State of New Hampshire

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

PREPARED BY: DEPARTMENT OF ADMINISTRATIVE SERVICES

Front Cover Photo taken by and provided courtesy of Frank Harris. The photo was taken in Salisbury, NH on Route 127 near the Route 4/127 intersection just north of Boscawen.

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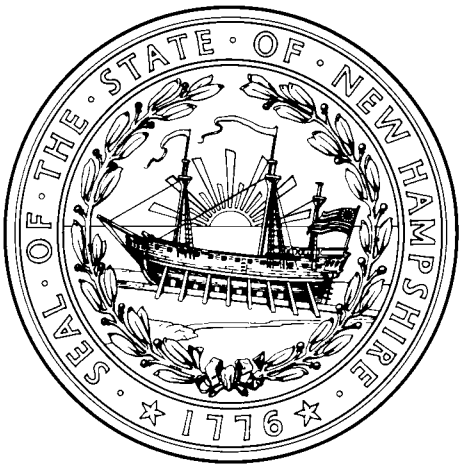
STATE OF NEW HAMPSHIRE

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended
June 30, 2004



Prepared by the Department of Administrative Services
Donald S. Hill, Commissioner
Sheri L. Rockburn, Comptroller
Stephen C. Smith, Director
Mark S. Stone

Division of Accounting Services

This document and related information can be accessed at *http://admin.state.nh.us/accounting*

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SEAL · OF · THE · STATE · OF · NEW HAMPSHIRE
1776

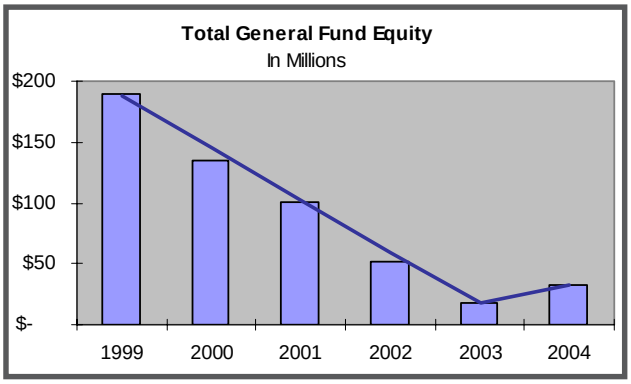
STATE OF NEW HAMPSHIRE

OFFICE OF THE GOVERNOR

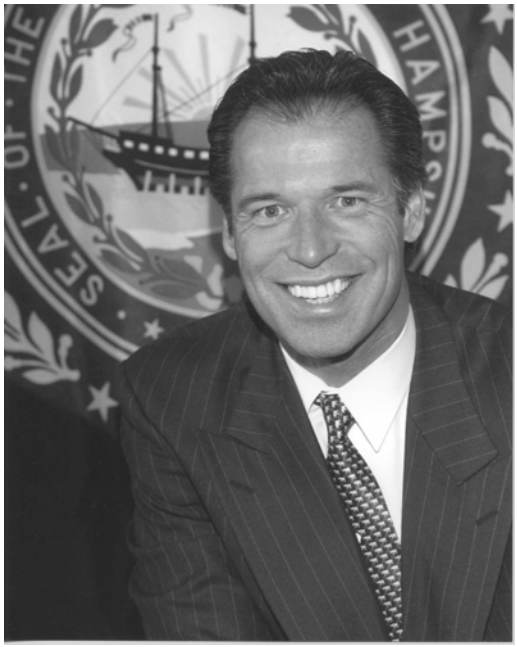
To: The Honorable Members of the Legislature
and the Citizens of the State of New Hampshire

I am pleased to accept the *Fiscal Year 2004 State of New Hampshire Comprehensive Annual Financial Report*.

New Hampshire fared better than most states during the recent economic downturn. We have limited the growth of government spending and turned a projected deficit into a $15.3 million surplus for fiscal year 2004. We could not have accomplished this without the hard work of our state employees. We must continue to live within our means and not grow government at a rate faster than the income of the people supporting it.



Together there is a lot for us to be proud. We passed the first budget in decades that did not contain any new taxes or tax increases. We reformed education by initiating "Real World Learning" to transform how we deliver public education; raised private donations to fund laptops for 7th grade students, teachers, and administrators; and launched the "Governor Benson 3-6 after school challenge" to provide a safe environment for kids and help working families manage. During the same period, unemployment decreased from 5% to 3.5% and 1,000 more businesses started in 2003 than in 2002. We brought entrepreneurial spirit to state government by sponsoring several Entrepreneurial workshops, without any taxpayer money, to teach NH citizens how to start and grow their own businesses.



We also partnered with private industry to host the largest state sponsored business plan competition in the nation, awarding over $250K to the winner. We promoted a "Nursing Bridge" program that expands the availability of nursing professionals. We provided access to lower cost prescription drugs through Canada and brought competition to our insurance market. We initiated efforts through the Department of Health and Human Services to revolutionize Medicaid. We created an "Efficiency Commission" that identified over $400 million in potential savings. Finally, we consolidated all IT resources that the state has, in order to make state government more efficient, secure, and responsive to citizens needs.

In short, we strengthened the New Hampshire Advantage. In fiscal year 2004 New Hampshire was recognized as the:

- Most livable state in the US;
- Healthiest state in the US;
- 2nd lowest tax burden;
- Lowest poverty rate;
- Highest median income;
- 2nd lowest number of uninsured residents;
- 7th most economically free;
- One of the safest state; and
- Highest SAT scores in the nation

It has been an honor to serve as your Governor for the past two years. I want to thank all the citizens for their contributions to improving our state.

Very truly yours,

Craig R. Benson

STATE HOUSE, CONCORD, NH 03301 (603) 271-2121
TDD Access: Relay NH 1-800-735-2964

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State of New Hampshire
Selected State Officials
For the Fiscal Year Ended June 30, 2004

Executive Branch

Governor **Craig Benson**

Executive Council

Raymond S. Burton, District 1
Peter J. Spaulding, District 2
Ruth L. Griffin, District 3
Raymond J. Wieczorek, District 4
David K. Wheeler, District 5

Attorney General

Kelly A. Ayotte

Commissioner of Administrative Services

Donald S. Hill

Treasurer

Michael A. Ablowich

Secretary of State

William M. Gardner

Judicial Branch

Chief Justice of the Supreme Court

John T. Broderick Jr.

Legislative Branch

President of the Senate

Thomas R. Eaton

24 Senators

Speaker of the House of Representatives

Gene G. Chandler

400 Representatives

STATE OF NEW HAMPSHIRE
ORGANIZATION CHART

LEGISLATIVE

Senate
House of Representatives
Legislative Services
Legislative Budget Assistant

EXECUTIVE

Governor
and
Council

JUDICIAL

Supreme Court
Superior Court
District Court
Municipal Court
Probate Court

STATE AGENCIES AND COMPONENT UNITS (*)

GENERAL GOVERNMENT

Administrative Services
Cultural Resources
Executive Office
NH Retirement System*
Revenue Administration
Secretary of State
State Treasury

ADMINISTRATION OF JUSTICE AND PUBLIC PROTECTION

Adjutant General
Agriculture, Markets & Food
Banking
Corrections
Employment Security
Highway Safety
Insurance
Justice
Labor
Liquor Commission
Pari-Mutuel Commission
Public Deposit Investment Pool
Public Utilities Commission
Safety

RESOURCE PROTECTION AND DEVELOPMENT

Business Finance Authority*
Environmental Services
Fish and Game
Community Development Finance Authority*
Pease Development Authority*
Resources and Economic Development

TRANSPORTATION

Transportation

HEALTH AND SOCIAL SERVICES

Health and Human Services
Veterans' Council
Veterans' Home
Youth Development Services

EDUCATION

Education
Postsecondary Education Commission
NH Community Technical College System
Sweepstakes Commission
University System of New Hampshire*

State of New Hampshire

DEPARTMENT OF ADMINISTRATIVE SERVICES
OFFICE OF THE COMMISSIONER
25 Capitol Street – Room 120
Concord, New Hampshire 03301

DONALD S. HILL
Commissioner
(603) 271-3201

December 17, 2004

To: The Citizens of New Hampshire,
His Excellency the Governor
and the Honorable Council

In accordance with the Revised Statutes Annotated (RSA) 21-I:8,I,(h), it is a pleasure to submit the Comprehensive Annual Financial Report (CAFR), covering the fiscal year ended June 30, 2004. This report has been prepared by the state Department of Administrative Services and responsibility for both the accuracy of the data presented and completeness and fairness of the presentation, including all disclosures, rests with the state. The basic financial statements, considered by management to present fairly and consistently the state's financial position and results of operations, have been prepared in accordance with generally accepted accounting principles (GAAP) applicable to state and local governments, as promulgated by the Governmental Accounting Standards Board (GASB).

The CAFR is presented in three major sections:

- The Introductory Section includes this transmittal letter, the state's organization chart, and summary financial information.
- The Financial Section includes the independent auditors' report, management's discussion and analysis (MD&A), government-wide financial statements, fund financial statements for governmental funds, proprietary funds, fiduciary funds together with notes to the basic financial statements, required supplementary information and combining financial statements.
- The Statistical Section contains selected financial, demographic, and economic data.

GASB Statement No. 34 requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of MD&A. This letter of transmittal is intended to complement MD&A and should be read in conjunction with it. The MD&A can be found immediately following the independent auditors' report.

The financial reporting entity includes all funds of the state as legally defined, as well as all of its component units. Component units are legally separate entities for which the state is financially accountable. Note 1 to the Basic Financial Statements provides a more complete description of the state's reporting entity. The state provides a full range of services including: the construction and maintenance of highways and infrastructure, education, health and social services, public safety, conservation of natural resources, economic development, and recreation facilities and development.

New Hampshire's Economic Outlook

New Hampshire's strong, diverse economic base has allowed NH to rebound relatively quickly from the sharp economic downturns experienced nationwide, after the boom of the early 90's. The state's economy has had the strongest growth in population and employment in New England. Per capita income is rising and poverty rates remain the lowest in the nation. New Hampshire continues to retain its advantages of being a medium cost state in a high cost area with its low unemployment rates, low tax burdens, highly skilled workforce, and a small and accessible government. As of June 2004, New Hampshire's unemployment rate was 3.9%, lower than New England (4.9%) and the national average (5.8%).

New Hampshire's Economic Scoreboard for 2004

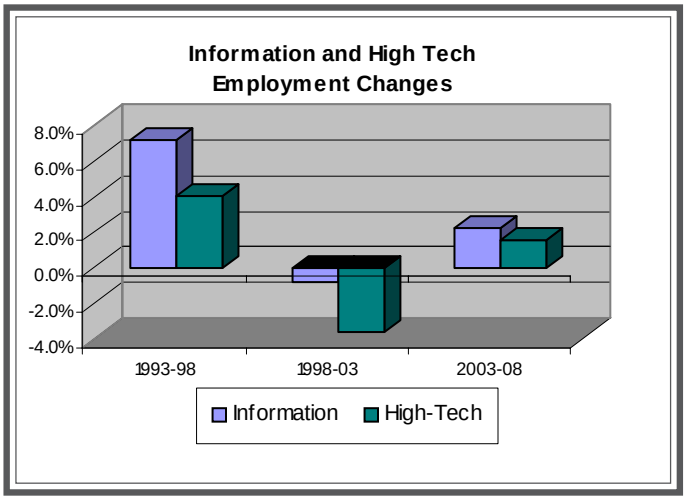
Categories	***NH's National Rank***	***NH's Rank in New England***
Favorable Tax Climate	1st	1st
Healthiest State (Morgan Quitno, 2004)	1st	1st
Standard of Living (by Poverty Rate)	1st	1st
Child and Family Well-Being (Annie E. Casey, 2003)	2nd	1st
Safest State (Morgan Quitno, 2004)	4th	3rd
Most Livable State (Morgan Quitno, 2004)	1st	1st
College Educated Population	5th	2nd

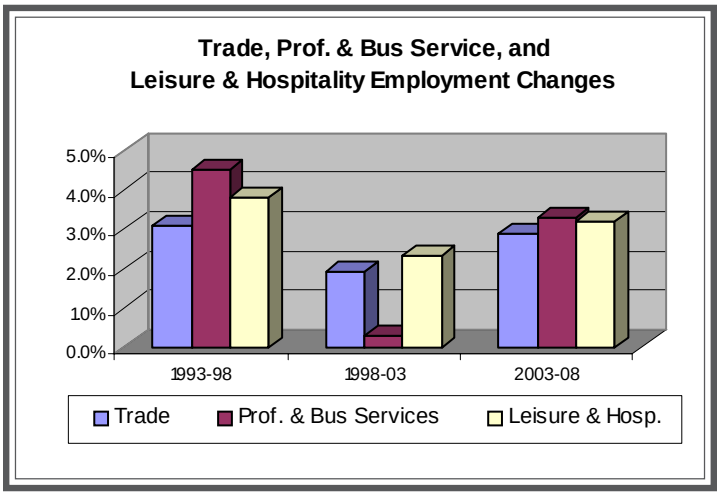
Source: Dennis Delay, Workforce Opportunity Council, Inc

Adding to New Hampshire's continued high quality of life is Morgan Quitno's Most Livable State Awards. NH continues to rank high in many categories and sits at the top in healthiest, highest standard of living, and most livable state.

New Hampshire's diverse core industries have helped support one of the fastest growing state economies. Although NH still features a large manufacturing base, it's core industries now consist of, information and high tech, trade, professional and business services, health, leisure and hospitality, and construction. While during the 2001-2003 period, when NH was loosing 1 in 5 manufacturing and high tech jobs, its strength in health, construction, and hospitality were all growing on average of 5%.

Looking forward over the next 5 years, New Hampshire's total employment is expected to grow faster than the nation and other New England states, however at rates 50% lower than the 1990's. Information and high tech are rebounding but at rates one third of their peak in the 1990's. Despite the continued decline in manufacturing, the remaining core industry groups should reach growth rates close to those prior to the recession.





Information Provided by New England Economic Partnership, Ross Gittell, James R. Carter Professor, Whittemore School of Business and Economics, University of New Hampshire.

MAJOR INITIATIVES

Enterprise Resource Planning (ERP)

With a view to replacing the Department of Administrative Services central data processing system, the department issued a request for proposals for Enterprise resource Planning (ERP) acquisition and implementation and is currently evaluating vendor's proposals. The current financial and human resource systems are approximately twenty years old.

The 2004 capital budget included $18.8 million of appropriations for the ERP project.

New Office of Information Technology

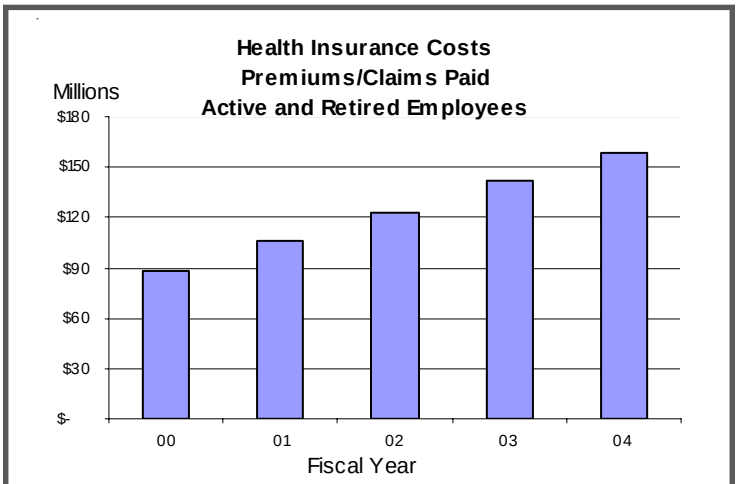
Pursuant to Chapter 223, Laws of 2003, the state established the Office of Information Technology (OIT) within the Governor's Office under the supervision of the newly created position of Chief Information Officer. On July 16, 2003, the Joint Legislative Fiscal Committee approved the transfer of 315 state employees from 9 agencies into the newly created Office.

OIT is responsible for managing and coordinating all technology resources in the executive branch of government, developing and implementing strategies to enhance state customer service, and creating statewide efficiencies through the use of information and other technologies.

In addition to providing its services to state agencies during fiscal year 2004, OIT worked to refine its organization, created a cost allocation and billing system, and worked to identify areas of potential cost savings. As provided by its enabling legislation, it also reviewed all agency requests to expend funds in excess of $250 for state data processing equipment, software, and services.

Employee Benefit Risk Management Fund

Chapter 251, Laws of 2001, authorized the Commissioner of Administrative Services to provide a self-funded alternative to traditional insurance programs for employee benefits to aid in controlling the rise in insurance costs. As a result, a new fund, titled the Employee Benefit Risk Management Fund, was established beginning in October 2003. The fund was created to manage the state's self-insurance program and to pool all resources to pay for the cost associated with providing employee benefits for active state employees and retirees.



00-03 Represents premiums paid to previous insurance carriers

04 Represents claims paid under new self insurance plan, including IBNR

Agencies are charged an actuarially determined premium paid into this new fund on a bi-weekly basis and efficiently controlled through the state's payroll system. These premiums are intended to cover the costs of claims presented, stop-loss coverage, administrative fees and reserve requirements. Claims payments by the third party administrator to the providers are reimbursed by the state out of this new fund daily.

The state is currently analyzing the first nine months of activity in this fund. The state has contracted with a consulting firm to assist and provide actuarial, claims audit and general consulting services in order to evaluate the performance of this new fund and to determine the best way to control health benefit costs through this arrangement.

FINANCIAL INFORMATION

Surplus Statement
General and Education Funds
(In Millions)

	FY 2002	FY 2003			FY 2004		
	Total	General	Education	Total	General	Education	Total
Undesignated Fund Balance, July 1	0.0	(37.9)	0.0	(37.9)	0.0	0.0	0.0
Additions:							
Unrestricted Revenue	1,957.2	1,206.3	842.7	2,049.0	1,310.7	848.0	2,158.7
Transfers of Appropriation from General Fund	65.7		83.4	83.4		62.6	62.6
Total Additions	2,022.9	1,206.3	926.1	2,132.4	1,310.7	910.6	2,221.3
Deductions:							
Appropriations Net of Estimated Revenues	(2,116.1)	(1,264.7)	(904.5)	(2,169.2)	(1,362.3)	(895.0)	(2,257.3)
Less Lapses	26.5	16.0		16.0	34.5		34.5
Total Net Appropriations	(2,089.6)	(1,248.7)	(904.5)	(2,153.2)	(1,327.8)	(895.0)	(2,222.8)
GAAP and Other Adjustments	16.9	(17.8)		(17.8)	1.5	(7.7)	(6.2)
Other One-Time Revenue Adjustments							
DHHS Enhancement Revenue		4.7		4.7	19.2		19.2
Other Revenue Adjustments					3.8		3.8
Current Year Balance	(49.8)	(55.5)	21.6	(33.9)	7.4	7.9	15.3
Fund Balance Transfers (To)/From:							
Rainy Day Fund		37.9		37.9			
Health Care Fund	11.9	33.9		33.9			
Education Trust Fund		21.6	(21.6)		7.9	(7.9)	
Undesignated Fund Balance, June 30,	(37.9)	0.0	0.0	0.0	15.3	0.0	15.3
Reserved for Rainy Day Account	55.2	17.3		17.3	17.3		17.3
Reserved for Health Care Fund	33.9						
Total Equity	51.2	17.3	0.0	17.3	32.6	0.0	32.6

The combined General and Education Fund Balances at June 30, 2004 was $15.3 million, which together with $17.3 million from the Rainy Day reserve account, brought the total surplus to $32.6 million. Last fiscal year, due to the General Fund's deficit, transfers were made from the Health Care Fund ($33.9 million) and Rainy Day ($37.9 million) reserve accounts. Those transfers eliminated the entire balance in the Health Care Fund and brought the Rainy Day balance to $17.3 million. No transfers were required from the Rainy Day reserve during FY 04.

The original budget, initially approved by legislature, projected a current year surplus of $44.6 million (excluding the Rainy Day Account). Healthy growth was seen across the board from unrestricted revenue, which came in ahead of plan by $44.8 million. More than ½ of the growth was from traditional taxes with the remaining from increased Medicaid revenues. However, net appropriations, including anticipated budget reductions, savings from budget initiatives, and lapses, were $71.9 million behind estimates. The largest shortfalls were from Information Technology, Self-Insurance, and DHHS program specific savings and one-time revenue adjustments that did not materialize to expected levels.

Although 2004 revenues grew over 2003, the state authorized 2 executive orders to reduce spending in an effort to close the net appropriation gap:

- Executive Order #2004-02 issued on March 24, 2004 reduced expenditures by ordering a hiring freeze on all vacant full-time classified and unclassified positions funded in whole or in part by the General Fund and a spending freeze on equipment purchases, consultants, and out of state travel.
- Executive Order #2004-03 issued on March 24, 2004 reduced expenditures by ordering a direct reduction of $2.7 million of General Fund appropriations.

Lastly, the state moved to a self-insurance environment during FY04 with respect to health insurance coverage for active and retired state employees. In previous years, included in the General Fund were premiums paid to the state's insurance carrier. The long-term liability associated with insurance claims, commonly referred to as the IBNR, was not included on the state's financial statements since the liability and risk was transferred to the insurance carrier. As a result of the self-funding alternative, the state created a new fund, titled the Employee Benefit Risk Management Fund during FY04 to manage the state's self-insurance program needs and to pool resources to pay for the costs associated with the new program. The financial activity for the program can be seen on pages 36-38. The new fund ended this transition year with a deficit of $12.1 million. The deficit was primarily the result of the state recognizing the IBNR for the first time. On a cash basis, the fund had a positive $3.2 million balance. Going forward the state is working with a consulting firm to evaluate the IBNR liability and to determine rates, which are sufficient to cover the costs associated with self-insurance requirements.

Summary of General and Education Funds Unrestricted Revenue
GAAP Basis (In Millions)

Revenue Category	FY 2002 Total	FY 2003 General	FY 2003 Education	FY 2003 Total	FY 2004 General	FY 2004 Education	FY 2004 Total	FY 2004 Combined Plan
Business Profits Tax	$ 161.2	$ 137.7	$ 37.1	$ 174.8	$ 131.6	$ 41.0	$ 172.6	$ 228.6
Business Enterprise Tax	222.2	96.6	121.4	218.0	118.5	116.9	235.4	175.2
Subtotal	383.4	234.3	158.5	392.8	250.1	157.9	408.0	403.8
Meals & Rooms Tax	170.6	168.7	6.7	175.4	178.5	6.9	185.4	183.5
Tobacco Tax	84.3	67.1	27.0	94.1	71.5	28.6	100.1	94.9
Liquor Sales and Distribution	96.2	99.0		99.0	106.7		106.7	108.1
Interest & Dividends Tax	70.3	55.1		55.1	55.6		55.6	61.0
Insurance Tax	76.1	82.2		82.2	86.2		86.2	82.9
Communications Tax	64.7	62.4		62.4	65.8		65.8	66.5
Real Estate Transfer Tax	99.5	78.8	39.4	118.2	95.2	47.5	142.7	120.5
Estate and Legacy Tax	57.0	59.1		59.1	27.0		27.0	19.4
Transfers from Lottery Commisssion	66.1		66.6	66.6		73.7	73.7	69.0
Tobacco Settlement	45.7	5.9	40.0	45.9	1.8	40.0	41.8	39.6
Utility Property Tax	18.2		18.8	18.8		20.2	20.2	19.0
Property Tax Not Retained Locally	29.0		32.7	32.7		29.8	29.8	29.9
Property Tax Retained Locally	454.1		453.0	453.0		443.4	443.4	443.4
Other	127.5	160.1		160.1	167.0		167.0	188.8
Subtotal	1,842.7	1,072.7	842.7	1,915.4	1,105.4	848.0	1,953.4	1,930.3
Net Medicaid Enhancement Revenues	98.2	117.0		117.0	149.8		149.8	140.9
Recoveries					20.4		20.4	13.3
Subtotal	1,940.9	1,189.7	842.7	2,032.4	1,275.6	848.0	2,123.6	2,084.5
Other Medicaid Enhancement Revenues to Fund Net Appropriations	16.3	16.6		16.6	35.1		35.1	29.3
Total	$ 1,957.2	$ 1,206.3	$ 842.7	$ 2,049.0	$ 1,310.7	$ 848.0	$ 2,158.7	$ 2,113.8

Consistent with signs of recovery and growth in the economy, General and Education Fund unrestricted revenue for fiscal year 2004 was better than anticipated. Unrestricted revenue totaled $2,158.7 million, which was a $109.7 million (5.4%) increase over prior year and $44.9 million (2.1%) increase over plan. The plan represents the legislative estimates contained in the original budget that was adopted in September 2003.

Strong performance was seen in several tax categories, as noted below, which offset the weak performance from the interest and dividends tax, which was down 8.9% from plan due to interest rates remaining at historic lows.

- **Business Taxes** totaled $408.0 million, $4.2 million above plan and $15.2 million (3.9%) over prior year.
- **Meals and Rooms** totaled $185.4 million, $1.9 million above plan and $10.0 million (5.7%) over prior year.
- **Insurance Tax** totaled $86.2 million, $3.3 million above plan and $4.0 million (4.9%) over prior year.
- **Tobacco Tax** totaled $100.1 million, which experienced moderate increase over prior year (6.4%) due to the continued tax advantage over neighboring states.
- **Real Estate Transfer Tax** (RET) again performed strongly compared to plan and prior year. RET collections of $142.7 million were 20.7% over prior year resulting from: increased home prices, sales activity spurred by low interest rates, the repeal of the tax exemption from business property transfers, and targeted audit collections.
- **Estate and Legacy Tax** benefited from large one-time gains earlier this year, which contributed to the $7.6 million in crease over plan. Due to the phase out of the tax, collections were significantly less than in previous years.
- **Uniform Property Tax** rate was reduced to $4.92 per $1,000 of total equalized value from $5.80 per thousand last year. Despite rate reductions, increasing property values helped generate a total of $473.2 million from the tax, slightly behind prior year by 2.6%.

• **Medicaid Enhancement Revenues (MER) and Recoveries** totaled $170.2 million, which was a $16.0 million increase over plan and $53.2 million over prior year. A breakdown of the Medicaid revenues are detailed at right:

• **Nursing Facility Assessment Fee.** On July 1, 2004, the NH Legislature passed Chapter Law 260, L'04 (Senate Bill 376) which among several things, amended RSA 84-A:2 to include a new assessment of 6 percent of net patient services revenues imposed on all nursing facilities on the basis of patient days in each nursing facility. The initial assessment period was retroactively applied to May 1, 2003. Since there is uncertainty as to when Federal approval or disallowance will be granted and how the new fee will impact the state's proportionate share program (proshare) revenue already claimed in FY04, a conservative adjustment was recorded to reduce the proshare for FY04.

Net Medicaid Enhancement	Amount
Proshare	$ 19.8
Less: Deferral Adjustment for Nursing Facility Assessment Fee (Shown at left)	(6.0)
Net Proshare:	13.8
6% Hospital Tax	96.9
Drug Rebates	20.4
Expanded Case Mgt and Recoveries	2.8
NHH DHS (Disproportionate Share from New Hampshire Hospital)	36.3
Total Net Medicaid Enhancement	$ 170.2

Budgetary Process

The state budget is prepared on a biennial basis. Prior to the start of each biennium, all departments of the state are required by law to transmit to the commissioner of the Department of Administrative Services requests for capital and operating expenses and estimates for revenue for the ensuing biennium. Following public hearings and consultation with various department heads, the Governor prepares a recommended budget. The budget is forwarded to the Legislature by February 15th of the odd year for consideration. The Legislature performs its review of the proposed budget and can make further adjustments. The budget passed by the Legislature is forwarded to the Governor to be enacted into law or to be vetoed.

The legal level of budgetary control is at the department level. All departments are authorized to transfer appropriations within their departments with prior approval from the Legislative Fiscal Committee and the Executive Council.

Internal Controls

Major fiscal responsibilities within the state are segregated among the following officials:

• ***Department of Administrative Services*** - The commissioner of Administrative Services, the assistant commissioner/budget officer and the comptroller are responsible for enforcing financial policy guidelines, developing the executive budget, collecting financial data from individual agencies, developing and reviewing appropriation control procedures, and compiling agency financial information.

• ***Legislative Budget Assistant (LBA)*** - The LBA, appointed by the Fiscal Committee, is responsible for ensuring that an annual audit is conducted of the state's basic financial statements prepared by the Department of Administrative Services. The LBA also provides staff assistance to the finance committees of the state Legislature. The LBA Audit Division performs various financial, compliance, and performance audits of state agencies.

• ***State Treasurer*** - The state treasurer, elected by the Legislature, is responsible for executing policy for the management of the state treasury and depositing and investing state funds as well as the issuing of general obligation and revenue bonds.

• ***State Agencies*** - Agency commissioners and directors are responsible for administering their agencies, in accordance with legislative and executive directives, to effectively service the citizens of the state.

Financial transactions for the various state agencies are recorded in the New Hampshire Integrated Financial System (NHIFS). The state's centralized accounting system and other accounting procedures were designed to provide various controls to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use and the proper recording of financial transactions. The Department of Administrative Services prepared the Internal Controls Tool Kit to further educate agency personnel in the importance of maintaining an effective internal control structure.

Cash and Investments

Cash deposits into the state treasury are coordinated jointly by the state treasurer and the state agencies. Cash is managed in pooled investment funds in order to maximize interest earnings. Investments are made in accordance with state statutes and treasury's investment policy. Cash is primarily invested in United States Treasury and agency obligations, money market accounts, certificates of deposit, and repurchase agreements. For the fiscal year ended June 30, 2004, the average daily balance of pooled investment funds was estimated at $301.0 million, with an average yield of 2.2%. Total investment income was $6.7 million for the year.

Insurance

Historically, the state has assumed the risk for fire, property, and general liability purposes, except where the provisions of law allow for the purchase of commercial insurance or where commercial insurance has been proven beneficial to the general public. Commercial insurance is purchased by the state to cover such things as fleet automobile, watercraft and aircraft liability, ski area operations to protect the state from liabilities resulting from the state run facility, and a faithful performance position schedule bond to protect against dishonest acts of employees. Effective May 1, 2000, commercial insurance was purchased to cover state owned buildings in the event of a catastrophic loss.

Prior to July 1985, the state relied on the doctrine of sovereign immunity. Subsequently, legislation became effective creating the statute "Claims Against the State" in which sovereign immunity was waived to certain limits and would allow certain types of actions and claims to be brought against the state. The limits set by the statute are the basis for risk management programs.

OTHER INFORMATION

Audits

Pursuant to RSA 21-I:8,I,(h), the Legislative Budget Assistant may designate a certified public accountant not employed in state service to conduct an annual audit, in accordance with Generally Accepted Auditing Standards, of the state's basic financial statements. KPMG LLP, the designated certified public accountant, has performed an independent audit of the state's basic financial statements for the fiscal year ended June 30, 2004.

In order to comply with the Single Audit Act of 1984, the Legislative Budget Assistant also contracts for a single audit of the state as a whole, which will include a legal compliance report on all federal funds received by the state. This report (including a Schedule of Expenditures of Federal Awards received by the state and comments on internal accounting controls and compliance with laws, rules and regulations) will be published separately.

Certificate of Achievement

The Government Finance Officers Association of the United States of America and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the state of New Hampshire for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2003. This was the seventh consecutive year that the state received this prestigious award.

In order to be awarded a certificate of achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. The CAFR must satisfy both accounting principles generaly accepted in the USA and applicable legal requirements.

A certificate of achievement is valid for a period of one year only. We believe our current report continues to comply with the program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

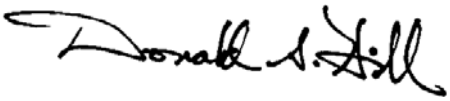
Annual Report to the Citizens

Again in fiscal year 2004, the Department of Administrative Services published the *Annual Report to the Citizens.* That report presents a condensed version of the financial information contained in the CAFR, as well as an overview of state operations and other nonfinancial data. A copy of the report may be obtained from the Department of Administrative Services, 25 Capitol St. Rm 310, Concord NH 03301, or from the department's web site at *http://admin.state.nh.us/accounting.*

Acknowledgements

In submitting this report, I acknowledge the cooperation and assistance of all the state agencies and the dedication of the employees of the Department of Administrative Services.

Respectfully submitted,



Donald S. Hill, Commissioner

Certificate of Achievement For Excellence in Financial Reporting

Presented to

State of New Hampshire

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

SEAL · OF · THE · STATE · OF · NEW HAMPSHIRE ·
1776

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INDEPENDENT AUDITORS' REPORT

To the Fiscal Committee of the General Court
State of New Hampshire
Concord, New Hampshire

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of New Hampshire as of and for the year ended June 30, 2004, which collectively comprise the State of New Hampshire's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of New Hampshire's management. Our responsibility is to express opinions on these basic financial statements based on our audit. We did not audit the financial statements of any of the discretely presented component units and we did not audit the financial statements of the Investment Trust Fund. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to amounts included for those entities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of New Hampshire as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

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To the Fiscal Committee of the General Court
State of New Hampshire

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2005, on our consideration of the State of New Hampshire's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 16 through 22, and the budget to actual - budgetary basis - schedules on pages 65 through 70 are not required parts of the basic financial statements but are 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of New Hampshire's basic financial statements. The combining financial statements and schedules as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information included in the introductory and statistical sections of this report has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

January 4, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the financial activities of the State of New Hampshire (the state) for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information included in our letter of transmittal, which can be found at the front of this report and with the state's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS –PRIMARY GOVERNMENT

Government-Wide Highlights:

Net Assets: The total assets of the state exceeded total liabilities at fiscal year ending June 30, 2004 by $2.4 billion. This amount is presented as "net assets" on the Statement of Net Assets for the Total Primary Government (condensed information can be seen in this MD&A section of this report). Of this amount, $343.7 million was reported as unrestricted net assets, $543.4 million was restricted net assets, and $1.5 billion was invested in capital assets. Unrestricted net assets represent the amount available to be used to meet the state's ongoing obligations to citizens and creditors.

Changes in Net Assets: The state's total net assets increased by $107.3 million, or 4.8%, in fiscal year 2004. Net assets of governmental activities increased by $98.5 million (5.8%), and net assets of the business-type activities showed a increase of $8.7 million (1.6%).

Fund Highlights:

Governmental Funds - Fund Balances: As of the close of fiscal year 2004, the state's governmental funds reported a combined ending fund balance of $346.8 million, a increase of $61.5 million in comparison with the prior year. This change is inclusive of a $1.7 million inventory reserve increase. Included in the combined governmental fund balance is the activity of the state's General Fund. The General Fund ended the year with an unreserved, undesignated surplus of $15.3 million, therefore there were no transfers from the Rainy Day Fund as was done in previous years. As a result the Rainy Day balance remained the same as prior year at $17.3 million.

Long-Term Debt:

The state's total long-term obligations increased by $20.7 million (2.2%) during the current fiscal year which represents the net difference between new issuances, payments and refundings of outstanding debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the state's basic financial statements. The state's basic financial statements include three components:

1. Government-Wide financial statements,
2. Fund financial statements, and
3. Notes to the financial statements.

This report also contains supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements provide a broad view of the state's finances. These statements (Statement of Net Assets and the Statement of Activities) provide both short-term and long-term information about the state's overall financial position. They are prepared using the accrual basis of accounting, which recognizes all revenues and expenses connected with the fiscal year even if cash has not been received or paid.

The **Statement of Net Assets**, beginning on page 24 presents all of the state's non-fiduciary assets and liabilities. The difference between assets and liabilities is reported as "net assets" instead of fund equity as shown on the Fund Statements. Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the state is improving or deteriorating.

The **Statement of Activities**, beginning on page 26, presents information showing how the state's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and licenses and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the state.

Both of the government-wide financial statements have separate sections for three different types of state activities. These three types of activities are:

Governmental Activities: The activities in this section represent most of the state's basic services and are generally supported by taxes, grants and intergovernmental revenues. The governmental activities of the state include general government, administration of justice and public protection, resource protection and development, transportation, health and social services, and education.

Business-Type Activities: These activities are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the state include the operations of the:

- Liquor Commission,
- Lottery Commission,
- Turnpike System, and
- New Hampshire Unemployment Compensation Trust Fund.

Discretely Presented Component Units: Component Units are entities that are legally separate from the state, but for which the state is financially accountable. The state's discretely presented component units are presented in the aggregate in these Government-Wide Statements and include the:

- University System of New Hampshire (USNH),
- Business Finance Authority,
- Pease Development Authority, and
- Community Development Finance Authority.

Complete financial statements of the individual component units can be obtained from their respective administrative offices. Addresses and other additional information about the state's component units are presented in the notes to the financial statements.

Fund Financial Statements

A fund is a grouping of related funds that is used to maintain control over resources that have been segregated for specific activities or objectives. The state, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements, focus on the individual parts of the state government, and report the state's operations in more detail than the government-wide statements. The state's funds are divided into 3 categories – governmental, proprietary and fiduciary. For governmental and proprietary funds, only those funds that are considered Major Funds are reported in individual columns in the Fund Financial Statements with combining schedules in the other supplementary information section to support the Non-Major Funds. Fiduciary funds are reported by fiduciary type (pension, private-purpose, investment trust, and agency) with combining schedules in the Supplementary Section.

Governmental Funds: Most of the basic services provided by the state are financed through governmental funds. Unlike the government-wide financial statements, the governmental fund financial statements report using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the state's programs. The basic governmental fund financial statements can be found on pages 30-33.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented here with similar information presented in the government-wide financial statements. Reconciliations are provided between the Governmental Fund Statements and the Government-Wide Statements, which can be found on pages 31 and 33.

The state's major governmental funds include the General Fund, Highway Fund, and Education Fund.

Individual fund data for each of the state's non-major governmental funds (Fish and Game Fund, Capital Fund and Permanent Funds) are provided in the combining statements found on pages 73 and 74.

Proprietary Funds: The state's proprietary funds charge a user fee for the goods and services they provide to both the general public and other agencies within the state. These activities are reported in 4 enterprise funds and 1 internal service fund. The enterprise funds, which are all considered major funds, report activities that provide goods and services to the general public and include the operations of the Liquor Commission, Lottery Commission, Turnpike System and the New Hampshire Unemployment Trust Fund. The internal service fund reports health related fringe benefit services for the state's programs and activities.

Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. Therefore there is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements. The internal service fund is reported as governmental activities on the government-wide financial statements. The basic proprietary funds financial statements can be found on pages 36-38.

Fiduciary Funds and Similar Component Units: These funds are used to account for resources held for the benefit of parties outside the state government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the state's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds in that they use the accrual basis of accounting.

The state's fiduciary funds on pages 40-41 include the:

- **Pension Trust Funds** which accounts for the activity of the state's New Hampshire Retirement System - a component unit of the state,
- **Investment Trust Fund** which accounts for the activity of the external investment pool known as PDIP,
- **Private-Purpose Trust Funds** which account for the activity of trust arrangements under which principal and income benefit individuals, private organizations, or other governments, and
- **Agency Funds** which account for the resources held in a pure custodial capacity.

Individual fund detail can be found in the combining financial statements in the Other Supplementary Information Section.

Major Component Units

The state has only one major component unit - the University System of New Hampshire and 3 non-major component units. This separation is determined by the relative size of the individual entities' assets, liabilities, revenues and expenses in relation to the combined total of all component units. The basic financial statements for the component units have been presented in a condensed format located in Footnote 12 of the Notes to the Financial Statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements begin on page 43.

Required Supplementary Information

The basic financial statements and accompanying notes are followed by a section of required supplementary information. This section includes a budgetary comparison schedule for each of the state's major governmental funds, and includes a reconciliation between the statutory fund balance for budgetary purposes and the fund balance as presented in the governmental fund financial statements.

Other Supplementary Information

Other supplementary information includes combining financial statements for non-major governmental and fiduciary funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The state's combined net assets (government and business-type activities) totaled $2.4 billion at the end of 2004, compared to $2.2 billion at the end of the previous year.

Investment in Capital Assets: The largest portion of the state's net assets (62%) reflects its investment in capital assets such as land, buildings, equipment, and infrastructure (roads and bridges), less any related outstanding debt used to acquire those assets. The states investment in capital assets increased $105.6 million from prior year. This increase was the result of net additions of capital assets of $96.0 million during the year combined with a reduction in capital related debt of $9.6 million. Although the state's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves generally cannot be used to liquidate these liabilities.

Restricted Net Assets: An additional portion of the state's net assets (23%) represents resources that are subject to external restrictions on how they may be used. Restricted net assets increased $4.7 million from prior year due to an increase in water pollution control loans during the year.

Unrestricted Net Assets: The state's unrestricted net assets, totaling $343.7 million, may be used to meet the state's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets.

At the end of both the current and prior fiscal years, the state was able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

State of New Hampshire's Net Assets as of June 30, 2004 and 2003

(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Current assets	$ 847,867	$ 703,907	$ 343,895	$ 351,175	$ 1,191,762	$ 1,055,082
Capital assets	1,856,898	1,779,060	538,445	520,275	2,395,343	2,299,335
Other assets	278,633	255,685	39,886	60,175	318,519	315,860
Total assets	2,983,398	2,738,652	922,226	931,625	3,905,624	3,670,277
Long-term liabilities	659,204	622,041	310,410	326,873	969,614	948,914
Other liabilities	517,144	408,099	63,302	64,971	580,446	473,070
Total liabilities	1,176,348	1,030,140	373,712	391,844	1,550,060	1,421,984
Net assets:						
Invested in capital assets, net of related debt (1)	1,255,739	1,179,736	212,708	183,086	1,468,447	1,362,822
Restricted (1)	245,194	235,209	298,238	303,544	543,432	538,753
Unrestricted	306,117	293,567	37,568	53,151	343,685	346,718
Total net assets	$ 1,807,050	$ 1,708,512	$ 548,514	$ 539,781	$ 2,355,564	$ 2,248,293

(1) Note - Certain prior year amounts have been reclassed to conform with current year presentation

Changes in Net Assets

The state's net assets increased by $107.3 million, or 4.8%, during the current fiscal year. Total revenues increased by $403.5 million (8.9%) as compared to increases in expenses of $173.1 million (3.7%).

More than half of the state's revenue (60.6%) is from program revenue, consisting of charges for goods and services, and federal and local grants. Revenues not specifically targeted for a specific program are known as general revenues, which are primarily from taxes. The largest revenue increases were from federal operating grants and service charges to support health and social service programs and a combination of growth in several taxes including business, real estate, and tobacco.

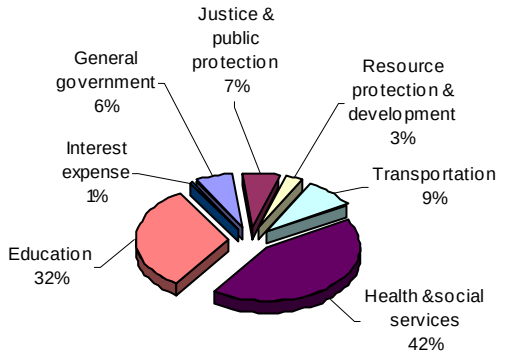
The state's expenses cover a range of services. The largest expenses were for Health and Social Services and Education, which accounted for 37% and 27% of total expenditures, respectively. As compared to the prior year, Education expenses saw a rate of growth of 1%. However, Health and Social Services grew by 17% primarily associated with increased Medicaid program costs for three main areas, representing provider payments for Medical Assistance, nursing services for the Elderly and Adult, and hospital services from the state's Medicaid Enhancement program. These main programs account for more than 95% of the growth.

Offsetting the increase from Health and Social Services was a decline in expenses from Transportation of 22%. These decreases were largely attributable to higher than anticipated special charges that occurred during the prior fiscal year.

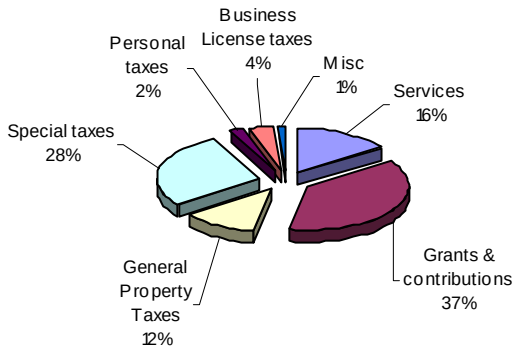
State of New Hampshire's Changes in Net Assets
For Fiscal Years Ending June 30, 2004 and 2003
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Revenues						
Program revenues:						
Charges for services	$ 638,583	$ 558,306	$ 802,163	$ 732,686	$ 1,440,746	$ 1,290,992
Operating grants & contributions	1,369,236	1,194,229			1,369,236	1,194,229
Capital grants & contributions	159,015	153,630	7,338		166,353	153,630
General revenues:						
General Property Taxes	494,364	504,191			494,364	504,191
Special taxes	1,142,406	1,070,627			1,142,406	1,070,627
Personal taxes	100,015	94,029			100,015	94,029
Business License taxes	151,744	145,422			151,744	145,422
Interest	5,832	7,851			5,832	7,851
Miscellaneous	42,620	48,827			42,620	48,827
Total revenues	4,103,815	3,777,112	809,501	732,686	4,913,316	4,509,798
Expenses						
General government	263,634	250,160			263,634	250,160
Administration of justice and public protection	278,392	283,944			278,392	283,944
Resource protection and development	124,357	128,320			124,357	128,320
Transportation	380,358	488,947			380,358	488,947
Health and social services	1,778,791	1,516,228			1,778,791	1,516,228
Education	1,318,503	1,301,202			1,318,503	1,301,202
Interest Expense	27,062	28,525			27,062	28,525
Turnpike System			56,816	58,080	56,816	58,080
Liquor Commission			295,798	277,135	295,798	277,135
Lottery Commission			165,532	156,976	165,532	156,976
Unemployment Compensation			116,802	143,429	116,802	143,429
Total expenses	4,171,097	3,997,326	634,948	635,620	4,806,045	4,632,946
Increase (decrease) in net assets before transfers	(67,282)	(220,214)	174,553	97,066	107,271	(123,148)
Transfers & Other Items	165,820	88,181	(165,820)	(152,182)		(64,001)
Increase(decrease) in net assets	98,538	(132,033)	8,733	(55,116)	107,271	(187,149)
Net assets, beginning of year	1,708,512	1,840,545	539,781	594,897	2,248,293	2,435,442
Net assets, end of year	$ 1,807,050	$ 1,708,512	$ 548,514	$ 539,781	$ 2,355,564	$ 2,248,293

Expenses - Governmental Activities
Fiscal Year Ending June 30, 2004



Revenues - Governmental Activities
Fiscal Year Ending June 30, 2004



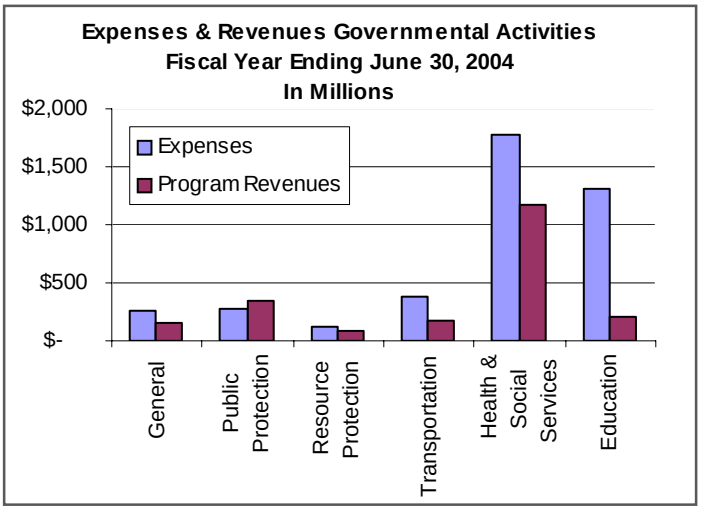
State of New Hampshire
Analysis of Changes in Revenues and Expenses
For Fiscal Year Ending June 30,2004 Compared to 2003
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	$Change	% Change	$Change	% Change	$Change	% Change
Revenues						
Program revenues:						
Charges for services	80.3	14.4%	69.5	9.5%	149.8	11.6%
Operating grants & contributions	175.0	14.7%			182.3	15.3%
Capital grants & contributions	5.4	3.5%	7.3	100.0%	5.4	3.5%
General revenues:						
General Property Taxes	(9.8)	-1.9%			(9.8)	-1.9%
Special taxes	71.8	6.7%			71.8	6.7%
Personal taxes	6.0	6.4%			6.0	6.4%
Business License taxes	6.3	4.3%			6.3	4.3%
Interest	(2.0)	-25.7%			(2.0)	-25.7%
Miscellaneous	(6.2)	-12.7%			(6.2)	-12.7%
Total revenues	326.7	8.6%	76.8	10.5%	403.5	8.9%
Expenses						
General government	13.5	5.4%			13.5	5.4%
Administration of justice and public protection	(5.6)	-2.0%			(5.6)	-2.0%
Resource protection and development	(4.0)	-3.1%			(4.0)	-3.1%
Transportation	(108.6)	-22.2%			(108.6)	-22.2%
Health and social services	262.6	17.3%			262.6	17.3%
Education	17.3	1.3%			17.3	1.3%
Interest Expense	(1.5)	-5.1%			(1.5)	-5.1%
Turnpike System			(1.3)	-2.2%	(1.3)	-2.2%
Liquor Commission			18.7	6.7%	18.7	6.7%
Lottery Commission			8.5	5.4%	8.5	5.4%
Unemployment Compensation			(26.6)	-18.6%	(26.6)	-18.6%
Total expenses	173.8	4.3%	(0.7)	-0.1%	173.1	3.7%

Governmental Activities

Governmental activities decreased the state's net assets by $67.3 million, before transfer activity. Revenues grew $326.7 million or 8.6% from prior year to total $4.1 billion. The growth was not sufficient to offset expenses of $4.2 billion which grew $173.8 million or 4.3%.

A comparison of the cost of services by function for the state's governmental activities with the related program revenues is shown below. Note that the largest expenses for the state, Health and Social Services and Education, also represent those activities that have the largest gap between expense and program revenues. Since these expenses are least recovered from program revenues, the differences are made up from general revenues, which primarily represent state's taxes, such as the statewide property taxes, business profits tax, business enterprise tax, real estate transfer, tobacco, meals and rooms, interest and dividends, etc. Educational expenses grew less than 2% from the previous year, while Health and Social grew approximately 17% due to increased Medicaid program costs.



Business-Type Activities

Charges for goods and services for the state's combined business type activities were more than adequate to cover the operating expenses and resulted in net assets increasing by $174.6 million prior to transfers. Business-Type activities include the operations from the Liquor Commission, Lottery Commission, Unemployment Compensation Fund and Turnpike Fund.

Sales growth from the operations of the Liquor Commission resulted in net proceeds of $92.1 million, a 7.6% increase from prior year, that were transferred to the General Fund to fund the general operations of the state. Large Powerball drawings during the year contributed to a 10.8% growth in net proceeds of $73.7 million from the Lottery Commission which were transferred to the Education Fund.

Turnpike System net assets increased by $16.2 million or 6% as a result of growth in toll revenues during the year. The operations of Unemployment Compensation, however, resulted in a loss of $7.2 million this fiscal year as claim levels remained high enough to offset growth in revenues.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

As noted earlier, the state uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the state's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the state's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

General Fund

The general fund is the chief operating fund of the state. The total fund equity was $235.4 million. The general fund ended the year with a unreserved, undesignated surplus of $15.3 million. The rainy day fund balance remained at $17.3 million.

Education Fund

The education fund, before year-end transfers, had an unreserved undesignated surplus of $7.9 million. The Fund transferred the surplus balance to the general fund to reimburse for prior year deficits in the education fund. Expenditures grew this fiscal year by approximately 1.4% or $12.5 million as a result of increases in property tax relief payments to homeowners. Revenues declined slightly during the year by $1.9 million or less than 1%. Declines in property tax revenues were only partially offset by growth in real estate transfer and tobacco taxes.

Proprietary Funds

The state's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. Therefore there is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements.

BUDGETARY HIGHLIGHTS

During the fiscal year, the original budget was amended by various supplemental appropriations and appropriation revisions. Budget to Actual Schedules for the major governmental funds are in the Required Supplementary Information section beginning on page 65.

General Fund:

The difference between the original budget of $3,096 million and final budget of $3,465 million is $369 million composed of appropriations approved during FY04.

Additional appropriations issued after July 1, 2003	$ 168
Appropriation balances brought forward from the prior fiscal year	262
Transfer of appropriations	(61)
Total	$ 369

The additional appropriations issued after July 1, 2003 are composed of:

• Home Energy Assistance Program	$ 10
• FEMA Assistance and Emergency Preparedness	21
• Homeland Security Grants	24
• Oil Discharge and Disposal Fund	4
• Education: Adequate Education Grants; Reading Excellence Act; Special Education Grants	22
• Workforce Opportunity Council and Title III Grants	10
• Hospital Uncompensated Care Pool	12
• Provider Payments	22
• Social Services Grants	4
• US Department of Justice Grants	6
• Various	33
Total	$ 168

The largest variances from the final budget to actual amounts were for grant revenues. Grants from Federal, Private and Local Sources had a combined unfavorable variance of $413 million. The unfavorable variances in grant revenues are due to timing differences that extend beyond the state's fiscal year and therefore revenue is not drawn down until expenditures are incurred.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The state's investment in capital assets for its governmental and business-type activities as of June 30, 2004, amounts to $4.6 billion. Accumulated depreciation amounts of $2.2 billion, leaving a net book value of $2.4 billion, an increase of $96.0 million from prior year. The investment in capital assets includes equipment, real property, infrastructure, computer software, and construction in progress. Infrastructure assets are items that are normally immovable, of value only to the state and include only roads and bridges. The net book value of the state's infrastructure for its roads and bridges approximates $1.4 billion, which remained the same as the previous year.

Additional information on the state's capital assets can be found in Footnote 4 of the Notes to the Financial Statements.

Debt Administration

The state may issue general obligation bonds, revenue bonds, and notes in anticipation of such bonds authorized by the Legislature and Governor and Council. The state may also directly guarantee certain authority or political subdivision obligations. At the end of the current fiscal year, the state had total bonded debt outstanding of $954.3 million. Of this amount, $648.5 million are general obligation bonds, which are backed by the full faith and credit of the state. The remainder of the state's bonded debt is Turnpike revenue bonds, which are secured by the specified revenue sources within the Turnpike System.

In August 2003 the state issued $94.1 million of Turnpike System refunding bonds. The interest rates on these bonds range from 2.0% to 5.0%. These bonds were used to refund $94.5 million of defeased revenue bonds. This refunding transaction resulted in a cash savings of $7.6 million over the next 20 years and a long-term economic gain (or present value savings) of $4.7 million.

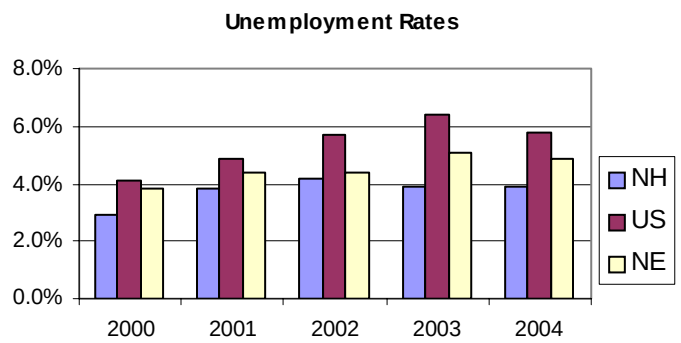
In December 2003, the state issued $80.0 million of general obligation capital improvement bonds. The interest rates on these general bonds range from 2.0% to 5.0%.

The state does not have any debt limitations, except for contingent debt guarantees, which are detailed in the notes to the financial statements. Additional information on the state's long-term debt obligations can be found in Footnote 5 of the Notes to the Financial Statements.

Fitch Ratings and Standards & Poor's have assigned the state's bonds a rating of AA. Moody's Investors Service has assigned a rating for the state of Aa2.

ECONOMIC CONDITIONS AND OUTLOOK

New Hampshire's economy has been resilient with a relatively quick recovery, as compared to other New England states, from the significant downturns through the late 90's. Unemployment rates have remained low in NH (3.9%) and continue to be below the national (5.8%) and New England (4.9%) averages.



Source: State of New Hampshire Employment Security, Economic & Labor Market Information Bureau

In recent years while many states have had devastating revenue losses because of shortfalls in income tax proceeds, New Hampshire's reliance on the statewide property tax and business enterprise tax have added relative stability to its revenue structure. Although total unrestricted revenue grew more than 5% over the prior year, primarily the result of increased Medicaid Enhancement Revenue, traditional taxes were up just under 2% from the prior year. As the strong performance in the real estate market continued, this brought in additional tax revenue from the state's real estate transfer tax.

Despite the relatively favorable revenue performance seen in FY04, the state continued to be conscious of its spending habits, especially since the Rainy Day and Health Care reserve accounts were tapped into during FY03 (reducing the total of those two accounts by $71.8 million to a balance of $17.3 million heading into FY04). As a result, two executive orders were issued in FY04 to reduce state spending from the original budgeted appropriations.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the state's finances for all of New Hampshire citizens, taxpayers, customers, investors and creditors. This financial report seeks to demonstrate the state's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: State of New Hampshire, Department of Administrative Services, Division of Accounting Services, 25 Capitol Street, State House Annex Room 310, Concord, NH 03301.

Basic Financial Statements

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STATE OF NEW HAMPSHIRE
STATEMENT OF NET ASSETS
JUNE 30, 2004
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 374,902	$ 274,261	$ 649,163	$ 170,228
Cash and Cash Equivalents-Restricted		18,010	18,010	11,078
Receivables (Net of Allowances for Uncollectibles)	458,263	27,012	485,275	42,303
Other Receivables-Restricted				10,678
Internal Balances	1,447	(1,447)		
Due from Component Units	664		664	
Inventories	12,589	26,003	38,592	
Other Current Assets	2	56	58	5,307
Total Current Assets	847,867	343,895	1,191,762	239,594
Noncurrent Assets:				
Receivables (Net of Allowances for Uncollectibles)	206,183		206,183	36,290
Due from Component Units	41,402		41,402	
Investments	31,048		31,048	210,273
Investments and Deposits-Restricted		36,435	36,435	
Bond Issue Costs		3,451	3,451	
Other Assets				5,000
Capital Assets:				
Land & Land Improvements	425,100	103,166	528,266	377
Buildings & Building Improvements	493,059	22,733	515,792	93,988
Equipment & Computer Software	163,095	33,377	196,472	538,981
Construction in Progress	215,186	36,382	251,568	-
Infrastructure	2,531,841	533,611	3,065,452	
Less: Allowance for Depreciation	(1,971,383)	(190,824)	(2,162,207)	(29,553)
Net Capital Assets	1,856,898	538,445	2,395,343	603,793
Total Noncurrent Assets	2,135,531	578,331	2,713,862	855,356
Total Assets	2,983,398	922,226	3,905,624	1,094,950
LIABILITIES				
Current Liabilities:				
Accounts Payable	267,638	28,841	296,479	38,601
Accrued Payroll	35,192	1,833	37,025	7,854
Due to Primary Government				664
Deferred Revenue	39,332	2,860	42,192	31,375
Unclaimed Prizes	18,509	1,927	20,436	
General Obligation Bonds Payable	68,192	3,521	71,713	
Claims & Compensated Absences Payable	34,162	2,738	36,900	
Bond Anticipated Notes	50,000		50,000	
Other Liabilities	4,119	5,685	9,804	718
Other Liabilities-Restricted		4,512	4,512	234
Revenue Bonds Payable-Restricted		11,385	11,385	
Revenue Bonds Payable				19,713
Total Current Liabilities	517,144	63,302	580,446	99,159
Noncurrent Liabilities:				
Net General Obligation Bonds Payable	565,938	10,841	576,779	
Revenue Bonds Payable		294,472	294,472	188,072
Claims & Compensated Absences Payable	71,304	3,977	75,281	27,962
Due to Primary Government				41,402
Other Noncurrent Liabilities	21,962	1,120	23,082	114,149
Total Noncurrent Liabilities	659,204	310,410	969,614	371,585
Total Liabilities	1,176,348	373,712	1,550,060	470,744

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

STATE OF NEW HAMPSHIRE
STATEMENT OF NET ASSETS
JUNE 30, 2004
(Expressed in Thousands)

	Primary Government			
NET ASSETS	**Governmental Activities**	**Business-Type Activities**	**Total**	**Component Units**
Invested in Capital Assets, net of related debt	$ 1,255,739	$ 212,708	$ 1,468,447	$ 377,504
Restricted for Debt Repayments		42,602	42,602	
Restricted for Unemployment Benefits		253,302	253,302	
Restricted for Permanent Funds-Non-Expendable	9,901		9,901	
Restricted for Prize Awards - MUSL		2,334	2,334	
Restricted for Environmental Loans	217,949		217,949	
Restricted for Revenue Stabilization	17,344		17,344	
Restricted Component Unit Net Assets				207,359
Unrestricted Net Assets	306,117	37,568	343,685	39,343
Total Net Assets	$ 1,807,050	$ 548,514	$ 2,355,564	$ 624,206

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

STATE OF NEW HAMPSHIRE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental Activities:				
General Government	$ 263,634	$ 110,136	$ 44,450	
Administration of Justice & Public Protection	278,392	272,943	79,754	$ 8
Resource Protection and Development	124,357	51,423	39,976	11,506
Transportation	380,358	10,018	17,788	145,072
Health and Social Services	1,778,791	154,242	1,021,928	
Education	1,318,503	39,821	165,340	2,429
Interest Expense	27,062			
Total Governmental Activities	4,171,097	638,583	1,369,236	159,015
Business-type Activities:				
Turnpike System	56,816	65,691		7,338
Liquor Commission	295,798	387,215		
Lottery Commission	165,532	239,630		
Unemployment Compensation	116,802	109,627		
Total Business-type Activities	634,948	802,163		7,338
Total Primary Government	$ 4,806,045	$ 1,440,746	$ 1,369,236	$ 166,353
COMPONENT UNITS				
University System of New Hampshire	$ 532,536	$ 312,877	$ 152,720	$ 7,270
Business Finance Authority	2,339	2,683		
Pease Development Authority	13,579	13,194		
Community Development Finance Authority	1,947	1,620	284	
Total Component Units	$ 550,401	$ 330,374	$ 153,004	$ 7,270

General Property Taxes
Special Taxes
Personal Taxes
Business License Taxes
Interest & Investment Income
Miscellaneous
Payments from State of New Hampshire
Transfers - Internal Activities
Total General Revenues and Transfers
Changes in Net Assets
Net Assets - Beginning
Net Assets - Ending

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

Net (Expenses) Revenues and Changes in Net Assets

Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
$ (109,048)		$ (109,048)	
74,313		74,313	
(21,452)		(21,452)	
(207,480)		(207,480)	
(602,621)		(602,621)	
(1,110,913)		(1,110,913)	
(27,062)		(27,062)	
(2,004,263)		(2,004,263)	
	$ 16,213	16,213	
	91,417	91,417	
	74,098	74,098	
	(7,175)	(7,175)	
	174,553	174,553	
(2,004,263)	174,553	(1,829,710)	
			$ (59,669)
			344
			(385)
			(43)
			(59,753)
494,364		494,364	
1,142,406		1,142,406	
100,015		100,015	
151,744		151,744	
5,832		5,832	10,364
42,620		42,620	
			106,228
165,820	(165,820)		
2,102,801	(165,820)	1,936,981	116,592
98,538	8,733	107,271	56,839
1,708,512	539,781	2,248,293	567,367
$ 1,807,050	$ 548,514	$ 2,355,564	$ 624,206

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

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Fund Financial Statements

Governmental Funds

General Fund: *The General Fund is the state's primary operating fund and accounts for all financial transactions not accounted for in any other fund.*

Highway Fund: *Under the state Constitution, all revenues in excess of the necessary cost of collection and administration accruing to the state from motor vehicle registration fees, operators' licenses, gasoline road toll, or any other special charges or taxes with respect to the operation of motor vehicles or the sale or consumption of motor vehicle fuels are appropriated and used exclusively for the construction, reconstruction, and maintenance of public highways within this state, including the supervision of traffic thereon and for the payment of the interest and principal of bonds issued for highway purposes. All such revenues, together with federal grants-in-aid received by the state for highway purposes, are credited to the Highway Fund. While the principal and interest on state highway bonds are charged to the Highway Fund, the assets of this fund are not pledged to such bonds.*

Education Trust Fund: *The Education Trust Fund was established to distribute adequate education grants to school districts. Funding for the grants comes from a variety of sources, including the statewide property and utility taxes, incremental portions of existing business and tobacco taxes, sweepstakes funds, and tobacco settlement funds.*

STATE OF NEW HAMPSHIRE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004
(Expressed in Thousands)

	General	Highway	Education	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	$ 216,731	$111,267	$ 6,252	$ 37,408	$ 371,658
Investments	21,416			9,632	31,048
Receivables (Net of Allowances for Uncollectibles)	386,515	29,694	18,253	4,785	439,247
Due from Other Funds	7,871		2,244		10,115
Due from Components	42,066				42,066
Inventories	6,082	5,905		602	12,589
Other Assets	2				2
Loans and Notes Receivables	217,949				217,949
Total Assets	$ 898,632	$146,866	$ 26,749	$ 52,427	$ 1,124,674
LIABILITIES					
Accounts Payable	$ 233,119	$ 19,553	$ 7,700	$ 7,266	$ 267,638
Accrued Payroll	30,577	3,954		661	35,192
Due to Other Funds	797		7,871		8,668
Deferred Revenue	380,131	5,116	10,250	2,235	397,732
Unclaimed Property and Prizes	18,509				18,509
Bond Anticipated Notes				50,000	50,000
Other Liabilities	135				135
Total Liabilities	663,268	28,623	25,821	60,162	777,874
FUND BALANCES					
Reserved for Encumbrances	109,543	121,800		49,131	280,474
Reserved for Inventories	6,082	5,905		602	12,589
Reserved for Unexpended Appropriations	87,108		928	137,040	225,076
Reserved for Revenue Stabilization	17,344				17,344
Reserved for Permanent Trust				9,901	9,901
Unreserved, Undesignated (Deficit)	15,287	(9,462)			5,825
Unreserved, Fish & Game Fund				2,773	2,773
Unreserved (Deficit), Capital Project Fund				(207,182)	(207,182)
Total Fund Balances (Deficit)	235,364	118,243	928	(7,735)	346,800
Total Liabilities and Fund Balances	$ 898,632	$146,866	$ 26,749	$ 52,427	$ 1,124,674

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

STATE OF NEW HAMPSHIRE
RECONCILIATION OF THE BALANCE SHEET-
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2004
(Expressed in Thousands)

Total fund balances for governmental funds	$	346,800
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		1,856,898
Certain tax revenues and loans are earned but not available and therefore are deferred in the funds:		
Business Taxes, I&D, Meals & Rooms, and Utility Property		91,650
Highway Fund Municipal Billings		2,609
Catastrophic Medicaid Reimbursements		9,000
Indigent Representation Advances		2,376
SRF Loans		217,949
Component Unit Loans		42,066
Total		365,650
Internal service funds are used by management to charge the costs of certain activities, such as risk management and health related fringe benefits, to individual funds. The assets and liabilities of the internal service fund is included in governmental activities in the Statement of Net Assets.		(12,131)
Certain long term liabilities are not payable by current available resources and therefore are not reported in the funds:		
Compensated Absences and Workers Compensation		(90,091)
Capital Lease Obligations		(7,462)
Catastrophic Medicaid Payments		(14,500)
Bond Payables		(634,130)
Interest Payable		(3,984)
Total Long Term Liabilities		(750,167)
Net Assets of Governmental Activities	$	1,807,050

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

STATE OF NEW HAMPSHIRE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Expressed in Thousands)

	General	Highway	Education	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
General Property Taxes	$ 260		$ 493,354		$ 493,614
Special Taxes	925,133		212,290		1,137,423
Personal Taxes	71,433		28,582		100,015
Business License Taxes	18,578	$ 151,744			170,322
Non-Business License Taxes	89,836	71,214		$ 8,542	169,592
Fees	97,691	22,081		1,864	121,636
Fines, Penalties and Interest	23,573	649		143	24,365
Grants from Federal Government	1,210,823	132,093		37,689	1,380,605
Grants from Private and Local Sources	133,670	5,847		459	139,976
Rents and Leases	1,457				1,457
Interest, Premiums and Discounts	3,443	1,043		615	5,101
Sale of Commodities	8,629	179		74	8,882
Sale of Service	147,199	6,217		7	153,423
Assessments	16,125	297			16,422
Grants from Other Agencies	3,410	962		1,287	5,659
Miscellaneous	121,103	2,467	40,000	851	164,421
Total Revenues	2,872,363	394,793	774,226	51,531	4,092,913
EXPENDITURES					
Current:					
General Government	201,219		15,831		217,050
Administration of Justice and Public Protection	258,739	840			259,579
Resource Protection and Development	146,385			16,770	163,155
Transportation	7,130	230,581			237,711
Health and Social Services	1,754,938			349	1,755,287
Education	385,901		895,713		1,281,614
Debt Service	81,136	5,280		324	86,740
Capital Outlay	32,250	147,283		101,815	281,348
Total Expenditures	2,867,698	383,984	911,544	119,258	4,282,484
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,665	10,809	(137,318)	(67,727)	(189,571)
OTHER FINANCING SOURCES (USES)					
Transfers In	4,146		54,719	851	59,716
Transfers in from Enterprise Funds	92,075		73,745		165,820
Transfers Out	(54,719)	(1,702)		(3,295)	(59,716)
Capital Lease Proceeds	134				134
G.O. Bond Premiums				3,417	3,417
G.O. Bond Issuance				80,000	80,000
Total Other Financing Sources (Uses)	41,636	(1,702)	128,464	80,973	249,371
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	46,301	9,107	(8,854)	13,246	59,800
Fund Balances - July 1	188,642	107,818	9,782	(20,907)	285,335
Change in Reserve for Inventory	421	1,318		(74)	1,665
Fund Balances (Deficit)- June 30	$ 235,364	$ 118,243	$ 928	$ (7,735)	$ 346,800

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

STATE OF NEW HAMPSHIRE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Expressed in Thousands)

Net change in fund balance - total governmental funds		$ 61,465
Revenue recognized on the Statement of Activities that do not provide current financial resources on the fund statements resulted in a net decrease from prior year		(16,845)
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Land & Land Improvements	45,153	
Buildings & Building Improvements	8,819	
Equipment & Computer Software	26,835	
Construction in Progress	34,379	
Infrastructure	28,274	
Accumulated Depreciation	(65,623)	77,837
Internal service funds are used by management to charge the costs of certain activities, such as risk management and health related fringe benefits, to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.		(12,131)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which repayments exceeded proceeds.		
Bond Proceeds and Premiums Received	(83,417)	
Repayment of Bond Principal and Interest	67,538	
Accretion of Bonds Payable	(7,857)	
Accrued Interest and Amortization	(3)	(23,739)
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 the governmental funds. Elimination of the following expenses resulted in a net increase from prior year:		
Changes in Compensated Absences & Workers Compensation	(1,317)	
Catastrophic Medicaid Payments	(14,500)	
Change in Capital Lease Obligation	700	
SRF loan program	27,068	11,951
Change in net assets of governmental activities		$ 98,538

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

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Proprietary-Enterprise Fund Financial Statements

Turnpike System: *The state constructs, maintains, and operates transportation toll facilities. The Legislature has established a 10-year state highway construction and reconstruction plan and authorized major expansion and improvement projects as part of a Capital Improvement Program. These include a partial circumferential highway around the City of Nashua and other projects that will provide major improvements to the Central Turnpike from Bedford to Nashua and include new interchanges, widening, and a toll plaza. Additional projects are planned that will provide safety improvements to the existing Turnpike System and increase the Turnpike System's capacity.*

Liquor Commission: *Receipts from operations of the Liquor Commission are transferred to the General Fund on a daily basis. The General Fund advances cash to the Liquor Commission for the purchase of liquor inventory. By statute, all liquor and beer sold in the state must be sold through a sales and distribution system operated by the state Liquor Commission, comprising three members appointed by the Governor with the consent of the Executive Council. The Commission makes all liquor purchases directly from the manufacturers and importers and operates state liquor stores in cities and towns that accept the provisions of the local option law. The Commission is authorized to lease and equip stores, warehouses, and other merchandising facilities for liquor sales, to supervise the construction of state-owned liquor stores at various locations in the state, and to sell liquor through retail outlets as well as direct sales to restaurants, hotels, and other organizations. The Commission also charges permit and license fees for the sale of beverages through private distributors and retailers and an additional fee of 30 cents per gallon on beverages sold by such retailers.*

Lottery Commission: *The state sells lottery games through some 1,350 agents, including state liquor stores, licensed racetracks, and private retail outlets. Through the sale of lottery tickets, revenue is generated for prize payments and commission expenses, with the net income used for aid to education. This net income is transferred to the Education Fund and then transferred to the local school districts.*

New Hampshire Unemployment Trust Fund: *receives contributions from employers and provides benefits to eligible unemployed workers.*

Internal Service Fund: *The employee benefit risk management fund, established in October 2003, reports the health related fringe benefit services for the state. The fund was created to manage the state's new self-insurance program and to pool all resources to pay for the cost associated with providing these benefits to active employees and retirees.*

STATE OF NEW HAMPSHIRE
STATEMENT OF NET ASSETS
PROPRIETARY-ENTERPRISE FUNDS
JUNE 30, 2004
(Expressed in Thousands)

	Business-Type Activities - Enterprise Funds					Governmental Activities
	Turnpike System	Liquor Commission	Lottery Commission	Unemployment Compensation	Total	Internal Service Fund
ASSETS						
Current Assets:						
Cash and Cash Equivalents	$ 29,731	$ 656	$ 4,472	$ 239,402	$ 274,261	$ 3,244
Cash and Cash Equivalents-Restricted	18,010				18,010	
Receivables (Net of Allowances for Uncollectibles)	1,073	5,793	1,166	18,980	27,012	
Due from Other Funds		797			797	
Inventories	388	25,030	585		26,003	
Other Current Assets			56		56	
Total Current Assets	49,202	32,276	6,279	258,382	346,139	3,244
Noncurrent Assets:						
Investments and Deposits-Restricted	34,101		2,334		36,435	
Bond Issue Costs	3,451				3,451	
Capital Assets:						
Land	99,934	2,355			102,289	
Land Improvements		877			877	
Buildings	4,828	12,233			17,061	
Building Improvements		5,672			5,672	
Equipment & Computere Software	23,733	9,141	503		33,377	
Construction in Progress	36,382				36,382	
Infrastructure	533,611				533,611	
Less: Allowance for Depreciation and Amortization	(174,189)	(16,251)	(384)		(190,824)	
Net Capital Assets	524,299	14,027	119		538,445	
Total Noncurrent Assets	561,851	14,027	2,453		578,331	
Total Assets	611,053	46,303	8,732	258,382	924,470	3,244
LIABILITIES						
Current Liabilities:						
Accounts Payable	$ 1,887	$ 26,113	$ 841		$ 28,841	
Accrued Payroll	696	1,013	124		1,833	
Due to Other Funds			2,244		2,244	
Deferred Revenue		2,022	838		2,860	
Unclaimed Prizes			1,927		1,927	
General Obligation Bonds Payable	3,521				3,521	
Revenue Bonds Payable-Restricted	11,385				11,385	
Accrued Interest Payable-Restricted	4,512				4,512	
Claims & Compensated Absences Payable	1,700	931	107		2,738	15,375
Other Liabilities	605			$ 5,080	5,685	
Total Current Liabilities	24,306	30,079	6,081	5,080	65,546	15,375
Noncurrent Liabilities:						
General Obligation Bonds Payable	10,841				10,841	
Revenue Bonds Payable	294,472				294,472	
Claims & Compensated Absences Payable	1,463	2,197	317		3,977	
Other Noncurrent Liabilities		1,120			1,120	
Total Noncurrent Liabilities	306,776	3,317	317		310,410	
Total Liabilities	331,082	33,396	6,398	5,080	375,956	15,375
NET ASSETS						
Invested in Capital Assets, net of related debt	199,682	12,907	119		212,708	
Restricted for Debt Repayments	42,602				42,602	
Restricted for Prize Awards - MUSL			2,334		2,334	
Restricted for Unemployment Benefits				253,302	253,302	
Unrestricted Net Assets (Deficit)	37,687		(119)		37,568	(12,131)
Total Net Assets (Deficit)	$ 279,971	$ 12,907	$ 2,334	$ 253,302	$ 548,514	$ (12,131)

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

STATE OF NEW HAMPSHIRE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN PROPRIETARY-ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Expressed in Thousands)

	Business-Type Activities - Enterprise Funds					Governmental Activities
	Turnpike System	Liquor Commission	Lottery Commission	Unemployment Compensation	Total	Internal Service Fund
OPERATING REVENUES						
Charges for Sales and Services		$ 369,673	$ 239,083	$ 95,942	$ 704,698	$ 118,759
Toll Revenue Pledged for Repaying Revenue Bonds	$ 65,293				65,293	
Total Operating Revenue	65,293	369,673	239,083	95,942	769,991	118,759
OPERATING EXPENSES						
Cost of Sales and Services		268,427	21,204		289,631	
Lottery Prize Awards			137,148		137,148	
Unemployment Insurance Benefits				116,802	116,802	
Insurance Claims						124,547
Administration	29,732	25,758	7,110		62,600	6,343
Depreciation	11,728	1,613	70		13,411	
Total Operating Expenses	41,460	295,798	165,532	116,802	619,592	130,890
Operating Income (Loss)	23,833	73,875	73,551	(20,860)	150,399	(12,131)
NONOPERATING REVENUES (EXPENSES)						
Licenses		3,209			3,209	
Beer Taxes		12,240			12,240	
Investment Income	338		547	13,685	14,570	
Miscellaneous	60	2,093			2,153	
Interest on Bonds	(15,141)				(15,141)	
Grant Contributions	7,338				7,338	
Amortization of Bond Issuance Costs	(215)				(215)	
Total Nonoperating Revenues (Expenses)	(7,620)	17,542	547	13,685	24,154	
Income (Loss) Before Operating Transfers	16,213	91,417	74,098	(7,175)	174,553	(12,131)
Transfers Out to Governmental Funds		(92,075)	(73,745)		(165,820)	
Change in Net Assets	16,213	(658)	353	(7,175)	8,733	(12,131)
Net Assets - July 1 (Restated Lottery Commission-Note 15)	263,758	13,565	1,981	260,477	539,781	
Net Assets (Deficit) - June 30	$ 279,971	$ 12,907	$ 2,334	$ 253,302	$ 548,514	$ (12,131)

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

STATE OF NEW HAMPSHIRE
STATEMENT OF CASH FLOWS
PROPRIETARY-ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Expressed in Thousands)

	Business-Type Activities - Enterprise Funds					Governmental Activities
	Turnpike System	Liquor Commission	Lottery Commission	Unemployment Compensation	Total	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from federal and local agencies				$ 13,366	$ 13,366	
Receipts from customers	$ 65,160	$ 368,181	$ 248,345	79,141	760,827	$ 10,294
Receipts from interfund charges						108,465
Payments to employees	(10,481)	(16,083)	(1,889)		(28,453)	
Payments to suppliers	(15,470)	(281,370)	(11,309)		(308,149)	(6,343)
Payments to prize winners			(160,132)		(160,132)	
Payments for Insurance Claims				(125,534)	(125,534)	(109,172)
Payments for Interfund Services	(2,679)	(2,866)	(545)		(6,090)	
Net cash provided (used) by operating activities	36,530	67,862	74,470	(33,027)	145,835	3,244
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers to Other Funds		(88,965)	(72,069)		(161,034)	
Proceeds from Collection of Licenses and Beer Tax		15,449			15,449	
Net Cash Used for Noncapital and Related Financing Activities		(73,516)	(72,069)		(145,585)	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Acquisition, Disposal and Construction of Capital Assets	(28,191)	(658)	5		(28,844)	
Grant Contributions	7,338				7,338	
Interest Paid on Revenue and General Obligation Bonds	(16,688)				(16,688)	
Principal Paid on Bonds	(12,481)				(12,481)	
Payments on Bond Issuance/Refunding	(3,869)				(3,869)	
Contributions from Other Funds		658			658	
Net Cash Provided (Used) for Capital and Related Financing Activities	(53,891)		5		(53,886)	
CASH FLOWS FROM INVESTING ACTIVITIES						
Sale of Investments	35,247				35,247	
Purchase of Investments	(17,413)				(17,413)	
Proceeds from Maturities of Investments	4,998				4,998	
Interest and Other Income	1,864	2,753	542	13,685	18,844	
Net Cash Provided by Investing Activities	24,696	2,753	542	13,685	41,676	-
Net Increase (Decrease) in Cash and Cash Equivalents	7,335	(2,901)	2,948	(19,342)	(11,960)	3,244
Cash and Cash Equivalents - July 1	40,406	3,557	1,524	258,744	304,231	
Cash and Cash Equivalents -June 30	$ 47,741	$ 656	$ 4,472	$ 239,402	$ 292,271	$ 3,244
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Operating Income (Loss)	$ 23,833	$ 73,875	$ 73,551	$ (20,860)	$ 150,399	$ (12,131)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Depreciation	11,728	1,615	69		13,412	
Change in Operating Assets and Liabilities:						
(Increase) Decrease in Receivables	(132)	(1,689)	2,181	(8,167)	(7,807)	
(Increase) Decrease in Inventories	(126)	(3,226)	105		(3,247)	
(Increase) Decrease in Other Current Assets			58		58	
(Increase) Decrease in Restricted Deposits-MUSL			(353)		(353)	
Increase (Decrease) in Accounts Payable and other Accruals	1,227	(2,910)	(1,026)	(4,000)	(6,709)	
Increase (Decrease) in Claims Payable						15,375
Increase (Decrease) in Deferred Revenue		197	(115)		82	
Net Cash Provided (Used) by Operating Activities	$ 36,530	$ 67,862	$ 74,470	$ (33,027)	$ 145,835	$ 3,244

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

Fiduciary Funds Financial Statements

Pension Trust Funds: New Hampshire Retirement System: *The New Hampshire Retirement System (NHRS) is the administrator of a cost-sharing multiple-employer contributory pension plan and trust established on July 1, 1967, and is intended to meet the requirements of a qualified tax-exempt organization within the meaning of section 401(a) and section 501(a) of the United States Internal Revenue Code. Participating employers include the employees of the state government of New Hampshire, certain cities and towns, all counties, and various school districts. The NHRS is a component unit of the state.*

Private-Purpose Trust Funds: *Private-Purpose Trust Funds report resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments.*

Investment Trust Fund: *The investment trust fund represents the external portion of the New Hampshire Public Deposit Investment Pool (NHPDIP). The NHPDIP has been established, in accordance with RSA 383:22-24, for the purpose of investing funds of the state of New Hampshire, funds under the custody of all governmental units, pooled risk management programs established pursuant to RSA 5-B, agencies, authorities, commissions, boards, political subdivisions, and all other public units within, or instrumentalities of the state of New Hampshire. In accordance with GAAP, the external portion of the NHPDIP is reported as an investment trust fund in the Fiduciary Funds using the economic resources measurement focus and accrual basis of accounting. The internal portion of the pool is reported in the general fund. NHPDIP financial statements can be obtained by contacting NHPDIP at 497 Belknap Mountain Rd, Gilford NH 03249.*

Agency Funds: *Assets received by the state as an agent for other governmental units, other organizations, or individuals are accounted for as agency funds. Payroll taxes collected on behalf of the federal government and employee voluntary deductions for deposit to the State's deferred compensation plan are two of the larger agency funds of the state.*

STATE OF NEW HAMPSHIRE
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2004
(Expressed in Thousands)

	Pension Trust Funds	Private-purpose Trust Funds	Investment Trust Funds	Agency Funds
ASSETS				
Cash and Cash Equivalents	$ 1,601	$ 8,598		$ 8,406
Cash Collateral on Security Lending	390,772			
Total Cash	392,373	8,598		8,406
Receivables:				
Due from Employers	9,226			
Due from State	4,620			
Due from Plan Members	11,178			
Due from Brokers for Securities Sold	170,458			
Interest and Dividends	13,651			
Other	1,549	135	$ 159	
Total Receivables	210,682	135	159	
Investments	4,380,263	9,395	275,072	306,468
Other Assets	5,579			
Total Assets	4,988,897	18,128	275,231	314,874
LIABILITIES				
Securities Lending Collateral	390,772			
Management Fees and Other Payables	6,228		97	
Due to Brokers for Securities Purchased	200,611			
Custodial Funds Payable				314,848
Other Liabilities		58		26
Total Liabilities	597,611	58	97	314,874
Net Assets Held in Trust for Benefits & Other Purposes	$ 4,391,286	$ 18,070	$ 275,134	

RECONCILIATION OF NET ASSETS HELD IN TRUST:			
Employees' Pension Benefits	$ 3,949,350		
Employees' Postemployment Healthcare Benefits	441,936		
Net Assets for Pool Participants in External Investment Pool			$ 275,134
Other Purposes		$ 18,070	
Net Assets Held in Trust for Benefits & Other Purposes	$ 4,391,286	$ 18,070	$ 275,134

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

STATE OF NEW HAMPSHIRE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Expressed in Thousands)

	Pension Trust Funds	Private-purpose Trust Funds	Investment Trust Funds
ADDITIONS			
Contributions:			
Employer	$ 100,805		
State Contributions on Behalf of Local Employers	22,835		
Total Employer Contributions	123,640		
Plan Members	129,087		
Post Retirement Medical Plan Contributions on Behalf of Employers	43,083		
From Participants		$ 18,263	$ 323,067
From Gifts, Bequests, and Endowments		-	
Total Contributions	295,810	18,263	323,067
Investment Income:			
From Investing Activities:			
Net (Depreciation) in Fair Value of Investments	456,341		
Interest Income	52,078	150	
Dividends	35,541		
Alternative Investment Income	6,320		
Commercial Real Estate Operating Income	29,371		
Net Increase in Joint Value from Investment Income			2,275
Total Income from Investing Activities	579,651	150	2,275
Less: Investment Activity Expenses:			
Investment Management Fees	20,910		
Custodial Fees	520		
Investment Advisor Fees	337		
Total Investment Activity Expenses	21,767		
Total Net Income from Investing Activities	557,884	150	2,275
From Securities Lending Activities:			
Security Lending Income	4,229		
Less: Security Lending Borrower Rebates	2,931		
Less: Security Lending Management Fees	389		
Net Income from Securities Lending Activities	909		
Total Net Investment Income	558,793	150	2,275
Asset Transfer from Pension Plan	1,688		
Other	912	1,093	
Total Additions	857,203	19,506	325,342
DEDUCTIONS			
Benefits/Distributions to Participants	299,499	13,254	2,275
Refunds of Contributions	16,781		
Administrative Expense	5,497		
Post Retirement Medical Plan Contributions to Pension Plan on Behalf of Employers	43,083		
Consulting Fees	698		
Asset Transfer to Postretirement Medical Plan	1,688		
Other	352	154	370,059
Total Deductions	367,598	13,408	372,334
Change in Net Assets	489,605	6,098	(46,992)
NET ASSETS HELD IN TRUST FOR BENEFITS & OTHER PURPOSES			
Beginning of the Year	3,901,681	11,972	322,126
End of the Year	$ 4,391,286	$ 18,070	$ 275,134

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

Notes to the Basic Financial Statements

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NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of New Hampshire (the state) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for establishing governmental accounting and financial reporting principles.

A. REPORTING ENTITY

For financial reporting purposes, the state's reporting entity includes all funds, organizations, agencies, boards, commissions, authorities and the state has considered all potential component units for which the state is financially accountable and other organizations for which the nature and significance of their relationship with the state are such that exclusion would cause the state's financial statements to be misleading or incomplete. The criteria to be considered in determining financial accountability include whether the state, as the primary government, has appointed a voting majority of an organization's governing body and (1) has the ability to impose its will on that organization or (2) there is potential for the organization to provide specific financial benefits to or impose specific financial burdens on the state. Financial accountability also exists if an organization is determined to be fiscally dependent on the primary government, although the primary government does not appoint a voting majority of the organization's governing board.

Once financial accountability has been determined for a potential component unit, that component unit is either blended into the primary government or discretely presented from the primary government. Potential component units that do not meet the financial accountability criteria, but where a voting majority of the governing board is appointed by the state, are deemed to be related organizations. The nature and relationship of the state's component units and related organizations are disclosed in the following section.

Discrete Component Units:

Discrete component units are entities, which are legally separate from the state, but for which the state is financially accountable for financial reporting purposes, or whose relationship with the state is such that exclusion would cause the state's financial statements to be misleading or incomplete. Complete audited financial statements of the individual component units can be obtained from the respective entities.

The component unit columns of the government-wide financial statements include the financial data of the following entities:

Major Component Unit

University System of New Hampshire - The University System of New Hampshire (University System) is a body corporate and politic with a governing board of twenty-five members. A voting majority is held by the state through the eleven members appointed by the Governor and Executive Council and three state officials serving as required by law. These state officials are the Governor, the Commissioner of the Department of Education, and the Commissioner of the Department of Agriculture. The remaining board members represent the university and colleges of the system, the alumni, and the student body. The University System funds its operations through tuition and fees, government grants and contracts, auxiliary operations, and state appropriations. USNH financials can be obtained by contacting, USNH at 18 Garrison Avenue, Durham NH 03824.

Non-major Component Units

Business Finance Authority of the State of New Hampshire - The Business Finance Authority (BFA) is a body corporate and politic with a governing board of fourteen members. The board consists of nine members appointed by the Governor with the consent of the Executive Council. The remaining members include two state Representatives, two Senators, and the Treasurer. The state currently guarantees outstanding loans and principal on bonds of the BFA as of June 30, 2004, which creates the potential for the BFA to impose a financial burden on the state. BFA's financials can be obtained by contacting, BFA at 14 Dixon Avenue, Suite 101, Concord NH 03301.

The Community Development Finance Authority - The Community Development Finance Authority (CDFA) is a body corporate and politic organized as a nonprofit corporation under Revised Statutes Annotated (RSA) 292. The governing board of eleven members is made up of the Commissioner of the Department of Resources and Economic Development or designee and ten public members appointed by the Governor and Executive Council as follows: four representatives of community development corporations or other nonprofit organizations engaged in community development activities, one representative of organized labor, two representatives of small business and the financial community, one representative of employment training programs, and two representatives of private financial institutions. An investment tax credit equal to 75 percent of the contribution made to the CDFA during the contributor's tax year is allowed against certain taxes imposed by the state. In accordance with RSA 162-L:10, the total credits allowed shall not exceed $5.0 million in any state fiscal year. CDFA's financials can be obtained by contacting CDFA at, CDFA 14 Dixon Avenue, Suite 101, Concord NH 03301.

Pease Development Authority - The Pease Development Authority (PDA) is a body corporate and politic with a governing body of seven members. Four members are appointed by the Governor and state legislative leadership, and three members are appointed by the city of Portsmouth and the town of Newington. The state currently guarantees outstanding loans and principal on bonds of the PDA and has issued bonds on behalf of the PDA as of June 30, 2004, which creates the potential for the PDA to impose a financial burden on the state. In addition, the state has made several loans to the PDA. PDA's financials can be obtained by contacting PDA at, 360 Corporate Drive, Portsmouth NH 03801.

Pursuant to Chapter 290 Laws of 2001, the New Hampshire State Port Authority, a former department of the primary state government, was transferred to the PDA effective July 1, 2001.

Fiduciary Component Unit:

The state's fiduciary component unit consists of the Pension Trust Fund, which represents the assets and liabilities of the following:

New Hampshire Retirement System - The New Hampshire Retirement System (System) is a contributory pension plan and trust qualified as a tax exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. It is a defined benefit plan providing disability, death, and retirement protection to its members, which include full-time employees of the state and substantially all school teachers, firefighters, and police officers within the state. Full-time employees of political subdivisions may participate if their governing body elects to participate.

> The System is administered by a 13 member board of Trustees on which the state does not represent a voting majority. The Board is fiduciarily responsible for the trust fund's assets and directs the investment of the pension assets, reviews actuarial assumptions and valuations from which the employer contribution rates are certified by the board, and generally supervises the operations of the System.
>
> The System is deemed to be fiscally dependent on the state because the employee member contribution rates are set through state statute, and the state has budget approval authority over the administrative costs of the System.

This component unit is presented in the fiduciary funds, along with other fiduciary funds of the state, and they have been omitted from the states government-wide financial statements.

Related Organizations:

The state is responsible for appointing voting members to the governing boards of the following legally separate organizations, but the state's financial accountability for these organizations does not extend beyond making the appointments. Therefore, the financial data of these entities are excluded from the state's financial statements.

Those organizations are:

- Maine - New Hampshire Interstate Bridge Authority
- New Hampshire Health and Education Facilities Authority
- New Hampshire Housing Finance Authority
- New Hampshire Municipal Bond Bank

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements

The Statement of Net Assets and Statement of Activities report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Primary government activities are distinguished between governmental and business-type activities. Governmental activities are normally supported through taxes and intergovernmental revenues. Business-type activities rely, to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

The *Statement of Net Assets* presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets.

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not meeting the definition of program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenue rather than program revenue. Certain indirect costs are included in program expenses reported for individual functions.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Measurement Focus and Basis of Accounting

The *government-wide financial statements* are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. 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 have been met.

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 both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the state generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences and claims and judgments are recorded only when payment is due.

Proprietary Fund, Fiduciary Funds and Similar Component Units, and Component Unit financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

In reporting proprietary activities, including component units, the state only applies applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, for its business-type activities and enterprise funds, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Financial Statement Presentation

A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to report financial position and the results of operations, to demonstrate legal compliance, and to aid financial management by segregating transactions related to certain government functions or activities.

The state reports the following major governmental funds:

General Fund: The General Fund is the state's primary operating fund and accounts for all financial transactions not accounted for in any other fund.

Highway Fund: The Highway Fund is used to account for the revenues and expenditures used in the construction and maintenance of the state's public highways and the supervision of traffic thereon.

Education Fund: In fiscal year 2000, the Education Trust Fund was created in accordance with Chapter 17:41, Laws of 1999. The fund is non-lapsing and is used to distribute adequate education grants to school districts.

The state reports the following major enterprise funds:

The *Liquor Commission* accounts for the operations of state-owned liquor stores and the sales of all beer and liquor sold in the state.

The *Lottery Commission* accounts for the operations of the state's lottery games.

The *Turnpike System* accounts for the revenues and expenditures used in the construction, maintenance and operations of transportation toll facilities.

The *New Hampshire Unemployment Trust Fund* receives contributions from employers and provides benefits to eligible unemployed workers.

Additionally, the state reports the following fund types:

Governmental Fund Types

Capital Projects Fund - used to account for certain capital improvement appropriations which are or will be primarily funded by the issuance of state bonds or notes, other than bonds and notes for highway or turnpike purposes, or by the application of certain federal matching grants.

Permanent Funds – report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the state or its citizenry.

Proprietary Fund Types

Internal Service Fund - provides services primarily to other agencies or funds of the state, rather than to the general public. These services include health related fringe benefits. The internal service fund was established in October 2003, therefore, only nine months of activity is reflected in the accompanying financial statements. In the government-wide financial statements, internal service funds are included with governmental activities.

Fiduciary Fund Types

Pension (and Other Employee Benefits) Trust Fund – report resources that are required to be held in trust for the members and beneficiaries of the state's defined contribution plan, and post employment benefit plan. The New Hampshire Retirement System is a component unit of the State.

Investment Trust Fund - accounts for the transactions, assets, liabilities and fund equity of the external investment pool.

Private Purpose Trust Funds - report resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments.

Agency Funds - report assets and liabilities for deposits and investments entrusted to the State as an agent for others.

Reporting Periods

The accompanying financial statements of the state are presented as of June 30, 2004, and for the year then ended, except for the following entities: The Community Development Finance Authority (December 31, 2003).

D. CASH EQUIVALENTS

For the purposes of the Statement of Cash Flows, cash equivalents represent short-term investments with original maturities less than three months from the date acquired by the state.

E. INVESTMENTS

Investments are reported at fair value except for investments of the investment trust fund, which are reported at net amortized cost because it qualifies as a 2a7-like pool.

F. RECEIVABLES

Receivables in the government-wide financial statements represent amounts due to the state at June 30, recorded as revenue, which will be collected sometime in the future and consist primarily of accrued taxes and federal grants receivable. In the governmental fund financial statements, taxes receivable are primarily taxpayer-assessed revenues representing amounts owed by the taxpayers, which are received by the state within 60 days after year-end, except for federal grants, which reimburse the state for expenditures incurred pursuant to federally funded programs. Tax revenues are susceptible to accrual in accordance with measurable and available criteria under the modified accrual basis of accounting.

G. INVENTORIES

Inventories for materials and supplies are determined by physical count. The Lottery's game tickets are stated at the lower of cost (first-in, first-out method) or market. All other inventories in the governmental and proprietary funds are stated at average cost.

Governmental fund inventories are recorded under the purchase method. Reported inventory balances in the governmental funds are offset by a fund balance reserve that indicates they do not constitute "available expendable resources".

H. RESTRICTED ASSETS

The proceeds of Turnpike System revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets.

I. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets, whether purchased or constructed, are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

Equipment is capitalized when the cost of individual items exceed $10,000, and all other capital assets are capitalized when the cost of individual items or projects exceed $100,000. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets of the primary government and the component units are depreciated using the straight-line method over the following useful lives:

Equipment	5 years
Buildings	40 years
Building improvements	20 years
Infrastructure	50 years
Computer software	5 years

J. DEFERRED REVENUE

In the government-wide financial statements and the proprietary fund 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. The deferred revenue in the governmental fund types has primarily resulted as an offset to long-term loans receivable and federal funds received in advance of eligible expenditures.

K. COMPENSATED ABSENCES

All full-time state employees in classified service earn annual and sick leave. At the end of each fiscal year, additional leave (bonus days) may be awarded based on the amount of sick leave taken during the year. Accrued compensatory time, earned for overtime worked, must be taken within one year.

The state's compensated absences liability represents the total liability for the cumulative balance of employees' annual, bonus, compensatory, and sick leave based on years of service rendered along with the state's share of social security and retirement contributions. The current portion of the leave liability is calculated based on the characteristics of the type of leave and on a LIFO (last in first out) basis, which assumes employees use their most recent earned leave first. The accrued liability for annual leave does not exceed the maximum cumulative balance allowed which ranges from 32 to 50 days based on years of service. The accrual for sick leave is made to the extent it's probable that the benefits will result in termination payments rather than be taken as absences due to illness. The liability for compensated absences is recorded in the government-wide and proprietary fund financial statements.

In the governmental fund financial statements, liabilities for compensated absences are accrued when they are "due and payable" and recorded in the fund only for employee resignations and retirements that occur before year-end and were paid out after year-end.

L. ENCUMBRANCES

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. Upon receipt of goods or services, the encumbrance is liquidated and the expenditure and liability are recorded. Unliquidated encumbrances are reported in the Reserved for Encumbrances account as a component of fund equity for the governmental fund types.

M. FUND BALANCES

Fund balances for all governmental funds are either reserved or unreserved. Reserved fund balances reflect either 1) assets, which, by their nature, are not available for appropriations (Reserve for Inventories); 2) funds legally segregated for a specific future use (Reserve for Encumbrances); 3) segregated by legal restrictions (Reserve for Permanent Funds). Certain reserve accounts are further described below:

Reserved for Unexpended Appropriations: This account represents amounts of unexpended appropriations legally carried forward and available for encumbrances and expenditures in the succeeding year.

Reserved for Revenue Stabilization: RSA 9:13-e established the Revenue Stabilization account for the purpose of deficit reduction. As amended by Chapter 158:41, Laws of 2001, at the close of each fiscal biennium, any General Fund undesignated fund balance, remaining after Education Trust Fund transfer, is distributed to the Revenue Stabilization account. The maximum balance that may accumulate in the account is limited to 10% of the General Fund unrestricted revenue. The account may not be used for any other purpose without specific approval by two-thirds of each house of the Legislature and the Governor.

In the event of a General Fund undesignated fund balance deficit at the close of a fiscal biennium, a transfer from the Reserved for Revenue Stabilization account may be made only if the General Fund's unrestricted revenues are less than budgeted. The amount of the transfer is limited to the smaller of the General Fund undesignated fund balance deficit or the unrestricted revenue shortfall. Further, Chapter 319:33, Laws of 2003 authorized a transfer from this account to the General Fund in the event of a General Fund deficit at the close of fiscal year 2003. At June 30, 2004, there were no transfers to or from the revenue stabilization account. Therefore the balance remained at $17.3 million.

N. CAPITAL OUTLAYS

Capital outlays represent equipment purchases for all funds. In addition to equipment purchases, the Highway Fund's capital outlays represent expenditures for the 10-year state capital highway construction program.

O. BOND DISCOUNTS, PREMIUMS AND ISSUANCE COSTS

In the government-wide and proprietary fund financial statements, bond discounts/premiums and issuance costs are deferred and amortized over the term of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issue costs are reported as deferred charges.

In the fund financial statements, governmental fund types recognize bond discounts, premiums, and issuance costs in the period the bond proceeds are received. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as expenditures.

P. REVENUES AND EXPENDITURES/EXPENSES

In the government-wide Statement of Activities, revenues and expenses are segregated by activity (governmental or business-type), then further by function (e.g. general government, education, etc.). Additionally, revenues are classified between program and general revenues. Program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues, rather than as program revenue. General revenues include all taxes. Certain indirect costs are included in the program expenses reported for individual functions.

In the governmental fund financial statements, revenues are reported by source. For budgetary control purposes, revenues are further classified as either "general purpose" or "restricted". General purpose revenues are available to fund any activity accounted for in the fund. Restricted revenues are, either by state law or by outside restriction (e.g. federal grants), available only for specified purposes. Unused restricted revenues at year end are recorded as reservations of fund balance. When both general purpose and restricted funds are available for use, it is the state's policy to use restricted resources first.

In the governmental fund financial statements, expenditures are reported by character: "Current", "Debt Service" or "Capital Outlay." Current expenditures are subclassified by function and are for items such as salaries, grants, supplies and services. Debt service includes both interest and principal outlays related to bonds. Capital outlay includes expenditures for real property or infrastructure (e.g. highways).

Revenues and expenses of proprietary funds are classified as operating or nonoperating and are subclassified by object (e.g. administration and depreciation). Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as nonoperating.

Other Financing Sources (Uses) – these additions to and reductions from governmental resources in fund financial statements normally result from transfers from/to other funds and include financing provided by bond proceeds. Legally required transfers are reported when incurred as "Operating Transfers In" by the receiving fund and as "Operating Transfers Out" by the disbursing fund.

Reimbursements - Various departments charge fees on a user basis for such services as centralized data processing, accounting and auditing, purchasing, personnel, and maintenance and telecommunications. These transactions, when material, have been eliminated in the government-wide and governmental fund financial statements.

Q. INTERFUND ACTIVITY AND BALANCES

Interfund Activity – As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities (e.g. transfers of profits from the Liquor Commission to General Fund and the Sweepstakes Commission to the Education Fund) and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets (such as goods or cash) without equivalent flows of assets in return or a requirement for repayment. In addition, transfers are recorded when a fund receiving revenue provides it to the fund which expends the resources.

Interfund Balances – Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

R. CAPITAL PROJECTS

The state records the resources obtained and used for the acquisition, construction, or improvement of certain capital facilities in the Highway Fund and the Capital Projects Fund. Encumbrances are recorded when contracts are executed. Expenditures are recorded when incurred and encumbrances are liquidated at that time.

Resources obtained to finance capital projects include federal grants and general obligation bonds. General obligation bonds are recorded as liabilities and as other financing sources in the funds that receive the proceeds.

S. BUDGET CONTROL AND REPORTING

The Statutes of the State of New Hampshire require the Governor to submit a biennial budget to the Legislature for adoption. This budget, which includes a separate budget for each year of the biennium, consists of three parts: Part I is the Governor's program for meeting all expenditure needs and estimating revenues. There is no constitutional or statutory requirement that the Governor, propose or the Legislature adopt a budget that does not resort to borrowing. Part II is a detailed breakdown of the budget at the department level for appropriations to meet the expenditure needs of the government. Part III consists of draft appropriation bills for the appropriations made in the proposed budget.

The operating budget is prepared principally on a modified cash basis and adopted for the governmental and proprietary funds, with the exception of the Capital Projects Fund. The Capital Projects Fund budget represents individual projects that extend over several fiscal years. Since the Capital Projects Fund comprises appropriations for multi-year projects, it is not included in the budget and actual comparisons statement. Fiduciary funds are not budgeted.

In addition to the enacted biennial operating budget, the Governor may submit to the Legislature supplemental budget requests necessary to meet expenditures during the current

biennium. Appropriation transfers can be made within a department without the approval of the Legislature; therefore, the legal level of budgetary control is at the departmental level.

Both, the Executive, and Legislative Branches of government maintain additional fiscal control procedures. The Executive Branch, represented by the Commissioner of the Department of Administrative Services, is directed to continually monitor the State's financial operations, needs, and resources, and to maintain an integrated financial accounting system. The Legislative Branch, represented by the Fiscal Committee, the Joint Legislative Capital Budget Overview Committee, and the Office of the Legislative Budget Assistant, monitors compliance with the budget and the effectiveness of budgeted programs.

Unexpended balances of appropriations at year end will lapse to undesignated fund balance and be available for future appropriations unless they have been encumbered or legally defined as non-lapsing, which means the balances are reported as reservation of fund balance. The balance of unexpended encumbrances are brought forward into the next fiscal year. Capital Projects Fund unencumbered appropriations lapse in two years unless extended or designated as non-lapsing by law.

Budget to Actual Comparisons and additional budgetary information are included as Required Supplementary Information.

T. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

PRIMARY GOVERNMENT

The state pools cash and investments except for separate cash and investment accounts maintained in accordance with legal restrictions. Each fund's equity share of the total pooled cash and investments and restricted assets is included on the combined balance sheet under the captions "Cash and Cash Equivalents" and "Investments".

Deposits: The following statutory requirements and Treasury Department policies have been adopted to minimize risk associated with deposits.

RSA 6:7 establishes the policy the state Treasurer must adhere to when depositing public monies. The statute restricts deposits to national banks, trust companies, and savings banks within the United States that have a branch in the state of New Hampshire. In addition, all depositories used by the state must be approved at least annually by the Governor and Executive Council.

RSA Chapter 6-B:2 requires the state Treasurer to submit quarterly financial reports to the Governor and Executive Council, the Commissioner of Administrative Services, and the Legislative Fiscal Committee.

The Treasury Department examines the financial condition of its depositories quarterly. The state Treasurer is not required to collateralize bank deposits. Nevertheless, during fiscal year 2003, the Treasury Department collateralized deposits at one of its major depositories.

Investments: The following statutory requirements and Treasury Department policies have been adopted to ensure reasonable rates of return on investments while minimizing risk factors.

RSA Chapter 6:8 sets the policies the state Treasurer must adhere to when investing state funds. Subject to Governor and Council approval, the Treasurer must invest in certain types of investments. Those investments include obligations of the United States government or local governments within New Hampshire, savings accounts and legal investments for savings banks and trust companies, participation units in the public deposit investment pool, and certificates of deposit of state or federally chartered banks within New Hampshire or national banks in Massachusetts.

The financial condition of each bank in which or through which investments are made is evaluated by the Treasury Department on a quarterly basis. Banks through which repurchase agreements are written maintain their collateral in an investment book entry account with the Federal Reserve. That collateral is not separate from the banks' assets. However, securities used for collateral are segregated from the banks' investment accounts and are kept free of liens, charges, or claims of third parties. The state Treasurer is prohibited by statute from entering into reverse repurchase agreements.

Some United States Government Obligations are classified as cash and cash equivalents on the balance sheet because their original maturities are less than three months. For purposes of the notes to the financial statements, United States Government Obligations are categorized as investments in accordance with GAAP.

New Hampshire Public Deposit Investment Pool (NHPDIP): The NHPDIP has been established, in accordance with RSA 383:22-24, for the purpose of investing funds of the state of New Hampshire, funds under the custody of all governmental units, pooled risk management programs established pursuant to RSA 5-B, agencies, authorities, commissions, boards, political subdivisions, and all other public units within, or instrumentalities of the state of New Hampshire. In accordance with GAAP, the external portion of the NHPDIP is reported as an investment trust fund in the Fiduciary Funds using the economic resources measurement focus and accrual basis of accounting. The internal portion of the pool is reported in the general fund. NHPDIP financial statements can be obtained by contacting NHPDIP at 497 Belknap Mountain Rd, Gilford NH 03249.

The balances of the state's deposit accounts at June 30, 2004, listed by custody risk category, are shown in the following schedule. The total bank balance represents the total amounts on deposit as reported by the banks. The carrying amount represents the balances on the state's records. The principal difference in demand deposits is outstanding checks which have not cleared the bank as of June 30, 2004 (expressed in thousands):

Description:	Categories 1	Categories 2	Categories 3	Total Bank Balance	Carrying Amount
Pooled Deposits:					
Demand Deposits (Interest Bearing)	$ 339	$ 43,434	$ 7,075	$ 50,848	$ (2,143)
Money Market Accounts	200	166,118	37	166,355	166,356
Savings Accounts	100		1,497	1,597	1,597
Certificates of Deposit	-		14,096	14,096	14,096
Sub Total	$ 639	$ 209,552	$ 22,705	$ 232,896	$ 179,906
Restricted Deposits:					
Demand Deposits	208	12,777	26	13,011	13,011
Money Market Accounts		22,110	61	22,171	22,171
Certificates of Deposit			5,000	5,000	5,000
Sub Total	208	34,887	5,087	40,182	40,182
Total Deposits	$ 847	$ 244,439	$ 27,792	$ 273,078	$ 220,088

Category 1 Fully insured or collateralized with securities held by the state or its agent in the state's name.
Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in the state's name.
Category 3 Uncollateralized.

In accordance with GAAP, investments are classified as to custody risk by the three categories described below (expressed in thousands):

Description:	Categories 1	Categories 2	Categories 3	Fair Value
Pooled Investments:				
Stocks and Bonds			296,437	296,437
Repurchase Agreements		123,127		123,127
United States Government Obligations			106,126	106,126
Sub Total		$ 123,127	$ 402,563	$ 525,690
Restricted Investments:				
United States Government Obligations		19,308		19,308
Sub Total	$ -	$ 19,308	$ -	$ 19,308
Uncategorized:				
United States Government Obligations:				
(Funds on deposit in the Federal Unemployment Trust Fund)				239,402
(Funds on deposit at MUSL) - Restricted				2,334
Open-ended Mutual Funds				324,904
Sub total				566,640
Total Investments				$ 1,111,638

Category 1 Insured or registered in the State's name, or securities held by the state or its agent in the state's name.
Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the state's name.
Category 3 Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the state's name.

Reconciliation Between Financial Statements and Footnote

		Unrestricted Cash and Cash Equivalents	Unrestricted Investments	Restricted Cash and Cash Equivalents	Restricted Investments	Total
Per Statement of Net Assets	Primary Government	$ 649,163	$ 31,048	$ 18,010	$ 36,435	$ 734,656
Per Statement of Fiduciary Net Assets	Private Purpose	8,598	9,395			17,993
	Investment Trust		275,072			275,072
	Agency Funds	8,406	306,468			314,874
	Total per Financial Statements	**$ 666,167**	**$ 621,983**	**$ 18,010**	**$ 36,435**	**$ 1,342,595**

Per Footnote	
Cash On Hand	$ 10,869
Carrying Amount of Deposits	220,088
Investments at Fair Value	836,566
Investments at Amortized Cost	275,072
Total Per Footnote	**$ 1,342,595**

MAJOR COMPONENT UNIT (University System of New Hampshire)

Levels of Risk of Cash and Cash Equivalents (expressed in thousands):

	Categories			Total	Carrying
	1	2	3	Bank	Amount
Deposits:					
Cash & Repurchase Agreements			$ 11,512	$ 11,512	$ 11,512
Money Market Fund			61,418	61,418	61,418
Commercial Paper				0	1,993
Total Deposits			$ 72,930	$ 72,930	$ 74,923

Category 1 Fully insured or collateralized with securities held by the state or its agent in the state's name.
Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in the state's name.
Category 3 Uncollateralized.

Level of Risk for Investments (Expressed in Thousands):

	Categories			Fair
Investments:	1	2	3	Value
Stocks and Bonds	$ 53,222		$ 73,693	$ 126,915
Subtotal	53,222		73,693	126,915
Uncategorized:				
Money Market Funds				36,756
Mutual Funds				83,760
Equities				24,626
U.S. Government Obligations				1,253
Investments Held by Others				18,012
Subtotal				164,407
Total Investments	$ 53,222		$ 73,693	$ 291,322

Category 1 Insured or registered in the state's name, or securities held by the state or its agent in the state's name.
Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the state's name.
Category 3 Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the state's name.

3. RECEIVABLES

The following is a breakdown of receivables at June 30, 2004 (expressed in thousands):

	Governmental	Business-Type	Total	Major Component Unit
Short Term Receivables				
Taxes:				
Meals and Rooms	$ 21,223		$ 21,223	
Business Taxes	119,165		119,165	
Tobacco	5,904		5,904	
Estate and Legacy	2,000		2,000	
Real Estate Transfer	17,430		17,430	
Interest & Dividends	10,373		10,373	
Communications	6,455		6,455	
Utility Property Tax	10,250		10,250	
Gasoline Road Toll	11,539		11,539	
Beer		$ 1,186	1,186	
Subtotal	204,339	1,186	205,525	
Other Receivables:				
Turnpike System		1,073	1,073	
Liquor Commission		4,607	4,607	
Lottery Commission		1,166	1,166	
Unemployment Trust Fund		23,559	23,559	
Board and Care	1,484		1,484	
Federal Grants	187,158		187,158	$ 15,284
Local Grants	56,819		56,819	
Miscellaneous	46,877		46,877	11,174
Short Term Portion Of State Revolving Loan Fund	14,000		14,000	
Short Term Portion Of Note/Pledge Receivable				3,855
Subtotal	306,338	30,405	336,743	30,313
Total Current Receivables (Gross)	510,677	31,591	542,268	30,313
Long Term Receivables				
State Revolving Loan Fund	203,949		203,949	
Note/Pledge Receivable				23,227
Total Long Term Receivables (Gross)	203,949		203,949	23,227
Allowance for Doubtful Accounts	(50,180)	(4,579)	(54,759)	(3,231)
Total Receivables (Net)	$ 664,446	$ 27,012	$ 691,458	$ 50,309

State Revolving Loan Fund:

Primary Government: As of June 30, 2004, total water pollution control loans outstanding amounted to $217.9 million were recorcorded in the state's general fund. This amount was offset by a corresponding amount of deferred revenue. The state Water Pollution Control Revolving Loan Fund ("State Revolving Fund"), established by RSA 486:14, provides loans and other assistance to local communities for financing waste water treatment facilities. The State Revolving Fund was authorized through the Federal Clean Water Act of 1988 and was initially funded through a federal capitalization grant program to states which requires state matching funds equal to 20% of the capitalization grant funding. Principal and interest payments on the loans will occur over a period not to exceed 20 years and will be credited directly to the State Revolving Fund, enabling the fund balance to be available in perpetuity.

Major Component Unit: The component unit balance is University System of New Hampshire Perkins Loans and other college and university loans of $50.3 million.

Deferred Revenue:

Primary Government: Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. As of June 30, 2004, the various components of deferred revenue ($397.7 million) reported in the governmental funds were as follows:

	Unavailable	Unearned
Taxes & Fees receivable	$ 94,026	
Loans receivable	260,015	$ 2,235
Federal/Local receivables	4,359	2,507
Receipts in advance of eligibility requirements		34,590
Total	$ 358,400	$ 39,332

4. CAPITAL ASSETS

Capital Asset activity for the year ended June 30, 2004, was as follows (expressed in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets not being depreciated:				
Land & Land Improvements	$ 285,448	$ 44,940	$ (649)	$ 329,739
Construction in Progress	180,807	72,745	(38,366)	215,186
Work in Progress Computer Software	1,641	3,747	(1,330)	4,058
Total Capital Assets not being depreciated	467,896	121,432	(40,345)	548,983
Other Capital Assets:				
Equipment & Computer Software	134,618	31,954	(7,535)	159,037
Buildings & Building Improvements	484,240	8,863	(44)	493,059
Land Improvements	94,499	862		95,361
Infrastructure	2,503,567	28,274		2,531,841
Total Other Assets	3,216,924	69,953	(7,579)	3,279,298
Less accumulated depreciation for:				
Equipment & Computer Software	(98,316)	(22,411)	7,977	(112,750)
Buildings & Building Improvements	(225,957)	(12,934)	206	(238,685)
Land Improvements	(71,710)	(2,300)	11	(73,999)
Infrastructure	(1,509,777)	(36,172)		(1,545,949)
Total Accumulated Depreciation	(1,905,760)	(73,817)	8,194	(1,971,383)
Other Capital Assets, Net	1,311,164	(3,864)	615	1,307,915
Governmental Activities Capital Assets, Net	$ 1,779,060	$ 117,568	$ (39,730)	$ 1,856,898
Business-Type Activities:				
Turnpike:				
Capital Assets not being depreciated:				
Land & Land Improvements	$ 93,352	$ 6,675	$ (93)	$ 99,934
Construction in Progress	44,595	15,310	(23,523)	36,382
Work In Progress Computer Software		8,498		8,498
Capital Assets not being depreciated	137,947	30,483	(23,616)	144,814
Other Capital Assets:				
Equipment	15,208	402	(375)	15,235
Buildings & Building Improvements	4,786	42		4,828
Infrastructure	510,088	23,523		533,611
Total Capital Assets	668,029	54,450	(23,991)	698,488
Less accumulated depreciation for:				
Equipment	(13,715)	(912)	374	(14,253)
Buildings & Building Improvements	(2,454)	(73)		(2,527)
Infrastructure	(146,666)	(10,743)		(157,409)
Total Accumulated Depreciation	(162,835)	(11,728)	374	(174,189)
Turnpike Capital Assets, Net	$ 505,194	$ 42,722	$ (23,617)	$ 524,299
Liquor:				
Capital Assets not being depreciated:				
Land & Land Improvements	$ 2,055	$ 300		$ 2,355
Other Capital Assets:				
Equipment	9,041	$ 156	$ (56)	9,141
Buildings & Building Improvements	17,612	293		17,905
Land Improvements	876	1		877
Total Capital Assets	29,584	750	(56)	30,278
Less accumulated depreciation for:				
Equipment	(6,485)	(999)	54	(7,430)
Buildings & Building Improvements	(7,595)	(593)		(8,188)
Land Improvements	(612)	(21)		(633)
Total Accumulated Depreciation	(14,692)	(1,613)	54	(16,251)
Liquor Capital Assets, Net	$ 14,892	$ (863)	$ (2)	$ 14,027
Lottery Commission:				
Equipment	$ 520		$ (17)	$ 503
Less Accumulated Depreciation for Equipment:	(331)	(70)	17	(384)
Lotterys Capital Assets, Net	$ 189	$ (70)	$ -	$ 119

Current period depreciation expense was charged to functions of the primary government as follows (expressed in thousands):

Governmental Activities:	
General Government	$ 3,141
Administraton of Justice and Public Protection	11,333
Resource Protection and Development	5,203
Transportation	43,597
Health and Social Services	8,025
Education	2,518
Total Governmental Activities Depreciation Expense	$ 73,817

In accordance with GAAP, interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. In fiscal year 2004, net interest cost capitalized in the Turnpike System Enterprise Fund amounted to $1.6 million ($1.9 million interest expense offset by $.3 million interest income).

The state possesses certain capital assets that have not been capitalized and depreciated, these assets include works of art and historical treasures such as statues, monuments, paintings and miscellaneous capitol-related artifacts and furnishings. These collections meet all of the following criteria.

A. Held for public exhibition, education, or research in furtherance of public service, rather than financial gain.
B. Protected, kept unencumbered, cared for, and preserved.
C. Subject to an organizational policy that required the proceeds from the sales of collection items to be used to acquire other items for the collection.

Major Component Unit: The following is a rollforward of Capital Assets for the University of New Hampshire, (Expressed in Thousands):

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	$ 9,864	$ 272	$ (19)	$ 10,117
Building and Building Improvements	677,156	87,865		765,021
Equipment	114,377	15,498	(12,256)	117,619
Construction in Progress	78,264	(41,058)		37,206
Subtotal	$ 879,661	$ 62,577	$ (12,275)	$ 929,963
Less: Accumulated Depreciation	(376,085)	(30,910)	10,913	(396,082)
Total	$ 503,576	$ 31,667	$ (1,362)	$ 533,881

5. LONG TERM-DEBT

PRIMARY GOVERNMENT

Bonds Authorized and Unissued: Bonds authorized and unissued amounted to $345 million at June 30, 2004. The proceeds of the bonds will be applied to the following funds when issued (expre ssed in thousands):

Capital Projects Fund	$ 209,345
Turnpike System	135,650
Total	$ 344,995

Turnpike System: The Legislature has established a 10-year highway construction and reconstruction plan for the Turnpike System to be funded from Turnpike revenues. This legislation also authorized the Governor and Executive Council to issue up to $586 million of revenue bonds to support this project. The state has issued $395 million of revenue bonds for this project.

Advance Refunding: The following is a summary of general obligation bonds and revenue bonds defeased by the primary government. The proceeds from each advance refunding issue were placed in an irrevocable trust to provide for all future debt service payments on the old bonds.

Accordingly, the trust account assets and the liability for the defeased bonds are not included in the state's financial statements (expressed in thousands):

Date of Advance Refunding	Amount Outstanding at June 30, 2004
Governmental Fund Types (General Obligation Bonds):	
December 19, 1996	$ 14,400
December 11, 1998	18,745
August 1, 2002	14,910
Subtotal	48,055
Turnpike System (Revenue Bonds):	
January 1991	27,000
Total	$ 75,055

Turnpike System Refunding Bonds: In August 2003 the state issued $94.1 million of Turnpike System refunding bonds. The interest rates on these bonds range from 2.0% to 5.0%. These bonds were used to refund $94.5 million of defeased revenue bonds. This refunding transaction resulted in a cash savings of $7.6 million over the next 20 years and a long-term economic gain (or present value savings) of $4.7 million.

Changes in Long-Term Liabilities: The following is a summary of the changes in the long-term liabilities for bonds, compensated absences, and uninsured claims as reported by the primary government during the fiscal year (expressed in thousands):

Governmental Activities	Beginning Balance	Accretion	Increases	Decreases	Ending Balance	Current	Long-Term
General Obligation Bonds Payable	$ 611,078	$ 7,857	$ 83,417	$ 68,222	$ 634,130	$ 68,192	$ 565,938
Bond Anticipation Notes	50,000		50,000	50,000	50,000	50,000	
Compensated Absences	61,147		43,392	43,628	60,911	17,782	43,129
Claims Payable	27,627		133,003	116,075	44,555	16,380	28,175
Catastrophic Medicaid Payments			14,500		14,500		14,500
Capital Lease	8,162		134	834	7,462		7,462
Total Governmental	$ 758,014	$ 7,857	$ 324,446	$ 278,759	$ 811,558	$ 152,354	$ 659,204
Business-Type Activities							
Turnpike System							
General Obligation Bonds	$ 18,383			$ 4,021	$ 14,362	$ 3,521	$ 10,841
Revenue Bonds	313,644		$ 94,711	102,498	305,857	11,385	294,472
Claims & Compensated Absences Payable	2,865		1,301	1,003	3,163	1,700	1,463
Total	$ 334,892		$ 96,012	$ 107,522	$ 323,382	$ 16,606	$ 306,776
Liquor Commission							
Capital Lease	$ 1,327			$ 207	$ 1,120		$ 1,120
Claims & Compensated Absences Payable	3,192		$ 1,807	1,871	3,128	$ 931	2,197
Total	$ 4,519		$ 1,807	$ 2,078	$ 4,248	$ 931	$ 3,317
Lottery Commission							
Claims & Compensated Absences Payable	$ 438		$ 263	$ 277	$ 424	$ 107	$ 317
Total	$ 438		$ 263	$ 277	$ 424	$ 107	$ 317
Total Business-Type	$ 339,849		$ 98,082	$ 109,877	$ 328,054	$ 17,644	$ 310,410

General Obligation Bonds: On December 9, 2003, the state issued $80.0 million of general obligation capital improvement bonds. The interest rates on these general bonds range from 2.0% to 5.0%.

Bond Anticipation Notes: The state issues bond anticipation notes in advance of issuing general obligation bonds. The proceeds are deposited into the capital fund to fund various capital outlay projects. At June 30, 2004, the state had $50 million of notes outstanding.

Capital Appreciation Bonds: Six of the state's general obligation capital improvement bonds issued since November 1990 represent capital appreciation bonds (College Savings Bond Program) with interest being accrued and compounded semiannually. At June 30, 2004, the cumulative interest accretion since issuance for all six capital appreciation bonds is approximately $113.5 million. The interest is not paid until the bonds mature, at which time the expenditure will be recorded.

Debt Maturity: All bonds issued by the state, except for Turnpike revenue bonds, are general obligation bonds, which are backed by the full faith and credit of the state. Interest rates on these issues range from 2.0% to 7.2%. Debt service payments on "self-liquidating" debt are funded by reimbursements from component units for debt issued by the state on their behalf and through user fees and other revenues statutorily earmarked to fund debt service payments on specific projects. The anticipated source of repayment and annual maturities are as follows (expressed in thousands):

	SOURCE OF PRINCIPAL PAYMENTS						DEBT SERVICE		
	Governmental Activities				Business-Type Activities		TOTAL ALL FUNDS		
					Turnpike System				
Payable June 30,	General Fund	Highway Fund	Self Liquidating	Total	General Obligation	Revenue	Principal	Interest	Total
2005	$ 58,007	$ 4,515	$ 5,670	$ 68,192	$ 3,521	$ 11,385	$ 83,098	$ 38,351	$ 121,449
2006	55,560	4,596	5,814	65,970	3,682	10,900	80,552	35,678	116,230
2007	52,154	4,592	5,755	62,501	2,643	11,835	76,979	33,053	110,032
2008	50,859	4,259	5,698	60,816	1,509	12,130	74,455	30,143	104,598
2009	51,289	4,278	5,730	61,297	1,474	13,010	75,781	27,494	103,275
2010-2014	176,673	13,363	22,172	212,208	1,208	74,960	288,376	98,628	387,004
2015-2019	82,920	5,547	7,320	95,787		89,610	185,397	49,887	235,284
2020-2024	31,559	2,285	2,956	36,800		60,060	96,860	17,483	114,343
2025-2029						25,885	25,885	3,946	29,831
2030-2034									
Subtotal	$ 559,021	$ 43,435	$ 61,115	$ 663,571	$ 14,037	$ 309,775	$ 987,383	$ 334,663	$ 1,322,046
Unamortized Discount / Premium	(18,434)	(3,551)	(1,620)	(23,605)	325	6,844	(16,436)		(16,436)
Unamortized Loss on Refunding	(5,836)			(5,836)		(10,762)	(16,598)		(16,598)
Total	$ 534,751	$ 39,884	$ 59,495	$ 634,130	$ 14,362	$ 305,857	$ 954,349	$ 334,663	$ 1,289,012

MAJOR COMPONENT UNIT

Changes in Long-Term Liabilities: The following is a summary of the changes in the long-term liabilities as reported by the University of New Hampshire during the fiscal year (expressed in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance	Current	Long-Term
University System of NH.....	$ 298,952	$ 19,294	$ 3,247	$ 314,999	$ 13,954	$ 301,045

	UNIVERSITY SYSTEM OF N.H.		
Payable June 30,	Principal	Interest	Total
2005.....	$ 6,175	$ 10,202	$ 16,377
2006.....	6,041	11,723	17,764
2007.....	7,180	10,422	17,602
2008.....	7,347	10,079	17,426
2009.....	7,343	9,728	17,071
2010-2014.....	38,433	43,277	81,710
2015-2019.....	45,772	32,581	78,353
2020-2024.....	46,677	19,939	66,616
2025-2029.....	27,294	10,382	37,676
2030-2034.....	28,460	3,791	32,251
Subtotal.....	220,722	162,124	382,846
Unamortized Discount....	(69)		(69)
Total.....	$ 220,653	$ 162,124	$ 382,777

The University System of New Hampshire's long-term liabilities include: Revenue Bonds Payable of $192.8 million; accrued employee benefits and compensated absences of $67.6 million; and other liabilities of $46.8 million.

Debt Maturity: The following is a summary of the annual principal payments and total debt service relating to the long-term debt of the University of New Hampshire (expressed in thousands):

6. RISK MANAGEMENT AND INSURANCE

The state is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health benefits; and natural disasters. The state primarily retains the risk of loss except where the provisions of law allow for the purchase of commercial insurance or where commercial insurance has been proven beneficial for the general public. There are approximately 30 such commercial insurance programs in effect, which include fleet automobile liability, ski area liability for Cannon Mountain, and a faithful performance position schedule bond. Settled claims under these insurance programs have not exceeded commercial insurance coverage in any of the last three years.

During fiscal year 2004, the state established an Employee Benefit Risk Management Fund, an internal service fund, to account for its uninsured risks of loss related to employee and retiree health benefits. Under this program, the Fund provides coverage for up to a maximum of $0.5 million for each employee per year. The state has purchased commercial insurance for claims in excess of coverage provided, as well as, aggregate stop loss liability coverage set at 125% of the state's total expected claims per contract year.

Claim liabilities not covered by commercial insurance are recorded when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The balance of claims liabilities is determined by an analysis of past, current, and future estimated loss experience. Because actual claims liabilities depend on such factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability may not result in an exact amount. Claims liabilities are evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

The following table presents the changes in claim liabilities during the fiscal year ending June 30, 2004 (In Thousands):

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance	Current	Long-Term
Workers Compensation Claims Payable.....	$ 27,627	$ 7,118	$ 5,565	$ 29,180	$ 1,005	$ 28,175
Health Claims Payable*.....	-	125,885	110,510	15,375	15,375	-
Total.....	$ 27,627	$ 133,003	$ 116,075	$ 44,555	$ 16,380	$ 28,175
Business-Type Activities						
Turnpike System						
Workers Compensation Claims Payable.....	$ 1,949	707	351	$ 2,305	$ 1,450	$ 855
Total.....	$ 1,949	$ 707	$ 351	$ 2,305	$ 1,450	$ 855
Liquor Commission						
Workers Compensation Claims Payable.....	$ 1,350	543	$ 557	$ 1,336	$ 408	928
Total.....	$ 1,350	$ 543	$ 557	$ 1,336	$ 408	$ 928
Lottery Commission						
Workers Compensation Claims Payable.....	$ 54	$ 5	$ 2	$ 57	$ -	$ 57
Total.....	$ 54	$ 5	$ 2	$ 57	$ -	$ 57
Total Business-Type.....	$ 3,353	$ 1,255	$ 910	$ 3,698	$ 1,858	$ 1,840

* Health Claims Payable is recorded in the Internal Service Fund

7. INTERFUND RECEIVABLES AND PAYABLES

Due From or To Other Funds for the primary government on the fund financial statements represent amounts related to year end transfers of surplus or profits between intragovernmental entities or funds and consist of the following as of June 30, 2004 (expressed in thousands):

RECEIVABLES	AMOUNT	PAYABLES	AMOUNT
General Fund	$ 7,871	Education Fund	$ 7,871
Education Fund	2,244	Lottery Commission	2,244
Liquor Commission	797	General Fund	797
Total	$ 10,912	Total	$ 10,912

The net due from or to other funds for the primary government has been reported as "internal balances" in the government-wide financial statements. The net amount of $1.4 million (governmental payable of $0.8 million less business-type receivable of $2.2 million) represents the "internal balances" amount on the statement of net assets. The $7.9 million is between governmental funds and has been eliminated on the government-wide financial statement.

Due from Component Units: As of June 30, 2004, the cumulative balance of outstanding loans plus accrued interest to the Pease Development Authority (PDA) amounted to $38.0 million. The balance has been offset by a corresponding amount of deferred revenue in the General Fund Financial Statements.

The state has issued general obligation bonds to finance certain capital projects for the University System of New Hampshire (University System). As of June 30, 2004, the outstanding balance of these bonds was $4.0 million. The state is reimbursed for the debt service payments from the University System as the payments are due. This receivable is classified as "Due from Component Units" and "Deferred Revenue" in the State's General Fund Financial Statements.

8. INTERFUND TRANSFERS

Interfund transfers during the current fiscal year were as follows (expressed in thousands):

	Transferred To			
Transferred From	General Fund	Education Fund	Non-Major Funds	Total Governmental Fund
Governmental Funds				
General Fund		$ 62,590		$ 62,590
Education Fund	$ 7,871			7,871
Highway Fund	851		$ 851	1,702
Non-Major Funds	3,295			3,295
Total Governmental Funds	* 12,017	* 62,590	* 851	* 75,458
Proprietary - Enterprise Funds				
Liquor Commission	92,075			92,075
Lottery Commission		73,745		73,745
Total Proprietary - Enterprise Funds	$ 92,075	$ 73,745		$ 165,820

*These Amounts have been eliminated within governmental activities on the government-wide financial statements.

The following transfers represent sources of funding identified through the state's operating budget:

- $62.6 million appropriated from general fund to fund education, $7.9 million returned to eliminate education fund surplus
- Transfer of Lottery Commission profits of $73.7 million to fund education
- Transfer of Liquor Commission profits of $92.1 million to general fund for government operations

Pursuant to RSA 260:60, $1.7 million of unrefunded gas tax in the highway fund was transferred on a 50/50 basis to the general and fish & game funds.

9. UNDESIGNATED FUND BALANCE (DEFICIT) and CONTRACTUAL COMMITMENTS

Highway Fund: The Highway Fund unreserved, undesignated deficit was $9.5 million as of June 30, 2004. The deficit exists primarily because certain multi-year Highway infrastructure construction projects are appropriated from current year fund balance.

Capital Projects Fund: The June 30, 2004, unreserved, undesignated deficit of the Capital Projects Fund was $207.2 million. The Capital Projects Fund accounts for multi-year capital projects which will be primarily financed by bond proceeds. The project costs are appropriated when the project is approved. Bonds are issued as the expenditures are expected to be incurred. As of June 30, 2004, bonds authorized and unissued for the Capital Projects Fund amounted to $209.3 million.

Internal Service Fund: The June 30,2004 unreserved, undesignated deficit of the Internal Service Fund was $12.1 million. The Internal Service Fund accounts for risk management and health related fringe benefits for state employees and retirees. The deficit is largely attributable to an actuarially determined incurred but not reported (IBNR) reserve estimate for employee health related claims of $14.0 million. This IBNR estimate will be funded through subsequent year appropriations at the agency level through increased self insurance rates sufficient to build required reserves.

Contractual Commitments: The state has estimated its share of contractual obligations for construction contracts to be $59.4 million at June 30, 2004. This represents total obligations of $173.4 million less $114.0 million in estimated federal aid.

10. EMPLOYEE BENEFIT PLANS

NEW HAMPSHIRE RETIREMENT SYSTEM

Plan Description: The New Hampshire Retirement System is the administrator of a cost-sharing multiple-employer Public Employee Retirement System (The Plan) 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 beneficiaries. The Plan covers substantially all full-time state employees, public school teachers and administrators, permanent firefighters, and police officers within the state of New Hampshire. Full-time employees of political subdivisions, including counties, municipalities, and school districts, are also eligible to participate as a group if the governing body of the political subdivision has elected participation. The Plan is divided into two membership groups. Group I consists of state and local employees and teachers. Group II consists of firefighters and police officers. All assets are in a single trust and are available to pay retirement benefits to all members.

Group I members at age 60 qualify for a normal service retirement allowance based on years of creditable service and average final compensation (AFC). The yearly pension amount is 1/60 (1.67%) of average final compensation multiplied by years of creditable service. AFC is defined as the average of the three highest salary years. At age 65, the yearly pension amount is recalculated at 1/66 (1.5%) of AFC multiplied by years of creditable service. Members in service with 10 or more years creditable service who are between age 50 and 60 or members in service with at least 20 or more years of service, whose combination of age and service is 70 or more, are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service.

Group II members who are age 60, or members who are at least age 45 with at least 20 years of creditable service can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years.

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

Pursuant to RSA 100-A:50, the New Hampshire Retirement System also provides a postretirement medical premium subsidy for Group I employees of political subdivisions and teachers and Group II police officers and firefighters.

A special account has been established by RSA 100-A:16, II(h) for additional benefits. The account is credited with all of the earnings of the account assets in the account plus the earnings of the remaining assets of the plan in excess of the assumed rate of return plus 1/2 of 1 percent.

The New Hampshire Retirement System issues a publicly available financial report that may be obtained by writing to them at 4 Chenell Drive, Concord, NH 03301-8509 or from their web site at http://www.nh.gov/retirement.

Funding Policy: The Plan is financed by contributions from the members, the state and local employers, and investment earnings. In fiscal year 2004, by statute, Group I members contributed 5.0% of gross earnings. Group II members contributed 9.3% of gross earnings. Employer contributions required to cover that amount of cost not met by the members' contributions are determined by a biennial actuarial valuation by the system's actuary using the open group aggregate funding method and are expressed as a percentage of gross payroll. The state's share represents 100% of the employer cost for all state employees, and 35% of the employer cost for teachers, firefighters, and police officers employed by political subdivisions. The state does not participate in funding the employer cost of other political subdivision employees.

The state's contributions to the plan for the years ending June 30, 2004, 2003, and 2002 were $55.4 million, $39.0 million, and $37.1 million, respectively, which equals the required contributions for each year. The state's contributions for the fiscal year ending June 30, 2004 increased substantially over the amounts contributed for the fiscal year ended June 30, 2004 due to the weak investment performance of the Plan during the past 3 years.

As of June 30, 2004, the net assets available to pay pension benefits, at fair value, were reported by the New Hampshire Retirement System to be $3,623.8 million. The total pension liability at June 30, 2004 was $5,029.9 million, resulting in a funded ratio of 72.1% and projected pension liability in excess of assets of $1,406.1 million.

HEALTH CARE INSURANCE FOR RETIRED EMPLOYEES

In addition to providing pension benefits, RSA 21-I:30 specifies that the state provide certain health care insurance benefits for retired employees. These benefits include group hospitalization, hospital medical care, and surgical care. Substantially all of the state's employees who were hired on or before June 30, 2003 may become eligible for these benefits if they reach normal retirement age while working for the state and receive their pensions on a periodic basis rather than a lump sum. During fiscal year 2004, legislation was passed that requires state Group I employees hired on or after July 1, 2003 to have 20 years of state service in order to qualify for health insurance benefits. These and similar benefits for active employees are authorized by RSA 21-I:30 and provided through the Employee Benefit Risk Management Fund, which is the state's new self-insurance fund implemented in October 2003 for active state employees and retirees. The state recognizes the cost of providing benefits by paying actuarially determined insurance premiums into the fund. The state paid approximately $29.6 million of insurance premiums for approximately 7,931 state retirees and covered dependents receiving a periodic pension benefit for the fiscal year ended June 30, 2004. An additional major source of funding for retiree benefits is from the New Hampshire Retirement System's medical premium subsidy program for Group I and Group II employees, which totaled approximately $11.9 million for the fiscal year ended June 30, 2004.

JUDICIAL RETIREMENT PLAN

Chapter 311 of the Laws of 2003 established a contributory defined benefit judicial retirement plan for state judges. The chapter appropriated $42.8 million to the board of trustees of the newly established judicial retirement system, which amount is to be used for the payment of the unfunded accrued liability attributable to the judicial retirement system. The chapter further authorized the issuance of bonds by the state to fund this payment. The bonds shall have a term not later than 30 years from the date of issue. The chapter further provides that the provisions regarding appropriation for the unfunded liability and the issuance of bonds shall be implemented beginning on the later of July 1, 2004 or 180 days after the system receives a favorable determination from the Internal Revenue Service as to the tax qualified nature of the plan under the Internal Revenue Code.

COMPONENT UNITS

Eligible employees of the New Hampshire Retirement System and the Pease Development Authority participate in the PERS and additional disclosure about their participation is available in the NHRS audited financial statements. Employees of the New Hampshire Community Development Finance Authority, the Business Finance Authority, and the University System of New Hampshire are not members of the New Hampshire Retirement System, but participate in their own defined contribution plans.

11. CONTINGENT AND LIMITED LIABILITIES

PRIMARY GOVERNMENT

Contingent Liabilities: The state of New Hampshire is contingently liable, within statutory legal limits, for bonds sold by municipalities, school districts, and for first mortgages on industrial and recreational property that contain the guarantee of the state of New Hampshire. The following table shows the composition of the state's $192 million of contingent liabilities and the statutory limits as of June 30, 2004 (expressed in thousands):

	RSA	Guarantee Limit		Remaining Capacity	June 30, 2004 PRINCIPAL	June 30, 2004 INTEREST	June 30, 2004 TOTAL	June 30, 2003 TOTAL
Water Pollution Bonds	485-A:7	175,000		126,598	$ 38,344	$ 10,058	$ 48,402	$ 58,524
Business Finance Authority (BFA) - General Obligation	162-A:17	25,000	**		19,900	3,780	23,680	
Business Finance Authority (BFA) - Additional State Guarantee	162-I:9-b	50,000	**		33,899		33,899	
Business Finance Authority (BFA) - Unified Contingent Credit Limit	162-A:22	95,000	*	37,421	53,799	3,780	57,579	56,660
School Construction Bonds	195-C:2	95,000		61,836	23,690	9,474	33,164	39,148
Solid Waste Bonds	149-M:31	30,000		29,307	535	158	693	839
Super Fund Site Cleanup Bonds	33:3-f	50,000	*	50,000				
Water Resources Council Bonds	481:19	5,000		5,000				
Housing Finance Authority Child Care Loans	204-C:79	300		300				
TOTALS		$ 450,300		$ 310,462	$ 116,368	$ 23,470	$ 139,838	$ 155,171

*Plus Interest
**Plus interest (guarantee limit under this section is included in and also limited by RSA 162-A:22)

Limited Liabilities with the Pease Development Authority (PDA):
The state has statutory authority to guarantee bonds issued by the PDA, within certain limits, and advance money to the PDA, through both interest and non-interest bearing loans. In addition, RSA 12-G:17 authorizes the issuance of up to $250.0 million in bonds backed solely by the credit of the PDA. The table below highlights the legal limits of state guarantees and loans relative to the PDA as of June 30, 2004 (expressed in thousands):

	(1) RSA 12-G:31	(2) RSA 12-G:34	(3) RSA 12-G:33	(4) RSA 12-G:35	Non-Statutory
Legal Limit	50,000	5,000	35,000	10,000	No Limit
Debt Guranteed Now Assumed by State					
Business Express Airlines	10,000				
Atlantic Coast Airlines	1,000				
Amount Bonded By State and Loaned to PDA					
Operating Budget FY92 (V161)	2,800				
Operating Budget FY93 (V161)	3,800				
Operating Budget FY93 (V165)	1,000				
Matching Grants Econ. Dev. (V165)		5,000			
Lonza (Celltech)	29,990				
Amount Advanced to PDA					
Operating Budget FY94					400
Operating Budget FY95					1,900
Operating Budget FY96					1,948
Operating Budget FY97					1,572
Remaining Capacity	1,410		35,000	10,000	N/A

(1) RSA 12-G:31 - $50 million in bonds may be guaranteed by the state for airport projects or the state can make loans by issuing bonds.
(2) RSA 12-G:34 - $5 million in bonds may be issued and loaned to provide matching grants for FAA and EDA grants.
(3) RSA 12-G:33 - $35 million in bonds may be guaranteed by the state to develop a research district.
(4) RSA 12-G:35 - $10 million in bonds may be issued and loaned to provide matching to private grants for development of research district.

PDA: The state loaned PDA the proceeds from bond issues V161 ($6.6 million) and V165 ($6.0 million). Currently, the state pays the debt service payments for the bond issues and when funds are available PDA will repay the state. As of June 30, 2004, $0.6 million has been paid by the PDA to the state against these bonds. Total principal and interest due at maturity owed by PDA, for these two bonds, is $22.2 million.

Semiannually, PDA makes payments to the state for the Lonza (Celltech) loans and the state pays the debt service payments. The amount outstanding as of June 30, 2004 relative to the Lonza (Celltech) loans is $26.2 million (representing principal $19.1 million and interest $7.1 million).

Of the amount advanced to PDA totaling $5.8 million, the outstanding balance at June 30, 2004 is zero. These advances were interest-free loans to the PDA.

Federal Grants: The state receives federal grants, which are subject to review and audit by the grantor agencies. Access to these resources is generally conditional upon compliance with terms and conditions of grant agreements and applicable regulations, including expenditure of resources for allowable purposes. Any disallowances resulting from the audit may become the liability of the state. The state estimates that the ultimate disallowance pertaining to these grants, if any, will be immaterial to its overall financial condition.

COMPONENT UNITS

The Community Development Finance Authority records liabilities payable from restricted assets of $2.6 million. These liabilities relate to economic development projects for which pledges have been received by the authority. There is no guarantee that these projects will begin or be completed. In the event the project does not utilize the funding donated on its behalf, the funds are to be returned to the donor or the state at the discretion of the donor.

12. CONDENSED STATEMENTS FOR DISCRETELY PRESENTED COMPONENT UNITS

STATE OF NEW HAMPSHIRE
CONDENSED STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
JUNE 30, 2004
(Expressed in Thousands)

	Major	Non-Major			
	University System of N.H.	Business Finance Authority	Community Development Finance Authority	Pease Development Authority	Total
ASSETS					
Current Assets	$ 189,606	$ 16,880	$ 18,661	$ 14,447	$ 239,594
Capital Assets, Net	533,881	5,531	70	64,311	603,793
Other Non-Current Assets	233,962	10,841	6,597	163	251,563
Total Assets	957,449	33,252	25,328	78,921	1,094,950
LIABILITIES					
Current Liabilities	77,271	2,971	16,501	1,752	98,495
Long Term Debt	297,668	24,080	5,792	2,643	330,183
Due to Primary Government	4,041			38,025	42,066
Total Liabilities	378,980	27,051	22,293	42,420	470,744
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	329,326	5,531	70	42,577	377,504
Restricted Assets	198,217	1,714		7,428	207,359
Unrestricted Assets (Deficit)	50,926	(1,044)	2,965	(13,504)	39,343
Total Net Assets	$ 578,469	$ 6,201	$ 3,035	$ 36,501	$ 624,206

STATE OF NEW HAMPSHIRE
CONDENSED STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR FISCAL YEAR ENDED JUNE 30, 2004
(Expressed in Thousands)

		Program Revenues								
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants	Net (Expenses) Revenues	General Revenue	Transfer to State of NH General Fund	Change in Net Assets	Net Assets Beginning of Year	Net Assets End of Year
Component Units:										
College & University	$ 532,536	$ 312,877	$ 152,720	$ 7,270	$ (59,669)	$ 114,570		$ 54,901	$ 523,568	$ 578,469
Business Finance Authority	2,339	2,683			344	87	(86)	345	5,856	6,201
Community Development Finance Authority	1,947	1,620	284		(43)			(43)	3,078	3,035
Pease Development Authority	13,579	13,194			(385)	2,021		1,636	34,865	36,501
Component Unit Total	$ 550,401	$ 330,374	$ 153,004	$ 7,270	$ (59,753)	$ 116,678	$ (86)	$ 56,839	$ 567,367	$ 624,206

STATE OF NEW HAMPSHIRE
CONDENSED STATEMENT OF CASH FLOWS
DISCRETELY PRESENTED COMPONENT UNITS
FOR FISCAL YEAR ENDED JUNE 30, 2004
(Expressed in Thousands)

	Net Cash Provided (Used) by:						
	Operating Activities	Noncapital Financing Activities	Capital and Related Financing Activities	Investing Activities	Net Increases (Decreases) in Cash and Cash Equivalents	Cash and Cash Equivalents Beginning of Year	Cash and Cash Equivalents End of Year
Component Units:							
College & University	$ (44,371)	$ 91,607	$ (35,218)	$ (37,366)	$ (25,348)	$ 100,271	$ 74,923
Business Finance Authority	755	(2,011)	(4)	103	(1,157)	14,121	12,964
Community Development Finance Authority	240	-	-	(43)	197	4,906	5,103
Pease Development Authority	2,432		(2,114)		318	5,293	5,611
Non-Major Component Unit Total	$ (40,944)	$ 89,596	$ (37,336)	$ (37,306)	$ (25,990)	$ 124,591	$ 98,601

13. LEASE COMMITMENTS

OPERATING LEASES

The state has lease commitments for space requirements which are accounted for as operating leases. These leases, subject to continuing appropriation, extend forward a number of years and may contain rent escalation clauses and renewal options. Rent expenditures for fiscal year 2004 for governmental activities and business-type activities were approximately $10.2 million and $2.5 million, respectively. The following is a schedule of future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of June 30, 2004 (expressed in thousands):

Payable June 30,	Governmental Activities	Business-Type Activities
2005	$ 8,337	$ 1,845
2006	4,605	1,538
2007	3,415	1,116
2008	2,500	849
2009	1,251	69
2010-2014	3,952	-
Total	$ 24,060	$ 5,417

CAPITAL LEASES

The state has entered into lease agreements as lessee for financing the acquisition of buildings and equipment. These leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments. The future minimum lease payments and the net present value of those payments at June 30, 2004, are as follows (in thousands):

Payable June 30,	Governmental Activities	Business-Type Activities
2005	$ 1,272	$ 255
2006	1,218	255
2007	1,207	255
2008	1,104	142
2009	643	142
2010-2014	2,439	352
2015-2019	1,230	
2020-2024	418	
Total	9,531	1,401
Amount Representing Interest	(2,069)	(281)
Present Value of Minimum Lease Payments	$ 7,462	$ 1,120

The assets aquired through capital leases and included in capital assets at June 30, 2004 include the following (in thousands):

	Governmental Activities	Business-Type Activities
Equipment	$ 3,964	$ 504
Buildings & Building Improvements	9,285	1,129
Total	13,249	1,633
Less: Accumulated Depreciation	(8,087)	(641)
Net	$ 5,162	$ 992

14. LITIGATION

Claremont School District, et. al. v. Governor, et. al.

For the last several years, the state has been involved in ongoing litigation initiated against the state by five school districts who challenged the constitutionality of the state's statutory system of financing the operation of elementary and secondary public schools primarily through local property taxes. On December 17, 1997, the New Hampshire Supreme Court ruled in favor of the Plaintiffs and found that property taxes in support of education are state taxes and that such taxes must be proportional and reasonable throughout the state, and that the current system failed to meet this standard. The Supreme Court further held that a constitutionally adequate public education is a fundamental right, and that the legislative and executive branches must develop and adopt specific criteria implementing appropriate guidelines for such an education.

During the 1998 session, the legislature passed a law defining the components of what constitutes an adequate education and further established commissions to study the costs of providing a constitutionally adequate education and special education. These commissions issued reports in December 1998. The 1998 legislative session also produced a law requiring a comprehensive study of the school facilities statewide. This study was commenced in 1999, was completed by July 1, 2000 and was reported to the legislature on September 1, 2000.

During the 1999 session, the legislature produced a law that determines the cost of an adequate education for the biennium beginning July 1, 1999, and commits to the expenditure of that amount of money. Also included in this law are two study commissions: one charged with reviewing New Hampshire's tax structure and the other with reviewing the costs of an adequate education and special education, and the delivery of an adequate education.

In August 1999, the Plaintiffs filed motions in the Supreme Court, which retains jurisdiction in this matter, challenging various aspects of the new system. In mid-October, the Supreme Court struck down the statewide property tax included in the state's funding plan. The Court held that the phase-in of the tax in so-called "donor" communities was unconstitutional. The Court held that all of the Plaintiffs' other claims were premature and dismissed them without prejudice. In November, the legislature reenacted the statewide property tax without the phase-in.

During the 2001 legislative session, several school funding bills and some accountability bills were vigorously debated by the legislature. An accountability bill was passed by the legislature but the Governor vetoed it. A school funding bill was also passed which essentially makes the current system permanent by removing the sunset clauses on the current methodology for calculating the per pupil cost and on the Uniform Education Property Tax.

On August 2001, the Claremont Plaintiffs filed a motion in the Supreme Court challenging the adequacy of the state's compliance with the Court's prior rulings and seeking an Order requiring the legislature to enact a new school funding system by June 3, 2002. The Attorney General's Office filed an objection to the Plaintiffs' motion on October 5, 2001, and has asked the Court to close the case. On December 4, 2001 the Supreme Court issued an Order dismissing some of the Plaintiffs' claims without prejudice to be brought in the Superior Court and allowing further

briefing by each side and oral argument on the issue of whether it should invoke its continuing jurisdiction to determine if the state had defined an adequate education.

On January 7, 2002, the Supreme Court issued an Order invoking its continuing jurisdiction and requesting briefs on the issues of whether standards of accountability must be established by the state to meet its constitutional requirement of providing an adequate education and whether the existing system satisfies this obligation. On April 11, 2002, the Supreme Court issued a Decision holding that accountability is an essential component of the state's duty to provide an adequate education and finding that the existing statutory system has deficiencies that are inconsistent with the state's duty. The Court found that the state has not provided a sufficient mechanism to require that school districts actually provide an adequate education. The Court held that the state needs to do more work to fulfill its duty and to incorporate meaningful accountability in the education system. No time line was established in the Decision under which the executive and legislative branches must create standards of accountability.

Accountability, as well as education funding, was debated during the 2003 legislative session. The legislature passed two bills, House Bill 608 ("HB 608") and House Bill 139 ("139"). HB 608 uses the existing school funding system for fiscal year 2004 but increases the adequacy payment by the Consumer Price Index instead of doing the recalculation of the base cost of adequacy previously required in RSA 198:40. For fiscal year 2005, HB 608 establishes a new funding system based on each municipality's tax base in proportion to its local education costs. HB 608 provides for targeted aid and enhanced aid to municipalities that have below the state's average tax base per pupil. The amount of aid that a municipality receives is based on what each municipality's proportion is compared to the state's average tax base per pupil.

HB 139 establishes an accountability system that meets not only the Supreme Court's Decision in Claremont but also the federal requirements of No Child Left Behind. HB 139 provides performance goals that must be met in order to show adequate yearly progress and establishes a notification process to schools and communities when certain schools are not making adequate yearly progress. HB 139 also creates a corrective action process to assist schools that are not meeting adequate yearly progress goals. This corrective action process includes, as its last step, the requirement that the Department of Education develop a corrective action plan for any school district that does not develop an adequate plan for approval by the State Board of Education which will than order the school district to implement that corrective action plan.

At this time, there is no existing or threatened litigation against the state relating to the Claremont case.

Smith, et al. v. Department of Revenue Administration

A consolidated action against the New Hampshire Department of Revenue in which the taxpayers challenged the constitutionality, under both the State and Federal Constitutions, of the interest and dividends tax law in effect from 1989 through June 30, 1994 was tried in the Merrimack County Superior Court in June 2000. That trial resulted in a judgment rejecting the Plaintiffs' broad claims for in excess of $100 million and ordered the state to provide Plaintiffs with a refund of taxes paid on interest and dividends received from out-of-state instruments *only*.

The Plaintiffs appealed the Superior Court's Order to the New Hampshire Supreme Court, claiming that a refund is due for taxes paid on interest received from a broader range of financial instruments. On November 25, 2002, the New Hampshire Supreme Court Order issued its Decision affirming the Superior Court's Order that refunds should only be made to taxpayers who paid the interest and dividends tax on out of state bank instruments. The Plaintiffs appealed this Decision to the United State Supreme Court, which was denied on May 3, 2003. During FY 2004 the State processed approximately $2.1 million in refunds.

General Electric v. Department of Revenue Administration

This is an appeal by General Electric from a decision by the Department of Revenue Administration. In this appeal, GE claims that the dividends received deduction allowed under RSA 77-A:4, IV should be invalidated because the statute discriminates against the foreign commerce in violation of the commerce clause of the United States Constitution and results in unfair taxation out of proportion to GE's activities in New Hampshire in violation of the Due Process and Commerce Clauses of the U.S. Constitution.

By way of background, in 2001, GE and the Department executed two settlement agreements substantially resolving GE's business profit tax liability for multiple tax years. The settlement agreements did not resolve the foreign dividend issue, which is the issue in this appeal, concerning tax years 1990-1999.

After months of negotiating, the parties were unable to reach a stipulation of facts. As a result, the parties filed dispositive motions and numerous responses thereto. The case is fully briefed before the superior court, however the court has suggested sending the case to the Supreme Courts. Although the state has objected, the parties are attempting to agree on a statement of legal issues and a statement of facts for an interlocutory transfer statement. If the issue is resolved in GE's favor, the Department would be required to refund $3 million to GE. The State could face other potential losses if other taxpayers challenge the statute. It is not possible to predict the outcome of this case at this time.

Cassandra Hawkins v. Commissioner of the Department of Health and Human Services

This suit was filed as a class action lawsuit brought under 42 U.S.C. 1983 challenging the provisions of dental services to Medicaid recipients under the age of 21. The named plaintiffs, parents of children who are eligible, alleged the state had violated their rights under the federal Medicaid Act, 42 U.S.C. 1396a, the federal constitution, and state law by failing to provide their children with access to adequate dental care. On August 28, 2003, a Consent Decree was filed with the Federal District Court for preliminary review. The Class was certified and the Decree was approved and entered as a Court Order on January 26, 2004. In brief, the terms provide that the state allocate $1.2 million per year, for FY 2004 and 2005, of additional state funds to the EPSDT dental program. In contrast, the plaintiffs have suggested that the decree requires $1.2 million per year for five years, a difference of $3.6 million. In addition, the plaintiffs have requested $1.9 million in attorneys' fees and have reserved their right to

seek an additional $.4 million in fees as well as attorney fees and costs involved in resolving the fee issue. The parties are scheduled to work with a mediator in December to reach agreement on the "reasonable attorneys fees" due. It is further anticipated that the appropriate interpretation of funding provisions will be raised shortly. Beyond the above information, the fiscal impact of any inability to meet substantive Decree requirements with regard to programs and dental reimbursement rates, if any, is not possible to predict at this time.

Paymentech, Inc., L.P. v. New Hampshire Department of Revenue

The plaintiff brought this case in March 2003 challenging the Department's taxation of an entity, specifically, the costs of performance analysis regarding a services industry. At issue in the case was how to calculate a number (the "sales factor numerator" which represents New Hampshire sales) in the statutory apportionment formula of the business profits tax statute. Only three tax years were before the court in this case, but the parties entered into settlement negotiations to resolve all outstanding tax years as others were under a stayed audit. The case settled in November 2004, resulting in the plaintiff paying to the Department $3.2 million of taxes and interest for tax years 1997-2003. For tax year ending in 2004 and subsequent tax years, the parties have agreed on a method of determining the plaintiffs tax liability.

OTHER LITIGATION

The state, its agencies and employees are defendants in numerous other lawsuits. Although the Attorney General is unable to predict the ultimate outcome of these suits, in the opinion of the Attorney General and the Commissioner of Administrative Services, the likelihood of such litigation resulting, either individually or in the aggregate, in final judgments against the state, which would materially affect its financial position, is remote. Accordingly, no provision for such ultimate liability, if any, has been made in the financial statements.

15. RESTATEMENT OF JUNE 30, 2003 LOTTERY COMMISSION NET ASSETS

The net assets of the Lottery Commission (Lottery) at June 30, 2003 has been increased by $2.0 million to record restricted deposits held by the Multi-State Lottery Association (MUSL) not previously presented. The restatement represents cumulative amounts that had previously been reported as expense by the Lottery since the inception of its participation in MUSL. These restricted deposits are noncurrent assets held as prize reserves to protect the Lottery against unforeseen liabilities. These prize reserves are a condition of participation in the MUSL joint venture and are refundable after a one-year waiting period if a member leaves MUSL.

16. SUBSEQUENT EVENT

Nursing Facility Assessment Fee: On July 1, 2004, the NH Legislature passed Chapter 260, L'04 (SB 376) which enacted a nursing facility quality assessment fee (NFQA) equal to 6% of the nursing facilities' net patient services revenues effective to May 1, 2003. Implementation of the NFQA was conditioned upon federal approval which was received on September 8, 2004. However, the federal Centers for Medicare and Medicaid Services (CMS) still reserves the right to perform a financial management review at any time.

On October 29, 2004 the state paid $57.8 million to New Hampshire based nursing homes covering the period May 1, 2003 through June 30, 2004. On November 4, 2004 the state received a federal reimbursement for $28.9 million or 50% of the total nursing home payments. In addition the homes were billed $31.1 million for their share of the nursing facility assessment. These transactions have been reflected in the accompanying financial statements but had no impact on fund balance of the general fund.

The impact of the NFQA plan on the state's proportionate share program (Pro share) is subject to federal approval and not currently known. As such, the financial statements present a portion of the FY04 Proshare ($6.0 million) as deferred revenue.

Bond Issue: In December 2004, the State issued $60 million of general obligation capital improvement bonds. The interest rates of these 20-year bonds will be variable per the provisions of their auction rate security (ARS) features. These ARS Bonds are different from past bond issues in that these bonds carry an interest rate that will change every seven days through an auction process specified in the terms of the bonds. This type of security is new for the state but not entirely different than the states $50 million commercial paper (bond anticipation notes) program which has been in existence since 1998.

Required Supplementary Information
Budgetary Schedules

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STATE OF NEW HAMPSHIRE
BUDGET TO ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(expressed in thousands)

	General Fund			
	Budgeted Amount			Variance with Final Budget-
	ORIGINAL	FINAL	ACTUAL (Budgetary Basis)	Positive (Negative)
REVENUES				
General Property Taxes	$ 1,020	$ 1,020	$ 260	$ (760)
Special Taxes	868,143	871,883	904,476	32,593
Personal Taxes	67,485	67,485	71,433	3,948
Business License Taxes	19,544	19,550	18,578	(972)
Non-Business License Taxes	88,354	88,701	89,836	1,135
Fees	116,780	131,162	97,584	(33,578)
Fines, Penalties and Interest	22,459	24,675	23,573	(1,102)
Grants from Federal Government	1,201,446	1,409,455	1,052,638	(356,817)
Grants from Private and Local Sources	130,343	186,965	130,965	(56,000)
Rents and Leases	6,282	6,300	6,301	1
Interest Premiums and Discounts	3,700	6,241	3,443	(2,798)
Sale of Commodities	5,740	5,763	8,656	2,893
Sale of Services	132,042	133,796	147,520	13,724
Assessments	51,207	54,654	25,213	(29,441)
Grants from Other Agencies	96,767	132,740	105,370	(27,370)
Miscellaneous	127,644	61,269	81,088	19,819
Total Revenue	2,938,956	3,201,659	2,766,934	(434,725)
EXPENDITURES				
GENERAL GOVERNMENT				
Legislative Branch	11,341	16,677	11,047	5,630
Executive	21,857	40,247	29,914	10,333
Information Technology		21,768	16,566	5,202
Administrative Services	39,644	47,870	39,557	8,313
Safety		8,324	6,548	1,776
Sec of State	7,029	15,058	5,248	9,810
Cultural Affairs	6,504	7,393	5,769	1,624
Revenue Administration	14,492	16,446	14,240	2,206
State Treasury	66,299	74,593	65,330	9,263
Boards and Commissions	2,853	2,878	2,236	642
NH Retirement System	58,254	58,491	46,825	11,666
Total	228,273	309,745	243,280	66,465
JUSTICE AND PUBLIC PROTECTION				
Judicial Branch	61,851	61,908	57,437	4,471
Adjutant General	11,996	13,343	11,365	1,978
Agriculture	3,019	4,061	3,174	887
Justice Department	14,615	32,063	22,652	9,411

See accompanying Independent Auditors' Report. The Notes to Required Supplementary Information are an integral part of this schedule.

STATE OF NEW HAMPSHIRE
BUDGET TO ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(expressed in thousands)

	General Fund			
	Budgeted Amount			Variance with Final Budget-
	ORIGINAL	FINAL	ACTUAL (Budgetary Basis)	Positive (Negative)
JUSTICE AND PUBLIC PROTECTION-CONTINUED				
Bank Commission	3,046	3,575	2,357	1,218
Pari-Mutuel Commission	2,298	2,296	1,952	344
Highway Safety	1,831	2,580	1,234	1,346
Insurance	7,186	7,856	5,847	2,009
Labor	6,385	7,263	4,972	2,291
Public Utilities Commission	7,251	8,012	7,785	227
Safety	99,998	160,828	85,970	74,858
Corrections Department	81,310	82,019	79,627	2,392
Employment Security	29,338	44,780	27,391	17,389
Judicial Council	16,534	16,531	16,345	186
Human Rights Commission	538	557	485	72
Boards and Commissions	804	859	774	84
Misc		31		31
Total	348,000	448,562	329,367	119,195
RESOURCE PROTECTION AND DEVELOPMENT				
Resource and Economic Development	27,652	37,792	32,220	5,572
Pease Development Authority	7,477	9,916	311	9,605
Environmental Services	140,595	202,592	105,968	96,624
Development Finance Authority	11,142	11,161	992	10,169
Boards and Commissions	473	465	418	47
Total	187,339	261,926	139,909	122,017
TRANSPORTATION				
Transportation	17,827	21,615	5,055	16,560
Total	17,827	21,615	5,055	16,560
HEALTH AND SOCIAL SERVICES				
Health and Human Services Commissioner	649,696	695,324	653,893	41,431
Office of Health Management	68,995	71,451	56,428	15,023
Children and Youth	121,865	156,177	116,521	39,656
Transitional Assistance	88,947	87,618	80,187	7,431
Behavioral Health	117,650	117,903	108,480	9,423
Developmental Services	174,516	169,917	159,767	10,150
N H Hospital	58,215	56,507	52,404	4,103
Home for Elderly	9,737	9,890	9,326	564
N H Veterans Home	14,593	14,554	12,063	2,491
Veterans Council	290	276	270	6
Youth Development Services	25,305	30,751	23,461	7,290
Elderly and Adult Services	386,276	405,873	326,907	78,966
Boards and Commissions	2,422	3,071	2,361	710
Admin and Support	641	634	557	77
Total	1,719,148	1,819,946	1,602,625	217,321

See accompanying Independent Auditors' Report. The Notes to Required Supplementary Information are an integral part of this schedule.

STATE OF NEW HAMPSHIRE
BUDGET TO ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(expressed in thousands)

	General Fund			
	Budgeted Amount			Variance with Final Budget-
	ORIGINAL	FINAL	ACTUAL (Budgetary Basis)	Positive (Negative)
EDUCATION				
Post Secondary Education Commission	4,407	5,159	4,471	688
Department of Education	317,841	283,995	216,800	67,195
NH Comm. Tech. College System	72,761	109,637	78,646	30,991
Planetarium	1,026	1,089	886	203
Police Standards and Training Council	2,947	5,988	2,361	3,627
University of New Hampshire	82,112	83,390	83,390	
Total	481,094	489,258	386,554	102,704
Debt Service	81,664	81,664	81,136	528
Capital Outlays	32,250	32,250	32,250	
Total Expenditures	3,095,595	3,464,966	2,820,176	644,790
Excess (Deficiency) of Revenues Over (Under) Expenditures	(156,639)	(263,307)	(53,242)	210,065
Other Financing Sources (Uses)				
Operating Transfers In	96,768	96,768	96,768	
Operating Transfers Out		(57,679)	(57,679)	
Miscellaneous		822	822	
Total Other Financing Sources Uses	96,768	39,911	39,911	
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(59,872)	(223,396)	(13,331)	210,065
Fund Balance - July 1	255,316	255,316	255,316	
Fund Balance - June 30	$ 195,444	$ 31,920	$ 241,985	$ 210,065

See accompanying Independent Auditors' Report. The Notes to Required Supplementary Information are an integral part of this schedule.

STATE OF NEW HAMPSHIRE
BUDGET TO ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
HIGHWAY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(expressed in thousands)

	Highway Fund			
	Budgeted Amount		Actual (Budgetary Basis)	Variance with Final Budget-Positive (Negative)
	Original	Final		
REVENUES				
Business License Taxes	$ 146,120	$ 146,120	$ 151,744	$ 5,624
Non-Business License Taxes	73,937	73,937	71,214	(2,723)
Fees	19,572	19,572	22,081	2,509
Fines, Penalties and Interest	929	929	649	(280)
Grants from Federal Government	144,600	257,956	44,331	(213,625)
Grants from Private and Local Sources	8,894	7,548	4,488	(3,060)
Interest Premiums and Discounts	2,000	2,000	1,043	(957)
Sale of Commodities	177	1,237	179	(1,058)
Sale of Services	16,473	27,067	17,661	(9,406)
Assessments	310	310	297	(13)
Grants from Other Agencies	1,424	1,455	1,373	(82)
Miscellaneous	331	331	2,808	2,477
Total Revenue	414,767	538,462	317,868	(220,594)
EXPENDITURES				
JUSTICE AND PUBLIC PROTECTION				
Safety		1,686	820	866
Total		1,686	820	866
TRANSPORTATION				
Transportation	275,405	510,085	235,702	274,383
Total	275,405	510,085	235,702	274,383
Debt Service	5,310	5,310	5,280	30
Capital Outlays	147,283	147,283	147,283	
Total	427,998	664,364	389,085	275,279
Excess (Deficiency) of Revenues Over (Under) Expenditures	(13,231)	(125,902)	(71,217)	54,685
Other Financing Sources (Uses)				
Operating Transfers In				
Operating Transfers Out		(1,702)	(1,702)	
Miscellaneous		1,318	1,318	
Total Other Financing Sources Uses		(384)	(384)	
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(13,231)	(126,285)	(71,601)	54,685
Fund Balance - July 1	122,580	122,580	122,580	
Fund Balance - June 30	$ 109,349	$ (3,705)	$ 50,979	$ 54,685

See accompanying Independent Auditors' Report. The Notes to Required Supplementary Information are an integral part of this schedule.

STATE OF NEW HAMPSHIRE
BUDGET TO ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
EDUCATION FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(expressed in thousands)

	Education Fund			
	Budgeted Amount		Actual	Variance with Final Budget-
	Original	Final	(Budgetary Basis)	Positive (Negative)
REVENUES				
General Property Taxes	$ 492,300	$ 492,300	$ 493,354	$ 1,054
Special Taxes	273,100	273,100	286,035	12,935
Personal Taxes	27,400	27,400	28,582	1,182
Miscellaneous	39,600	39,600	40,000	400
Total Revenue	832,400	832,400	847,971	15,571
EXPENDITURES				
General Government				
Dept. of Revenue Administration		8,242	8,131	111
Total		8,242	8,131	111
Education				
Dept. of Education	894,991	896,530	895,713	817
Total	894,991	904,772	903,844	928
Excess (Deficiency) of Revenues Over (Under) Expenditures	(62,591)	(72,372)	(55,873)	16,499
Other Financing Sources (Uses)				
Operating Transfers In		57,576	57,576	
Total Other Financing Sources Uses		57,576	57,576	
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(62,591)	(14,797)	1,702	16,499
Fund Balance - July 1	14,797	14,797	14,797	
Fund Balance - June 30	$ (47,794)	$ -	$ 16,499	$ 16,499

See accompanying Independent Auditors' Report. The Notes to Required Supplementary Information are an integral part of this schedule.

Note to the Required Supplementary Information - Budgetary Reporting

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

RECONCILIATION OF BUDGETARY TO GAAP

The state's biennial budget is prepared on a basis other than GAAP. The "actual" results columns of the Budget and Actual – Non-GAAP budgetary statements are presented on a "budgetary basis" to provide a meaningful comparison to budget.

The major differences between the budgetary basis and the GAAP basis are:

1. Expenditures are recorded when cash is paid or committed (budgetary), rather than when the obligation is incurred (GAAP). In addition, revenue based on these accruals is adjusted on a GAAP basis only.
2. On a GAAP basis, major inter-agency and intra-agency transactions are eliminated in order to not double count revenues and expenditures.

The following schedule reconciles the General and Major Special Revenue Funds of the primary government for differences between budgetary accounting methods and the GAAP basis accounting principles for the year ended June 30, 2004 (expressed in thousands).

	General Fund	Highway Fund	Education Fund
Excess (Deficiency) of revenues and other financing sources over (under) expenditures and other financing uses (Budgetary Basis)	$ (13,331)	$ (71,601)	$ 1,702
Adjustments and Reclassifications:			
To record Accounts Payable and Accrued Payroll	(137,151)	(84,310)	(7,700)
To Record Encumbrances	89,629	89,410	
To Record Accounts Receivable and Deferred Revenue	105,429	76,926	(73,745)
To Record Other Financing Sources	2,146		70,889
Excess (Deficiency) of revenues and other financing sources over (under) expenditures and other financing uses* (GAAP Basis)	$ 46,722	$ 10,425	$ (8,854)

*****Includes Change in Inventory reserves for General and Highway of $421, $1,318 respectively.

Combining Financial Statements

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Non - Major Governmental Financial Statements

Special Revenue Fund: Fish and Game Fund: *The operations of the state Fish and Game Department, including the operation of fish hatcheries, inland and marine fisheries, and wildlife areas, and functions related to law enforcement, land acquisition, and wildlife management and research, are financed through the Fish and Game Fund. Principal revenues of this fund include fees from fish and game licenses, the marine gas tax, penalties, and recoveries, and federal grants-in-aid related to fish and game management, all of which are appropriated annually by the Legislature for the use of the Fish and Game Department.*

Capital Projects Fund: *used to account for certain capital improvement appropriations which are or will be primarily funded by the issuance of state bonds or notes, other than bonds and notes for highway or turnpike purposes, or by the application of certain federal matching grants.*

Permanent Funds:

NH Hospital: *The NH Funds consist of several trust fund that were made expressly for the benefit of patients at the NH Hospital through various bequeathals.*

Land Conservation Endownment: *The Land Conservation Investment Program (LCHIP) is responsible for monitoring the condition and status of 80 state-held conservation easements acquired by the LCHIP.*

Other: *The other caqtegory consists of several account that report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the state or its citizenry. They include: Harriet Huntress, Hattie Livesey, John Nesmith, Special Teachers Comp., Catastrophic Illness, Sam Whidden Trust, Ben Thompson, and the Guy Thompson Memorial.*

STATE OF NEW HAMPSHIRE
COMBINING BALANCE SHEET
NON - MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2004
(Expressed in Thousands)

			Permanent Funds				
	Fish & Game	Capital	NH Hospital	Land Conservation Endowment	Other Permanent	Total Permanent	Total Non-Major
ASSETS							
Cash and Cash Equivalents	$ 9,104	$ 28,035	$ 269			$ 269	$ 37,408
Investments			5,131	$ 2,415	$ 2,086	9,632	9,632
Receivables (Net)	1,022	3,763					4,785
Bonds Authorized & Unissued							
Inventories	602						602
Total Assets	$ 10,728	$ 31,798	$ 5,400	$ 2,415	$ 2,086	$ 9,901	$ 52,427
LIABILITIES							
Accounts Payable	$ 339	$ 6,927					$ 7,266
Accrued Payroll	661						661
Deferred Revenue		2,235					2,235
Due to other funds							
Bond Anticipated Notes		50,000					50,000
Total Liabilities	1,000	59,162					60,162
FUND BALANCES							
Reserved for Encumbrances	1,517	47,614					49,131
Reserved for Inventories	602						602
Reserved for Unexpended Appropriations	4,836	132,204					137,040
Reserved for Permanent Trust			$ 5,400	$ 2,415	$ 2,086	$ 9,901	9,901
Unreserved, Undesignated (Deficit)	2,773	(207,182)					(204,409)
Total Fund Balances (Deficit)	9,728	(27,364)	5,400	2,415	2,086	9,901	(7,735)
Total Liabilities and Fund Balances	$ 10,728	$ 31,798	$ 5,400	$ 2,415	$ 2,086	$ 9,901	$ 52,427

STATE OF NEW HAMPSHIRE
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Expressed in Thousands)

			Permanent Funds				
	Fish & Game	Capital	NH Hospital	Land Conservation Endowment	Other Permanent	Total Permanent	Total Non-Major
REVENUES							
General Property Taxes							
Special Taxes							
Personal Taxes							
Business License Taxes							
Non-Business License Taxes	$ 8,542						$ 8,542
Fees	1,864						1,864
Fines, Penalties and Interest	143						143
Grants from Federal Government	4,972	$ 32,717					37,689
Grants from Private and Local Sources	238	221					459
Rents and Leases							
Interest, Premiums and Discounts	92	185	$ 176	$ 110	$ 52	$ 338	615
Sale of Commodities	74						74
Sale of Service	7						7
Assessments							
Grants from Other Agencies	1,287						1,287
Miscellaneous	233		408	5	205	618	851
Total Revenues	17,452	33,123	584	115	257	956	51,531
EXPENDITURES							
Current:							
General Government							
Administration of Justice & Public Protection							
Resource Protection and Development	16,649			121		121	16,770
Transportation							
Health and Social Services			267		82	349	349
Education							
Debt Service	324						324
Capital Outlay	771	101,044					101,815
Total Expenditures	17,744	101,044	267	121	82	470	119,258
Excess (Deficiency) of Revenues Over (Under) Expenditures	(292)	(67,921)	317	(6)	175	486	(67,727)
OTHER FINANCING SOURCES (USES)							
Transfers In	851						851
Transfers Out		(3,295)					(3,295)
G.O. Bond Premium		3,417					3,417
G.O. Bond Issuance		80,000					80,000
Total Other Financing Sources (Uses)	851	80,122					80,973
Excess (Deficiency) of Revenues & Other Sources Over (Under) Expenditures & Other Uses	559	12,201	317	(6)	175	486	13,246
Fund Balances - July 1	9,243	(39,565)	5,083	2,421	1,911	9,415	(20,907)
Change in Reserve for Inventory	(74)						(74)
Fund Balances (Deficit) - June 30	$ 9,728	$ (27,364)	$ 5,400	$ 2,415	$ 2,086	$ 9,901	$ (7,735)

STATE OF NEW HAMPSHIRE
BUDGET TO ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
FISH & GAME FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(expressed in thousands)

	Fish and Game Fund			
	Budgeted Amounts			
	Original	Final	Actual (Budgetary Basis)	Variance with Final Budget-Positive (Negative)
REVENUES				
Special Taxes	$ 65	$ 65		
Non-Business License Taxes	8,764	8,764	$ 8,542	$ (222)
Fees	2,469	2,469	1,864	(605)
Fines, Penalties and Interest	150	150	143	(7)
Grants from Federal Government	6,541	6,170	4,657	(1,513)
Grants from Private and Local Sources	370	426	238	(188)
Interest Premiums and Discounts	181	195	92	(103)
Sale of Commodities	314	314	274	(40)
Sale of Services	291	291	7	(284)
Grants from Other Agencies	993	1,116	1,287	171
Miscellaneous	5,265	4,650	4,458	(192)
Total Revenues	25,403	24,610	21,562	(3,048)
EXPENDITURES				
RESOURCE PROTECTION AND DEVELOPMENT				
Fish and Game Commission	25,333	32,485	23,973	
Debt Service	350	350	324	26
Capital Outlays	771	771	771	
Total Expenditures	26,454	33,606	25,068	8,538
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,051)	(8,996)	(3,506)	5,490
OTHER FINANCING SOURCES (USES)				
Transfers Out		851	851	
Miscellaneous		(75)	(75)	
Total Other Financing Sources (Uses)		776	776	
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(1,051)	(8,220)	(2,730)	5,490
Fund Balance - July 1	11,861	11,861	11,861	
Fund Balance - June 30	$ 10,810	$ 3,641	$ 9,131	$ 5,490

RECONCILIATION OF BUDGETARY TO GAAP

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The major differences between the budgetary basis and the GAAP basis are:

1. Expenditures are recorded when cash is paid or committed (budgetary), rather than when the obligation is incurred (GAAP). In addition, revenue based on these accruals is adjusted on a GAAP basis only.
2. On a GAAP basis, major inter-agency and intra-agency transactions are eliminated in order to not double count revenues and expenditures.

The following schedule reconciles the Fish and Game Fund of the primary government for differences between budgetary accounting methods and the GAAP basis accounting principles for the year ended June 30, 2004 (expressed in thousands).

	Fish and game Fund
Excess (Deficiency) of revenues and other financing sources over (under) expenditures and other financing uses (Budgetary Basis)	$ (2,730)
Adjustments and Reclassifications:	
To record Accounts Payable and Accrued Payroll	5,708
To Record Encumbrances	1,616
To Record Accounts Receivable and Deferred Revenue	(4,109)
To Record Other Financing Sources	
Excess (Deficiency) of revenues and other financing sources over (under) expenditures and other financing uses*	$ 485

*Includes Change in Inventory reserves of ($74).

Fiduciary Funds

Pension Trust Fund

The New Hampshire Retirement System consists of a cost-sharing multiple-employer contributory pension plan (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 and a post-retirement medical plan (Medical Plan).

Pension Plan: *the pension plan is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. Substantially all full-time state employees, public school teachers and administrators, permanent firefighters and permanent police officers within the State of New Hampshire are eligible and required to participate in the System. Full-time employees of political subdivisions, including counties, municipalities and school districts, are also eligible to participate as group if the governing body of the political subdivision has elected participation.*

Post Retirement Medical Plan: *Pursuant to RSA 100-A:50 and RSA 100-A:52, the New Hampshire Retirement System also provides a postretirement medical plan to certain members. The maximum monthly subsidy effective as of July 1, 2004 for eligible members (and beneficiaries) not eligible for Medicare is $298.13. For those eligible for Medicare, the maximum monthly subsidy is $188.02. The monthly maximum premium is increased each July 1 by 8%. The System subsidy generally covers the retired member's spouse and any of the retired member's certifiable dependent children with a disability.*

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STATE OF NEW HAMPSHIRE
COMBINING STATEMENT OF PLAN NET ASSETS
PENSION TRUST FUNDS
JUNE 30, 2004
(Expressed in Thousands)

	Pension Trust Funds		
	Pension Plan	Post Retirement Medical Plan	Total
ASSETS			
Cash and Cash Equivalents	$ 1,439	$ 162	$ 1,601
Cash Collateral on Security Lending	351,220	39,552	390,772
Total Cash	352,659	39,714	392,373
Receivables:			
Due from Employers	9,226		9,226
Due from State	4,620		4,620
Due from Plan Members	11,178		11,178
Due from Brokers for Securities Sold	153,205	17,253	170,458
Interest and Dividends	12,269	1,382	13,651
Other	1,392	157	1,549
Total Receivables	191,890	18,792	210,682
Investments			
Equity Investments			
Domestic	2,000,106	225,241	2,225,347
International	380,611	42,862	423,473
Fixed Income Investments			
Domestic	778,670	87,690	866,360
Global	146,826	16,535	163,361
Commercial Real Estate	283,401	31,915	315,316
Alternative Investments	316,835	35,680	352,515
Temporary Investments	30,461	3,430	33,891
Total Investments	3,936,910	443,353	4,380,263
Other Assets	5,015	564	5,579
Total Assets	4,486,474	502,423	4,988,897
LIABILITIES			
Securities Lending Collateral	351,220	39,552	390,772
Management Fees and Other Payables	5,598	630	6,228
Due to Brokers for Securities Purchased	180,306	20,305	200,611
Total Liabilities	537,124	60,487	597,611
Net Assets Held in Trust for Benefits & Other Purposes	$ 3,949,350	$ 441,936	$ 4,391,286

STATE OF NEW HAMPSHIRE
COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS
PENSION TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Expressed in Thousands)

	Pension Plan	Post Retirement Medical Plan	Total
ADDITIONS			
Contributions:			
Employer	$ 65,334	$ 35,471	$ 100,805
State Contributions on Behalf of Local Employers	15,223	7,612	22,835
Total Employer Contributions	80,557	43,083	123,640
Plan Member	129,087		129,087
Post Retirement Medical Plan Contributions on Behalf of Employers	43,083		43,083
Total Contributions	252,727	43,083	295,810
Investment Income:			
From Investing Activities:			
Net Appreciation in Fair Value of Investments	408,744	47,597	456,341
Interest	46,646	5,432	52,078
Dividends	31,834	3,707	35,541
Timberfund Income			
Alternative Investment Income	5,661	659	6,320
Commercial Real Estate Operating Income	26,308	3,063	29,371
Total Income from Investing Activities	519,193	60,458	579,651
Less: Investment Activity Expenses:			
Investment Management Fees	18,729	2,181	20,910
Custodial Fees	466	54	520
Investment Advisor Fees	302	35	337
Total Investment Activity Expenses	19,497	2,270	21,767
Total Net Income from Investing Activities	499,696	58,188	557,884
From Securities Lending Activities:			
Security Lending Income	3,788	441	4,229
Less: Security Lending Borrower Rebates	2,625	306	2,931
Less: Security Lending Management Fees	348	41	389
Net Income from Securities Lending Activities	815	94	909
Total Net Investment Income	500,511	58,282	558,793
Asset Transfer from Pension Plan		1,688	1,688
Other	817	95	912
Total Additions	754,055	103,148	857,203
DEDUCTIONS			
Benefits/Distributions to Participants	267,007	32,492	299,499
Refunds of Contributions	16,781		16,781
Administrative Expense	4,924	573	5,497
Post Retirement Medical Plan Contributions to Pension Plan on Behalf of Employers		43,083	43,083
Professional Fees	625	73	698
Asset Transfer to Postretirement Medical Plan	1,688		1,688
Other	315	37	352
Total Deductions	291,340	76,258	367,598
Change in Net Assets	462,715	26,890	489,605
NET ASSETS HELD IN TRUST FOR BENEFITS			
Beginning of the Year	3,486,635	415,046	3,901,681
End of the Year	$ 3,949,350	$ 441,936	$ 4,391,286

Private - Purpose Trust Funds

Special Fund for Second Injury*: The intent of the Second injury fund is to equalize the compensation costs that the employer and their insurance company must pay for impaired and non-impaired workers alike, thereby removing a potential barrier to the employment of impaired workers. This fund gives employers the opportunity to limit their compensation costs in the event that an impaired employee sustains a workers compensation injury, which leaves the worker more disabled than the same injury would leave a non-impaired worker. Each carrier and self-insured employer pays into the fund based on a formula per statute. Reimbursements for compensable payments made by insurance carriers and self-insured employers, are made only upon written order by the Labor Commissioner to the State Treasurer. The State Treasurer is the custodian of the fund and all moneys and securities in the fund are held in trust by the treasurer and do not constitute money or property of the state.*

College Savings: *This fund is The New Hampshire Excellence in Higher Education Endowment Trust Fund; a non state program which has the purpose of providing scholarships for the benefit of residents of the state of New Hampshire who are pursuing programs of study at eligible educational institutions within the state. Funding will come from a portion of the administrative proceeds of New Hampshire's UNIQUE College Investing Plan. The fund is administered by the New Hampshire College Tuition Savings Plan Advisory Commission, and scholarships will be granted based on need and merit. The State Treasurer is the trustee of the fund.*

Electrical Assistance Program Utility Fund: *The Electrical Assistance Program (EAP) was developed by the Public Utilities Commission (PUC) to respond to the Legislature's call for low-income programs as part of electric restructuring. Accordingly, PUC issued an order approving a program to provide bill assistance to customers, and set up this fund. This program provides income-eligible customers with discounts on their electric bills. Customer bills for low-income assistance are adjusted by the utility company. The state treasurer is the custodian of the fund, and all moneys and securities in the fund are held in trust by the state treasurer and do not constitute money or property of the state. According to the Consumer Affairs Director at PUC, if the Electrical Assistance Program (EAP) were to cease operations, the funds would not remain with Treasury, the custodian of the funds, they would be have to be returned to the rate payers.*

Other: *The other category consists of several accounts whose trust arrangements provide principal and income to benefit individuals, private organizations or other governments. They include: NH Veterans Home Funds, Prison Funds, Laconia State School, Japanese Charitable Trust, Youth Development Center, Rural Rehab. Corporation, Matthew Elliott Trust, YDC Other Funds, and the Special Fund for Active Cases.*

STATE OF NEW HAMPSHIRE
COMBINING STATEMENT OF NET ASSETS -
PRIVATE - PURPOSE TRUST FUNDS
JUNE 30, 2004
(Expressed in Thousands)

	Private-Purpose Trust Funds				
	Special Fund For Second Injuries	EAP	College Savings	Other	Total Private-Purpose
ASSETS					
Cash and Cash Equivalents	$ 5,663	$2,416		$ 519	$ 8,598
Other Receivables				135	135
Investments			$ 7,969	1,426	9,395
Total Assets	5,663	2,416	7,969	2,080	18,128
LIABILITIES					
Other Liabilities				58	58
Total Liabilities				58	58
Net Assets Held in Trust for Benefits & Other Purposes	$ 5,663	$ 2,416	$ 7,969	$ 2,022	$ 18,070

STATE OF NEW HAMPSHIRE
STATEMENT OF CHANGES IN NET ASSETS - PRIVATE-PURPOSE TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Expressed in Thousands)

	Private Purpose Trust Funds				
	Special Fund For Second Injuries	EAP	College Savings	Other	Total Private Purpose
ADDITIONS					
Contributions:					
From Participants	$ 8,189	$ 2,738	$ 3,451	$ 3,885	$ 18,263
From Gifts, Bequests, and Endowments					0
Total Contributions	8,189	2,738	3,451	3,885	18,263
Interest Income	59	26	36	29	150
Other			1,006	87	1,093
Total Additions	8,248	2,764	4,493	4,001	19,506
DEDUCTIONS					
Benefits/Distributions to Participants	7,184	2,002	186	3,882	13,254
Other	5			149	154
Total Deductions	7,189	2,002	186	4,031	13,408
Net Increase/(Decrease)	1,059	762	4,307	(30)	6,098
NET ASSETS HELD IN TRUST FOR BENEFITS & OTHER PURPOSES					
Beginning of the Year	4,604	1,654	3,662	2,052	11,972
End of the Year	$ 5,663	$ 2,416	$ 7,969	$ 2,022	$ 18,070

Agency Funds

Deferred Compensation Withholdings: *The Deferred Compensation Plan is a benefit offered to full-time State of New Hampshire employees. Deferred Compensation funds are withheld for employees using payroll deductions. An account is maintained as a pass through account for the Deferred Compensation, monies are transferred there temporarily and a check is wired to ING.*

Unified Court System: *These funds are litigation accounts. When a party sues another party funds are held in the Judicial Branch Trust Funds until a judgment is made. These trust funds are classified by the court; Superior, Probate, District and Family Division, and have several account types within each court.*

Child Support Funds: *There are currently five non-state program funds reported under the child support funds and all function in a custodial capacity for the benefit of child support recipients. The Payroll account has the most activity and resulted from the transfer of activity from the Department of Probation to the Division of Human Services (Welfare) in 1981. This account includes the checking account for the dollars received and disbursed on behalf of those receiving Child Support. The revolving fund was established to make timely payment of certain child support enforcement services costs. The purpose of the child support enforcement program is to obtain from responsible parents reimbursement of financial assistance provided their dependent children. The Department of Human Services, Division of Child Support Services, has an agreement with ACS State and Local Solutions, Inc., to manage the billing, collection and telecommunication system operated on a statewide basis as part of the automated child support system, which is labeled the Lockbox account. This lockbox functions as DCSS' State Disbursement Unit (SDU). An SDU must be capable of receiving, recording and depositing wage assignments from employers and direct payments from non-custodial parents. Within 48 hours of receiving a payment, an SDU must make an accurate distribution of payments to families throughout New Hampshire, the remaining states and territories, and several foreign countries. The other two funds are used for collections relation to Juvenile Services restitution cases and court repayment of lawyer's fees*

Nuclear Decommissioning Fund*: The fund was established to accumulate monies necessary to defray the costs of decommissioning the Seabrook nuclear power plant at the end of its useful or serviceable life. The primary purpose being to ensure the health, safety, and well being of the public and future generations. A Committee established by law establishes the costs of decommissioning and accordingly sets the fees required to be paid into the fund by the owners of the facility. The Public Utility Commission then allows the utility to charge its customers on a Per KW basis the amount the utility pays into the decommissioning fund. The State shall have no financial responsibility for decommissioning, or the demolition and removal of facilities constructed as part of any uncompleted facility. According to the Committee's Counsel, the State's only involvement in the fund is to make sure there is enough money in the fund for decommissioning, the owners of the plant are responsible for the actual decommissioning. Any funds remaining after completion of the decommissioning in excess of the customer contributions will be returned to the owner or owners of the facility.*

Maine-NH Interstate Bridge- *The bridge over the Piscataqua River was inadequate to accommodate the traffic between the states of Maine and New Hampshire. The solution to this problem was the construction of a new bridge. As a result, the Maine-New Hampshire Interstate Bridge Authority was created, with the consent of the United State Congress, by entering into a compact formed through the joining of the state of Maine and New Hampshire through a common agency, a corporation in the state of New Hampshire. The Authority has the power and authority to construct, maintain, reconstruct and operate an interstate bridge across the Piscataqua River between Kittery, Maine and Portsmouth, New Hampshire, and it's approach roads.*

Other: *The other category consists of several accounts whose assets and liabilities for deposits and investments have been entrusted to the state as an agent for others. The following make up this category, Glencliff Home, Financial Responsibility, Dissolution of Corporations, Employee US Savings Bonds, NH Tech. Student Activities, Skyhaven Hangar, Corrections Funds, Fish & Game Lifetime Licenses, and the Community Conservation Endowment Funds.*

STATE OF NEW HAMPSHIRE
COMBINING STATEMENT OF ASSETS AND LIABILITIES
AGENCY FUNDS
JUNE 30, 2004
(Expressed in Thousands)

	Agency Funds						
	Deferred Compensation Withholdings	Unified Court System	Child Support Funds	Nuclear Decommissing Fund	Maine-NH Interstate Bridge	Other Agency Funds	Total
ASSETS							
Cash and Cash Equivalents		$ 4,813	$ 1,514			$ 2,079	$ 8,406
Investments				$ 301,285	$ 3,422	1,761	306,468
Total Assets	$	$ 4,813	$ 1,514	$ 301,285	$ 3,422	$ 3,840	$ 314,874
LIABILITIES							
Custodial Funds Payable		$ 4,813	$ 1,514	$ 301,285	$ 3,422	$ 3,814	$ 314,848
Other Liabilities						26	26
Total Liabilities	$	$ 4,813	$ 1,514	$ 301,285	$ 3,422	$ 3,840	$ 314,874

STATE OF NEW HAMPSHIRE
COMBINING STATEMENT OF CHANGES
IN ASSETS AND LIABILITITES
AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Expressed in Thousands)

	Balance July 1, 2003	Additions	Deletions	Balance June 20, 2004
Deferred Compensation Withholdings				
ASSETS				
Cash and Cash Equivalents	$	$ 3,604	$ 3,604	$
LIABILITIES				
Custodial Funds Payable	$	$ 3,604	$ 3,604	$
Unified Court System				
ASSETS				
Cash and Cash Equivalents	$ 5,918	$ 12,531	$ 13,636	$ 4,813
LIABILITIES				
Custodial Funds Payable	$ 5,918	$ 12,531	$ 13,636	$ 4,813
Child Support Funds				
ASSETS				
Cash and Cash Equivalents	$ 2,192	$ 169,420	$ 170,098	$ 1,514
LIABILITIES				
Custodial Funds Payable	$ 2,192	$ 169,420	$ 170,098	$ 1,514
Nuclear Decommissioning Fund				
ASSETS				
Investments	$ 268,547	$ 36,754	$ 4,016	$ 301,285
LIABILITIES				
Custodial Funds Payable	$ 268,547	$ 36,754	$ 4,016	$ 301,285
Maine-New Hampshire Interstate Bridge Authority				
ASSETS				
Investments	$ 3,755	$ 288	$ 621	$ 3,422
LIABILITIES				
Custodial Funds Payable	$ 3,755	$ 288	$ 621	$ 3,422
Other Agency Funds				
ASSETS				
Cash and Cash Equivalents	$ 1,858	$ 8,079	$ 7,664	$ 2,273
Investments	1,363	383	179	1,567
Total Assets	$ 3,221	$ 8,462	$ 7,843	$ 3,840
LIABILITIES				
Other Liabilites	$ 27	$ 616	$ 617	$ 26
Custodial Funds Payable	3,194	7,846	7,226	3,814
Total Liabilities	$ 3,221	$ 8,462	$ 7,843	$ 3,840
Totals - Agency Funds				
ASSETS				
Cash and Cash Equivalents	$ 9,968	$ 193,634	$ 195,196	$ 8,406
Investments	273,665	37,619	4,816	306,468
Total Assets	$ 283,633	$ 231,253	$ 200,012	$ 314,874
LIABILITIES				
Other Liabilities	$ 27	$ 616	$ 617	$ 26
Custodial Funds Payable	283,606	230,443	199,201	314,848
Total Liabilities	$ 283,633	$ 231,059	$ 199,818	$ 314,874

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TABLE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GENERAL , HIGHWAY, EDUCATION, AND FISH & GAME FUNDS FOR THE LAST TEN FISCAL YEARS (Expressed in Thousands)

	Fiscal Year Ended June 30									
	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
REVENUES:										
General Property Taxes	$ 493,614	$ 504,891	$ 501,704	$ 458,201	$ 473,706	$ 535	$ 563	$ 566	$ 408	$ 460
Special Taxes	1,137,423	1,054,577	1,018,713	932,958	853,246	726,398	670,054	606,135	543,910	648,688
Personal Taxes	100,015	94,029	84,222	86,350	94,987	73,765	76,091	50,421	44,498	44,013
Business License Taxes	170,322	162,973	159,480	222,651	210,432	209,470	195,182	192,608	180,363	166,090
Non-Business License Taxes	169,592	163,764	155,279	67,068	65,954	62,817	61,218	59,253	56,868	55,931
Fees	121,636	116,266	111,044	107,900	101,247	99,730	84,789	81,989	84,704	71,185
Fines,Penalties and Interest	24,365	22,663	20,598	28,703	29,378	26,882	28,952	26,276	25,056	28,204
Grants from Federal Government	1,347,888	1,198,702	1,072,023	983,342	957,669	914,277	822,569	786,119	814,616	743,308
Grants from Private and local Sources	139,755	117,705	101,093	122,584	113,093	116,154	117,707	103,298	107,368	93,269
Rents and Leases	1,457	1,333	1,612	1,190	1,430	1,553	4,960	4,832	4,673	4,320
Interest, Premiums and Discounts	4,578	11,267	7,195	14,670	16,867	15,368	14,272	12,782	13,507	13,512
Sale of Commodities	8,882	11,783	11,354	10,420	10,284	9,826	13,141	11,634	10,485	8,907
Sale of Services	153,423	94,314	88,892	76,895	75,492	80,010	73,799	95,338	92,037	136,522
Assessments	16,422	14,322	17,365	20,674	22,434	16,771	16,441	15,157	14,058	13,625
Grants from Other Agencies	5,659	4,644	3,241	7,631	3,252	4,636	28,852	23,273	21,971	17,305
Miscellaneous	163,803	159,518	119,336	89,012	100,159	44,037	43,270	42,056	36,565	41,455
Total Revenues	4,058,834	3,732,751	3,473,151	3,230,249	3,129,630	2,402,229	2,251,860	2,111,737	2,051,087	2,086,794
EXPENDITURES:										
Current:										
General Government	217,050	211,475	193,996	185,443	184,090	178,530	172,926	177,403	180,569	184,538
Administration of Justice and Public Protection	259,579	254,551	235,774	217,222	201,162	193,291	196,322	166,614	156,330	150,774
Resource Protection and Development	163,034	161,893	136,086	133,803	118,784	114,199	106,492	102,520	91,089	89,630
Transportation	237,711	236,479	221,572	226,928	211,439	201,139	189,599	187,445	189,541	181,756
Health and Social Services	1,754,938	1,505,032	1,351,583	1,276,100	1,210,723	1,178,090	1,115,939	1,080,933	1,094,810	1,192,346
Education	1,281,614	1,263,036	1,206,059	1,120,208	1,107,152	342,837	326,280	289,297	269,425	265,692
Debt Service	86,740	89,591	82,759	81,390	81,228	78,730	74,293	75,461	74,754	65,131
Capital Outlay	180,304	187,047	212,586	179,568	185,391	155,663	133,435	125,492	102,758	90,956
Total Expenditures	4,180,970	3,909,104	3,640,415	3,420,662	3,299,969	2,442,479	2,315,286	2,205,165	2,159,276	2,220,823
Excess (Deficiency) of Revenues Over (Under) Expenditures	(122,136)	(176,353)	(167,264)	(190,413)	(170,339)	(40,250)	(63,426)	(93,428)	(108,189)	(134,029)
OTHER FINANCING SOURCES (USES):										
Operating Transfers In	59,716	68,488	86,434	335,978	402,754	237,886	224,071	236,315	198,214	347,000
Operating Transfers Out	(56,421)	(68,796)	(83,882)	(335,002)	(402,818)	(244,501)	(224,065)	(236,442)	(196,062)	(347,913)
Operating Transfers from Enterprise Funds	165,820	152,182	148,727	136,623	137,695	132,829	124,329	117,704	106,879	99,681
Proceeds from Issuance of Bonds	0	97,830	5,130					64	34	1,447
Proceeds from Refunding Bonds						103,351		53,595		
Capital Lease Acquisition	134	1,159								
Bond Escrow Agent	0	(97,830)				(103,351)		(53,595)		
Total Other Financing Sources (Uses)	169,249	153,033	156,409	137,599	137,631	126,214	124,335	117,641	109,065	100,215
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	47,113	(23,320)	(10,855)	(52,814)	(32,708)	85,964	60,909	24,213	876	(33,814)
Fund Balances - July 1	315,485	339,596	348,517	402,653	435,041	349,855	288,946	264,733	263,857	297,671
Change in Reserve for Inventory	1,665	(791)	1,934	(1,322)	320	(778)				
Fund Balances - June 30	$ 364,263	$ 315,485	$ 339,596	$ 348,517	$ 402,653	$ 435,041	$ 349,855	$ 288,946	$ 264,733	$ 263,857
Ratio of Debt Services to Total Expenditures	2.07%	2.29%	2.27%	2.38%	2.46%	3.22%	3.21%	3.42%	3.46%	2.93%

TABLE OF UNRESTRICTED REVENUE
GENERAL FUND - GAAP BASIS
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)

	Fiscal Year Ended June 30									
	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Beer Tax	$ 12,445	$ 12,281	$ 12,157	$ 11,656	$ 12,090	$ 11,783	$ 11,442	$ 11,366	$ 11,113	$ 11,217
Board and Care Revenue	12,384	11,197	10,692	13,333	11,953	11,196	12,966	13,992	13,628	14,439
Business Profits Tax	131,585	137,757	128,574	179,615	146,443	164,833	167,471	171,990	152,683	138,348
Business Enterprise Tax	118,538	96,574	121,016	122,165	94,354	93,021	71,036	38,239	24,969	29,764
Estate and Legacy Tax	26,971	59,074	56,958	59,348	56,368	54,744	43,274	40,734	33,270	38,456
Insurance Tax	86,246	82,161	76,094	66,441	59,336	62,914	54,656	57,202	50,488	42,639
Securities Revenue(1)	26,344	25,778	26,060	28,023	25,513	22,465	20,522	18,042	15,622	13,722
Interest and Dividends Tax	55,630	55,129	70,334	76,651	65,522	63,134	61,799	52,683	51,878	37,970
Liquor	106,676	98,996	96,237	89,344	86,015	77,444	75,440	71,713	65,971	63,626
Meals and Rooms Tax	178,480	168,722	164,045	157,202	149,777	137,258	128,688	118,984	113,369	107,501
Parks Revenue(2)									5,205	4,212
Dog Racing	1,515	1,572	1,487	1,262	1,058	1,026	1,011	2,213	2,166	2,802
Horse Racing	2,474	2,459	2,701	2,592	2,429	2,427	2,238	2,778	3,032	3,053
Real Estate Transfer Tax	95,162	78,859	66,393	59,488	56,779	52,925	44,162	33,330	30,192	28,971
Telephone/Communications Tax	65,781	62,522	64,663	49,045	47,794	46,219	40,134	39,253	35,519	33,212
Tobacco Tax	71,471	67,066	60,294	61,007	68,381	73,784	76,128	50,436	44,537	44,065
Tobacco Settlement	1,816	5,862	5,725		442					
Utilities Tax	5,121	7,078	5,565	9,656	9,974	10,402	17,731	17,562	17,488	17,073
Courts Fines and Fees	24,673	22,114	23,234	23,218	22,845	21,917	21,021	20,167	18,914	19,488
Flexible Grant	25,000	25,000								
Other:										
Corporate Returns	748	750	711	681	676	659	655	698	657	621
Interstate Vehicle Registrations	2,253	2,310	2,377	2,602	2,860	2,858	2,795	2,714	2,857	2,842
Motor Boat Registrations						1,779	1,847	1,757	1,600	1,747
Corporate Filing Fees	2,947	3,346	3,341	3,427	3,436	3,229	3,227	3,219	3,093	3,042
Interest on Surplus Funds	174	75	1,250	3,754	3,201	5,978	2,990	181	324	2,885
Reimbursement of Indirect Costs	10,697	5,675	5,511	4,255	4,094	4,903	5,100	4,184	4,215	6,151
Miscellaneous	40,232	40,409	32,403	32,917	27,877	26,192	29,991	26,266	24,516	25,821
Subtotal	1,105,363	1,072,766	1,037,822	1,057,682	959,217	953,090	896,324	799,703	727,306	693,667
Net Medicaid Enhancement Revenues (MER)	149,831	116,979	98,208	85,217	74,230	70,411	67,502	54,268	101,983	116,614
Recoveries	20,374									
Subtotal	1,275,568	1,189,745	1,136,030	1,142,899	1,033,447	1,023,501	963,826	853,971	829,289	810,281
Other MER Transferred to/(from) Uncompensated Care Pool	35,143	16,594	16,263	12,966	12,915	15,839	9,204	43,482	(10,483)	152,552
Total Unrestricted Revenue	$1,310,711	$ 1,206,339	$ 1,152,293	$ 1,155,865	$ 1,046,362	$ 1,039,340	$ 973,030	$ 897,453	$ 818,806	$ 962,833

(1) Beginning in FY 1994, Securities Revenues were reported separately from the Insurance Tax.
(2) Beginning in FY 1998, Park Revenue was reclassified as Restricted Revenue.

TABLE OF UNDESIGNATED FUND BALANCE
GENERAL FUND
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)

	Fiscal Year Ended June 30									
	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Balance, July 1 (Budgetary Method).....	$ 20,047	$ 23,309	$ 136,349	$ 62,450	$ 119,484	$ 131,367	$ 42,638	$ 11,356	$ 53,769	$ 66,462
Additions:										
Unrestricted Revenue.....	1,275,568	1,189,745	1,136,030	1,142,899	1,033,447	1,023,501	960,530	873,749	795,996	847,406
(1)Unrestricted Revenue - UCP.....	35,143	16,594	16,263	12,966	12,915	15,839	12,500	23,704	22,810	115,427
Total Unrestricted Revenue.....	1,310,711	1,206,339	1,152,293	1,155,865	1,046,362	1,039,340	973,030	897,453	818,806	962,833
Transfer from Other Funds.....	9,161	517	3,358	1,787	778	2,334	1,051	1,062	3,374	692
Bonds Authorized and Unissued.....			5,130			(7,337)				
Additional Lottery Transfer.....						8,579				
Other Credits.....	821	35	247	48	214	7,541	5,348	51	436	1,054
Total Additions.....	1,320,693	1,206,891	1,161,028	1,157,700	1,047,354	1,050,457	979,429	898,566	822,616	964,579
Deductions:										
Appropriations Net of Estimated Revenues:										
General Government.....	248,390	233,118	228,190	227,278	226,440	203,368	185,447	185,695	175,145	192,018
Administration of Justice and Public Protection.....	168,515	163,516	161,406	154,450	149,503	136,298	128,992	109,324	107,573	99,498
Resource Protection and Development.....	41,673	41,161	41,511	38,764	37,753	38,483	37,238	35,071	40,256	37,479
Transportation.....	2,759	3,286	3,399	2,920	3,034	2,882	2,935	2,845	2,886	2,710
Health and Social Services.....	589,392	516,550	498,534	242,393	242,442	218,549	212,160	205,796	203,716	214,601
Education.....	247,543	265,552	242,657	175,520	166,644	156,335	154,785	124,941	119,970	122,203
Liquor Commission.....	28,879	24,943	25,035	22,860	23,417	22,550	22,119	20,443	20,774	19,887
(2)Special Fund.....				238,823	231,867	205,086	197,903	195,957	195,011	207,410
Subtotal.....	1,327,151	1,248,126	1,200,732	1,103,008	1,081,100	983,551	941,579	880,072	865,331	895,806
Uncompensated Care Pool.....	35,143	16,594	16,263	12,966	12,915	15,839	12,500	23,704	22,810	115,427
Health Care Transition Fund (HCTF)...							14,786	6,500	7,912	8,418
Total Appropriations Net of Estimated Revenues.....	1,362,294	1,264,720	1,216,995	1,115,974	1,094,015	999,390	968,865	910,276	896,053	1,019,651
Less: Lapses.....	(57,491)	(20,650)	(26,179)	(33,010)	(22,913)	(42,794)	(24,105)	(25,493)	(25,973)	(28,614)
Lapses - HCTF.....				(95)	(342)	(485)		(6,415)	(790)	(12,861)
Total Lapses.....	(57,491)	(20,650)	(26,179)	(33,105)	(23,255)	(43,279)	(24,105)	(31,908)	(26,763)	(41,475)
Net Appropriations.....	1,304,803	1,244,070	1,190,816	1,082,869	1,070,760	956,111	944,760	878,368	869,290	978,176
Transfers to Other Funds.....					65	872	280	398	595	965
Other Debits.....	37			105	1,037	2,704	865	1,823	2,266	2,481
Transfer to (from) Fund Equity Designation or Reserve Accounts.....	(37,857)	(33,917)	83,252	827	32,526	102,653	(55,205)	(13,305)	(7,122)	(4,350)
Total Deductions.....	1,266,983	1,210,153	1,274,068	1,083,801	1,104,388	1,062,340	890,700	867,284	865,029	977,272
Balance, June 30 (Budgetary Method).....	73,757	20,047	23,309	136,349	62,450	119,484	131,367	42,638	11,356	53,769
GAAP Adjustments:										
Receivables.....	32,722	29,676	26,254	4,121	2,845	4,827	1,520	2,764	3,414	4,555
Accounts Payable and Accrued Liabilities.....	(94,872)	(88,271)	(67,704)	(44,552)	(48,721)	(62,191)	(58,082)	(53,199)	(58,669)	(56,777)
Transfer from General to Liquor Fund.....	(4,191)	(4,324)	(3,148)	(2,738)	(2,686)	(3,628)	(3,677)	(3,180)	(2,942)	(2,523)
Transfer from General to Special Fund.....				(9,833)	(9,889)	(27,488)	(26,127)	(29,207)	(10,531)	(34,133)
Elimination Bonds Authorized.....										
Additional Transfers (to) from Reserve Accounts.....		37,857		(83,347)		(31,004)	(3,602)	38,960	13,221	35,109
Total GAAP Adjustments.....	(66,341)	(25,062)	(44,598)	(136,349)	(58,451)	(119,484)	(89,968)	(43,862)	(55,507)	(53,769)
Year-End Transfer to Education to cover.. Advances (Negative Cash Balance)...	7,871	5,015	(16,580)							
Balance (Deficit), June 30 (GAAP).....	$ 15,287	$	$ (37,869)	$	$ 3,999	$	$ 41,399	$ (1,224)	$ (44,151)	$

(1) UCP = Uncompensated Care Pool

(2)In fiscal year 2002, the special fund, which was used to capture federal grants and state match, was combined with the general fund.

TABLE OF UNDESIGNATED FUND BALANCE
EDUCATION FUND
FOR FISCAL YEARS 1999 TO 2004
(Expressed in Thousands)

	Fiscal Year Ended June 30,						
	2004	2003	2002	2001	2000	1999	Description
Balance July 1	$	$	$	$ 66,348	$ 124,783		
Additions							
Unrestricted Revenue							
Statewide Property Tax	443,350	452,997	454,135	417,964	417,975		$4.92/1,000, retained locally
Statewide Property Tax	29,844	32,666	28,987	24,194	24,150		$4.92/1,000 , not retained locally
Utility Property Tax	20,160	18,834	18,170	15,621	31,167		$6.60/1,000
BPT Increase	41,000	37,100	32,645	15,800	22,400		1.5% increase from 7% to 8.5%
BET Increase	116,900	121,400	101,215	36,700	54,100		.50% increase from .25% to.75%
Meals & Rooms	6,875	6,701	6,604	6,859	6,350		Extension of 8% tax to motor vehicle rentals
Real Estate Tax Increase	47,515	39,426	33,073	29,735	28,231		$2.50 increase from $5.00/1000 to $7.50
Tobacco Tax Increase	28,582	26,977	23,968	25,356	26,649		$0.15/pack increase from $0.37 to $.52
Tobacco Settlement	40,000	40,000	40,000	38,745	37,750		Annual payment
Initial Tobacco Settlement Payment					16,000		One-time payment
Lottery Proceeds	73,745	66,569	66,125	59,348	61,517		Net Profit
Other				175	2,924		Interest
Total Revenue	847,971	842,670	804,922	670,497	729,213		
General Fund Budgeted Appropriations	62,590	83,420	65,690	40,559	39,584		Formerly Revenue Sharing, Foundation Aid & Kindergarten Aid
Total Additions	910,561	926,090	870,612	711,056	768,797		
Deductions							
Appropriations							
Adequate Education Grant	451,640	443,873	426,523	406,817	406,817		State Education Grant Disbursed by State
Adequate Education Grant	443,350	452,997	454,135	417,964	417,975		State Education Grant Retained Locally
Total Grants	894,990	896,870	880,658	824,781	824,792		
DRA-Hardship Grants		5,000	5,000	769	1,162		
DRA-Property Tax Relief	7,700						GAAP Adj. for Low & Moderate Income Relief
DRA-Tax Relief Admin					200		
DOE-Kindergarten Aid		2,625	1,972		950		
DOE-Admin. & Computers					169		
Total Appropriations	902,690	904,495	887,630	825,550	827,273		
Less Lapses			(438)	(25)	(41)		
Net Appropriations	902,690	904,495	887,192	825,525	827,232		
Current Year Balance	7,871	21,595	(16,580)	(114,469)	(58,435)		
End of Year Transfers From(To)							
General Fund							
FY 2000						$ 124,783	Beginning Balance from Education Betterment
FY 2001				48,121			Chapter 158 : 42 Laws of 2001
FY 2002			16,580				Eliminate Negative Cash
FY 2003		(16,580)					Reimburse Prior Year Transfer
FY 2003		(5,015)					Eliminate Current Year Surplus
FY 2004	(7,871)						Eliminate Current Year Surplus
Balance June 30	$	$	$	$	$ 66,348	$ 124,783	

TABLE OF UNDESIGNATED FUND BALANCE
HIGHWAY FUND
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)

	Fiscal Year Ended June 30									
	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Balance (Deficit), July 1 (Budgetary Method)	$ (4,271)	$ 6,227	$ (18,274)	$ (7,346)	$ 1,454	$ 7,439	$ 11,001	$ (2,903)	$ 8,299	$ 1,050
Additions:										
Unrestricted Revenue:										
Gasoline Tax	129,863	124,221	121,665	119,507	116,050	119,863	115,517	111,001	107,025	102,053
Motor Vehicle Fees	89,934	87,725	83,715	72,066	69,882	66,320	64,452	62,449	60,174	59,462
Other	6,270	4,737	6,343	8,872	8,344	10,544	9,263	10,090	10,709	8,405
Total Unrestricted Revenue	226,067	216,683	211,723	200,445	194,276	196,727	189,232	183,540	177,908	169,920
Bonds Authorized and Unissued										
* Other Credits			19,436		1,202		767	43		370
Total Additions	226,067	216,683	231,159	200,445	195,478	196,727	189,999	183,583	177,908	170,290
Deductions:										
Appropriations Net of Estimated Revenues	235,021	238,453	229,962	222,593	214,021	211,816	200,378	175,814	193,270	168,799
Less: Lapses **	(16,677)	(13,133)	(23,149)	(14,064)	(24,607)	(16,656)	(8,322)	(7,717)	(6,534)	(7,038)
Net Appropriations	218,344	225,320	206,813	208,529	189,414	195,160	192,056	168,097	186,736	161,761
Bonds Authorized and Unissued				-	13,309	5,736				
Other Debits	389	1,861	(155)	2,844	1,555	1,816	1,505	1,582	2,374	1,280
Total Deductions	218,733	227,181	206,658	211,373	204,278	202,712	193,561	169,679	189,110	163,041
Balance, June 30 (Budgetary Method)	3,063	(4,271)	6,227	(18,274)	(7,346)	1,454	7,439	11,001	(2,903)	8,299
GAAP Adjustment:										
Receivables	119	1,511	360	271	1,596	269	404	934	317	777
Accounts Payable and Accrued Liabilities	(12,644)	(9,851)	(10,696)	(8,414)	(9,956)	(9,131)	(9,735)	(9,803)	(8,567)	(9,707)
Bonds Authorized and Unissued						(13,309)	(19,045)	(19,045)	(19,109)	(19,142)
Total GAAP Adjustments	(12,525)	(8,340)	(10,336)	(8,143)	(8,360)	(22,171)	(28,376)	(27,914)	(27,359)	(28,072)
Reclassification of Designated Balance									39,732	42,962
Balance (Deficit), June 30 (GAAP)	$ (9,462)	$ (12,611)	$ (4,109)	$ (26,417)	$ (15,706)	$ (20,717)	$ (20,937)	$ (16,913)	$ 9,470	$ 23,189

* FY 2002 - Other Credits of $19,436 represents local revenue in excess of estimates accumulated over several years.

** FY 2002 Lapse increases by $6.3 million for close out of Federal Funds and related state match.

TABLE OF UNDESIGNATED FUND BALANCE
FISH AND GAME FUND
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)

	Fiscal Year Ended June 30									
	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Balance, July 1 (Budgetary Method)	$ 3,616	$ 3,324	$ 3,599	$ 4,277	$ 5,464	$ 5,006	$ 4,310	$ 4,068	$ 4,539	$ 3,999
Additions:										
Unrestricted Revenue	9,164	8,924	8,374	8,230	7,928	8,158	7,923	7,397	6,769	6,819
Other Credits	507	939	806	811	878	742	847	791	871	640
Total Additions	9,671	9,863	9,180	9,041	8,806	8,900	8,770	8,188	7,640	7,459
Deductions:										
Appropriations Net of Estimated Revenues	10,651	10,593	10,545	10,238	10,419	8,809	8,350	8,311	8,413	7,502
Less: Lapses	(1,127)	(1,024)	(1,131)	(667)	(426)	(479)	(276)	(385)	(302)	(730)
Net Appropriations	9,524	9,569	9,414	9,571	9,993	8,330	8,074	7,926	8,111	6,772
Other Debits		2	41	148	0	112	0	20	0	147
Total Deductions	9,524	9,571	9,455	9,719	9,993	8,442	8,074	7,946	8,111	6,919
Current Year Balance	147	292	(275)	(678)	(1,187)	458	696	242	(471)	540
Balance, June 30 (Budgetary Method)	3,763	3,616	3,324	3,599	4,277	5,464	5,006	4,310	4,068	4,539
GAAP Adjustment:										
Receivables	289	229	299	152	160	438	211	128	124	102
Accounts Payable and Accrued Liabilities	(1,279)	(1,216)	(1,027)	(1,036)	(1,178)	(1,238)	(1,325)	(1,182)	(1,120)	(871)
Total GAAP Adjustments	(990)	(987)	(728)	(884)	(1,018)	(800)	(1,114)	(1,054)	(996)	(769)
Balance, June 30 (GAAP)	$ 2,773	$ 2,629	$ 2,596	$ 2,715	$ 3,259	$ 4,664	$ 3,892	$ 3,256	$ 3,072	$ 3,770

SCHEDULE OF REVENUE BOND COVERAGE RATIO
TURNPIKE SYSTEM REVENUE BONDS
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)

Fiscal Year	Gross Revenues*	Direct Operating Expenses*	Net Revenue Available For Debt Service	Debt Service Requirements			Coverage Ratio
				Principal	Interest	Total	
2004	66,463	26,568	39,895	8,300	15,565	23,865	1.67
2003	67,086	24,505	42,581	7,765	16,984	24,749	1.72
2002	66,218	23,877	42,341	9,415	17,037	26,452	1.60
2001	63,981	21,352	42,629	6,785	18,567	25,352	1.68
2000	63,034	22,064	40,970	6,645	19,807	26,452	1.55
1999	59,257	18,794	40,463	5,817	16,469	22,286	1.82
1998	58,033	16,352	41,681	6,063	15,615	21,678	1.92
1997	55,714	17,231	38,483	5,653	15,944	21,597	1.78
1996	53,231	17,024	36,207	5,348	16,247	21,595	1.68
1995	51,670	17,336	34,334	4,416	16,462	20,878	1.64

* - Amounts as defined in Turnpike System Bond Resolutions.

RATIO OF GENERAL LONG-TERM DEBT TO ASSESSED VALUE AND GENERAL LONG-TERM DEBT PER CAPITA FOR THE LAST TEN FISCAL YEARS

	(Expressed in Thousands)				
	(1)	(2)	(3)		
Fiscal Year	Population	Assessed Value	General Long-Term Debt	Ratio Of General Long-Term Debt To Assessed Value	General Long-Term Debt Per Capita
2004	1,305	$ 135,082,810	$ 648,492	0.48	$ 497
2003	1,288	131,148,359	629,461	0.48	489
2002	1,275	114,813,249	682,389	0.59	535
2001	1,259	99,073,654	628,406	0.63	499
2000	1,236	86,703,541	592,110	0.68	479
1999	1,201	76,154,469	645,907	0.85	538
1998	1,186	70,239,891	617,525	0.88	521
1997	1,173	65,331,719	661,353	1.01	564
1996	1,161	62,883,249	663,286	1.05	571
1995	1,146	61,338,431	646,316	1.05	564

Sources: (1) U.S. Dept. of Commerce, Bureau of the Census, reflects the most current available data for all years represented (2004 estimated).
(2) New Hampshire Department of Revenue Administration (2004 estimated). Equalized evaluation.
(3) Includes all General Obligation Bonds Payable of the Primary Government.

DEMOGRAPHIC STATISTICS FOR THE LAST TEN FISCAL YEARS

	(1)	(2)	(3)
Year	Population	Per Capita Income	Unemployment Rate
2004	1,305,000	$ 36,147	3.9%
2003	1,288,888	34,702	4.1
2002	1,275,000	34,276	4.5
2001	1,259,000	35,086	2.9
2000	1,236,000	33,332	2.8
1999	1,201,000	31,325	2.6
1998	1,186,000	29,596	2.7
1997	1,173,000	27,613	3.2
1996	1,161,000	26,042	4.4
1995	1,146,000	25,008	3.9

Sources: (1) U.S. Dept. of Commerce, Bureau of the Census, reflects the most current available data for all years represented (2004 estimated).
(2) U.S. Dept. of Commerce, Bureau of Economic Analysis, reflects the most current available data for all years represented (2004 estimated).
(3) New Hampshire Department of Employment Security, Economic and Labor Market Information Bureau.

NUMBER OF BUILDING PERMITS FOR HOUSING UNITS FOR THE LAST TEN CALENDAR YEARS

Building Permits Issued
By Number of Units

Fiscal Year	Single Family	Multi-Family	Total
2004*	6,615	2,355	8,970
2003	6,043	1,729	7,772
2002	6,383	1,539	7,922
2001	5,608	543	6,151
2000	6,097	583	6,680
1999	5,696	630	6,326
1998	5,310	461	5,771
1997	4,598	806	5,404
1996	4,233	693	4,926
1995	4,105	318	4,423

Source: U.S. Department of Commerce, Bureau of the Census.
* Data is annualized based on activity through July 2004

Largest Employers
(Excluding Federal, State and Local Governments

Company	Employees	Primary New Hampshire Site	Principle Product
1. Wal-Mart Stores Inc.	8,530	Multiple	Retail Department Store
2. Dartmouth Hitchcock Medical Center	7,100	Hanover	Acute Care Hospital
3. Demoulas & Market Basket	5,800	Multiple	Supermarkets
4. Hannaford Brothers-Shop & Save	4,700	Multiple	Supermarkets
5. Shaw's Supermarkets Inc.	4,600	Multiple	Supermarkets
6. Dartmouth College	4,074	Hanover	Private College
7. BAE Systems	4,000	Nashua	Communications
8. Liberty Mutual	3,829	Multiple	Financial Services
9. Fidelity Investments	3,349	Merrimack	Financial Services
10. Home Depot	2,500	Manchester	Hardware Products
11. Concord Hospital	2,487	Concord	Hospital
12. Elliot Hospital	2,098	Manchester	Acute Care Hospital
13. Southern New Hampshire Medical Center	1,800	Nashua	Acute Care Hospital
14. Verizon Communications	1,750	Multiple	Telecommunications
15. Osram Sylvania	1,735	Hillsboro	Light Sources
16. Hewlett-Packard Co.	1,700	Nashua	Computer
17. Sears at Fox Run Mall	1,626	Newington	Home and Automotive Products
18. N.H. International Speedway	1,500	Loudon	Motor sports Facility
19. St. Joseph Hospital	1,500	Nashua	Acute Care Hospital
20. Freudenberg-NOK	1,469	Bristol	Manufacturer

Source: *New Hampshire Business Review/Book of Lists 2004*

STATE OF NEW HAMPSHIRE
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