

**TOWN OF CANAAN, NEW HAMPSHIRE**

**Financial Statements**

**December 31, 2017**

**and**

**Independent Auditor's Report**

**TOWN OF CANAAN, NEW HAMPSHIRE  
FINANCIAL STATEMENTS  
December 31, 2017**

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FINANCIAL STATEMENTS  
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## INDEPENDENT AUDITOR'S REPORT

To the Board of Selectmen  
Town of Canaan, New Hampshire

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Canaan, New Hampshire as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

***Basis for Adverse Opinion on Governmental Activities, Business-Type Activities, Water Fund and Sewer Fund***

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

***Adverse Opinions***

In our opinion, because of the significance of the matter described in the “Basis for Adverse Opinion on Governmental Activities, Business-Type Activities, Water Fund and Sewer Fund” paragraph, the financial statements referred to above do not present fairly the financial position of the governmental activities, business-type activities, water fund, and sewer fund of the Town of Canaan, New Hampshire, as of December 31, 2017, or the changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Unmodified Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund other than the water fund and sewer fund, and the aggregate remaining fund information of the Town of Canaan, New Hampshire, as of December 31, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, budgetary comparison information, the schedule of changes in the Town’s proportionate share of the net pension liability, and the schedule of Town contributions on pages i-ix and 30-34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary Information*

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

The combining nonmajor governmental fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor governmental fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Vachon Aubrey & Company PC*

Manchester, New Hampshire  
July 25, 2018

**TOWN OF CANAAN, NEW HAMPSHIRE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ending December 31, 2017

Presented herewith please find the Management Discussion & Analysis Report for the Town of Canaan for the year ending December 31, 2017. 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, 2017

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, 2017

**Required Supplementary Information**

The basic financial statements and accompanying notes are followed by a section of required supplementary information. This section includes a budgetary comparison schedule for the Town's major governmental fund and includes a reconciliation between the reported activity of the General Fund's revenues, expenditures and transfers for budgetary purposes (Schedule 1) and the activity as presented in the governmental fund financial statements (Exhibit D). The Town's major governmental fund during 2016 with an adopted budget is the General Fund.

**Other Supplementary Information**

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

**Government-Wide Financial Analysis**

**Governmental Activities**

**Statement of Net Position**

Net position of the Town of Canaan's governmental activities as of December 31, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Capital and other assets:		
Capital assets	\$ 3,594,735	\$ 3,855,035
Other assets	7,317,546	6,996,331
Total assets	<u>10,912,281</u>	<u>10,851,366</u>
Deferred outflows related to pension	<u>408,612</u>	<u>600,136</u>
Total deferred outflows of resources	<u>408,612</u>	<u>600,136</u>
Long-term and other liabilities:		
Long-term liabilities	2,002,089	2,116,596
Other liabilities	4,011,907	4,216,188
Total liabilities	<u>6,013,996</u>	<u>6,332,784</u>
Taxes collected in advance	172,342	
Deferred inflows related to pension	<u>50,979</u>	<u>26,728</u>
Total deferred inflows of resources	<u>223,321</u>	<u>26,728</u>
Net position:		
Net investment in capital assets	3,594,735	3,855,035
Restricted	958,477	870,425
Unrestricted	530,364	366,530
Total net position	<u>\$ 5,083,576</u>	<u>\$ 5,091,990</u>

**TOWN OF CANAAN, NEW HAMPSHIRE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ending December 31, 2017

Approximately 70.7% of the Town's net position reflects the investment in capital assets such as land, buildings, infrastructure, and equipment less the outstanding debt used to acquire those assets. Another 18.9% of the net position is restricted in regards to how it may be used. For the Town of Canaan, those restrictions include those related to permanent trust funds and the unexpended balance of restricted grants and donations. The remaining unrestricted portion represents the part of net position available to finance day-to-day operations.

**Statement of Activities**

Changes in net position of the Town's governmental activities for the years ending December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Program revenues:		
Charges for services	\$ 113,995	\$ 128,819
Operating grants and contributions	427,357	399,080
Capital grants and contributions	4,500	
Total program revenues	<u>545,852</u>	<u>527,899</u>
General revenues:		
Property and other taxes	2,417,674	2,298,902
Licenses and permits	736,554	723,078
Intergovernmental revenue	202,235	202,428
Interest and investment earnings	58,275	46,499
Miscellaneous	47,244	181,608
Total general revenues	<u>3,461,982</u>	<u>3,452,515</u>
Total revenues	<u>4,007,834</u>	<u>3,980,414</u>
Program expenses:		
General government	1,251,134	1,128,586
Public safety	1,158,146	1,260,297
Highways and streets	1,033,277	894,011
Sanitation	184,013	205,898
Health and welfare	97,334	105,359
Culture and recreation	288,820	271,570
Conservation	767	1,642
Economic development	6,032	6,031
Total expenses	<u>4,019,523</u>	<u>3,873,394</u>
Change in net position before gain on disposal of capital assets, contributions, and transfers	(11,689)	107,020
Gain on disposal of capital asset		35,200
Contributions to permanent fund principal	<u>3,275</u>	<u>3,000</u>
Change in net position	(8,414)	145,220
Net position at beginning of year	<u>5,091,990</u>	<u>4,946,770</u>
Net position at end of year	<u>\$ 5,083,576</u>	<u>\$ 5,091,990</u>

**TOWN OF CANAAN, NEW HAMPSHIRE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ending December 31, 2017**

As shown in the above statement the Town's governmental activities experienced a decrease in financial position of \$8,414 on the full accrual basis of accounting.

**Business-Type Activities**

**Statement of Net Position**

Net position of the business-type activities as of December 31, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Capital and other assets:		
Capital assets	\$ 3,160,872	\$ 3,282,031
Other assets	99,246	103,466
Total assets	<u>3,260,118</u>	<u>3,385,497</u>
Deferred outflows related to pension	<u>14,082</u>	<u>20,768</u>
Total deferred outflows of resources	<u>14,082</u>	<u>20,768</u>
Long-term and other liabilities:		
Long-term liabilities	68,996	73,250
Other liabilities	62	62
Total liabilities	<u>69,058</u>	<u>73,312</u>
Deferred inflows related to pension	<u>1,756</u>	<u>924</u>
Total deferred inflows of resources	<u>1,756</u>	<u>924</u>
Net position:		
Net investment in capital assets	3,160,872	3,282,031
Unrestricted	42,514	49,998
Total net position	<u>\$ 3,203,386</u>	<u>\$ 3,332,029</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, 2017 and 2016 are as follows:

**TOWN OF CANAAN, NEW HAMPSHIRE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ending December 31, 2017

	<u>2017</u>	<u>2016</u>
Program revenues:		
Charges for services	\$ 142,338	\$ 127,114
Total program revenues	<u>142,338</u>	<u>127,114</u>
General revenues:		
Interest and investment earnings	<u>26</u>	<u>14</u>
Total general revenues	<u>26</u>	<u>14</u>
Total revenues	<u>142,364</u>	<u>127,128</u>
Program expenses:		
Water	117,605	106,827
Sewer	<u>153,402</u>	<u>147,747</u>
Total expenses	<u>271,007</u>	<u>254,574</u>
Change in net position	(128,643)	(127,446)
Net position at beginning of year	<u>3,332,029</u>	<u>3,459,475</u>
Net position at end of year	<u>\$ 3,203,386</u>	<u>\$ 3,332,029</u>

The main funding source for business-type activities is charges for services, which provided 52.5% and 49.9% of expenses in 2017 and 2016, respectively. Overall, there was a decrease of \$128,643 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 \$150,979. Additional fund balance components at year end amounted to \$1,122,574 and are detailed on pages 27 and 28 of the Notes to the Basic Financial Statements.

The total General Fund balance increased \$311,122 from December 31, 2016. A decrease in fund balance was anticipated as \$265,265 of the prior year fund balance was appropriated to fund 2017 warrant articles.

**TOWN OF CANAAN, NEW HAMPSHIRE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ending December 31, 2017

**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, 2017, the balance of \$595,579 was nonspendable and \$228,938 was restricted. The total fund balance in the permanent funds increased \$8,561 from the prior year.

**Other Governmental Funds**

The total fund balance of \$215,576 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 \$42,514 at December 31, 2017. Charges for services for water and sewer operations covered 52.5% of operating expenses. The water fund and sewer fund experienced a decrease in net position of \$58,088 and \$70,555, respectively.

**Capital Assets and Long-term Obligations**

**Capital Assets**

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

**Long-Term Obligations**

During 2017, the liability for the Town's proportionate share of the New Hampshire Retirement System's unfunded liability decreased by \$114,507 in the governmental activities and \$4,254 in the business-type activities.

See Note 5 in the notes to the basic financial statements for additional information on the long-term obligations of the Town.

**Budgetary Highlights**

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

**TOWN OF CANAAN, NEW HAMPSHIRE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ending December 31, 2017

Actual revenues and transfers in on the budgetary basis were higher than the budgeted amount by \$95,099. This favorable variance represents approximately 2.5% of the estimated revenues projected when the property tax rate was established.

The Town underexpended its budgeted appropriations by \$153,454. 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 tax rate increased by 2.7% last year. That rate increase was 18 cents per thousand or \$36 on a \$200,000 house. During the past 10 years, the Town has reorganized Town services to reduce costs to the taxpayers. The Town tax rate decreased from \$7.31 to \$6.64. Those efforts paid off and kept the tax rate relatively flat but all of those changes have been implemented and there are fewer and fewer cost savings measures that can be found. The result in 2017 was an actual increase in the tax rate from \$6.64 to \$6.82.

Part of that increase is related to expense needed to make up for deferred maintenance of buildings. Part is due to declining value of utility properties. Our tax base only increased by 1% in 2017. Part was due to an increase in health insurance costs. Part was due to increased criminal prosecution costs. Part was due to increased property and liability insurance costs. Part was due to fire equipment replacement costs. Part was due to increased equipment maintenance costs. Of these reasons, the ones that are directly under Town control were the increases for fire equipment and building maintenance.

The School tax rate increased slightly by about 1% or \$36 on a home assessed at \$200,000. This very minor increase was possible by using about \$1 million dollars of School surplus to reduce the money needed to be raised by taxes. This year's tax rate for the schools will see an increase in need of about \$1 million dollars since there will be little surplus left to apply against the approved budget for this year.

The amount of uncollected property taxes dropped from \$662,000 at the end of 2016 to about \$632,000 at the end of 2017 which was a positive sign.

The Town still has no debt (as of 2015), we use no tax anticipation notes and we maintain a cash cushion at our lowest balance months of at least \$250,000. Our funding for capital reserves increased from \$85,000 in 2008 to \$265,000 in 2016. Further, we are addressing long term funding needs such as flood mitigation for the Village. In 2017, the Town completed a flood mitigation plan that would safeguard all but five buildings in the Village.

The Town has lived frugally for many years but there was a need to increase our tax rate by about 3% in 2017 and the rate will continue to increase by about 2% a year going forward to fund expenses that are rising at least as fast as the consumer price index. It is unknown whether the tax base will increase by more than 1% a year at this time. Town management will continue to conservatively manage the Town to maintain a low tax rate.

**TOWN OF CANAAN, NEW HAMPSHIRE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ending December 31, 2017**

**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 x 5.

EXHIBIT A  
**TOWN OF CANAAN, NEW HAMPSHIRE**  
**Statement of Net Position**  
December 31, 2017

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 4,569,095	\$ 74,305	\$ 4,643,400
Investments	1,667,819	2,782	1,670,601
Taxes receivable, net	956,001		956,001
Accounts receivable	3,710	3,938	7,648
Unbilled charges for services		35,860	35,860
Due from other governments	39,161		39,161
Internal balances	17,639	(17,639)	-
Prepaid expenses	15,524		15,524
Tax deeded property	43,075		43,075
Total Current Assets	<u>7,312,024</u>	<u>99,246</u>	<u>7,411,270</u>
Noncurrent Assets:			
Due from other governments	5,522		5,522
Capital assets:			
Non-depreciable capital assets	402,383	245,981	648,364
Depreciable capital assets, net	3,192,352	2,914,891	6,107,243
Total Noncurrent Assets	<u>3,600,257</u>	<u>3,160,872</u>	<u>6,761,129</u>
Total Assets	<u>10,912,281</u>	<u>3,260,118</u>	<u>14,172,399</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to pension	408,612	14,082	422,694
Total Deferred Outflows of Resources	<u>408,612</u>	<u>14,082</u>	<u>422,694</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	82,938		82,938
Accrued expenses	60,566	62	60,628
Due to other governments	3,868,403		3,868,403
Total Current Liabilities	<u>4,011,907</u>	<u>62</u>	<u>4,011,969</u>
Noncurrent Liabilities:			
Net pension liability	2,002,089	68,996	2,071,085
Total Noncurrent Liabilities	<u>2,002,089</u>	<u>68,996</u>	<u>2,071,085</u>
Total Liabilities	<u>6,013,996</u>	<u>69,058</u>	<u>6,083,054</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Taxes collected in advance	172,342		172,342
Deferred inflows related to pension	50,979	1,756	52,735
Total Deferred Inflows of Resources	<u>223,321</u>	<u>1,756</u>	<u>225,077</u>
<b>NET POSITION</b>			
Net investment in capital assets	3,594,735	3,160,872	6,755,607
Restricted	958,477		958,477
Unrestricted	530,364	42,514	572,878
Total Net Position	<u>\$ 5,083,576</u>	<u>\$ 3,203,386</u>	<u>\$ 8,286,962</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, 2017

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		<u>Total</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		
					<u>Governmental Activities</u>	<u>Business-type Activities</u>	
<b>Governmental Activities:</b>							
General government	\$ 1,251,134	\$ 1,553	\$ 2,998		#####		\$ (1,246,583)
Public safety	1,158,146	31,890	102,787	\$ 4,500	(1,018,969)		(1,018,969)
Highways and streets	1,033,277		293,754		(739,523)		(739,523)
Sanitation	184,013	17,745			(166,268)		(166,268)
Health and welfare	97,334	972			(96,362)		(96,362)
Culture and recreation	288,820	61,835	27,318		(199,667)		(199,667)
Conservation	767		500		(267)		(267)
Economic development	6,032				(6,032)		(6,032)
Total governmental activities	<u>4,019,523</u>	<u>113,995</u>	<u>427,357</u>	<u>4,500</u>	<u>(3,473,671)</u>	\$ -	<u>(3,473,671)</u>
<b>Business-type activities:</b>							
Water	117,605	59,491				(58,114)	(58,114)
Sewer	153,402	82,847				(70,555)	(70,555)
Total business-type activities	<u>271,007</u>	<u>142,338</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(128,669)</u>	<u>(128,669)</u>
Total primary government	<u>\$4,290,530</u>	<u>\$ 256,333</u>	<u>\$ 427,357</u>	<u>\$ 4,500</u>	<u>(3,473,671)</u>	<u>(128,669)</u>	<u>(3,602,340)</u>
<b>General revenues:</b>							
Property and other taxes					2,417,674		2,417,674
Licenses and permits					736,554		736,554
<b>Grants and contributions:</b>							
Rooms and meals tax distribution					202,065		202,065
State and federal forest land					170		170
Interest and investment income					58,275	26	58,301
Miscellaneous					47,244		47,244
Contributions to permanent fund principal					3,275		3,275
Total general revenues and contributions to permanent fund principal					<u>3,465,257</u>	<u>26</u>	<u>3,465,283</u>
Change in net position					(8,414)	(128,643)	(137,057)
Net Position at beginning of year					<u>5,091,990</u>	<u>3,332,029</u>	<u>8,424,019</u>
Net Position at end of year					<u>\$ 5,083,576</u>	<u>\$ 3,203,386</u>	<u>\$ 8,286,962</u>

See accompanying notes to the basic financial statements

EXHIBIT C  
**TOWN OF CANAAN, NEW HAMPSHIRE**  
**Balance Sheet**  
**Governmental Funds**  
December 31, 2017

	General Fund	Permanent Funds	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 4,498,788		\$ 70,307	\$ 4,569,095
Investments	699,049	\$ 824,517	144,253	1,667,819
Taxes receivable, net	956,001			956,001
Accounts receivable			3,710	3,710
Due from other governments	39,161			39,161
Due from other funds	28,707		8,374	37,081
Prepaid expenses	15,524			15,524
Tax deduced property	43,075			43,075
Total Assets	<u>6,280,305</u>	<u>824,517</u>	<u>226,644</u>	<u>7,331,466</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 6,280,305</u>	<u>\$ 824,517</u>	<u>\$ 226,644</u>	<u>\$ 7,331,466</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 82,938			\$ 82,938
Accrued expenses	60,566			60,566
Due to other governments	3,868,403			3,868,403
Due to other funds	8,374		\$ 11,068	19,442
Total Liabilities	<u>4,020,281</u>	<u>\$ -</u>	<u>11,068</u>	<u>4,031,349</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Uncollected property taxes	814,129			814,129
Taxes collected in advance	172,342			172,342
Total Deferred Inflows of Resources	<u>986,471</u>	<u>-</u>	<u>-</u>	<u>986,471</u>
<b>FUND BALANCES</b>				
Nonspendable	15,524	595,579		611,103
Restricted	133,960	228,938		362,898
Committed	661,054		215,576	876,630
Assigned	312,036			312,036
Unassigned	150,979			150,979
Total Fund Balances	<u>1,273,553</u>	<u>824,517</u>	<u>215,576</u>	<u>2,313,646</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 6,280,305</u>	<u>\$ 824,517</u>	<u>\$ 226,644</u>	<u>\$ 7,331,466</u>

*See accompanying notes to the basic financial statements*

EXHIBIT C-1  
**TOWN OF CANAAN, NEW HAMPSHIRE**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Position**  
December 31, 2017

Total Fund Balances - Governmental Funds (Exhibit C)	\$ 2,313,646
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	3,594,735
Property taxes are recognized on an accrual basis in the statement of net position, not the modified accrual basis	814,129
The long-term state aid grant receivable is recognized on an accrual basis in the statement of net position, not the modified accrual basis	5,522
Deferred outflows of resources and deferred inflows of resources that do not provide or require the use of current financial resources are not reported within the funds.	
Deferred outflow of resources attributable to net pension liability	408,612
Deferred inflow of resources attributable to net pension liability	(50,979)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Long-term liabilities at year end consist of:	
Net pension liability	<u>(2,002,089)</u>
Net Position of Governmental Activities (Exhibit A)	<u>\$ 5,083,576</u>

*See accompanying notes to the basic financial statements*

EXHIBIT D  
**TOWN OF CANAAN, NEW HAMPSHIRE**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
For the Year Ended December 31, 2017

	General Fund	Permanent Funds	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 2,376,381		\$ 5,000	\$ 2,381,381
Licenses and permits	736,554			736,554
Intergovernmental	579,311		24,963	604,274
Charges for services	43,429		70,566	113,995
Interest and investment income	7,138	\$ 45,831	5,306	58,275
Miscellaneous	71,917	3,275	10,692	85,884
Total Revenues	<u>3,814,730</u>	<u>49,106</u>	<u>116,527</u>	<u>3,980,363</u>
Expenditures:				
Current operations:				
General government	1,206,820	21,198	3,179	1,231,197
Public safety	1,007,561		30,019	1,037,580
Highways and streets	846,881			846,881
Sanitation	174,903			174,903
Health and welfare	97,334			97,334
Culture and recreation	171,005		85,587	256,592
Conservation			767	767
Capital outlay	12,701			12,701
Total Expenditures	<u>3,517,205</u>	<u>21,198</u>	<u>119,552</u>	<u>3,657,955</u>
Excess revenues over (under) expenditures	<u>297,525</u>	<u>27,908</u>	<u>(3,025)</u>	<u>322,408</u>
Other financing sources (uses):				
Transfers in	19,347		5,750	25,097
Transfers out	(5,750)	(19,347)		(25,097)
Total other financing sources (uses)	<u>13,597</u>	<u>(19,347)</u>	<u>5,750</u>	<u>-</u>
Net change in fund balances	311,122	8,561	2,725	322,408
Fund balances at beginning of year	<u>962,431</u>	<u>815,956</u>	<u>212,851</u>	<u>1,991,238</u>
Fund balances at end of year	<u>\$ 1,273,553</u>	<u>\$ 824,517</u>	<u>\$ 215,576</u>	<u>\$ 2,313,646</u>

See accompanying notes to the basic financial statements

EXHIBIT D-1  
**TOWN OF CANAAN, NEW HAMPSHIRE**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
For the Year Ended December 31, 2017

Net Change in Fund Balances - Governmental Funds (Exhibit D)	\$ 322,408
Amounts reported for governmental activities in the statement of activities are different because:	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	36,293
Revenues in the governmental fund financial statements that reduce long-term assets recorded on the statement of net position are not reported as revenues in the statement of activities.	(5,547)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay expense in the current period.	(260,300)
Governmental funds report pension contributions as expenditures. However, in the statement of activities, pension expense reflects the change in the net pension liability and related deferred outflows and inflows of resources, and do not require the use of current financial resources. This is the amount by which pension expense exceeded pension contributions in the current period.	<u>(101,268)</u>
Change in Net Position of Governmental Activities (Exhibit B)	<u>\$ (8,414)</u>

*See accompanying notes to the basic financial statements*

EXHIBIT E  
**TOWN OF CANAAN, NEW HAMPSHIRE**  
**Statement of Net Position**  
**Proprietary Funds**  
December 31, 2017

	Business-type Activities		
	Water Fund	Sewer Fund	Totals
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 74,305		\$ 74,305
Investments	2,782		2,782
Accounts receivable	2,284	\$ 1,654	3,938
Unbilled charges for services	17,643	18,217	35,860
Due from other funds	74,825		74,825
Total Current Assets	<u>171,839</u>	<u>19,871</u>	<u>191,710</u>
Noncurrent Assets:			
Capital assets:			
Non-depreciable capital assets		245,981	245,981
Depreciable capital assets, net	949,408	1,965,483	2,914,891
Total Noncurrent Assets	<u>949,408</u>	<u>2,211,464</u>	<u>3,160,872</u>
Total Assets	<u>1,121,247</u>	<u>2,231,335</u>	<u>3,352,582</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to pension	7,042	7,040	14,082
Total Deferred Outflows of Resources	<u>7,042</u>	<u>7,040</u>	<u>14,082</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accrued expenses	31	31	62
Due to other funds	9,059	83,405	92,464
Total Current Liabilities	<u>9,090</u>	<u>83,436</u>	<u>92,526</u>
Noncurrent Liabilities:			
Net pension liability	34,501	34,495	68,996
Total Noncurrent Liabilities	<u>34,501</u>	<u>34,495</u>	<u>68,996</u>
Total Liabilities	<u>43,591</u>	<u>117,931</u>	<u>161,522</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pension	878	878	1,756
Total Deferred Inflows of Resources	<u>878</u>	<u>878</u>	<u>1,756</u>
<b>NET POSITION</b>			
Net investment in capital assets	949,408	2,211,464	3,160,872
Unrestricted (deficit)	134,412	(91,898)	42,514
Total Net Position	<u>\$ 1,083,820</u>	<u>\$ 2,119,566</u>	<u>\$ 3,203,386</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, 2017

	Business-type Activities		
	Water Fund	Sewer Fund	Totals
Operating revenues:			
Charges for services	\$ 59,491	\$ 82,847	\$ 142,338
Total operating revenues	<u>59,491</u>	<u>82,847</u>	<u>142,338</u>
Operating expenses:			
Personnel services	37,724	36,920	74,644
Contractual services	10,828	1,229	12,057
Repairs and maintenance	7,119	6,910	14,029
Materials and supplies	5,649	10,978	16,627
Utilities	6,736	18,115	24,851
Depreciation	49,549	79,250	128,799
Total operating expenses	<u>117,605</u>	<u>153,402</u>	<u>271,007</u>
Operating loss	<u>(58,114)</u>	<u>(70,555)</u>	<u>(128,669)</u>
Non-operating revenues:			
Interest revenue	26		26
Net non-operating revenues	<u>26</u>	<u>-</u>	<u>26</u>
Change in net position	(58,088)	(70,555)	(128,643)
Net Position at beginning of year	<u>1,141,908</u>	<u>2,190,121</u>	<u>3,332,029</u>
Net Position at end of year	<u>\$ 1,083,820</u>	<u>\$ 2,119,566</u>	<u>\$ 3,203,386</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, 2017

	Business-type Activities		
	Water Department	Sewer Department	Totals
Cash flows from operating activities:			
Cash received from customers	\$ 58,903	\$ 80,811	\$ 139,714
Cash paid to suppliers	(41,222)	(45,566)	(86,788)
Cash paid to employees	(25,200)	(26,956)	(52,156)
Net cash provided (used) by operating activities	<u>(7,519)</u>	<u>8,289</u>	<u>770</u>
Cash flows from capital financing activities:			
Purchases of capital assets	<u>-</u>	<u>(7,640)</u>	<u>(7,640)</u>
Net cash (used) for capital financing activities	<u>-</u>	<u>(7,640)</u>	<u>(7,640)</u>
Net increase (decrease) in cash and cash equivalents	(7,519)	649	(6,870)
Cash and cash equivalents (deficiency) at beginning of year	147,590	(84,054)	63,536
Cash and cash equivalents (deficiency) at end of year	<u>\$ 140,071</u>	<u>\$ (83,405)</u>	<u>\$ 56,666</u>
Reconciliation of operating loss to net cash (used) by operating activities:			
Operating loss	\$ (58,114)	\$ (70,555)	\$ (128,669)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:			
Depreciation expense	49,549	79,250	128,799
Change in deferred outflows related to pension	3,342	3,344	6,686
Change in deferred inflows related to pension	416	416	832
Changes in assets and liabilities:			
Accounts receivable	(694)	(736)	(1,430)
Unbilled charges for services	106	(1,300)	(1,194)
Net pension liability	(2,124)	(2,130)	(4,254)
Net cash (used) by operating activities	<u>\$ (7,519)</u>	<u>\$ 8,289</u>	<u>\$ 770</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, 2017

	ASSETS	Agency Funds
Investments		\$ 831,683
Total Assets		<u>\$ 831,683</u>
	LIABILITIES	
Due to other governments		\$ 831,683
Total Liabilities		<u>\$ 831,683</u>

*See accompanying notes to the basic financial statements*

**TOWN OF CANAAN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2017**

**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

***Financial Reporting Entity***

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

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

***Basis of Presentation***

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

**1. Government-Wide Financial Statements:**

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

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

**2. Fund Financial Statements:**

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

**TOWN OF CANAAN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended December 31, 2017**

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

***Fund Accounting***

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

**1. Governmental Funds:**

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

The *General Fund* is the main operating fund of the Town and is used to account for all financial resources except those required to be accounted for in another fund.

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

**2. Proprietary Funds:**

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

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

**3. Fiduciary Funds:**

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

**TOWN OF CANAAN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended December 31, 2017**

*Measurement Focus*

**1. Government-Wide Financial Statements:**

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

**2. Fund Financial Statements:**

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

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

*Basis of Accounting*

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

**1. Revenues – Exchange and Non-exchange Transactions:**

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

Non-exchange transactions, in which the Town receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied (see Note 9). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been

**TOWN OF CANAAN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended December 31, 2017**

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

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

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

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

**3. Expenses/Expenditures:**

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

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

***Budgetary Data***

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

***Cash and Cash Equivalents***

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

	Water <u>Fund</u>	Sewer <u>Fund</u>	<u>Totals</u>
Cash	\$ 74,305		\$ 74,305
Due from other funds	74,825		74,825
Due to other funds	(9,059)	\$ (83,405)	(92,464)
Totals	<u>\$ 140,071</u>	<u>\$ (83,405)</u>	<u>\$ 56,666</u>

**TOWN OF CANAAN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended December 31, 2017**

***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, 2017 are recorded as receivables net of reserves for estimated uncollectibles of \$48,483.

***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 acquisition values as of the date received. The Town maintains a capitalization threshold of \$10,000. The Town's infrastructure consists of roads, bridges, sidewalks, water purification and distribution system, sewer collection and treatment system, and similar items. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction phase of capital assets of business-type activities is also capitalized.

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

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

	<u>Description</u>	<u>Years</u>
	Infrastructure	30-50
	Buildings and improvements	10-40
	Land improvements	7-15
	Vehicles and equipment	3-25

***Compensated Absences***

Full time employees may accumulate sick leave days at a rate of one day per month, cumulative to a maximum of sixty days. No payment for unused sick leave is made upon termination. Employees earn vacation dependent on the length of service. Vacation time is calculated on the anniversary date of hire. Five days of accumulated time may be carried into the next anniversary year. Upon retirement, termination, or death, employees are compensated for unused vacation at their current rates of pay.

**TOWN OF CANAAN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended December 31, 2017**

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

***Accrued Liabilities and Long-Term Obligations***

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

***Pensions***

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

***Net Position***

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances on any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

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

***Fund Balance Policy***

As of December 31, 2017, the Town has not adopted a formal fund balance policy. Under GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the Town has segregated fund balance into five classifications: Nonspendable, Restricted, Committed, Assigned, and Unassigned. These components of fund balance are defined as follows:

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

**TOWN OF CANAAN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended December 31, 2017**

- ***Committed Fund Balance:*** Amounts constrained to specific purposes by a government itself using its highest level of decision-making authority (Annual Town Meeting). Commitments may be changed or lifted only by the governing body taking the same formal action that imposed the constraint originally. The governing body's action must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.
- ***Assigned Fund Balance:*** Amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- ***Unassigned Fund Balance:*** Amounts that are not obligated or specifically designated and is available for any purpose; these amounts are reported only in the General Fund, except for any deficit fund balance of another governmental fund.

***Spending Prioritizations***

In circumstances where expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, restricted fund balance is considered to have been spent first. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used, committed amounts should be reduced first, followed by assigned amounts then unassigned amounts.

***Interfund Activity***

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

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in the proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements.

***Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the water fund and sewer fund, these revenues are charges to customers for sales and services. Operating expenses, which include depreciation on capital assets, are necessary costs incurred to provide the service that is the primary activity of the proprietary fund. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

***Estimates***

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

**TOWN OF CANAAN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
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**NOTE 2—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

*Other Post-Employment Benefits*

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

**NOTE 3—DEPOSITS AND INVESTMENTS**

Deposits and investments as of December 31, 2017 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and cash equivalents	\$ 4,643,400
Investments	1,670,601
Statement of Fiduciary Net Position:	
Investments	831,683
	<u>\$ 7,145,684</u>

Deposits and investments as of December 31, 2017 consist of the following:

Cash on hand	\$ 3,933
Deposits with financial institutions	4,639,467
Investments	<u>2,502,284</u>
Total cash and investments	<u>\$ 7,145,684</u>

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

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

***Interest Rate Risk***

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

**TOWN OF CANAAN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended December 31, 2017**

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>&lt; 1 Year</u>	<u>1-5 Years</u>	<u>&gt; 5 Years</u>
U.S. Treasury notes	\$ 653,120	\$ 198,803	\$ 425,986	\$ 28,331
Federal agency securities	21,014	15	2,536	18,463
Municipal obligations	150,827		96,507	54,320
Corporate bonds	306,443	40,324	185,175	80,944
	<u>\$ 1,131,404</u>	<u>\$ 239,142</u>	<u>\$ 710,204</u>	<u>\$ 182,058</u>

***Credit Risk***

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

The Town's policy states that the Treasurer may place any excess funds into obligations of the United States government maturing in less than one year or the NHPDIP. The investment policy of the Trustees of Trust Funds states that all investments should be undertaken in a manner that seeks to preserve capital. The Library Trustees have no policy with respect to credit risk.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Rating as of Year End</u>				
		<u>Aaa</u>	<u>Aa</u>	<u>A</u>	<u>Baa</u>	<u>Unrated</u>
Municipal obligations	\$ 150,827		\$ 116,956	\$ 33,871		
Corporate bonds	306,443	\$ 30,220	101,696	70,764	\$ 103,763	
Money market funds	973,993					\$ 973,993
State investment pool	74,489	74,489				
	<u>\$ 1,505,752</u>	<u>\$ 104,709</u>	<u>\$ 218,652</u>	<u>\$ 104,635</u>	<u>\$ 103,763</u>	<u>\$ 973,993</u>

***Custodial Credit Risk***

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

**TOWN OF CANAAN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended December 31, 2017**

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, 2017, 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	\$ 653,120
Federal agency securities	21,014
Municipal obligations	150,827
Corporate bonds	306,443
Equity securities	322,398
	<u>\$ 1,453,802</u>

***Fair Value Measurement of Investments***

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

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

As of December 31, 2017, the Town's investments measured at fair value, by type, were as follows:

<u>Investment Type</u>	<u>Fair Value Measurements Using:</u>			<u>Totals</u>
	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	
U.S. Treasury notes		\$ 653,120		\$ 653,120
Federal agency securities		21,014		21,014
Municipal obligations		150,827		150,827
Corporate bonds		306,443		306,443
Equity securities	\$ 322,398			322,398
	<u>\$ 322,398</u>	<u>\$ 1,131,404</u>	<u>\$ -</u>	<u>\$ 1,453,802</u>

**TOWN OF CANAAN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended December 31, 2017**

***Investment in NHPDIP***

The Town is a voluntary participant in the New Hampshire Public Deposit Investment Pool (NHPDIP), an external investment pool. The NHPDIP is not registered with the United States Securities and Exchange Commission as an investment company. The NHPDIP was created by state law and is administered by a public body of state, local and banking officials. Financial statements for the NHPDIP can be accessed through the NHPDIP's website at [www.NHPDIP.com](http://www.NHPDIP.com).

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

**NOTE 4—CAPITAL ASSETS**

***Governmental Activities***

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

	Balance <u>1/1/2017</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>12/31/2017</u>
Governmental activities:				
Capital assets not depreciated:				
Land	\$ 402,383			\$ 402,383
Total capital assets not being depreciated	<u>402,383</u>	<u>\$ -</u>	<u>\$ -</u>	<u>402,383</u>
Other capital assets:				
Infrastructure	1,750,384			1,750,384
Buildings and improvements	1,758,563			1,758,563
Land improvements	13,100			13,100
Vehicles and equipment	<u>2,578,769</u>			<u>2,578,769</u>
Total other capital assets at historical cost	<u>6,100,816</u>	<u>-</u>	<u>-</u>	<u>6,100,816</u>
Less accumulated depreciation for:				
Infrastructure	(210,540)	(43,291)		(253,831)
Buildings and improvements	(938,253)	(60,449)		(998,702)
Land improvements	(4,439)	(874)		(5,313)
Vehicles and equipment	<u>(1,494,932)</u>	<u>(155,686)</u>		<u>(1,650,618)</u>
Total accumulated depreciation	<u>(2,648,164)</u>	<u>(260,300)</u>	<u>-</u>	<u>(2,908,464)</u>
Total other capital assets, net	<u>3,452,652</u>	<u>(260,300)</u>	<u>-</u>	<u>3,192,352</u>
Total capital assets, net	<u>\$ 3,855,035</u>	<u>\$ (260,300)</u>	<u>\$ -</u>	<u>\$ 3,594,735</u>

Depreciation expense was charged to governmental functions as follows:

**TOWN OF CANAAN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended December 31, 2017**

General government	\$ 11,829
Public safety	53,542
Highways and streets	152,895
Sanitation	6,794
Culture and recreation	29,208
Economic development	6,032
Total governmental activities depreciation expense	<u>\$ 260,300</u>

***Business-Type Activities***

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

	Balance 1/1/2017	Additions	Reductions	Balance 12/31/2017
Business-type activities:				
Capital assets not depreciated:				
Land	\$ 238,341			\$ 238,341
Construction in progress		\$ 7,640		7,640
Total capital assets not being depreciated	<u>238,341</u>	<u>7,640</u>	<u>\$ -</u>	<u>245,981</u>
Other capital assets:				
Infrastructure	5,619,767			5,619,767
Buildings and improvements	67,970			67,970
Land improvements	22,395			22,395
Vehicles and equipment	212,627			212,627
Total other capital assets at historical cost	<u>5,922,759</u>	<u>-</u>	<u>-</u>	<u>5,922,759</u>
Less accumulated depreciation for:				
Infrastructure	(2,657,036)	(112,396)		(2,769,432)
Buildings and improvements	(51,649)	(1,359)		(53,008)
Land improvements	(15,995)	(3,199)		(19,194)
Vehicles and equipment	(154,389)	(11,845)		(166,234)
Total accumulated depreciation	<u>(2,879,069)</u>	<u>(128,799)</u>	<u>-</u>	<u>(3,007,868)</u>
Total other capital assets, net	<u>3,043,690</u>	<u>(128,799)</u>	<u>-</u>	<u>2,914,891</u>
Total capital assets, net	<u>\$ 3,282,031</u>	<u>\$ (121,159)</u>	<u>\$ -</u>	<u>\$ 3,160,872</u>

Depreciation expense was charged to proprietary funds as follows:

Water fund	\$ 49,549
Sewer fund	79,250
Total business-type activities depreciation expense	<u>\$ 128,799</u>

**NOTE 5—DEFINED BENEFIT PENSION PLAN**

***Plan Description***

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

**TOWN OF CANAAN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
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employer defined benefit pension plan. The plan provides service, disability, death and vested retirement allowances to plan members and beneficiaries. Benefit provisions are established and may be amended by the New Hampshire State legislature.

The NHRS issues a publicly available financial report that includes financial statements and required supplementary information for NHRS. That report may be obtained by writing to New Hampshire Retirement System at 54 Regional Drive, Concord, New Hampshire 03301 or from their website at [www.nhrs.org](http://www.nhrs.org).

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

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

***Benefits Provided***

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

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

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

**TOWN OF CANAAN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
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Members of both groups may qualify for vested deferred allowances, disability allowances and death benefit allowances subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation and/or service.

***Funding Policy***

Covered police officers are required to contribute 11.55% of their covered salary, whereas general employees are required to contribute 7.0% of their covered salary. The Town is required to contribute at an actuarially determined rate. The Town's contribution rates for the covered payroll of police officers and general employees were 22.54% and 10.86%, respectively through June 30, 2017, and 25.33% and 11.08%, respectively thereafter. The Town contributes 100% of the employer cost for police officers and general employees of the Town.

Per RSA-100:16, plan member contribution rates are established and may be amended by the New Hampshire State legislature and employer contribution rates are determined by the NHRS Board of Trustees based on an actuarial valuation. The Town's contributions to the NHRS for the year ending December 31, 2017 were \$164,458.

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

At December 31, 2017, the Town reported a liability of \$2,071,085 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by a roll forward of the actuarial valuation from June 30, 2016. The Town's proportion of the net pension liability was based on actual contributions by the Town during the relevant fiscal year relative to the actual contributions of all participating plan members, excluding contributions to separately finance specific liabilities of individual employers or NHRS. At June 30, 2017, the Town's proportion was approximately 0.0421 percent, which was an increase of 0.0009 percentage points from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the Town recognized pension expense of \$268,991. At December 31, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**TOWN OF CANAAN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
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	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience	\$ 4,696	\$ 26,359
Changes of assumptions	207,964	
Net difference between projected and actual earnings on pension plan investments		26,376
Changes in proportion and differences between Town contributions and proportionate share of contributions	123,672	
Town contributions subsequent to the measurement date	<u>86,362</u>	
Total	<u>\$ 422,694</u>	<u>\$ 52,735</u>

The net amount of deferred outflows of resources and deferred inflows of resources related to pensions is reflected as an increase to unrestricted net position in the amount of \$369,959. The Town reported \$86,362 as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date. This amount will be recognized as a reduction of the net pension liability in the measurement period ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized as pension expense in the measurement period as follows:

<u>June 30,</u>	
2018	\$ 87,421
2019	131,052
2020	90,237
2021	<u>(25,113)</u>
	<u>\$ 283,597</u>

***Actuarial Assumptions***

The total pension liability was determined by a roll forward of the actuarial valuation as of June 30, 2016, using the following actuarial assumptions.

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

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

**TOWN OF CANAAN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended December 31, 2017**

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Net of inflation assumption of 3.25%)</u>
Fixed income	25%	(0.25)-2.11%
Domestic equity	30%	4.25-4.50%
International equity	20%	4.75-6.25%
Real estate	10%	3.25%
Private equity	5%	6.25%
Private debt	5%	4.75%
Opportunistic	5%	2.84%
Total	<u>100%</u>	

***Discount Rate***

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

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

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

	<u>1% Decrease (6.25%)</u>	<u>Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Town's proportionate share of the net pension liability	\$ 2,728,551	\$ 2,071,085	\$ 1,532,318

**TOWN OF CANAAN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended December 31, 2017**

**NOTE 6—INTERFUND BALANCES AND TRANSFERS**

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

Interfund balances at December 31, 2017 are as follows:

	Due from				Totals
	General Fund	Nonmajor Governmental Funds	Water Fund	Sewer Fund	
Due to General Fund		\$ 11,068	\$ 9,059	\$ 8,580	\$ 28,707
Nonmajor Governmental Funds	\$ 8,374				8,374
Water Fund				74,825	74,825
Totals	<u>\$ 8,374</u>	<u>\$ 11,068</u>	<u>\$ 9,059</u>	<u>\$ 83,405</u>	<u>\$ 111,906</u>

During the year interfund transactions occurred between funds. Transfers out of the Permanent Funds to the General Fund in the amount of \$13,597 were made to distribute income earned on investments during the year to support the Town's programs. Transfers out of the General Fund to the Recreation Revolving Fund, a nonmajor governmental fund, in the amount of \$5,750 were made to support the Town's programs.

**NOTE 7—RESTRICTED NET POSITION**

Net position is restricted for specific purposes as follows:

Permanent Fund - Principal	\$ 595,579
Permanent Fund - Income	228,938
State of NH SB38 - Highway Block Grant Funding	82,572
Library	51,388
	<u>\$ 958,477</u>

**NOTE 8—COMPONENTS OF FUND BALANCE**

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

Fund Balances	General Fund	Permanent Funds	Nonmajor Governmental Funds	Total Governmental Funds
<b>Nonspendable:</b>				
Permanent Funds - Principal		\$ 595,579		\$ 595,579
Prepaid expenses	\$ 15,524			15,524
<b>Restricted for:</b>				
Permanent Funds - Income		228,938		228,938
State of NH SB38 - Highway Block Grant Funding	82,572			82,572
Library	51,388			51,388

**TOWN OF CANAAN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended December 31, 2017**

**Committed for:**

Capital Reserves	661,054			661,054
Conservation		\$	63,041	63,041
Expendable Trusts			86,934	86,934
Transfer Station			17,177	17,177
Police Outside Details			35,277	35,277
Recreation			13,147	13,147

**Assigned for:**

Designated for subsequent year expenditures	225,000			225,000
Encumbrances	87,036			87,036

**Unassigned:**

Unassigned - General operations	150,979			150,979
	<u>\$ 1,273,553</u>	<u>\$ 824,517</u>	<u>\$ 215,576</u>	<u>\$ 2,313,646</u>

**NOTE 9—PROPERTY TAXES**

Taxes are levied on the assessed valuation of all taxable real property as of the prior April 1 (\$341,731,530 as of April 1, 2017) and are due in two installments on July 1, 2017 and December 12, 2017. 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 State of New Hampshire Education taxes, which are remitted directly to the school district. Total taxes appropriated during the year were \$7,885,356 and \$618,269 for the Mascoma Valley Regional School District and Grafton County, respectively. These taxes are not recognized as revenues in these financial statements. As of December 31, 2017, the balance of the property tax appropriation due to the Mascoma Valley Regional School District is \$3,868,403 and has been reported in the General Fund as “due to other governments”. The Town bears responsibility for uncollected taxes.

**NOTE 10—RISK MANAGEMENT**

The Town is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2017, the Town was a member of and participated in a public entity risk pool (Trust) for property and liability insurance and worker’s compensation coverage. Coverage has not been significantly reduced from the prior year and settled claims have not exceeded coverage in any of the past three years.

The Trust agreements permit the Trust to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. Accounting principles generally accepted in the United States of America require members of pools with a sharing of risk to determine whether or not such

**TOWN OF CANAAN, NEW HAMPSHIRE**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**For the Year Ended December 31, 2017**

assessment is probable and, if so, a reasonable estimate of such assessment. At this time, the Trust foresees no likelihood of an additional assessment for any of the past years. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Based on the best available information there is no liability at December 31, 2017.

***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 \$1,000,000. Each property loss is subject to a \$1,000 deductible. All losses over the aggregate are covered by insurance policies.

***Worker's Compensation***

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

**NOTE 11—COMMITMENTS AND CONTINGENCIES**

***Litigation***

There may be various claims and suits pending against the Town, which arise in the normal course of the Town's activities. In the opinion of legal counsel and Town management, any potential claims against the Town which are not covered by insurance are immaterial and would not affect the financial position of the Town.

**NOTE 12—FUTURE ACCOUNTING STANDARDS**

The Government Accounting Standards Board (GASB) has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which the Town is required to implement in the fiscal year ending December 31, 2018. This pronouncement will have a potentially significant impact on the Town's government-wide financial statements. The Town will be required to report its proportional share of the New Hampshire Retirement System's unfunded OPEB liability in the financial statements for the fiscal year beginning after June 15, 2017. Additionally, Statement No. 75 modifies the allowable methods, recognition and measurement criteria related to how the Town accounts for and reports its single employer OPEB plan.

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, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	\$ 2,395,066	\$ 2,395,066	\$ 2,414,232	\$ 19,166
Licenses and permits	715,600	715,600	736,554	20,954
Intergovernmental	440,329	575,736	579,311	3,575
Charges for services	37,000	37,000	43,429	6,429
Interest income	2,300	2,300	4,748	2,448
Miscellaneous	6,283	6,283	45,963	39,680
Total Revenues	<u>3,596,578</u>	<u>3,731,985</u>	<u>3,824,237</u>	<u>92,252</u>
Expenditures:				
Current operations:				
General government	1,121,751	1,121,751	1,166,915	(45,164)
Public safety	1,131,120	1,131,120	1,016,315	114,805
Highways and streets	817,930	870,765	866,232	4,533
Sanitation	179,526	179,526	173,867	5,659
Health and welfare	98,655	98,655	97,334	1,321
Culture and recreation	15,205	15,205	13,731	1,474
Capital outlay	258,819	98,819	46,495	52,324
Debt service:				
Principal retirement	1	1	-	1
Interest and fiscal charges	2	2	-	2
Total Expenditures	<u>3,623,009</u>	<u>3,515,844</u>	<u>3,380,889</u>	<u>134,955</u>
Excess revenues over (under) expenditures	<u>(26,431)</u>	<u>216,141</u>	<u>443,348</u>	<u>227,207</u>
Other financing sources (uses):				
Transfers in	176,500	16,500	19,347	2,847
Transfers out	(424,316)	(424,316)	(405,817)	18,499
Total other financing sources (uses)	<u>(247,816)</u>	<u>(407,816)</u>	<u>(386,470)</u>	<u>21,346</u>
Net change in fund balance	(274,247)	(191,675)	56,878	248,553
Fund balance at beginning of year				
- Budgetary Basis	<u>1,255,374</u>	<u>1,255,374</u>	<u>1,255,374</u>	<u>-</u>
Fund balance at end of year				
- Budgetary Basis	<u>\$ 981,127</u>	<u>\$ 1,063,699</u>	<u>\$ 1,312,252</u>	<u>\$ 248,553</u>

See accompanying notes to the required supplementary information

SCHEDULE 2

**TOWN OF CANAAN, NEW HAMPSHIRE**

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

For the Year Ended December 31, 2017

<u>Measurement Period Ended</u>	<u>Town's Proportion of the Net Pension Liability</u>	<u>Town's Proportionate Share of the Net Pension Liability</u>	<u>Town's Covered Payroll</u>	<u>Town's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
June 30, 2017	0.04211241%	\$ 2,071,085	\$ 997,177	207.69%	62.66%
June 30, 2016	0.04118113%	\$ 2,189,846	\$ 948,172	230.95%	58.30%
June 30, 2015	0.04000351%	\$ 1,584,750	\$ 931,817	170.07%	65.47%
June 30, 2014	0.03824704%	\$ 1,435,635	\$ 860,676	166.80%	66.32%
June 30, 2013	0.03594569%	\$ 1,547,025	\$ 781,213	198.03%	59.81%

*See accompanying notes to the required supplementary information*

SCHEDULE 3  
**TOWN OF CANAAN, NEW HAMPSHIRE**  
**Schedule of Town Contributions**  
For the Year Ended December 31, 2017

<u>Year Ended</u>	<u>Contractually Required Contributions</u>	<u>Contributions in Relation to the Contractually Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Town's Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
December 31, 2017	\$ 164,458	\$ (164,458)	\$ -	\$ 1,023,827	16.06%
December 31, 2016	\$ 151,448	\$ (151,448)	\$ -	\$ 973,044	15.56%
December 31, 2015	\$ 140,206	\$ (140,206)	\$ -	\$ 936,284	14.97%
December 31, 2014	\$ 125,738	\$ (125,738)	\$ -	\$ 879,027	14.30%
December 31, 2013	\$ 109,018	\$ (109,018)	\$ -	\$ 839,363	12.99%

*See accompanying notes to the required supplementary information*

**TOWN OF CANAAN, NEW HAMPSHIRE**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
For the Year Ended December 31, 2017

**NOTE 1—BUDGET TO ACTUAL RECONCILIATION**

*General Fund*

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

	Revenues and Other Financing <u>Sources</u>	Expenditures and Other Financing <u>Uses</u>
Per Exhibit D	\$ 3,834,077	\$ 3,522,955
Difference in property taxes meeting susceptible to accrual criteria	37,851	
Accrued vacation - December 31, 2017		(30,129)
Accrued vacation - December 31, 2016		23,398
Encumbrances - December 31, 2017		87,036
Encumbrances - December 31, 2016		(2,140)
Non-budgetary revenues and expenditures	(28,344)	(214,481)
Budgetary transfers out		400,067
Per Schedule 1	<u>\$ 3,843,584</u>	<u>\$ 3,786,706</u>

**NOTE 2—BUDGETARY FUND BALANCES**

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

<b>Nonspendable:</b>	
Prepaid expenses	\$ 15,524
<b>Restricted:</b>	
Highway Block Grant	82,572
<b>Assigned for:</b>	
Designated for subsequent year expenditures	225,000
<b>Unassigned:</b>	
Unassigned - General operations	989,156
	<u>\$ 1,312,252</u>

**TOWN OF CANAAN, NEW HAMPSHIRE**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)**  
For the Year Ended December 31, 2017

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

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

***Changes in Actuarial Assumptions***

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

SCHEDULE A  
**TOWN OF CANAAN, NEW HAMPSHIRE**  
**Combining Balance Sheet**  
**Governmental Funds - All Nonmajor Funds**  
December 31, 2017

	Conservation Fund	Expendable Trust Funds	Transfer Station Fund	Police Outside Detail Fund	Recreation Revolving Fund	Total Nonmajor Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents		\$ 760	\$ 14,525	\$ 37,311	\$ 17,711	\$ 70,307
Investments	\$ 57,319	86,934				144,253
Accounts receivable				3,710		3,710
Due from other funds	5,722		2,652			8,374
Total Assets	<u>63,041</u>	<u>87,694</u>	<u>17,177</u>	<u>41,021</u>	<u>17,711</u>	<u>226,644</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 63,041</u>	<u>\$ 87,694</u>	<u>\$ 17,177</u>	<u>\$ 41,021</u>	<u>\$ 17,711</u>	<u>\$ 226,644</u>
<b>LIABILITIES</b>						
Due to other funds		\$ 760		\$ 5,744	\$ 4,564	\$ 11,068
Total Liabilities	<u>\$ -</u>	<u>760</u>	<u>\$ -</u>	<u>5,744</u>	<u>4,564</u>	<u>11,068</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>						
Committed	<u>63,041</u>	<u>86,934</u>	<u>17,177</u>	<u>35,277</u>	<u>13,147</u>	<u>215,576</u>
Total Fund Balances	<u>63,041</u>	<u>86,934</u>	<u>17,177</u>	<u>35,277</u>	<u>13,147</u>	<u>215,576</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 63,041</u>	<u>\$ 87,694</u>	<u>\$ 17,177</u>	<u>\$ 41,021</u>	<u>\$ 17,711</u>	<u>\$ 226,644</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, 2017

	Conservation Fund	Expendable Trust Funds	Transfer Station Fund	Police Outside Detail Fund	Recreation Revolving Fund	Total Nonmajor Governmental Funds
<b>Revenues:</b>						
Taxes	\$ 5,000					\$ 5,000
Intergovernmental				\$ 24,963		24,963
Charges for services			\$ 2,652	6,079	\$ 61,835	70,566
Interest and investment income	530	\$ 4,739	10	15	12	5,306
Miscellaneous	500	2,000			8,192	10,692
Total Revenues	<u>6,030</u>	<u>6,739</u>	<u>2,662</u>	<u>31,057</u>	<u>70,039</u>	<u>116,527</u>
<b>Expenditures:</b>						
<b>Current operations:</b>						
General government		3,179				3,179
Public safety				30,019		30,019
Culture and recreation					85,587	85,587
Conservation	767					767
Total Expenditures	<u>767</u>	<u>3,179</u>	<u>-</u>	<u>30,019</u>	<u>85,587</u>	<u>119,552</u>
Excess revenues over (under) expenditures	<u>5,263</u>	<u>3,560</u>	<u>2,662</u>	<u>1,038</u>	<u>(15,548)</u>	<u>(3,025)</u>
<b>Other financing uses:</b>						
Transfers in					5,750	5,750
Total other financing uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,750</u>	<u>5,750</u>
Net change in fund balances	5,263	3,560	2,662	1,038	(9,798)	2,725
Fund balances at beginning of year	<u>57,778</u>	<u>83,374</u>	<u>14,515</u>	<u>34,239</u>	<u>22,945</u>	<u>212,851</u>
Fund balances at end of year	<u>\$ 63,041</u>	<u>\$ 86,934</u>	<u>\$ 17,177</u>	<u>\$ 35,277</u>	<u>\$ 13,147</u>	<u>\$ 215,576</u>