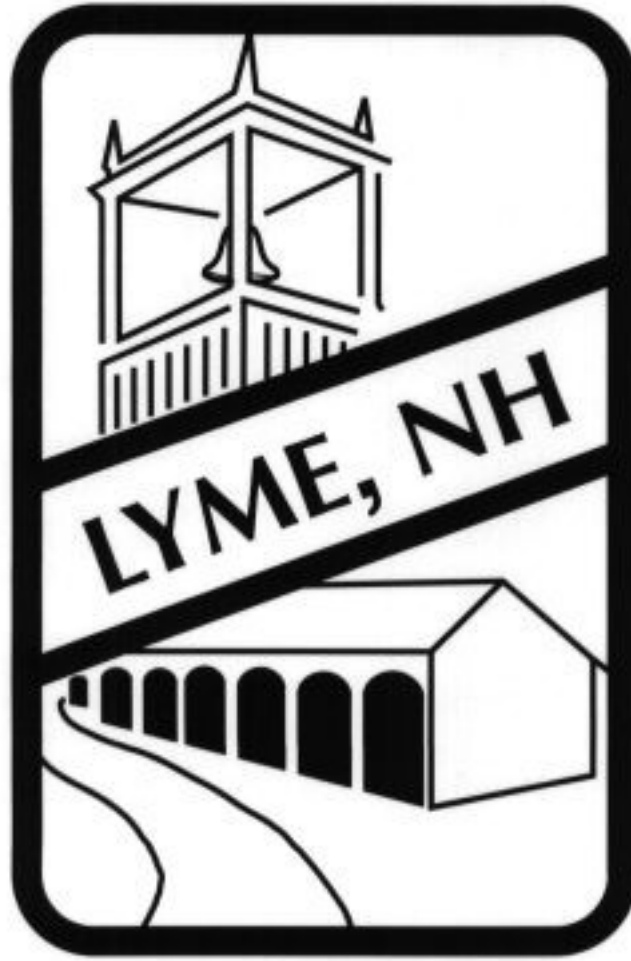


TOWN OF LYME



FINANCIAL REPORTS 2009

January 12, 2010

Board of Selectmen
Town of Lyme
PO Box 126
Lyme, NH 03768

Dear Members of the Board:

We expect to complete the fieldwork in connection with the audit of the Town of Lyme's December 31, 2009 financial statements by March 19, 2010. Unless we encounter circumstances beyond our control, the completed reports will be available no later than April 30, 2010.

Very truly yours,

Vachon Clukay & Company PC

TOWN OF LYME, NEW HAMPSHIRE

Financial Statements

December 31, 2008

and

Independent Auditor's Report

TOWN OF LYME, NEW HAMPSHIRE
FINANCIAL STATEMENTS
December 31, 2008

TABLE OF CONTENTS

	<u>Page(s)</u>
INDEPENDENT AUDITOR'S REPORT	
MANAGEMENT'S DISCUSSION AND ANALYSIS	i-iv
BASIC FINANCIAL STATEMENTS	
EXHIBITS:	
A Statement of Net Assets	1
B Statement of Activities	2
C Balance Sheet – Governmental Funds	3
D Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	4
E Statement of Fiduciary Net Assets – Fiduciary Funds	5
F Statement of Changes in Fiduciary Net Assets	6
NOTES TO BASIC FINANCIAL STATEMENTS	7-19
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE:	
1 Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Budgetary Basis) – General Fund	20
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION	21-22
SUPPLEMENTAL SCHEDULES	
SCHEDULES:	
A Combining Balance Sheet – Governmental Funds – All Nonmajor Funds	23
B Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – All Nonmajor Funds	24

INDEPENDENT AUDITOR'S REPORT

To the Board of Selectmen
Town of Lyme, 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 Lyme, New Hampshire (the Town) as of and for the year ended December 31, 2008, 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'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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Lyme, New Hampshire as of December 31, 2008 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 management's discussion and analysis and the budgetary comparison information on pages i-iv and 20-22, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Lyme, New Hampshire's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Vachon, Clukay & Co., PC

July 9, 2009

TOWN OF LYME, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2008

Presented herewith please find the Management Discussion & Analysis Report for the Town of Lyme for the year ending December 31, 2008. 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 Lyme 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 Lyme'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 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.

The statement of net assets presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets 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 assets changed during the most recent fiscal year. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

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 two fund types: governmental, and fiduciary funds. Governmental funds are used to account for essentially the same

TOWN OF LYME, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2008

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 assets and statement of activities.

The Town maintains several individual government funds. Information is presented separately in the government fund balance sheet and the statement of revenues, expenditures and changes in fund balances for the General Fund, Capital Reserve Fund, the Capital Projects Fund and the Permanent Funds, all of which are considered major funds.

The Town adopts an annual appropriation budget for its governmental funds. A budgetary comparison has been provided for the General Fund to demonstrate compliance with this budget. Other governmental funds are aggregated as non-major funds.

Fiduciary funds are used to account for resources held for the benefit of parties outside of the Town. 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 own 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.

Government-Wide Financial Analysis

Statement of Net Assets

Net assets of the Town of Lyme as of December 31, 2008 and 2007 are as follows:

Governmental Activities

	Governmental Activities	
	<u>2008</u>	<u>2007</u>
Current and other assets:		
Capital assets (net)	\$ 3,788,724	\$ 3,041,070
Other assets	<u>5,860,900</u>	<u>5,560,185</u>
Total assets	<u>9,649,624</u>	<u>8,601,255</u>

TOWN OF LYME, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2008

	Governmental Activities	
	<u>2008</u>	<u>2007</u>
Long term liabilities:		
General obligation bonds payable	1,230,000	425,000
Compensated absences	31,527	34,209
Other liabilities	<u>2,351,859</u>	<u>2,127,739</u>
Total liabilities	<u>3,613,386</u>	<u>2,586,948</u>
Net assets:		
Invested in capital assets, net of related debt	2,573,648	2,616,070
Restricted	1,845,460	1,838,798
Unrestricted	<u>1,617,130</u>	<u>1,559,439</u>
Total net assets	<u>\$ 6,036,238</u>	<u>\$ 6,014,307</u>

Statement of Activities

Change in net assets for the year ending December 31, 2008 and 2007 are as follows:

	Governmental Activities	
	<u>2008</u>	<u>2007</u>
Program revenues:		
Charges for services	\$ 79,609	\$ 91,376
Operating grants and contributions	<u>117,377</u>	<u>152,462</u>
Total program revenues	<u>196,986</u>	<u>243,838</u>
General revenues:		
Property and other taxes	1,691,753	1,570,670
Licenses and permits	323,207	328,505
Intergovernmental revenue	94,331	90,115
Interest and investment earnings (loss)	(191,941)	167,071
Miscellaneous	<u>39,829</u>	<u>54,761</u>
Total general revenues	<u>1,957,179</u>	<u>2,211,122</u>
Total revenues	<u>2,154,165</u>	<u>2,454,960</u>
Program expenses:		
General government	618,614	643,512
Public safety	347,067	338,890
Highways and streets	768,981	865,173
Health and welfare	58,523	43,339
Sanitation	79,617	63,549
Culture and recreation	240,905	263,227
Interest and fiscal charges	<u>42,527</u>	<u>30,596</u>
Total expenses	<u>2,156,234</u>	<u>2,248,286</u>
Change in net assets	(2,069)	206,674
Net assets - beginning of year	<u>6,038,307</u>	<u>5,807,633</u>
Net assets - ending of year	<u>\$ 6,036,238</u>	<u>\$ 6,014,307</u>

TOWN OF LYME, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ending December 31, 2008

Town of Lyme Governmental Activities

As shown in the above statement the Town experienced an unfavorable change in financial position of 2,069 on the full accrual basis of accounting.

The General Fund shows a fund balance of \$1,141,985. This represents a decrease in fund balance of \$1,220 from the prior year.

The Capital Reserve funds recorded net operating transfers of \$278,500 which contributed to the fund's \$98,635 increase in fund balance.

The Permanent Fund's fund balance decreased by \$270,892, to a year end balance of \$692,320. This was mostly due to a declining market and the resulting unrealized losses on investments.

Capital Assets

The Town of Lyme 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. Note 5 to the financial statements contain a detailed analysis of the 2008 changes in capital assets.

Long-Term Obligations

During FY 2008 the Town issued a new bond for the municipal building of \$899,429. The scheduled payment of \$25,000 was made on the Public Works bond.

Contacting the Town of Lyme'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 126, Lyme, NH 03768, telephone number 603-795-4639.

EXHIBIT A
TOWN OF LYME, NEW HAMPSHIRE
Statement of Net Assets
December 31, 2008

	Governmental Activities
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 3,668,674
Investments	1,780,782
Taxes receivable, net	390,022
Due from other governments	21,422
Total Current Assets	<u>5,860,900</u>
Noncurrent Assets:	
Capital assets:	
Non-depreciable capital assets	2,269,525
Depreciable capital assets, net	1,519,199
Total Noncurrent Assets	<u>3,788,724</u>
Total Assets	<u>\$ 9,649,624</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	\$ 174,129
Accrued expenses	26,492
Retainage payable	5,589
Deferred revenue	935
Deferred bond premium	42,460
Due to other governments	2,032,834
Current portion of bonds payable	69,420
Total Current Liabilities	<u>2,351,859</u>
Noncurrent Liabilities:	
Bonds payable	1,230,000
Compensated absences	31,527
Total Noncurrent Liabilities	<u>1,261,527</u>
Total Liabilities	<u>3,613,386</u>
NET ASSETS	
Invested in capital assets, net of related debt	2,573,648
Restricted	1,845,460
Unrestricted	1,617,130
Total Net Assets	<u>6,036,238</u>
Total Liabilities and Net Assets	<u>\$ 9,649,624</u>

See accompanying notes to the basic financial statements

EXHIBIT B
TOWN OF LYME, NEW HAMPSHIRE
Statement of Activities
For the Year Ended December 31, 2008

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
General government	\$ 618,614	\$ 9,635		\$ (608,979)
Public safety	347,067	1,302	\$ 8,485	(337,280)
Highways and streets	768,981		106,301	(662,680)
Health and welfare	58,523			(58,523)
Sanitation	79,617	48,076		(31,541)
Culture and recreation	240,905	20,596	2,591	(217,718)
Interest and fiscal charges	42,527			(42,527)
Total governmental activities	<u>\$ 2,156,234</u>	<u>\$ 79,609</u>	<u>\$ 117,377</u>	<u>(1,959,248)</u>
General revenues:				
Property and other taxes				1,691,753
Licenses and permits				323,207
Grants and contributions:				
State shared revenues				18,277
Rooms and meals tax distribution				76,054
Interest and investment earnings (loss)				(191,941)
Miscellaneous				39,829
Total general revenues				<u>1,957,179</u>
Change in net assets				(2,069)
Net assets - beginning (as restated)				<u>6,038,307</u>
Net assets - ending				<u>\$ 6,036,238</u>

See accompanying notes to the basic financial statements

EXHIBIT C
TOWN OF LYME, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
December 31, 2008

	General Fund	Capital Reserve Funds	Capital Project Fund	Permanent Funds	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 3,440,688	\$ 621		\$ 3,472	\$ 223,893	\$ 3,668,674
Investments		877,935		719,012	183,835	1,780,782
Taxes receivable, net	390,022					390,022
Due from other governments	21,422					21,422
Due from other funds	112,764	1,700	\$ 381,701		20,078	516,243
Total Assets	<u>\$ 3,964,896</u>	<u>\$ 880,256</u>	<u>\$ 381,701</u>	<u>\$ 722,484</u>	<u>\$ 427,806</u>	<u>\$ 6,377,143</u>
LIABILITIES						
Accounts payable	\$ 67,941		\$ 106,188			\$ 174,129
Retainage payable			5,589			5,589
Deferred revenue	279,669					279,669
Deferred bond premium	42,460					42,460
Due to other governments	2,032,834					2,032,834
Due to other funds	400,007	\$ 46,500		\$ 30,164	\$ 39,572	516,243
Total Liabilities	<u>2,822,911</u>	<u>46,500</u>	<u>111,777</u>	<u>30,164</u>	<u>39,572</u>	<u>3,050,924</u>
FUND BALANCES						
Reserved for endowments				550,879		550,879
Reserved for future expenditures	7,019					7,019
Reserved for Town Forest	21,592					21,592
Unreserved, reported in:						
General fund	1,113,374					1,113,374
Capital project fund			269,924			269,924
Special revenue funds		833,756			388,234	1,221,990
Permanent funds				141,441		141,441
Total Fund Balances	<u>1,141,985</u>	<u>833,756</u>	<u>269,924</u>	<u>692,320</u>	<u>388,234</u>	<u>3,326,219</u>
Total Liabilities and Fund Balances	<u>\$ 3,964,896</u>	<u>\$ 880,256</u>	<u>\$ 381,701</u>	<u>\$ 722,484</u>	<u>\$ 427,806</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds 3,788,724

Property taxes are recognized on an accrual basis in the statement of net assets, not the modified accrual basis 278,734

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:

Bonds payable	(1,299,420)
Accrued interest on bonds payable	(26,492)
Compensated absences payable	(31,527)

Net assets of governmental activities \$ 6,036,238

See accompanying notes to the basic financial statements

EXHIBIT D

TOWN OF LYME, NEW HAMPSHIRE
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

For the Year Ended December 31, 2008

	General Fund	Capital Reserve Funds	Capital Project Fund	Permanent Funds	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	\$ 1,647,700				\$ 66	\$ 1,647,766
Licenses and permits	323,207					323,207
Intergovernmental	211,708					211,708
Charges for services	69,128				10,481	79,609
Interest and investment income (loss)	30,487	\$ 12,197		\$ (240,728)	6,103	(191,941)
Miscellaneous	14,798	2,100			22,931	39,829
Total Revenues	2,297,028	14,297	\$ -	(240,728)	39,581	2,110,178
Expenditures:						
Current operations:						
General government	606,137					606,137
Public safety	313,157					313,157
Highways and streets	683,739				11,121	694,860
Health and welfare	36,523				22,000	58,523
Sanitation	76,765					76,765
Culture and recreation	202,713			3,472	32,727	238,912
Capital outlay	16,782	19,831	815,076			851,689
Debt service:						
Principal	25,000					25,000
Interest and fiscal charges	23,957					23,957
Total Expenditures	1,984,773	19,831	815,076	3,472	65,848	2,889,000
Excess revenues over (under) expenditures	312,255	(5,534)	(815,076)	(244,200)	(26,267)	(778,822)
Other financing sources (uses):						
Proceeds from bond issues			925,000			925,000
Bond premium	(25,580)					(25,580)
Transfers in	49,805	278,500	160,000		59,200	547,505
Transfers out	(337,700)	(174,331)		(26,692)	(8,782)	(547,505)
Total other financing sources (uses)	(313,475)	104,169	1,085,000	(26,692)	50,418	899,420
Net change in fund balances	(1,220)	98,635	269,924	(270,892)	24,151	120,598
Fund balances at beginning of year	1,143,205	735,121	-	963,212	364,083	3,205,621
Fund balances at end of year	\$ 1,141,985	\$ 833,756	\$ 269,924	\$ 692,320	\$ 388,234	\$ 3,326,219

TOWN OF LYME, 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, 2008

Net Change in Fund Balances--Total Governmental Funds	\$ 120,598
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	723,654
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	43,987
Proceeds from bond issues are an other financing source in the funds, but a bond issue increases long-term liabilities in the statement of net assets.	(925,000)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	25,000
Governmental funds report the effect of bond issuance premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	25,580
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(18,570)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	2,682
Change in Net Assets of Governmental Activities	\$ (2,069)

See accompanying notes to the basic financial statements

EXHIBIT E
TOWN OF LYME, NEW HAMPSHIRE
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2008

	Private- Purpose <u>Trust Funds</u>	Agency <u>Funds</u>
ASSETS		
Cash and cash equivalents	\$ 2,596	
Investments	<u>83,736</u>	<u>\$ 812,501</u>
Total assets	<u>\$ 86,332</u>	<u>\$ 812,501</u>
LIABILITIES		
Due to other governments	<u>\$ 2,596</u>	<u>\$ 812,501</u>
Total liabilities	<u>2,596</u>	<u>\$ 812,501</u>
NET ASSETS		
Held in trust	<u>83,736</u>	
Total net assets	<u>83,736</u>	
Total liabilities and net assets	<u>\$ 86,332</u>	

See accompanying notes to the basic financial statements

EXHIBIT F
TOWN OF LYME, NEW HAMPSHIRE
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended December 31, 2008

	<u>Private- Purpose Trust Funds</u>
ADDITIONS:	
Investment earnings:	
Interest	\$ 3,805
Net decrease in the fair value of investments	<u>(46,820)</u>
Total Additions	<u>(43,015)</u>
DEDUCTIONS:	
Benefits	<u>2,596</u>
Total Deductions	<u>2,596</u>
Change in Net Assets	(45,611)
Net assets - beginning of year	<u>129,347</u>
Net assets - end of year	<u><u>\$ 83,736</u></u>

See accompanying notes to the basic financial statements

TOWN OF LYME, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended December 31, 2008

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Lyme, New Hampshire conform to accounting policies 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 Lyme, New Hampshire (the Town) was incorporated in 1798. The Town operates under the Town Meeting 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 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 assets 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 assets and the statement of activities display information about the Town as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental 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 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 fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

TOWN OF LYME, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2008

Fund Accounting

The Town uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Town employs the use of two categories of funds: governmental 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 liabilities is reported as fund balance. The following are the Town's major governmental funds:

The *General Fund* is the 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 *Capital Reserve Funds* account for all financial resources of the various trust arrangements held by the Trustees of Trust Funds in which the principal and income benefit the various departments of the Town.

The *Capital Project Fund* accounts for all financial resources to be used for the construction of major capital facilities.

The *Permanent Funds* account for the financial transactions related to 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.

2. Fiduciary Funds:

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Town under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Town's own programs. The Town's only trust fund is a private purpose trust which accounts for a program for the Lyme School District. 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 Lyme School District, which are held by the Town as required by State Law.

Measurement Focus

1. Government-Wide Financial Statements:

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

TOWN OF LYME, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2008

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 and current liabilities 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.

The private purpose trust fund is reported using the economic resources measurement focus.

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. Fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

In the government-wide financial statements, private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Town has elected not to follow the FASB pronouncements issued subsequent to November 30, 1989.

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

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

TOWN OF LYME, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2008

Licenses and permits, charges for services, and miscellaneous revenues (except interest on investments) are recorded as revenues when received in cash because they are generally not measurable until actually received.

2. Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

3. Expenses/Expenditures:

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

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

Budgetary Data

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

State law requires balanced budgets but permits the use of beginning fund balance to reduce the property tax rate. For the year ended December 31, 2008, the Town applied \$18,840 of its unappropriated fund balance to reduce taxes.

Investments

Investments are stated at their fair value in all funds.

Taxes Receivable

Taxes levied during the current year and prior and uncollected at December 31, 2008 are recorded as receivables net of reserves for estimated uncollectibles of \$25,000.

Capital Assets

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

All capital assets including infrastructure are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market

TOWN OF LYME, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2008

values as of the date received. The Town maintains a capitalization threshold of \$10,000. 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.

The Town is not required to retroactively report its general infrastructure (e.g. roads, bridges, and sidewalks). Infrastructure records are maintained effective January 1, 2004.

All reported capital assets except for land and construction in process are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Years</u>
Buildings and improvements	39
Vehicles and equipment	6-24

Compensated Absences

The Town's sick leave policy allows employees to accumulate sick leave at the rate of one hour for each twenty-six hours of base compensated time, cumulative to a maximum of four hundred eighty hours. No payment for unused sick leave is made upon termination. Employees earn vacation at ten to twenty days per year dependent upon length of service. An employee may not carry accumulated vacation days into the next calendar year without prior permission of the Board of Selectmen. Provision is made in the annual budget for vacation and sick leave.

For governmental fund financial statements, compensated absences are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee death or retirement. The entire compensated absence liability is reported on the government-wide financial statements.

Accrued Liabilities and Long-Term Obligations

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. However, compensated absences that will be paid from governmental funds are reported as liabilities in the fund financial statements only to the extent that they are due for payment during the current year. General obligation bonds that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt 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 assets are 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.

TOWN OF LYME, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2008

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

Fund Balance Reserves

The Town reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion which is available for appropriation in future periods. Fund balance reserves have been established for amounts reserved for the Town Forest and carryforward appropriations.

Interfund Activity

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

Estimates

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

NOTE 2--PROPERTY TAXES

Taxes are levied on the assessed valuation of all taxable real property as of the prior April 1 (\$315,511,700 as of April 1, 2008) and are due on December 1, 2008. Taxes paid after the due date 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 following calendar 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 is tax deeded to the Town.

In accordance with State law, the Town collects taxes for the Lyme 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 \$4,032,834 and \$450,322 for the Lyme School District and Grafton County, respectively. These taxes are not recognized as revenues in these financial statements. The Town bears responsibility for uncollected taxes.

TOWN OF LYME, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2008

NOTE 3--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, 2008, the Town was a member of the Local Government Center (LGC) and the New Hampshire Public Risk Management Exchange (PRIMEX). The Town currently reports all of its risk management activities in its General Fund. These Trusts are classified as a "Risk Pools" in accordance with accounting principles generally accepted in the United States of America.

The Trust agreements permit the Trusts to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. Accounting principles generally accepted in the United States of America require members of pools with a sharing of risk to determine whether or not such assessment is probable and, if so, a reasonable estimate of such assessment. At this time, the Trusts foresee no likelihood of an additional assessment for any of the past years. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Based on the best available information there is no liability at December 31, 2008.

Property and Liability Insurance

The LGC provides certain property and liability insurance coverage to member towns, cities, and other qualified political subdivisions of New Hampshire. As a member of the LGC, 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.

Worker's Compensation

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

NOTE 4--DEPOSITS AND INVESTMENTS

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

Deposits and investments as of December 31, 2008 are classified in the accompanying financial statements as follows:

TOWN OF LYME, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2008

Statement of Net Assets:	
Cash and cash equivalents	\$ 3,668,674
Investments	1,780,782
Statement of Fiduciary Net Assets:	
Cash and cash equivalents	2,596
Investments	<u>896,237</u>
	<u>\$ 6,348,289</u>

Deposits and investments at December 31, 2008 consist of the following:

Deposits with financial institutions	\$ 3,681,486
Investments	<u>2,666,803</u>
	<u>\$ 6,348,289</u>

The Town requires that deposits and investments 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 demand deposits, money market accounts and certificates of deposit in accordance with New Hampshire State law (RSA 41:29) or the New Hampshire Public Deposit Investment Pool (NHPDIP), an external investment pool. Investments by the Lyme Library Trustees and the Trustees of Trust Funds are made at their discretion.

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 following investment types are not rated.

<u>Investment Type</u>	<u>Not Rated</u>
State investment pool	\$ 1,729,508
Mutual funds	686,903
Money market funds	<u>250,392</u>
	<u>\$ 2,666,803</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 to it. 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.

Of the Town's deposits with financial institutions at year end, bank balances of \$316,257 were insured and \$3,317,104 were collateralized by securities held by the bank in the bank's name.

TOWN OF LYME, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2008

Investment in NHPDIP

The Town is a voluntary participant in the New Hampshire Public Deposit Investment Pool (NHPDIP). The NHPDIP is not registered with the United States Securities and Exchange Commission as an investment company.

The NHPDIP was created by state law and is administered by a public body of state, local and banking officials.

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

NOTE 5—CAPITAL ASSETS

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

	Balance 01/01/08	Additions	Reductions	Balance 12/31/08
Governmental activities:				
Capital assets not depreciated:				
Land	\$ 1,430,449			\$ 1,430,449
Construction in process	24,000	\$ 815,076	\$ -	839,076
Total capital assets not being depreciated	1,454,449	815,076	-	2,269,525
Other capital assets:				
Buildings and improvements	840,166			840,166
Vehicles and equipment	1,313,105			1,313,105
Total other capital assets at historical cost	2,153,271	-	-	2,153,271
Less accumulated depreciation for:				
Buildings and improvements	(120,955)	(20,905)		(141,860)
Vehicles and equipment	(421,695)	(70,517)		(492,212)
Total accumulated depreciation	(542,650)	(91,422)	-	(634,072)
Total other capital assets, net	1,610,621	(91,422)	-	1,519,199
Total capital assets, net	\$ 3,065,070	\$ 723,654	\$ -	\$ 3,788,724

Depreciation expense was charged to governmental functions as follows:

Public safety	\$ 30,845
Highways and streets	55,410
Sanitation	2,852
Culture and recreation	2,315
Total governmental activities depreciation expense	\$ 91,422

TOWN OF LYME, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2008

NOTE 6—DEFINED BENEFIT PLAN

Plan Description

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

Funding Policy

Covered public safety employees are required to contribute 9.3% of their covered salary, whereas general employees are required to contribute 5.0% 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 11.84% and 8.74% respectively through December 31, 2008. The Town contributes 65% of the employer cost for police officers and fire employees, and the State contributes the remaining 35% of the employer cost. The Town contributes 100% of the employer cost for general employees of the Town. On-behalf fringe benefits (GASB Statement #24) contributed by the State of New Hampshire of \$6,400 have been reported as a revenue and expenditure in the General Fund of these Financial Statements.

Per RSA-100:16, plan member contribution rates are established and may be amended by the New Hampshire State legislature and employer contribution rates are determined by the NHRS Board of Trustees based on an actuarial valuation. The Town's contributions to the NHRS for the years ending December 31, 2008, 2007, and 2006 were \$54,762, \$48,471, and \$39,590, respectively, equal to the required contributions for each year.

NOTE 7—SHORT-TERM OBLIGATIONS

The Town issued tax anticipation notes during the year. These borrowings are to assist in the payment of operating expenses during the year and are guaranteed to be repaid from the property tax revenue received in December from the various taxpayers within the Town.

The changes in short-term debt obligations for the year ended December 31, 2008 are as follows:

Balance - January 1, 2008	\$ -
Additions	1,455,000
Reductions	<u>(1,455,000)</u>
Balance - December 31, 2008	<u>\$ -</u>

NOTE 8—LONG-TERM OBLIGATIONS

Changes in Long-Term Obligations

The changes in the Town's long-term obligations for the year ended December 31, 2008 are as follows:

TOWN OF LYME, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2008

	Balance 01/01/08	Additions	Reductions	Balance 12/31/08	Due Within One Year
Governmental activities:					
Bonds payable	\$ 425,000	\$ 899,420	\$ 25,000	\$ 1,299,420	\$ 69,420
Compensated absences	34,209	6,914	9,596	31,527	
Total governmental activities	<u>\$ 459,209</u>	<u>\$ 906,334</u>	<u>\$ 34,596</u>	<u>\$ 1,330,947</u>	<u>\$ 69,420</u>

Payments on the general obligation bonds are paid out of the General Fund. Compensated absences will be paid from the fund where the employee's salary is paid.

General Obligation Bonds

Bonds payable at December 31, 2008 are comprised of the following individual issues:

\$508,900 Public Works Bond due in annual installments of \$25,000 - \$30,000 through August 2024; interest at 3.0%-5.0%	\$ 400,000
\$899,420 Municipal Building Bond due in annual installments of \$45,000 through August 2028; interest at 4-5.25%	<u>899,420</u>
	<u>\$ 1,299,420</u>

Debt service requirements to retire general obligation bonds outstanding at December 31, 2008 are as follows:

Year Ending December 31,	Principal	Interest	Totals
2009	\$ 69,420	\$ 65,076	\$ 134,496
2010	70,000	58,788	128,788
2011	70,000	55,738	125,738
2012	70,000	52,237	122,237
2013	70,000	48,738	118,738
2014-2018	350,000	189,500	539,500
2019-2023	350,000	103,056	453,056
2024-2028	<u>250,000</u>	<u>32,481</u>	<u>282,481</u>
	<u>\$ 1,299,420</u>	<u>\$ 605,614</u>	<u>\$ 1,905,034</u>

NOTE 9—INTERFUND BALANCES AND TRANSFERS

The Town has combined the cash resources of certain governmental funds. 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, 2008 are as follows:

TOWN OF LYME, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2008

	Due from				Totals
	General Fund	Capital Reserve Funds	Permanent Funds	Nonmajor Governmental Funds	
Due to General Fund		\$ 46,500	\$ 26,692	\$ 39,572	\$112,764
Capital Reserve Funds	\$ 1,700				1,700
Capital Project Fund	381,701				381,701
Nonmajor Governmental Funds	16,606		3,472		20,078
	<u>\$400,007</u>	<u>\$ 46,500</u>	<u>\$ 30,164</u>	<u>\$ 39,572</u>	<u>\$516,243</u>

During the year, several interfund transactions occurred between funds. The transfers were made in accordance with budgetary authorizations. Interfund transfers for the year ended December 31, 2008 are as follows:

	Transfer from				Totals
	General Fund	Capital Reserve Funds	Permanent Funds	Nonmajor Governmental Funds	
Transfer to General Fund		\$ 14,331	\$ 26,692	\$ 8,782	\$ 49,805
Capital Reserve Funds	\$278,500				278,500
Capital Project Fund		160,000			160,000
Nonmajor Governmental Funds	59,200				59,200
	<u>\$337,700</u>	<u>\$174,331</u>	<u>\$ 26,692</u>	<u>\$ 8,782</u>	<u>\$547,505</u>

NOTE 10—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. Principal and income balances at December 31, 2008 are as follows:

	<u>Principal</u>	<u>Income</u>	<u>Total</u>
Cemetery Funds	\$ 478,616	\$ 135,674	\$ 614,290
Library Funds	62,263		62,263
Miscellaneous Funds	10,000	5,767	15,767
	<u>\$ 550,879</u>	<u>\$ 141,441</u>	<u>\$ 692,320</u>

NOTE 11—NET ASSETS RESTRICTED FOR OTHER PURPOSES

The balance of net assets restricted for other purposes is as follows:

TOWN OF LYME, NEW HAMPSHIRE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
For the Year Ended December 31, 2008

Future years expenditures	\$ 7,019
Capital reserve funds	833,756
Capital projects fund	160,000
Conservation fund	210,623
Recreation fund	7,150
Independence day fund	8,598
Expendable trust funds	67,435
Endowments	<u>550,879</u>
Total per Exhibit A	<u>\$ 1,845,460</u>

NOTE 12--CONTINGENT LIABILITIES

Litigation

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

NOTE 13— RESTATEMENT OF EQUITY

Government-Wide Statements

In addition to the previously referenced adjustment to the governmental funds, the net assets in the government-wide statements were overstated at December 31, 2007. During the year it was determined that the capital assets were understated by \$24,000.

Net assets of the Governmental Activities as of January 1, 2007 have been restated as follows:

Net Assets - January 1, 2007 (as previously reported)	\$ 6,014,307
Amount of restatement due to:	
Understatement of capital assets	<u>24,000</u>
Net Assets - January 1, 2007, as restated	<u>\$ 6,038,307</u>

SCHEDULE 1**TOWN OF LYME, NEW HAMPSHIRE****Schedule of Revenues, Expenditures and Changes in Fund Balances****Budget and Actual (Budgetary Basis) - General Fund**

For the Year Ended December 31, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
Revenues:				
Taxes	\$ 1,694,957	\$ 1,694,957	\$ 1,691,687	\$ (3,270)
Licenses and permits	330,796	330,796	323,207	(7,589)
Intergovernmental	179,507	179,507	205,308	25,801
Charges for services	55,000	55,000	69,128	14,128
Interest income	35,000	35,000	30,487	(4,513)
Miscellaneous	75,633	6,133	14,798	8,665
Total Revenues	<u>2,370,893</u>	<u>2,301,393</u>	<u>2,334,615</u>	<u>33,222</u>
Expenditures:				
Current:				
General government	692,303	687,303	606,137	81,166
Public safety	303,046	303,046	306,757	(3,711)
Highways and streets	649,843	649,843	683,739	(33,896)
Health and welfare	20,370	20,370	36,523	(16,153)
Sanitation	83,250	83,250	76,765	6,485
Culture and recreation	209,818	209,818	202,713	7,105
Capital outlay	183,004	46,392	16,782	29,610
Debt service:				
Principal retirement	25,000	25,000	25,000	-
Interest and fiscal charges	31,125	31,125	23,957	7,168
Total Expenditures	<u>2,197,759</u>	<u>2,056,147</u>	<u>1,978,373</u>	<u>77,774</u>
Excess revenues over expenditures	<u>173,134</u>	<u>245,246</u>	<u>356,242</u>	<u>110,996</u>
Other financing sources (uses):				
Transfers in	119,914	97,534	49,805	(47,729)
Transfers out	(337,500)	(337,500)	(337,700)	200
Total other financing sources (uses)	<u>(217,586)</u>	<u>(239,966)</u>	<u>(287,895)</u>	<u>(47,529)</u>
Net change in fund balances	(44,452)	5,280	68,347	63,467
Fund balances at beginning of year				
- Budgetary Basis	<u>1,377,952</u>	<u>1,377,952</u>	<u>1,377,952</u>	-
Fund balances at end of year				
- Budgetary Basis	<u>\$ 1,333,500</u>	<u>\$ 1,383,232</u>	<u>\$ 1,446,299</u>	<u>\$ 63,467</u>

See accompanying notes to the required supplementary information

TOWN OF LYME, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2008

NOTE 1—BUDGET TO ACTUAL RECONCILIATION

Amounts recorded as budgetary amounts in the Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Budgetary Basis) are reported on the basis budgeted by the Town. 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). Budgetary information in these financial statements has been presented only for the General Fund as it is neither practical nor meaningful for other funds. Property tax budgetary revenues are recognized when levied rather than when susceptible to accrual. Budgetary expenditures were adjusted for a bond premium and on-behalf payments for fringe benefits.

	Revenues and Other Financing <u>Sources</u>	Expenditures and Other Financing <u>Uses</u>
per Exhibit D	\$ 2,346,833	\$ 2,348,053
Difference in property taxes meeting susceptible to accrual criteria	43,987	
Bond premium		(25,580)
On-behalf fringe benefits	(6,400)	(6,400)
per Schedule 1	<u>\$ 2,384,420</u>	<u>\$ 2,316,073</u>

NOTE 2--BUDGETARY FUND BALANCES

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

Unreserved:	
Designated for carryforward appropriations	\$ 49,732
Designated for subsequent years' expenditures	31,809
Undesignated	<u>1,364,758</u>
	<u>\$ 1,446,299</u>

NOTE 3--UNRESERVED DESIGNATED FUND BALANCES

Appropriations for certain projects and specific items not fully expended at year end are carried forward as continuing appropriations to the next year in which they supplement the appropriations of that year. At year end, continuing appropriations are reported as a component of unreserved fund balance and are detailed as follows:

TOWN OF LYME, NEW HAMPSHIRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
December 31, 2008

Computer system upgrade	\$ 5,843
Property reappraisal	16,537
Planning publications and maps	21,296
Hi-speed communications	4,436
John Balch memorial field	90,500
Chase beach	<u>3,000</u>
	141,612
Less: revenues not susceptible to accrual	<u>(91,880)</u>
	<u>\$ 49,732</u>

SCHEDULE A
TOWN OF LYME, NEW HAMPSHIRE
Combining Balance Sheet
Governmental Funds - All Nonmajor Funds
December 31, 2008

	Cemetery Lot Sales Fund	Converse Free Library Fund	Conservation Fund	Recreation Revolving Fund	Independence Day Fund	Expendable Trust Funds	Combining Total
ASSETS							
Cash		\$ 13,336	\$ 210,557				\$ 223,893
Investments		76,920				\$ 106,915	183,835
Due from other funds	\$ 700	3,472	66	\$ 7,150	\$ 8,598	92	20,078
Total Assets	<u>\$ 700</u>	<u>\$ 93,728</u>	<u>\$ 210,623</u>	<u>\$ 7,150</u>	<u>\$ 8,598</u>	<u>\$ 107,007</u>	<u>\$ 427,806</u>
LIABILITIES							
Due to other funds						\$ 39,572	\$ 39,572
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>39,572</u>	<u>39,572</u>
FUND BALANCES							
Fund Balances:							
Unreserved:							
Special revenue funds	700	93,728	210,623	7,150	8,598	67,435	388,234
Total Fund Balances	<u>700</u>	<u>93,728</u>	<u>210,623</u>	<u>7,150</u>	<u>8,598</u>	<u>67,435</u>	<u>388,234</u>
Total Liabilities and Fund Balances	<u>\$ 700</u>	<u>\$ 93,728</u>	<u>\$ 210,623</u>	<u>\$ 7,150</u>	<u>\$ 8,598</u>	<u>\$ 107,007</u>	<u>\$ 427,806</u>

SCHEDULE B
TOWN OF LYME, NEW HAMPSHIRE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds - All Nonmajor Funds
For the Year Ended December 31, 2008

	Cemetery Lot Sales Fund	Converse Free Library Fund	Conservation Fund	Recreation Revolving Fund	Independence Day Fund	Expendable Trust Funds	Combining Totals
Revenues:							
Taxes			\$ 66				\$ 66
Charges for services				\$ 10,481			10,481
Interest and investment income		\$ 477	3,721	133	\$ 166	\$ 1,606	6,103
Miscellaneous	\$ 700	15,182	390		6,659		22,931
Total Revenues	<u>700</u>	<u>15,659</u>	<u>4,177</u>	<u>10,614</u>	<u>6,825</u>	<u>1,606</u>	<u>39,581</u>
Expenditures:							
Current operations:							
Highways and streets						11,121	11,121
Health and welfare						22,000	22,000
Culture and recreation		3,389	4,926	8,665	6,957	8,790	32,727
Total Expenditures	<u>-</u>	<u>3,389</u>	<u>4,926</u>	<u>8,665</u>	<u>6,957</u>	<u>41,911</u>	<u>65,848</u>
Excess of revenues over (under) expenditures	<u>700</u>	<u>12,270</u>	<u>(749)</u>	<u>1,949</u>	<u>(132)</u>	<u>(40,305)</u>	<u>(26,267)</u>
Other financing sources (uses):							
Transfers in			200			59,000	59,200
Transfers out						(8,782)	(8,782)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>200</u>	<u>-</u>	<u>-</u>	<u>50,218</u>	<u>50,418</u>
Net change in fund balances	700	12,270	(549)	1,949	(132)	9,913	24,151
Fund balances at beginning of year	<u>-</u>	<u>81,458</u>	<u>211,172</u>	<u>5,201</u>	<u>8,730</u>	<u>57,522</u>	<u>364,083</u>
Fund balances at end of year	<u>\$ 700</u>	<u>\$ 93,728</u>	<u>\$ 210,623</u>	<u>\$ 7,150</u>	<u>\$ 8,598</u>	<u>\$ 67,435</u>	<u>\$ 388,234</u>

**REPORT ON INTERNAL CONTROL BASED ON
AN AUDIT OF BASIC FINANCIAL STATEMENTS**

To the Board of Selectmen
Town of Lyme, New Hampshire

In planning and performing our audit of the financial statements of Town of Lyme as of and for the year ended December 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Town of Lyme's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Lyme's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Lyme's internal control.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

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

Vachon, Clukay & Co., PC

July 9, 2009