenses and permits	579,625	579,625	605,051	25,426
Intergovernmental	380,740	420,837	420,691	(146)
Charges for services	20,000	20,000	40,347	20,347
Interest income	7,000	7,000	967	(6,033)
Miscellaneous	11,450	11,450	49,299	37,849
Total Revenues	<u>3,105,933</u>	<u>3,146,030</u>	<u>3,348,869</u>	<u>202,839</u>
Expenditures:				
Current operations:				
General government	985,628	985,628	984,905	723
Public safety	879,825	879,825	873,692	6,133
Highways and streets	856,289	896,386	822,832	73,554
Sanitation	157,281	157,281	160,151	(2,870)
Health and welfare	90,635	90,635	91,559	(924)
Culture and recreation	11,656	11,656	9,932	1,724
Capital outlay	165,002	165,002	169,951	(4,949)
Debt service:				
Interest and fiscal charges	<u>1</u>	<u>1</u>	<u>-</u>	<u>1</u>
Total Expenditures	<u>3,146,317</u>	<u>3,186,414</u>	<u>3,113,022</u>	<u>73,392</u>
Excess revenues over (under) expenditures	<u>(40,384)</u>	<u>(40,384)</u>	<u>235,847</u>	<u>276,231</u>
Other financing sources (uses):				
Transfers in	183,000	183,000	179,726	(3,274)
Transfers out	<u>(306,616)</u>	<u>(306,616)</u>	<u>(306,603)</u>	<u>13</u>
Total other financing sources (uses)	<u>(123,616)</u>	<u>(123,616)</u>	<u>(126,877)</u>	<u>(3,261)</u>
Net change in fund balance	(164,000)	(164,000)	108,970	272,970
Fund balance at beginning of year				
- Budgetary Basis	<u>883,772</u>	<u>883,772</u>	<u>883,772</u>	<u>-</u>
Fund balance at end of year				
- Budgetary Basis	<u>\$ 719,772</u>	<u>\$ 719,772</u>	<u>\$ 992,742</u>	<u>\$ 272,970</u>

See accompanying notes to the required supplementary information

TOWN OF CANAAN, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 December 31, 2013

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, capital lease activity and budgetary transfers as follows:

	Revenues and Other Financing <u>Sources</u>	Expenditures and Other Financing <u>Uses</u>
Per Exhibit D	\$ 3,486,877	\$ 3,475,331
Difference in property taxes meeting susceptible to accrual criteria	(2,798)	
Accrued vacation - December 31, 2013		(24,095)
Accrued vacation - December 31, 2012		19,430
Encumbrances - December 31, 2013		16,890
Encumbrances - December 31, 2012		(116,108)
Non-budgetary revenues and expenditures	(75,126)	(202,984)
Capital lease activity	(37,930)	(37,930)
Budgetary transfers in and out	<u>157,572</u>	<u>289,091</u>
Per Schedule 1	<u>\$ 3,528,595</u>	<u>\$ 3,419,625</u>

NOTE 2—BUDGETARY FUND BALANCES

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

Nonspendable:	
Tax deeded property	\$ 50,711
Assigned for:	
Designated for subsequent year expenditures	179,813
Unassigned:	
Unassigned - General operations	<u>762,218</u>
	<u>\$ 992,742</u>

SCHEDULE A
TOWN OF CANAAN, NEW HAMPSHIRE
Combining Balance Sheet
Governmental Funds - All Nonmajor Funds
December 31, 2013

	Conservation Fund	Expendable Trust Funds	Transfer Station Fund	Police Outside Detail Fund	Recreation Revolving Fund	Total Nonmajor Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 46,320	\$ 74,962	\$ 21,145	\$ 38,731	\$ 37,591	\$ 76,322
Investments						142,427
Accounts receivable	2,764		3,888	541		541
Due from other funds	49,084	74,962	25,033	39,272	37,591	6,652
Total Assets	<u>49,084</u>	<u>74,962</u>	<u>25,033</u>	<u>39,272</u>	<u>37,591</u>	<u>225,942</u>
DEFERRED OUTFLOWS OF RESOURCES						
Total Deferred Outflows of Resources	-	-	-	-	-	-
Total Assets and Deferred Outflows of Resources	<u>\$ 49,084</u>	<u>\$ 74,962</u>	<u>\$ 25,033</u>	<u>\$ 39,272</u>	<u>\$ 37,591</u>	<u>\$ 225,942</u>
LIABILITIES						
Due to other funds				\$ 582	\$ 5,682	\$ 6,264
Total Liabilities	\$ -	\$ -	\$ -	582	5,682	6,264
DEFERRED INFLOWS OF RESOURCES						
Total Deferred Inflows of Resources	-	-	-	-	-	-
FUND BALANCES						
Committed	49,084	74,962	25,033	38,690	31,909	219,678
Total Fund Balances	<u>49,084</u>	<u>74,962</u>	<u>25,033</u>	<u>38,690</u>	<u>31,909</u>	<u>219,678</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 49,084</u>	<u>\$ 74,962</u>	<u>\$ 25,033</u>	<u>\$ 39,272</u>	<u>\$ 37,591</u>	<u>\$ 225,942</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, 2013

	Conservation Fund	Expendable Trust Funds	Transfer Station Fund	Police Outside Detail Fund	Recreation Revolving Fund	Total Nonmajor Governmental Funds
Revenues:						
Taxes	\$ 2,667			\$ 9,763		\$ 2,667
Intergovernmental				30,214		9,763
Charges for services			\$ 3,888		\$ 9,335	43,437
Interest and investment income	16	\$ 1,968	71	15	7	2,077
Miscellaneous		500			37,852	38,352
Total Revenues	<u>2,683</u>	<u>2,468</u>	<u>3,959</u>	<u>39,992</u>	<u>47,194</u>	<u>96,296</u>
Expenditures:						
Current operations:						
Public safety				35,402		35,402
Culture and recreation					19,880	19,880
Conservation	1,449					1,449
Total Expenditures	<u>1,449</u>	<u>-</u>	<u>-</u>	<u>35,402</u>	<u>19,880</u>	<u>56,731</u>
Excess revenues over (under) expenditures	<u>1,234</u>	<u>2,468</u>	<u>3,959</u>	<u>4,590</u>	<u>27,314</u>	<u>39,565</u>
Net change in fund balances	1,234	2,468	3,959	4,590	27,314	39,565
Fund balances at beginning of year	<u>47,850</u>	<u>72,494</u>	<u>21,074</u>	<u>34,100</u>	<u>4,595</u>	<u>180,113</u>
Fund balances at end of year	<u>\$ 49,084</u>	<u>\$ 74,962</u>	<u>\$ 25,033</u>	<u>\$ 38,690</u>	<u>\$ 31,909</u>	<u>\$ 219,678</u>