

**TOWN OF HANCOCK,
NEW HAMPSHIRE**

ANNUAL FINANCIAL REPORT

**AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2010**

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Selectmen
Town of Hancock
Hancock, New Hampshire

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Hancock as of and for the fiscal year ended December 31, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Hancock's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Management has not recorded the capital assets and related accumulated depreciation in the governmental activities, and accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that capital assets, including infrastructure, be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities. The amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

As discussed in Note 15 to the financial statements, management has not disclosed a liability and all other information for other postemployment benefits in governmental activities. Accounting principles generally accepted in the United States of America require that other postemployment benefits be disclosed on the government-wide financial statements, which would possibly result in liabilities, reduce the net assets, and change the expenses of the governmental activities. The amount by which this departure would affect the liabilities, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, because of the effects of the matters discussed in the preceding two paragraphs, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the Town of Hancock as of December 31, 2010, or the changes in financial position thereof for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the Town of Hancock as of December 31, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Town of Hancock has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

*Town of Hancock
Independent Auditor's Report*

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

September 8, 2011

*Plodzik & Sanderson
Professional Association*

BASIC FINANCIAL STATEMENTS

EXHIBIT A
TOWN OF HANCOCK, NEW HAMPSHIRE
Statement of Net Assets
December 31, 2010

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 1,720,183
Restricted cash	17,595
Investments	1,551,078
Intergovernmental receivable	177,871
Other receivables, net of allowances for uncollectible	226,397
Prepaid items	450
Total assets	3,693,574
LIABILITIES	
Accounts payable	43,777
Accrued salaries and benefits	2,231
Contract payable	60,553
Intergovernmental payable	1,443,129
Accrued interest payable	7,504
Escrow and performance deposits	17,595
Unearned revenue	30,651
Noncurrent obligations:	
Due within one year:	
Bonds	160,779
Compensated absences	51,335
Accrued landfill postclosure care costs	3,000
Due in more than one year:	
Bonds	275,269
Accrued landfill postclosure care costs	27,000
Total liabilities	2,122,823
NET ASSETS	
Restricted for perpetual care	1,090,287
Unrestricted	480,464
Total net assets	\$ 1,570,751

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT B
TOWN OF HANCOCK, NEW HAMPSHIRE
Statement of Activities
For the Fiscal Year Ended December 31, 2010

	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
General government	\$ 551,166	\$ 5,462	\$ -	\$ (545,704)
Public safety	326,251	24,265	-	(301,986)
Highways and streets	1,151,069	700	671,129	(479,240)
Sanitation	97,550	33,205	-	(64,345)
Water distribution and treatment	48,811	59,546	-	10,735
Health	4,504	-	-	(4,504)
Welfare	8,300	-	-	(8,300)
Culture and recreation	125,624	12,491	-	(113,133)
Conservation	6,865	-	-	(6,865)
Interest on long-term debt	20,484	-	-	(20,484)
Total governmental activities	<u>\$ 2,340,624</u>	<u>\$ 135,669</u>	<u>\$ 671,129</u>	<u>(1,533,826)</u>
General revenues:				
Taxes:				
Property				1,106,660
Other				58,679
Motor vehicle permit fees				265,598
Licenses and other fees				13,716
Grants and contributions not restricted to specific programs				158,316
Unrestricted investment earnings				75,344
Miscellaneous				111,596
Total general revenues				<u>1,789,909</u>
Change in net assets				256,083
Net assets, beginning, as restated (see Note 13)				1,314,668
Net assets, ending				<u>\$ 1,570,751</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT C-1
TOWN OF HANCOCK, NEW HAMPSHIRE
Governmental Funds
Balance Sheet
December 31, 2010

	General	Permanent	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,487,715	\$ 87,718	\$ 144,750	\$ 1,720,183
Restricted cash	17,595	-	-	17,595
Investments	160,145	999,217	391,716	1,551,078
Receivables, net of allowance for uncollectible:				
Interest	-	7,923	230	8,153
Taxes	207,448	-	-	207,448
Accounts	9,461	-	1,335	10,796
Intergovernmental	177,871	-	-	177,871
Interfund receivable	33,227	-	18,710	51,937
Voluntary tax liens	23,866	-	-	23,866
Voluntary tax liens reserved until collected	(23,866)	-	-	(23,866)
Prepaid items	-	-	450	450
Total assets	<u>\$ 2,093,462</u>	<u>\$ 1,094,858</u>	<u>\$ 557,191</u>	<u>\$ 3,745,511</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 42,434	\$ -	\$ 1,343	\$ 43,777
Accrued salaries and benefits	2,231	-	-	2,231
Contract payable	60,553	-	-	60,553
Intergovernmental payable	1,443,129	-	-	1,443,129
Interfund payable	16,512	4,571	30,854	51,937
Escrow and performance deposits	17,595	-	-	17,595
Deferred revenue	30,558	-	93	30,651
Total liabilities	<u>1,613,012</u>	<u>4,571</u>	<u>32,290</u>	<u>1,649,873</u>
Fund balances:				
Reserved for encumbrances	32,735	-	350	33,085
Reserved for endowments	-	935,009	-	935,009
Reserved for special purposes	-	155,278	-	155,278
Unreserved, undesignated, reported in:				
General fund	447,715	-	-	447,715
Special revenue funds	-	-	524,551	524,551
Total fund balances	<u>480,450</u>	<u>1,090,287</u>	<u>524,901</u>	<u>2,095,638</u>
Total liabilities and fund balances	<u>\$ 2,093,462</u>	<u>\$ 1,094,858</u>	<u>\$ 557,191</u>	<u>\$ 3,745,511</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT C-2
TOWN OF HANCOCK, NEW HAMPSHIRE
Reconciliation of Total Governmental Fund Balances to the Statement of Net Assets
December 31, 2010

Total fund balances of governmental funds (Exhibit C-1)		\$ 2,095,638
Amounts reported for governmental activities in the statement of net assets are different because:		
Interfund receivables and payables between governmental funds are eliminated on the statement of net assets.		
Receivables	\$ (51,937)	
Payables	<u>51,937</u>	-
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(7,504)
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds.		
Bonds	\$ 436,048	
Compensated absences payable	51,335	
Accrued landfill postclosure care costs	<u>30,000</u>	
		<u>(517,383)</u>
Total net assets of governmental activities (Exhibit A)		<u><u>\$ 1,570,751</u></u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT C-3
TOWN OF HANCOCK, NEW HAMPSHIRE
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended December 31, 2010

	General	Permanent	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 1,165,339	\$ -	\$ -	\$ 1,165,339
Licenses and permits	279,314	-	-	279,314
Intergovernmental	829,445	-	-	829,445
Charges for services	76,123	-	59,546	135,669
Miscellaneous	39,953	83,231	63,757	186,941
Total revenues	<u>2,390,174</u>	<u>83,231</u>	<u>123,303</u>	<u>2,596,708</u>
Expenditures:				
Current:				
General government	542,437	3,187	211	545,835
Public safety	310,976	8,948	3,758	323,682
Highways and streets	502,167	-	2,809	504,976
Water distribution and treatment	-	-	48,811	48,811
Sanitation	97,550	-	-	97,550
Health	4,504	-	-	4,504
Welfare	8,300	-	-	8,300
Culture and recreation	29,459	-	96,165	125,624
Conservation	1,193	-	5,672	6,865
Debt service:				
Principal	158,663	-	-	158,663
Interest	21,119	-	-	21,119
Capital outlay	647,071	-	-	647,071
Total expenditures	<u>2,323,439</u>	<u>12,135</u>	<u>157,426</u>	<u>2,493,000</u>
Excess (deficiency) of revenues over (under) expenditures	<u>66,735</u>	<u>71,096</u>	<u>(34,123)</u>	<u>103,708</u>
Other financing sources (uses):				
Transfers in	6,571	-	90,099	96,670
Transfers out	(72,099)	(22,571)	(2,000)	(96,670)
Total other financing sources and uses	<u>(65,528)</u>	<u>(22,571)</u>	<u>88,099</u>	<u>-</u>
Net change in fund balances	1,207	48,525	53,976	103,708
Fund balances, beginning, as restated (see Note 13)	479,243	1,041,762	470,925	1,991,930
Fund balances, ending	<u>\$ 480,450</u>	<u>\$ 1,090,287</u>	<u>\$ 524,901</u>	<u>\$ 2,095,638</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT C-4
TOWN OF HANCOCK, NEW HAMPSHIRE
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended December 31, 2010

Net change in fund balances of governmental funds (Exhibit C-3)		\$ 103,708
Amounts reported for governmental activities in the statement of activities are different because:		
Transfers in and out between governmental funds are eliminated on the operating statement.		
Transfers in		\$ (96,670)
Transfers out		<u>96,670</u>
		-
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but has no effect on net assets.		
Repayment of bond principal		157,599
Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.		
Decrease in accrued interest expense		\$ 1,699
Increase in compensated absences payable		<u>(6,923)</u>
		<u>(5,224)</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>\$ 256,083</u></u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT D-1
TOWN OF HANCOCK, NEW HAMPSHIRE
Fiduciary Funds
Statement of Fiduciary Net Assets
December 31, 2010

	Private Purpose Trust	Agency
ASSETS		
Cash and cash equivalents	\$ 1,603	\$ 16,561
Investments	16,875	189,236
Accrued interest receivable	134	1,535
Total assets	<u>18,612</u>	<u>207,332</u>
LIABILITIES		
Due to others	<u>-</u>	<u>207,332</u>
NET ASSETS		
Held in trust for special purposes	<u>\$ 18,612</u>	<u>\$ -</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT D-2
TOWN OF HANCOCK, NEW HAMPSHIRE
Fiduciary Funds
Statement of Changes in Fiduciary Net Assets
For the Fiscal Year Ended December 31, 2010

	Private Purpose Trust
ADDITIONS	
Investment earnings:	
Interest and dividends	\$ 864
Net change in fair market value of investments	560
Total additions	1,424
DEDUCTIONS	
Trust income distributions	(954)
Change in net assets	470
Net assets, beginning	18,142
Net assets, ending	\$ 18,612

The notes to the basic financial statements are an integral part of this statement.

TOWN OF HANCOCK, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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TOWN OF HANCOCK, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Town of Hancock, New Hampshire (the Town), are presented in conformity with accounting principles generally accepted in the United States of America for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources.

The more significant of the Town's accounting policies are described below.

1-A Reporting Entity

The Town of Hancock is a municipal corporation governed by an elected 3-member Board of Selectmen. The reporting entity is comprised of the primary government and any other organizations (*component units*) that are included to ensure that the financial statements are not misleading.

Component units are legally separate organizations for which the Town is financially accountable. The Town is financially accountable for an organization if the Town appoints a voting majority of the organization's governing board, and (1) the Town is able to significantly influence the programs or services performed or provided by the organizations; or (2) the Town is legally entitled to or can otherwise access the organization's resources; (3) the Town is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the Town is obligated for the debt of the organization. Based on the foregoing criteria, no other organizations are included in the Town's financial reporting entity.

1-B Basis of Presentation

Government-wide financial statements – The government-wide financial statements display information about the Town as a whole. These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. The effect of interfund activity has been eliminated from these statements.

The statement of net assets presents information on all of the entity's assets and liabilities, with the difference between the two presented as net assets. Net assets are reported as one of two categories; restricted or unrestricted.

The statement of activities presents a comparison between direct expenses and program revenues for the different functions of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function, and therefore, are clearly identifiable to a particular function. Program revenues include (1) charges to customers or applicants for goods received, services rendered or privileges provided, and (2) grants and contributions that are restricted to meeting operational requirements of a particular function. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund financial statements – The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Financial statements of the Town are organized into funds, each of which is considered to be a separate accounting entity. Each fund has a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized as major funds or nonmajor funds within the governmental and fiduciary statements. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- (a) Total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10% of the corresponding total for all funds of that category or type;
- (b) Total assets, liabilities, revenues or expenditures of the individual governmental fund are at least 5% of the corresponding total for all governmental funds combined; and
- (c) In addition, any other governmental fund that the Town believes is particularly important to the financial statement users may be reported as a major fund.

Governmental activities – Governmental funds are identified as general, special revenue, and permanent funds, based upon the following guidelines:

General Fund – is the primary operating fund of the Town and is always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund.

TOWN OF HANCOCK, NEW HAMPSHIRE
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Special Revenue Funds – are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Permanent Funds – are used to account for resources legally held in trust. All resources of the fund, including earnings on invested resources, may be used to support the Town.

Fiduciary fund types – These funds account for assets held by the Town as a trustee or agent for individuals, private organizations, and other units of governments. Fiduciary fund types are not part of the reporting entity in the government-wide financial statements, but are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These funds are as follows:

Private Purpose Trust Funds – are used to account for trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

Agency Funds – are used to account for resources held by the Town in a purely custodial capacity, for individuals, private organizations, and/or governmental units.

Major funds – The Town reports the following major governmental funds:

General Fund – all general revenues and other receipts that are not allocated by law or contracted agreement to another fund are accounted for in this fund. This fund accounts for general operating expenditures, fixed charges, and the capital improvement costs that are not reported in other funds.

Permanent Funds – are held in the custody of the trustees of trust funds and are used to account for resources held in trust for use by the Town.

Nonmajor funds – The Town also reports eleven nonmajor governmental funds.

1-C Measurement Focus

Government-wide and fiduciary fund financial statements – The government-wide and fiduciary fund financial statements, except for agency funds which have no measurement focus, are reported using the economic resources measurement focus. Under this concept, revenues and expenses are matched using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are susceptible to accrual, that is, when they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current period. Property taxes, grants and contracts, and interest associated with the current period are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Town. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Revenues – 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 the modified accrual basis revenue is recorded when the exchange takes place in the fiscal year in which the resources are measurable and become available.

Revenues – nonexchange transactions – Nonexchange transactions, in which the Town receives value without directly giving equal value in return, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all grantor imposed eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year

TOWN OF HANCOCK, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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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 nonexchange transactions also must be available (i.e., collected within 60 days) before it can be recognized, with the exception of property taxes which are recognized if expected to be collected in time to be used to pay the liability to the school district which is due over the next six months.

1-D Cash and Cash Equivalents

The Town considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and cash equivalents."

New Hampshire statutes require that the Town Treasurer have custody of all money belonging to the Town and pay out the same only upon orders of the Board of Selectmen. The treasurer shall deposit all such moneys in participation units in the public deposit investment pool established pursuant to NH RSA 383:22 or in solvent banks in the state. Funds may be deposited in banks outside the state if such banks pledge and deliver to a third party custodial bank or the Federal Reserve Bank, collateral security for such deposits, United States government or government agency obligations or obligations of the State of New Hampshire in value at least equal to the amount of the deposit in each case.

1-E Restricted Assets

Certain resources set aside for repayment are classified as restricted assets on the balance sheet because their use is limited by applicable Town covenants.

1-F Investments

State statutes place certain limitations on the nature of deposits and investments available as follows:

New Hampshire law authorizes the Town to invest in the following type of obligations:

- Obligations of the United States government,
- The public deposit investment pool established pursuant to RSA 383:22,
- Savings bank deposits,
- Certificates of deposit and repurchase agreements of banks incorporated under the laws of the State of New Hampshire or in banks recognized by the state treasurer.

Any person who directly or indirectly receives any such funds or moneys for deposit or for investment in securities of any kind shall, prior to acceptance of such funds, make available at the time of such deposit or investment an option to have such funds secured by collateral having a value at least equal to the amount of such funds. Such collateral shall be segregated for the exclusive benefit of the Town. Only securities defined by the bank commissioner as provided by rules adopted pursuant to RSA 386:57 shall be eligible to be pledged as collateral.

Investments are stated at fair value based on quoted market prices.

1-G Receivables

Receivables in the government-wide financial statements represent amounts due to the Town at December 31, recorded as revenue, which will be collected in the future and consist primarily of taxes, accounts, interest, and intergovernmental receivables.

Tax revenue is recorded when a warrant for collection is committed to the tax collector. As prescribed by law, the tax collector executes a lien on properties for all uncollected property taxes in the following year after taxes are due. The lien on these properties has priority over other liens and accrues interest at 18% per annum. If property is not redeemed within the two year redemption period, the property is tax deeded to the Town.

Accounts receivable include various service charges which are recorded as revenue for the period when serviced was provided. These receivables are reported net of any allowances for uncollectible accounts.

TOWN OF HANCOCK, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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1-H Interfund Balances

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as “interfund receivables and payables.” Interfund receivables and payables between funds are eliminated in the statement of net assets.

1-I Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

1-J Allowances for Uncollectible Accounts

An allowance for uncollectible accounts has been recorded for the following purposes:

Taxes – an allowance has been established by management where collectability is in doubt.

Accounts Receivable – an allowance has been established where collectability is in doubt.

1-K Deferred/Unearned Revenue

In the government-wide financial statements, deferred revenue is recognized when cash, receivables or other assets are recorded prior to their being earned. In the governmental fund financial statements deferred revenue represents monies received or revenues accrued which have not been earned or do not meet the “available” criterion for revenue recognition under the modified accrual basis of accounting. On the government-wide statements of net assets, deferred revenue is classified as unearned revenue.

1-L Compensated Absences

The Town’s policy allows certain employees to earn varying amounts of vacation and sick pay based on the employee’s length of employment. Upon retirement or termination of employment, employees are paid in full for any accrued leave earned as set forth by personnel policy.

Vested amounts of both vacation and sick pay are reported as long-term liabilities in the statement of net assets.

1-M Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the government-wide statements.

1-N Claims and Judgments

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the governmental funds. Claims and judgments are recorded in the government-wide financial statements as expense when the related liabilities are incurred. There were no significant claims or judgments at year-end.

1-O Equity Classifications

Government-wide statements – Equity is classified as net assets and displayed in two components:

- a) ***Restricted net assets*** – Consists of net assets with constraints placed on use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- b) ***Unrestricted net assets*** – All other net assets that do not meet the definition of “restricted.”

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Fund statements – Governmental fund equity is classified as fund balance. Fund balance is classified as reserved and unreserved, with unreserved further split between designated and undesignated. Reserved fund balances represent amounts not available for appropriation, or are legally restricted by outside parties for use for a specific purpose. Designated fund balances represent tentative management plans that are subject to change. Undesignated fund balance amounts represent amounts available for use in future periods.

1-P Interfund Activities

Interfund activities are reported as follows:

Interfund receivables and payables – Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Interfund receivables and payables between funds are eliminated in the statement of net assets.

Interfund transfers – Interfund transfers represent flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making the transfers and other financing sources in the funds receiving the transfers. In the government-wide financial statements, all interfund transfers between individual governmental funds have been eliminated.

1-Q Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates and the differences could be material.

NOTE 2 – CASH AND CASH EQUIVALENTS

Custodial credit risk is the risk that in the event of a bank failure, a government’s deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of December 31, 2010, none of the Town’s bank balances totaling \$1,786,344 were exposed to custodial credit risk as uninsured and uncollateralized.

Cash and cash equivalents reconciliation:

Cash per statement of net assets (Exhibit A)	\$ 1,720,183
Restricted cash per statement of net assets (Exhibit A)	17,595
Cash per statement of fiduciary net assets (Exhibit D-1)	<u>18,164</u>
Total cash and cash equivalents	<u><u>\$ 1,755,942</u></u>

NOTE 3 – INVESTMENTS

The Town maintains a portfolio of short-term maturity investments, including money market investments, which are reported at amortized cost. The Town also maintains a portfolio of intermediate maturity investments that are reported at fair value, based on quoted market prices. The Town’s fiscal agent or custodian provides the fair value of all intermediate maturity investments. As of December 31, 2010, the Town had the following investments:

	Governmental
	<u>Activities</u>
NH Public Deposit Investment Pool	\$ 273,668
Mutual funds	444,298
Fixed income money market mutual funds	<u>1,039,223</u>
	<u><u>\$ 1,757,189</u></u>

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Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and that change could materially affect the amounts reported in the statement of net assets.

Concentration of Credit Risk – The Town places no limit on the amount it may invest in any one issuer. More than 5% of the Town’s investments are in US Large Cap Index Fund, Citigroup, Inc., Wachovia Bank National Association, Pimco Total Return Fund, and Artio Global High Income Fund. These investments are 15.3%, 7.6%, 8.1%, 18.7% and 6.7%, respectively, of the Town’s total investments.

Custodial Credit Risk – The custodial credit risk is the risk that the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party if the counterparty fails. Of the Town’s \$1,757,186 in investments at December 31, 2010, \$1,483,518 of the underlying securities are held by the investment counterparties trust department, not in the name of the Town. The Town does not have custodial credit risk policies for investments.

Investment reconciliation:

Investments per statement of net assets (Exhibit A)	\$ 1,551,078
Investments per statement of fiduciary net assets (Exhibit D-1)	<u>206,111</u>
Total investments	<u><u>\$ 1,757,189</u></u>

NOTE 4 – RESTRICTED ASSETS

Certain Town cash and investments are restricted for the following purposes:

Cash and cash equivalents:	
General fund - escrow payables	<u>\$ 17,595</u>

NOTE 5 – TAXES RECEIVABLE

The property tax year is from April 1 to March 31 and all property taxes are assessed on the inventory taken in April of that year. The net assessed valuation as of April 1, 2010, upon which the 2010 property tax levy was based is:

For the New Hampshire education tax	\$ 269,026,150
For all other taxes	\$ 274,066,950

The Town subscribes to the semi-annual method of tax collection as provided for by RSA 76:15-a. Taxes were levied on May 17 and October 6, with payments due on July 1 and December 6. Interest accrues at a rate of 12% on bills outstanding after the due dates. The first billing is considered an estimate only and is one half of the previous year’s tax billing. The remaining balance of taxes due is billed in the fall after the New Hampshire Department of Revenue Administration has calculated and approved the Town’s tax rate for the fiscal year.

In connection with the setting of the tax rate, Town officials with the approval of the Department of Revenue Administration, establish and raise through taxation an amount for abatements and refunds of property taxes, known as overlay. This amount is reported as a reduction in tax revenue and is adjusted by management for any tax allowance at year-end. The property taxes collected by the Town include taxes levied for the State of New Hampshire, Contoocook Valley School District, and Hillsborough County, which are remitted as required by law. The ultimate responsibility for the collection of taxes rests with the Town.

The tax rates and amounts assessed for the year ended December 31, 2010 were as follows:

	Per \$1,000 of Assessed Valuation	Property Taxes Assessed
Municipal portion	<u>\$4.31</u>	\$ 1,181,192
School portion:		
State of New Hampshire	\$2.19	589,981
Local	\$9.80	2,684,742
County portion	\$1.00	<u>274,404</u>
Total		<u><u>\$ 4,730,319</u></u>

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During the current fiscal year, the tax collector executed a lien on April 9, 2010 for all uncollected 2009 property taxes.

Taxes receivable at December 31, 2010, are as follows:

Property:		
Levy of 2010	\$	149,770
Unredeemed (under tax lien):		
Levy of 2009		39,020
Levy of 2008		25,183
Levies of 2007 and prior		10,135
Land use change		1,340
Less: allowance for estimated uncollectible taxes		<u>(18,000)</u>
Net taxes receivable	\$	<u><u>207,448</u></u>

NOTE 6 – OTHER RECEIVABLES

Receivables at December 31, 2010, consisted of accounts and intergovernmental amounts arising from grants. Receivables are recorded on the Town’s financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and collectability.

Receivables as of December 31, 2010 for the Town’s individual major fund in the aggregate including applicable allowances for uncollectible accounts are as follows:

	<u>General Fund</u>	<u>Permanent Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Receivables:				
Interest	\$ -	\$ 7,923	\$ 230	\$ 8,153
Accounts	11,961	-	1,335	13,296
Intergovernmental	<u>177,871</u>	<u>-</u>	<u>-</u>	<u>177,871</u>
Gross receivables	189,832	7,923	1,565	199,320
Less: allowance for uncollectible	<u>(2,500)</u>	<u>-</u>	<u>-</u>	<u>(2,500)</u>
Net total receivables	<u><u>\$ 187,332</u></u>	<u><u>\$ 7,923</u></u>	<u><u>\$ 1,565</u></u>	<u><u>\$ 196,820</u></u>

NOTE 7 – INTERFUND BALANCES AND TRANSFERS

Interfund receivable and payable balances consisting of overdrafts in pooled cash and budgetary transfers at December 31, 2010, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Permanent	\$ 4,571
	Nonmajor	28,656
Nonmajor	General	16,512
Nonmajor	Nonmajor	<u>2,198</u>
		<u><u>\$ 51,937</u></u>

Interfund transfers during the year ended December 31, 2010 are as follows:

	<u>Transfers In:</u>		
	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Transfers out:			
General fund	\$ -	\$ 72,099	\$ 72,099
Permanent fund	4,571	18,000	22,571
Nonmajor funds	<u>2,000</u>	<u>-</u>	<u>2,000</u>
Total	<u><u>\$ 6,571</u></u>	<u><u>\$ 90,099</u></u>	<u><u>\$ 96,670</u></u>

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Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; and (2) use unrestricted revenue collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 8 – INTERGOVERNMENTAL PAYABLES

Amounts due to other governments at December 31, 2010, consist of the following:

General fund:	
Balance of 2010-2011 district assessment due to the Contoocook Valley School District	\$ 1,443,005
Dog fees due to the State of New Hampshire	61
Vital statistics fees due to the State of New Hampshire	63
Total intergovernmental payables due from the general fund	<u>\$ 1,443,129</u>
Agency fund:	
Balance of trust funds belonging to the Contoocook Valley School District	<u>\$ 207,332</u>

NOTE 9 – DEFERRED/UNEARNED REVENUE

Deferred/unearned revenue at December 31, 2010 consists of the following:

General fund:	
Property tax revenue collected in advance of the 2011 property tax warrant being issued	\$ 30,558
Nonmajor fund:	
Water rent revenue collected in advance of the 2011 water rent warrant being issued	<u>93</u>
Total deferred/unearned revenue	<u>\$ 30,651</u>

NOTE 10 – LONG-TERM LIABILITIES

Changes in the Town's long-term obligations consisted of the following for the year ended December 31, 2010:

	General Obligation Bonds Payable	Compensated Absences Payable	Accrued Landfill Postclosure Care Costs Payable	Total
Balance, beginning	\$ 593,647	\$ 44,412	\$ 30,000	\$ 668,059
Additions	-	10,503	-	10,503
Reductions	(157,599)	(3,580)	-	(161,179)
Balance, ending	<u>\$ 436,048</u>	<u>\$ 51,335</u>	<u>\$ 30,000</u>	<u>\$ 517,383</u>

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Long-term liabilities payable are comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at December 31, 2010	Current Portion
General obligation bonds payable:						
Recreation field	\$ 80,000	2001	2011	4.125-4.5	\$ 5,000	\$ 5,000
Town office building	\$ 243,000	2001	2012	4.125-4.5	20,000	20,000
Highway truck	\$ 86,000	2001	2011	4.125-4.5	5,000	5,000
Fire truck	\$ 165,000	2001	2011	4.125-4.5	15,000	15,000
Pumper truck	\$ 205,000	2006	2011	3.300	44,460	44,460
Prospect Hill	\$ 372,114	2007	2017	3.625	271,710	34,760
Grader	\$ 174,800	2007	2013	4.750	74,878	36,559
					<u>436,048</u>	<u>160,779</u>
Compensated absences payable:						
Vested sick leave					12,174	-
Accrued vacation leave					39,161	-
					<u>51,335</u>	<u>-</u>
Accrued landfill postclosure care costs					30,000	3,000
Total					<u>\$ 517,383</u>	<u>\$ 163,779</u>

The annual requirements to amortize all general obligation bonds outstanding as of December 31, 2010, including interest payments, are as follows:

Fiscal Year Ending December 31,	Principal	Interest	Total
2011	\$ 160,779	\$ 15,784	\$ 176,563
2012	74,351	9,637	83,988
2013	37,349	6,948	44,297
2014	38,716	5,582	44,298
2015-2017	124,853	8,039	132,892
Totals	<u>\$ 436,048</u>	<u>\$ 45,990</u>	<u>\$ 482,038</u>

All debt is general obligation debt of the Town, which is backed by its full faith and credit, and will be repaid from general governmental revenues.

Accrued Landfill Postclosure Care Costs

Federal and State laws and regulations require that the Town perform certain maintenance and monitoring functions at the landfill site. A liability is being recognized in the government-wide financial statements based on the future postclosure care costs that will be incurred. The estimated liability for landfill postclosure care costs has a balance of \$30,000 as of December 31, 2010. The estimated total current cost of the landfill postclosure care (\$3,000) is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of December 31, 2010. However, the actual cost of postclosure care may be higher or lower due to inflation, changes in technology, or changes in landfill laws and regulations. The Town expects to finance the postclosure care costs by annual appropriations.

NOTE 11 – COMMITMENTS

A construction contract relating to construction or major repairs in progress aggregated approximately \$47,728. This contract will be paid in future periods as work is performed. Payment will be made with proceeds remaining from Federal grants to be received.

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NOTE 12 – GOVERNMENTAL FUND BALANCES

Governmental fund balances reported on the fund financial statements at December 31, 2010 include the following:

Reserved:		
Major funds:		
General:		
Reserve for encumbrances	\$	32,735
Permanent:		
Reserve for endowments		935,009
Reserve for special purposes		155,278
Total reserved fund balance		<u>1,123,022</u>
Unreserved, undesignated:		
Major fund:		
General		447,715
Nonmajor funds:		
Water		78,726
Library		155,223
History		7,847
Police equipment		7,390
Baseball		2,444
Recreation		1,500
Expendable trust		242,538
Tennis court		934
Highway		5,996
Conservation commission		8,550
Land use change tax		13,753
Total unreserved, undesignated fund balance		<u>972,616</u>
Total governmental fund balances		<u>\$ 2,095,638</u>

NOTE 13 – PRIOR PERIOD ADJUSTMENTS

Fund equity at January 1, 2010 was restated to give retroactive effect to the following prior period adjustments:

	<u>Government-wide Statements</u>	<u>General Fund</u>	<u>Permanent Fund</u>
To remove for previously reported payroll liabilities that should not have been reported	\$ 13,834	\$ 13,834	\$ -
To record a receivable that was not previously recorded	45,242	45,242	-
To remove the agency fund from the permanent fund	(194,824)	-	(194,824)
Net assets/fund balance, as previously reported	<u>1,450,416</u>	<u>420,167</u>	<u>1,236,586</u>
Net assets/fund balance, as restated	<u>\$ 1,314,668</u>	<u>\$ 479,243</u>	<u>\$ 1,041,762</u>

NOTE 14 – EMPLOYEE RETIREMENT PLAN

The Town participates in the New Hampshire Retirement System (the System) which is the administrator of a cost-sharing multiple-employer contributory pension plan and trust established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The plan is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. Provision for benefits and contributions are established and can be amended by the New Hampshire Legislature. The System issues a publicly available financial report that may be obtained by writing the New Hampshire Retirement System, 54 Regional Drive, Concord, NH 03301.

The System is financed by contributions from both the employees and the Town. Member contribution rates are established and may be amended by the State legislature while employer contribution rates are set by the System trustees based on an actuarial valuation.

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Policy officers are required to contribute 9.3% of gross earnings. For the first six months of 2010, the town contributed 13.66% for police, and as of July 1, the rate increased to 14.63%. The contribution requirements for the Town of Hancock for the fiscal years 2008, 2009, and 2010, were \$17,629, \$18,675, and \$22,800, respectively, which were paid in full in each year.

The State of New Hampshire funded 30% of the total employer normal contribution rate for police officers employed by the Town. This amount \$4,960, is reported as an "on-behalf payment" as an expenditure and revenue on the governmental fund operating statement, and as an expense and revenue on the government-wide statements of activities. The Town also contributed \$6,091 to a 457 deferred compensation plan for a few employees during the year.

NOTE 15 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to pension benefits described in Note 14, the Town provides postemployment benefit options for health care and dental insurance to eligible retirees, terminated employees, and their dependents. The benefits are provided in accordance with the Town's agreements, collective bargaining agreements, and the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). The criteria to determine eligibility include: years of service, employee age, and whether the employee has vested in the respective retirement plan. The Town funds the benefits on a pay-as-you-go basis. There are two participants currently eligible. Expenses for the postretirement health care benefits are recognized as eligible employee claims are paid.

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45, which was effective for the Town on January 1, 2009, requires that the long-term cost of retirement health care and obligations for other postemployment benefits (OPEB) be determined on an actuarial basis and reported on the financial statements. The Town has not implemented GASB Statement No. 45 at December 31, 2010 or contracted with an actuarial firm to assist in evaluating the impact of this new standard on the Town. The amounts that should be recorded as the annual required contribution/OPEB cost and the net OPEB obligation is unknown.

NOTE 16 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. During fiscal year 2010, the Town was a member of the Local Government Center Property-Liability Trust, LLC, and the New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation Program. These entities are considered public entity risk pools, currently operating as common risk management and insurance programs for member Towns and cities.

The Local Government Center Property-Liability Trust, LLC, is a Trust organized to provide certain property and liability insurance coverages to member Towns, cities and other qualified political subdivisions of New Hampshire. As a member of the Local Government Center Property-Liability Trust, LLC, the Town shares in contributing to the cost of, and receiving benefits from, a self-insured pooled risk management program. The membership and coverage run from July 1 to June 30. The program maintains a self-insured retention above which it purchases reinsurance and excess insurance. This policy covers property, auto physical damage, crime, general liability, and public officials' liability subject to a \$1,000 deductible.

Contributions paid in fiscal year ending December 31, 2010, to be recorded as an insurance expenditure totaled \$27,111. There were no unpaid contributions for the year ended December 31, 2010. The trust agreement permits the Trust to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. At this time, the Trust foresees no likelihood of any additional assessments for past years.

The New Hampshire Public Risk Management Exchange (Primex³) Workers' Compensation Program is a pooled risk management program under RSAs 5-B and 281-A. Coverage was provided from January 1, 2010 to December 31, 2010 by Primex³, which retained \$1,000,000 of each workers' compensation loss. The Board has decided to self-insure the aggregate exposure and has allocated funds based on actuarial analysis for that purpose. The estimated net contribution from the Town of Hancock billed and paid for the year ended December 31, 2010 was \$19,727 for workers' compensation. The workers' compensation section of the self-insurance membership agreement permits Primex³ to make additional assessments to members should there be a deficiency in contributions for any member year, not to exceed the member's annual contribution. GASB Statement No. 10 requires members of a pool with a sharing risk to disclose if such an assessment is probable, and a reasonable estimate of the amount, if any. At this time, Primex³ foresees no likelihood of any additional assessment for this or any prior year.

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NOTE 17 – CONTINGENT LIABILITIES

The Town has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could result in a request for reimbursement from the grantor agency for costs disallowed under terms of the grant. Based on prior experience, the Town believes such disallowances, if any, will be immaterial.

NOTE 18 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date, but before the financial statements are issued. Recognized subsequent events are events or transactions that provided additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing the financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the balance sheet date, but arose after the date. Management has evaluated subsequent events through September 8, 2011, the date the December 31, 2010 financial statements were issued, and no events occurred requiring recognition or disclosure.

NOTE 19 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

In March 2009 the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The requirements of Statement No. 54 are not mandatory for the Town until fiscal year ended December 31, 2011.

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT E
TOWN OF HANCOCK, NEW HAMPSHIRE
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended December 31, 2010

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:				
Taxes	\$ 1,208,007	\$ 1,208,007	\$ 1,165,339	\$ (42,668)
Licenses and permits	298,525	298,525	279,314	(19,211)
Intergovernmental	191,658	773,928	824,485	50,557
Charges for services	33,274	33,274	76,123	42,849
Miscellaneous	37,650	37,650	39,953	2,303
Total revenues	<u>1,769,114</u>	<u>2,351,384</u>	<u>2,385,214</u>	<u>33,830</u>
Expenditures:				
Current:				
General government	547,904	547,904	565,672	(17,768)
Public safety	292,116	292,116	300,984	(8,868)
Highways and streets	505,043	505,043	484,502	20,541
Sanitation	100,826	100,826	97,550	3,276
Health	4,504	4,504	4,504	-
Welfare	8,825	8,825	8,300	525
Culture and recreation	42,345	42,345	27,631	14,714
Conservation	1,225	1,225	1,193	32
Debt service:				
Principal	158,705	158,705	158,663	42
Interest	21,078	21,078	21,119	(41)
Capital outlay	20,000	602,270	583,281	18,989
Total expenditures	<u>1,702,571</u>	<u>2,284,841</u>	<u>2,253,399</u>	<u>31,442</u>
Excess of revenues over expenditures	<u>66,543</u>	<u>66,543</u>	<u>131,815</u>	<u>65,272</u>
Other financing sources (uses):				
Transfers in	6,902	6,902	6,571	(331)
Transfers out	(73,445)	(73,445)	(72,099)	1,346
Total other financing sources and uses	<u>(66,543)</u>	<u>(66,543)</u>	<u>(65,528)</u>	<u>1,015</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	66,287	<u>\$ 66,287</u>
Unreserved fund balance, beginning, as restated (see Note 13)			381,428	
Unreserved fund balance, ending			<u>\$ 447,715</u>	

The notes to the required supplementary information are an integral part of this schedule.

TOWN OF HANCOCK, NEW HAMPSHIRE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
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General Budget Policies	1
Budgetary Reconciliation	2

TOWN OF HANCOCK, NEW HAMPSHIRE
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1. General Budget Policies

General governmental revenues and expenditures accounted for in budgetary funds are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements which govern the Town's operations. At its annual meeting, the Town adopts a budget for the current year for the general fund, as well as the nonmajor water fund. Except as reconciled below, the budget was adopted on a basis consistent with U.S. generally accepted accounting principles.

Management may transfer appropriations between operating categories as deemed necessary, but expenditures may not legally exceed budgeted appropriations in total. All annual appropriations lapse at year-end unless encumbered.

Encumbrance accounting, under which purchase orders, contracts, and continuing appropriations (certain projects and specific items not fully expended at year-end) are recognized, is employed in the governmental funds. Encumbrances are not the equivalent of expenditures, and are therefore, reported as part of the fund balance at year-end, and are carried forward to supplement appropriations of the subsequent year.

State statutes require balanced budgets, but provide for the use of beginning unreserved fund balance to achieve that end. In the fiscal year 2010, none of the beginning general fund fund balance was applied for this purpose.

2. Budgetary Reconciliation

The following reconciles the general fund budgetary basis to the GAAP basis.

Revenues and other financing sources:	
Per Exhibit E (budgetary basis)	\$ 2,391,785
Adjustment:	
Basis difference:	
On-behalf retirement contributions made by the State of New Hampshire recognized as revenue on the GAAP basis, but not on the budgetary basis	4,960
Per Exhibit C-3 (GAAP basis)	<u>\$ 2,396,745</u>
Expenditures and other financing uses:	
Per Exhibit E (budgetary basis)	\$ 2,325,498
Adjustment:	
Basis differences:	
Encumbrances, beginning	97,815
Encumbrances, ending	(32,735)
On-behalf retirement contributions made by the State of New Hampshire recognized as an expenditure on the GAAP basis, but not on the budgetary basis	4,960
Per Exhibit C-3 (GAAP basis)	<u>\$ 2,395,538</u>

COMBINING AND INDIVIDUAL FUND SCHEDULES

SCHEDULE 1
TOWN OF HANCOCK, NEW HAMPSHIRE
Major General Fund
Schedule of Estimated and Actual Revenues (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2010

	Estimated	Actual	Variance Positive (Negative)
Taxes:			
Property	\$ 1,142,527	\$ 1,106,660	\$ (35,867)
Land use change	5,470	1,340	(4,130)
Timber	10,000	7,081	(2,919)
Excavation	64	76	12
Payment in lieu of taxes	30,000	30,120	120
Interest and penalties on taxes	19,946	20,062	116
Total from taxes	<u>1,208,007</u>	<u>1,165,339</u>	<u>(42,668)</u>
Licenses, permits and fees:			
Business licenses, permits and fees	9,000	9,080	80
Motor vehicle permit fees	285,000	265,598	(19,402)
Building permits	1,575	1,832	257
Other	2,950	2,804	(146)
Total from licenses, permits and fees	<u>298,525</u>	<u>279,314</u>	<u>(19,211)</u>
Intergovernmental:			
State:			
Meals and rooms distribution	80,964	80,964	-
Highway block grant	87,754	87,754	-
Flood control reimbursement	6,197	6,197	-
Other	232,270	284,534	52,264
Federal:			
FEMA	16,743	15,011	(1,732)
Other	350,000	350,025	25
Total from intergovernmental	<u>773,928</u>	<u>824,485</u>	<u>50,557</u>
Charges for services:			
Income from departments	<u>33,274</u>	<u>76,123</u>	<u>42,849</u>
Miscellaneous:			
Sale of municipal property	100	200	100
Interest on investments	3,900	3,724	(176)
Rent of property	29,800	29,240	(560)
Contributions and donations	-	150	150
Other	3,850	6,639	2,789
Total from miscellaneous	<u>37,650</u>	<u>39,953</u>	<u>2,303</u>
Other financing sources:			
Transfers in	<u>6,902</u>	<u>6,571</u>	<u>(331)</u>
Total revenues and other financing sources	<u><u>\$ 2,358,286</u></u>	<u><u>\$ 2,391,785</u></u>	<u><u>\$ 33,499</u></u>

SCHEDULE 2
TOWN OF HANCOCK, NEW HAMPSHIRE
Major General Fund
Schedule of Appropriations, Expenditures, and Encumbrances (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2010

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Current:					
General government:					
Executive	\$ -	\$ 169,598	\$ 170,735	\$ 1,435	\$ (2,572)
Election and registration	-	20,315	20,157	-	158
Financial administration	-	13,778	12,795	-	983
Legal	-	5,100	1,560	-	3,540
Personnel administration	-	231,303	230,509	-	794
Planning and zoning	-	1,725	1,232	-	493
General government buildings	-	64,462	67,693	21,800	(25,031)
Cemeteries	-	10,102	8,598	-	1,504
Insurance, not otherwise allocated	-	29,528	27,165	-	2,363
Advertising and regional associations	-	1,993	1,993	-	-
Total general government	-	547,904	542,437	23,235	(17,768)
Public safety:					
Police	5,032	199,056	216,009	-	(11,921)
Ambulance	-	20,314	21,859	-	(1,545)
Fire	-	68,826	64,808	-	4,018
Building inspection	-	3,450	2,862	-	588
Emergency management	-	470	478	-	(8)
Total public safety	5,032	292,116	306,016	-	(8,868)
Highways and streets:					
Highways and streets	15,476	497,287	494,225	9,500	9,038
Street lighting	-	1,956	2,142	-	(186)
Other	11,689	5,800	5,800	-	11,689
Total highways and streets	27,165	505,043	502,167	9,500	20,541
Sanitation:					
Solid waste disposal	-	97,737	96,141	-	1,596
Other	-	3,089	1,409	-	1,680
Total sanitation	-	100,826	97,550	-	3,276
Health:					
Health agencies	-	4,504	4,504	-	-
Welfare:					
Direct assistance	-	8,825	8,300	-	525
Culture and recreation:					
Parks and recreation	1,828	28,522	20,426	-	9,924
Patriotic purposes	-	6,050	6,997	-	(947)
Other	-	7,773	2,036	-	5,737
Total culture and recreation	1,828	42,345	29,459	-	14,714
Conservation					
Administration	-	1,225	1,193	-	32
Debt service:					
Principal of long-term debt	-	158,705	158,663	-	42
Interest on long-term debt	-	21,078	21,119	-	(41)
Total debt service	-	179,783	179,782	-	1

(Continued)

SCHEDULE 2 (Continued)
TOWN OF HANCOCK, NEW HAMPSHIRE
Major General Fund
Schedule of Appropriations, Expenditures, and Encumbrances (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2010

	Encumbered from Prior Year	Appropriations	Expenditures	Encumbered to Subsequent Year	Variance Positive (Negative)
Capital outlay:					
Antrim Road bridge	47,955	-	33,790	-	14,165
Church painting	3,248	-	2,772	-	476
Norway Pond improvements	6,860	-	2,388	-	4,472
Main Street improvements	5,727	-	5,701	-	26
Main Street construction	-	582,270	582,270	-	-
Mack truck rebuild	-	20,000	20,150	-	(150)
Total capital outlay	<u>63,790</u>	<u>602,270</u>	<u>647,071</u>	<u>-</u>	<u>18,989</u>
Other financing uses:					
Transfers out:					
Nonmajor funds:					
Special revenue:					
Library	-	63,445	62,099	-	1,346
Expendable trust	-	10,000	10,000	-	-
Total other financing uses	<u>-</u>	<u>73,445</u>	<u>72,099</u>	<u>-</u>	<u>1,346</u>
Total appropriations, expenditures, other financing uses, and encumbrances	<u>\$ 97,815</u>	<u>\$ 2,358,286</u>	<u>\$ 2,390,578</u>	<u>\$ 32,735</u>	<u>\$ 32,788</u>

SCHEDULE 3
TOWN OF HANCOCK, NEW HAMPSHIRE
Major General Fund
Schedule of Changes in Unreserved - Undesignated Fund Balance (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2010

Unreserved, undesignated fund balance, beginning, as restated (see Note 13)		\$ 381,428
Changes:		
2010 Budget summary:		
Revenue surplus (Schedule 1)	\$ 33,499	
Unexpended balance of appropriations (Schedule 2)	32,788	
2010 Budget surplus		66,287
Unreserved, undesignated fund balance, ending		\$ 447,715

SCHEDULE 4
TOWN OF HANCOCK, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Balance Sheet
December 31, 2010

	Special Revenue Funds											Total
	Water	Library	History	Police Equipment	Baseball	Recreation	Expendable Trusts	Tennis Court	Highway	Conservation Commission	Lane Use Change	
ASSETS												
Cash and cash equivalents	\$ 27,257	\$ 32,581	\$ 3,767	\$ 305	\$ 1,670	\$ -	\$ 79,153	\$ -	\$ -	\$ 17	\$ -	\$ 144,750
Investments	71,195	122,642	4,080	5,796	774	2,580	155,548	968	5,847	8,533	13,753	391,716
Receivables, net of allowance:												
Interest	-	-	-	-	-	-	230	-	-	-	-	230
Accounts	1,335	-	-	-	-	-	-	-	-	-	-	1,335
Interfund receivable	-	-	-	2,010	-	-	14,412	-	2,288	-	-	18,710
Prepaid items	450	-	-	-	-	-	-	-	-	-	-	450
Total assets	\$ 100,237	\$ 155,223	\$ 7,847	\$ 8,111	\$ 2,444	\$ 2,580	\$ 249,343	\$ 968	\$ 8,135	\$ 8,550	\$ 13,753	\$ 557,191

LIABILITIES AND FUND BALANCES

Liabilities:												
Accounts payable	\$ 622	\$ -	\$ -	\$ 721	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,343
Interfund payable	20,796	-	-	-	-	1,080	6,805	34	2,139	-	-	30,854
Deferred revenue	93	-	-	-	-	-	-	-	-	-	-	93
Total liabilities	21,511	-	-	721	-	1,080	6,805	34	2,139	-	-	32,290
Fund balances:												
Reserved for encumbrances	-	-	-	350	-	-	-	-	-	-	-	350
Unreserved, undesignated	78,726	155,223	7,847	7,040	2,444	1,500	242,538	934	5,996	8,550	13,753	524,551
Total fund balances	78,726	155,223	7,847	7,390	2,444	1,500	242,538	934	5,996	8,550	13,753	524,901
Total liabilities and fund balances	\$ 100,237	\$ 155,223	\$ 7,847	\$ 8,111	\$ 2,444	\$ 2,580	\$ 249,343	\$ 968	\$ 8,135	\$ 8,550	\$ 13,753	\$ 557,191

SCHEDULE 5
TOWN OF HANCOCK, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended December 31, 2010

	Special Revenue Funds											Total
	Water	Library	History	Police Equipment	Baseball	Recreation	Expendable Trusts	Tennis Court	Highway	Conservation Commission	Land Use Change	
Revenues:												
Charges for services	\$ 59,546	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 59,546
Miscellaneous	385	32,214	3,786	5,364	2,287	5	16,687	2	2,965	44	18	63,757
Total revenues	59,931	32,214	3,786	5,364	2,287	5	16,687	2	2,965	44	18	123,303
Expenditures:												
Current:												
General government	-	-	11	-	-	-	200	-	-	-	-	211
Public safety	-	-	-	3,758	-	-	-	-	-	-	-	3,758
Highways and streets	-	-	-	-	-	-	-	-	2,809	-	-	2,809
Water distribution and treatment	48,811	-	-	-	-	-	-	-	-	-	-	48,811
Culture and recreation	-	88,880	-	-	615	1,080	5,557	33	-	-	-	96,165
Conservation	-	-	-	-	-	-	-	-	5,000	672	-	5,672
Total expenditures	48,811	88,880	11	3,758	615	1,080	5,757	33	2,809	5,000	672	157,426
Excess (deficiency) of revenues over (under) expenditures	11,120	(56,666)	3,775	1,606	1,672	(1,075)	10,930	(31)	156	(4,956)	(654)	(34,123)
Other financing sources (uses):												
Transfers in	-	80,099	-	-	-	-	10,000	-	-	-	-	90,099
Transfers out	-	-	-	-	-	-	(2,000)	-	-	-	-	(2,000)
Total other financing sources and uses	-	80,099	-	-	-	-	8,000	-	-	-	-	88,099
Net change in fund balances	11,120	23,433	3,775	1,606	1,672	(1,075)	18,930	(31)	156	(4,956)	(654)	53,976
Fund balances, beginning, as restated (see Note 13)	67,606	131,790	4,072	5,784	772	2,575	223,608	965	5,840	13,506	14,407	470,925
Fund balances, ending	\$ 78,726	\$ 155,223	\$ 7,847	\$ 7,390	\$ 2,444	\$ 1,500	\$ 242,538	\$ 934	\$ 5,996	\$ 8,550	\$ 13,753	\$ 524,901



PLODZIK & SANDERSON

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INDEPENDENT AUDITOR'S COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES

To the Members of the Board of Selectmen
Town of Hancock
Hancock, New Hampshire

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Hancock as of and for the year ended December 31, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Hancock's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in the Town of Hancock's internal control to be material weaknesses:

GASB Statement No. 34

The Town's financial statements do not fully comply with Governmental Accounting Standards Board Statement No. 34, because of the lack of capital asset records. Thus our opinion on the financial statements remains adverse. Accounting principles require that capital assets including infrastructure, be capitalized and depreciated which would increase the assets, net assets and expenses of the governmental activities.

We recommend that steps be taken to fully comply with GASB Statement No. 34.

Management Response: The Selectboard acknowledges that full compliance with GASB 34 requires conversion of our current system of accounting to an asset based approach for key infrastructure assets. Research into becoming compliant showed that this can be a costly, time-consuming process and not one we felt we could justify at this time. We decided to focus on other areas of improvement that had a greater impact to the financial health of the Town.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Town of Hancock's internal control to be significant deficiencies:

Transfer Station

Upon review of the internal controls at the transfer station the following conditions were identified:

1. The pre-numbered receipts handed out at the transfer station are not presently being accounted for 100% which includes any void receipts.

Town of Hancock

Independent Auditor's Communication of Significant Deficiencies and Material Weaknesses

2. Cash collections are maintained at the transfer station until the road agent can pick up the money which may only be once a week.
3. The excel spreadsheet maintained on each deposit is not being reconciled on a monthly basis to the accounting records of the Town.
4. Bills of lading for recyclables picked up by haulers are not being formally reconciled to the money received by the Town.

By not following proper internal controls, there is a potential for loss of cash collected and by not reconciling the bills of lading there could be a loss of income from the recycling companies who may not reimburse the Town the correct amount. Based on the above conditions identified we are recommending the following:

1. Pre-numbered receipts should be 100% accounted for which includes accounting for voided receipts.
2. Cash collections should be processed through the Town office. However, checks can be accepted at the transfer station. When a check is received it should be immediately stamped with a "For Deposit Only" stamp.
3. Money collected at the transfer station should be brought to either the road agent or the town office on a daily basis. On weekends the money should be kept in a locked and secure location at the transfer station. Access to this should be limited to the main attendant and the road agent. If money is given to the town office or road agent these individuals should give the attendant a signed receipt for the remittance.
4. An excel spreadsheet should be maintained on each deposit made from the transfer station and then on a monthly basis this should be reconciled by the road agent with the receipts and with the general ledger.
5. The bills of lading for recyclables that are removed from the transfer station should be copied with the original going to the town office and a copy remaining at the transfer station. When the bookkeeper receives payment, the bills of lading should be attached to the check as proof of receipt. This way the Town can verify the billings.

Management Response: The Selectboard agrees that controls need to be improved at the Transfer Station and are working with the staff and DPW Director to implement processes that address the internal control deficiencies noted. The cash collections at the Transfer Station are submitted to the Town Office on a weekly basis. This is acceptable to the Town considering the Transfer Station is only open two days a week for a total of 15 hours. A process has been put in place using sequentially pre-numbered receipts; reconciled to a spreadsheet that supports the Town's accounting for that revenue. The bills of lading are being reconciled to the monies received by the Town.

Town Policies

The Town's control policies should ensure that management and employees establish and maintain an environment throughout the Town that sets a positive and supportive attitude toward internal control and conscientious management. The control environment established by the Board of Selectmen sets the tone for how the Town employees and elected officials conduct its business.

As the Board of Selectmen and department heads strive to achieve the goals of the Town and provide accountability for their operations, they need to continually examine internal controls to determine how well they are performing, how they may be improved, and the degree to which they help identify and address major risks for fraud, waste, abuse, and mismanagement.

We noted that the Town has not yet formally adopted any policies for code of ethics, anti-fraud, disaster recovery, and accounting procedures, which are essential tools necessary to manage the Town's operations efficiently and effectively.

We strongly recommend that the Board of Selectmen develop and formally adopt the above noted policies in order to clearly communicate the Town's position on these issues. Adopting the various policies is critical in preventing interruptions due to personnel vacancies, facilitating supervision and evaluation, and will also help to minimize the risk of losses.

Management Response: Over the past 15 months, the Selectboard set the priority to implement an Investment Policy, Delegation of Authority policy and ensure processes were in place for effective control of Cash and Disbursements. It is noted that we now have to document these key accounting practices in policies as well as the practices we have in place for disaster recovery and other areas stated.

In addition, we noted the following other matters involving internal control and its operation that we have reported to management of the Town of Hancock in a separate letter dated July 11, 2011:

- Purchase policy
- Water rents cash receipts
- Payroll processing

Management Response:

PURCHASE POLICY: The Selectboard is committed to reviewing and revising the Purchase Policy by year end.

WATER RENT CASH RECEIPTS: This has been addressed and receipts are now stored in a separate file in a locked, secure location until the deposit is prepared and made.

PAYROLL PROCESSING: The Town Administrator is now formally approving all timesheets prior to the payroll being processed and given to the bookkeeper.

OTHER/END STATEMENT: The Selectboard, Town Administrator, Financial Staff and Department Managers wish to acknowledge and extend our appreciation for the benefits of the annual audit and the professionalism of the audit team during this year's audit process.

This communication is intended solely for the information and use of management, the board of selectmen, others within the organization, and state agencies, and is not intended to be and should not be used by anyone other than these specified parties.

September 8, 2011

*Plodzik & Sanderson
Professional Association*