

**State of New Hampshire's
Annual Citizens Report
For The Fiscal Year Ended
June 30, 2007**



**Prepared by the
Department of Administrative Services**

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State of New Hampshire's *Annual Citizens Report* For Fiscal Year Ended June 30, 2007



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**Prepared by the Department of
Administrative Services**

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Photo(L-R) Back: Commissioner Hill, Councilor Burton, Councilor Shea,
Councilor Wiczorek
Front: Councilor Hollingworth, Governor Lynch, Councilor Pignatelli.

Selected State Officials as of June 30, 2007:

Governor

John H. Lynch

Executive Council

Raymond S. Burton, District 1

John D. Shea, District 2

Beverly A. Hollingworth, District 3

Raymond J. Wiczorek, District 4

Debora B. Pignatelli, District 5

President of the Senate

Sylvia B. Larsen

24 Senators

Speaker of the House of Representatives

Terie Norelli

400 Representatives

Message From the Governor

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

I am pleased to accept the *Fiscal Year 2007 State of New Hampshire Annual Report to the Citizen's*.

Working together, we made significant progress this year in ensuring New Hampshire is a place of opportunity for all our citizens. We invested in building a stronger future for our state through education and economic development; we improved the financial management of state government and passed a balanced, fiscally responsible state budget; and we began tackling long-neglected problems.

Our state's Rainy Day Fund now stands at \$89 million, up from \$17.3 million in 2004.

We've taken action to clean up the State's Highway Fund and improve the financial management of the Department of Transportation. We doubled the number of municipal "red-listed" bridges that will be repaired or replaced this biennium, and have begun to develop an honest, responsible and realistic 10-Year Highway Plan. We are making critical investments to repair our aging turnpike system to meet the needs of New Hampshire's modern economy.

We are working to return financial stability to our state's retirement system. Bad decisions several decades ago – and failure to correct those decisions – have hurt the retirement system. Legislation passed last year, however, has already improved the system's financial footing, and the ongoing work of an inclusive Retirement Commission will allow us to continue to move forward to insure a sound retirement system.

The future of our state's economy and the future of our families depend on an educated workforce. That is why we are increasing our efforts to help more young people graduate from high school, and to make higher education affordable and accessible for families. And we continue to work to address education funding. Last year, we passed legislation defining an adequate education – a significant milestone in this ongoing effort.

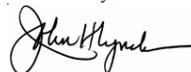
A strong state depends upon a healthy citizenry. That is why we provided the funding necessary to enroll an additional 10,000 children in New Hampshire's Healthy Kids Health Insurance Program over the next three years. And the budget we passed included funding to eliminate the waitlist for services for people with developmental disabilities.

We are investing in building our economy. The research and development tax credit we created this year will encourage innovative companies to create new jobs and reinvest in New Hampshire. And the new Job Training Fund will help ensure our companies have the skilled workers they need to compete.

I remain committed to bring people together in Concord – both Democrats and Republicans – to put aside partisanship and focus on getting good results for the people of New Hampshire.

I am very proud of all we have accomplished in the past year. I would like to take this opportunity to thank you for your support, and to thank our great state employees for all their hard work and dedication. Without their efforts, and without the support and involvement of people from across New Hampshire, much of the progress we have made would not have been possible.

Sincerely,



John H. Lynch
Governor

<i>New Hampshire's Economic Scoreboard for 2007</i>		
<i>Categories</i>	<i>NH's National Rank</i>	<i>NH's Rank in New England</i>
Favorable Tax Climate	1st	1st
Healthiest State (Morgan Quitno, 2007)	5th	4th
Standard of Living (by Poverty Rate)	1st	1st
Child and Family Well-Being (Annie E. Casey, 2007)	2nd	1st
Safest State (Lowest crime rate, 2005)	1st	1st
Most Livable State (Morgan Quitno, 2007)	1st	1st
College Educated Population	10th	4th

Source: Dennis Delay, NH Center for Public Policy Studies

N*ew Hampshire has continued to receive high quality of life rankings in Morgan Quitno's Most Livable State Awards, ranking first in standard of living, Safest State, Favorable Tax Climate and the most livable state.*

We would like to present our fiscal year 2007 Annual Report to the Citizens, prepared by the Department of Administrative Services. It is our hope that this report provides an overview of the state's core finances in a format that is useful and informative to the citizens of New Hampshire.

This report presents selected financial information for the state's general fund and education trust fund, including unrestricted revenue performance and a surplus statement, and financial information on a government-wide basis, in accordance with generally accepted accounting principles (GAAP). Readers that have a need for more information regarding the accounting policies, the various required accounting disclosures, and the financial status of individual state funds and component units, should obtain a copy of the state's Comprehensive Annual Financial Report (CAFR). The CAFR, which includes the independent auditors' report, can be accessed by viewing our website or by contacting the Department.

New Hampshire continued to experience economic growth during the year despite the ongoing deterioration of the housing market. Due to New Hampshire's diversified tax structure, revenue sources that benefited from strength in business profits and growth in the investment markets helped the state offset revenue declines related to housing and those sensitive to consumer spending. Business Taxes and the Interest and Dividends Tax were main contributors to total unrestricted revenue exceeding plan by \$87.9 million or 4.0%.

The combined General and Education Fund Balances at the start of the fiscal year totaled \$34.4 million. As a result of revenue collections exceeding estimates, an additional \$47.3 million of surplus was generated during the year. Pursuant to Chapter 263:110, Laws of 2007, the surplus at the end of the biennium was not transferred into the Rainy Day Fund but rather only \$20.0 million was transferred bringing the balance in the Rainy Day Account to \$89.0 million at June 30, 2007. The balance of \$61.7 million remained in the General Fund.

The Education Fund ended the year with an unreserved, undesignated surplus of \$40.6 million. In accordance with Chapter 263:111, Laws of 2007, this surplus was transferred to the general fund on June 30, 2007 and the same will be done on June 30, 2008 and June 30, 2009 even though the Legislative Costing Committee is still attempting to estimate the cost of an adequate education.

Although state government has witnessed continued revenue growth and the financial statements herein report a yearend surplus, financial concerns still exist and need to be answered. The New Hampshire Retirement System is severely underfunded and an actuarial valuation of retiree health care determined an unaudited liability of \$1.6 billion to \$2.9 billion. A federal audit of New Hampshire's Medicaid Disproportionate Share found that \$35.0 million in federal expenditures for federal fiscal year 2004 was unallowable and should be refunded to the federal government. I believe each of these, as well as, the cost of an adequate education will need to be addressed in the current biennium.



Donald S. Hill, Commissioner

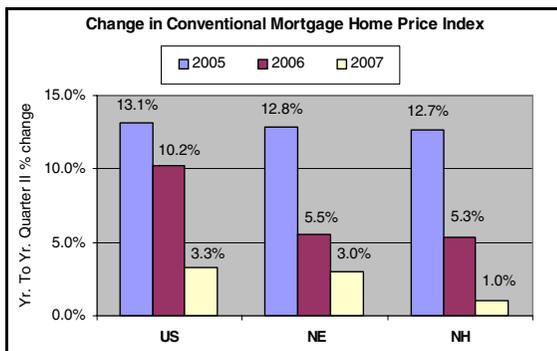
New Hampshire's economy, like that of regions, is slowing but is forecasted to continue to grow through the remainder of this decade. The state continues to retain its advantages over other states in the region with low unemployment, low tax burdens, highly educated and skilled workforce, and a small and accessible government. New Hampshire has the seventh best overall business tax climate in the nation and the best in the Northeast, according to the 2008 State Business Tax Climate Index Ranking from the Tax Foundation.

Regional economic growth will remain low and below the national average through the remainder of the decade due to the broadening effects of the housing credit crisis and rising energy prices. Real gross product growth (the output of goods and services) will average just 2.2% a year through 2011, which is below the national average of 2.6% over the same time period. The weakest time for the regional economy is expected to be over Q4 2007 and Q1 2008 with growth rates of 1.6% and 1.7%, respectively. These growth forecasts are indicative of the broadening effects of the national credit crisis and the economic vulnerabilities extending from the housing market to other sectors of the economy. In recent months, economic conditions worsened as home foreclosures increased, volatility roiled the stock market and crude oil advanced toward \$100 per barrel. Since Labor Day, the Federal Reserve Board has cut interest rates three times, shaving off a total of one percentage point in an effort to keep the US economy from sliding into recession.

With this regional backdrop, New Hampshire is expected to lead the region during the forecast period with annual growth in gross state product (GSP) of 3%. New Hampshire is forecast to lead region in employment growth as well, growing at 1.7% annually, and will be the only state to grow at a rate above the national average. As of June 2007, New Hampshire's seasonally adjusted total non-farm employment grew by 1.5% from June of last year, and the state's unemployment rate was 4.0%, which continues to track lower than New England (4.6%) and the national average (4.5%). In addition, New Hampshire is expected to be only one of two states in the region to have growth in real per capita income above the national average, with the state forecasted to grow at 2.9% per year.

Housing prices in New Hampshire and across the region are expected to continue to decline through the second half of 2008 with a slow and modest recovery to follow. Delinquencies for non-prime mortgages and associated foreclosures are expected to continue through the end of 2007 and well into 2008. The peak-to-trough decline in the region in median housing prices is expected to be just below 10%, as compared with the national decline of just over 10%.

Economists remain concerned, however, due to the uncertainty as to the extent of financial institution losses yet to come in the U.S. residential mortgage market. The national and regional economies are vulnerable and will remain so through next spring. Perhaps the biggest wild card is oil prices and their ripple effect on everything from gasoline to home heating fuel. The combination of the housing downturn and high or increased energy costs could have a spillover effect on consumer spending, which could stop any economic expansion.



Source: New England Economic Indicators, Federal Reserve Bank of Boston

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

Enterprise Resource Planning (ERP)

Enterprise Resource Planning (ERP) is an information technology industry term for integrated, multi-module application software packages designed to serve and support several business functions across an organization. An ERP system is a strategic tool that helps the organization improve operations and management by integrating business processes and helping to optimize the allocation of available resources. These systems are typically commercial software packages that facilitate collection and integration of information related to various areas of an organization such as finance, accounting, human resources, inventory, procurement, and customer service.

The 2005 capital budget included \$19.0 million of appropriations for the ERP project of which \$5.9 million has been spent to date. In April 2006, a vendor was selected and Ciber, Inc. and Lawson Software were awarded contracts and on July 26, 2006 the ERP project was officially kicked off under the project name of NH FIRST (New Hampshire Fundamental Improvements to Revitalize Systems/Services and Technology).

NH FIRST will be replacing the state's separate and antiquated budgeting, accounting and human resources systems with a new, fully integrated system, which will offer far more functionality than exists today and will support statewide business office functions. NH FIRST will use the latest information technology to allow information sharing with other agencies, vendors, and citizens like never before and will transform the way New Hampshire state government does business.

NH FIRST will be implemented using a multi-phase approach over a 2 1/2 year span with the first phase due to go live during fiscal year 2009.

Employee Benefit Risk Management Fund

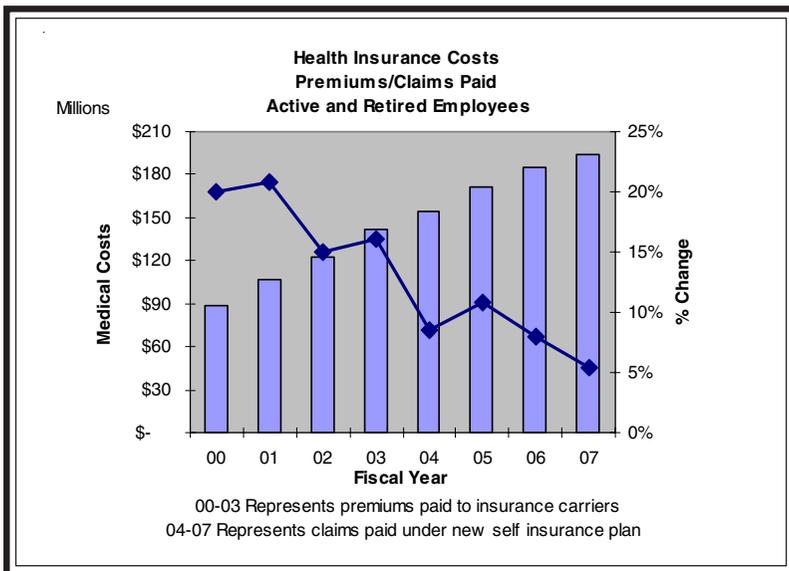
Chapter 251, Laws of 2001, authorized the Commissioner of Administrative Services to provide a self-funded alternative to traditional insurance programs for employee benefits to aid in controlling the rise in insurance costs. As a result, a new fund, titled the Employee Benefit Risk Management Fund, 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.

Agencies are charged an actuarially determined premium paid into this 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 fund daily.

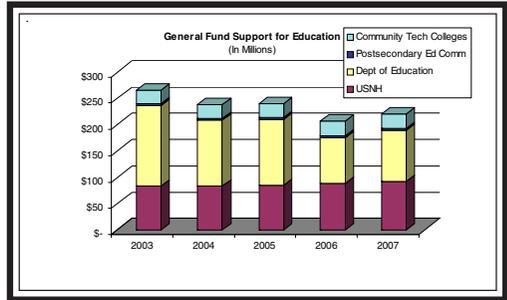
Since fiscal 2003, the annual percent change in health costs has decreased from 16% to 5% for fiscal 2007.

The state continues to analyze the activity in this fund, and has contracted with a consulting firm to assist and provide actuarial, claims audit and general consulting services in order to evaluate the ongoing performance of this fund and to determine the best way to control health benefit costs through this arrangement.

At June 30, 2007, the fund ended the year with a surplus of \$36.3 million and cash on hand of \$54.8 million.



The Department of Education, working with legislators and the State Board, has established a State Plan to support the implementation of Senate Bill 18, which increases the compulsory school age to 18 and includes additional strategies to reduce the dropout rate. Also established during 2007 were dual enrollment programs with the NH Community Technical Colleges, allowing students to graduate from high school with college credits, thereby helping youth pursue post secondary degrees at a greatly reduced cost.



The Follow The Child Assistance Center (FTCAC) is part of the Department’s Initiative for School Empowerment and Excellence (i.4.see) program. The combination of i.4.see and the Performance Pathways© software provide the basis for the FTCAC, which will allow schools to follow up on those students who leave one school to see if they attend another school, a GED program, or actually drop out. The i.4.see initiative allows schools to track individual student progress from year to year based on the New England Common Assessment Program (NECAP) in grades 3-8 that measure proficiency in reading and mathematics, and in grades 5 and 8 for writing. Also in October 2007, the Grade 11 NECAP in reading and mathematics was administered for the first time, and in May 2008 the science NECAP will be implemented at grades 4, 8, and 11. The 2007 results will be released in early 2008.

The SAT™ College Board reported results for NH students with a 7.7% increase in the number of public school students participating in the SAT™. In 2007, 83% of NH private and public high school students participated in the College Board SAT™ tests with mean scores of 521 in critical reading, 521 in mathematics and 512 in writing. In 2007, 10,167 NH students participated in the SAT™.

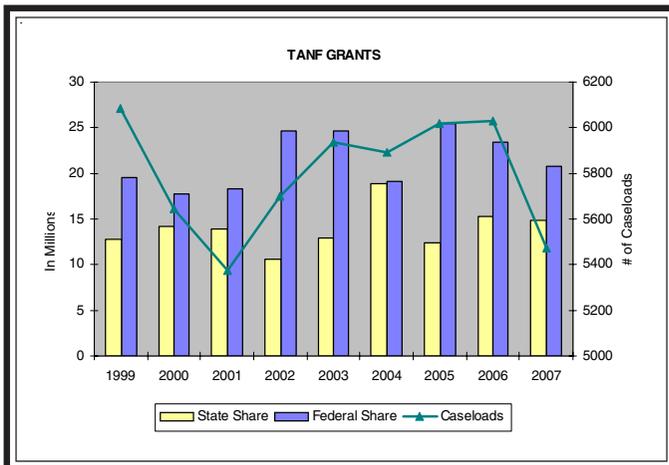
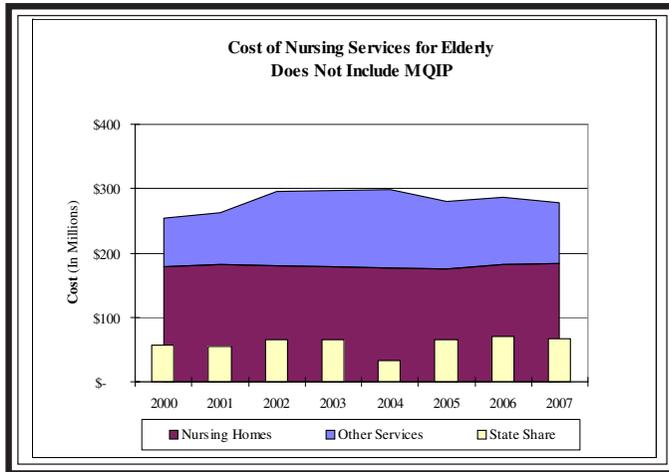
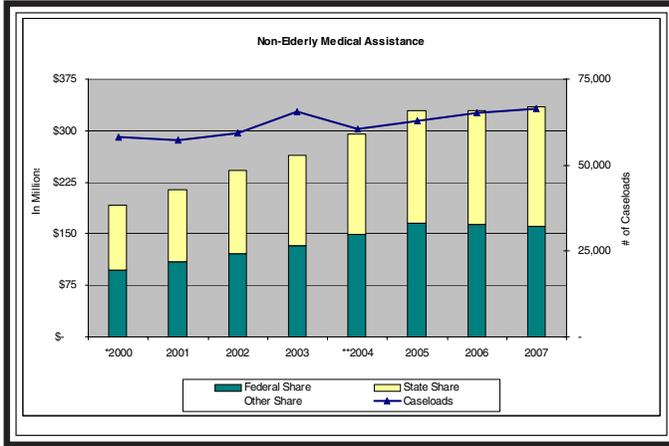
Educators continue to implement the 2005 Minimum Standards for School Approval that includes a requirement for competency assessments to be completed for every high school course by the 2008-2009 school year. To support this effort, the Department released New Hampshire’s Vision for Redesign: Moving from High Schools to Learning Communities and can be viewed on the Department’s website.

In recognition of the challenges posed by expanded internet utilization by children, the Department collaborated with the Attorney General’s office, to educate parents about the dangers of the internet, and important steps in keeping children safe from internet predators. This year, over 90,000 Internet Safety Guides were dispersed to NH schools to warn and guide parents about internet safety. The guide was written by Attorney General Ayotte.

During the 2007 school year, state aid for local schools districts was allocated in the following ways: (1) Adequate Education Grants \$837.2 million; (2) Building Aid \$41.7 million; (3) Catastrophic Aid \$30.1 million; (4) Tuition and Transportation for Career and Technical Programs \$5.4 million; and (5) Kindergarten Aid \$750,000.

In 2007, the state’s **Community Technical College System** (NHCTCS) continued its ongoing efforts to expand and renovate its facilities including the completion of a four-year, \$3 million campaign for the construction of new building for the nursing program.

The Animation and Graphic Game Programming (AGGP) degree program, launched last year with thirty students, has grown to eighty students. In addition, the Center for Nursing Professional Development was launched which offers continuing education classes for nurses through our Business Training Center. To date, more than 350 nurses have attended programs in a variety of specialized topics to expand their skills and maintain licensure.



The NH Legislature and the Governor created a central umbrella agency in 1995 to make it easier for citizens to access programs and services and to reduce administration costs. DHHS is responsible for many of the regulatory, programmatic, and financial aspects of NH's health care system and plays a key role in the planning, delivery and financing of health care. It provides social and support services to families with chronically ill or disabled members and to families in crisis. DHHS also provides economic supports including childcare funding, financial grants, employment support services, medical assistance, food assistance and child support services.

The Medicaid program is the largest program managed by DHHS consuming approximately 62% of the DHHS budget. The Medicaid program functions as a safety net for clients who meet income and medical eligibility criteria. This includes lower income adults with children and the elderly, low-income pregnant women, and disabled adults. Services are provided by 4,000 community providers who receive reimbursement from the Medicaid program. In June, 2007, the Medicaid program

Close to 40% of total state spending is for Health & Human Service Programs. Expenditures for Health & Human Services totaled \$1.7 billion in FY07, an increase of \$33.3 million (2.0%) from last year.

provided medical services for 67,596 families and 102,787 individuals and federal financial participation is 50% for most services. The cost of the Medicaid program has been increasing although eligibility criteria have remained consistent. Approximately half of the increase is attributable to growth in enrollment with the balance of the cost increase created by higher health care costs. Medicaid also finances long term nursing care for eligible seniors. The number of Medicaid supported nursing home beds has declined from 5,114 in 2000 to 4,465 in June, 2007 and the number of elderly supported in the community has increased from 1,318 to 2,622 during the same period. This shift is a result of legislative efforts to provide supports to help seniors remain in their communities.

DHHS has undertaken several cost containment efforts to increase administrative and program efficiencies to provide funding for the increasing demand for services. Past efforts have included: consolidation of non-integrated service delivery systems, consolidation of developmental services area agencies, reductions in administrative costs across all service contracts, disease management, unified case management for dual diagnosed clients, and internal reorganization to streamline processes and maximize resources. During SFY06, DHHS implemented the Medicare Part D drug benefit, which began January 1, 2006. During SFY07, the new Work Participation Plan was implemented to help parents of the Temporary Assistance to Needy Families (TANF) program move to financial independence through work. Work participation rates have increased from 27% to 48% during the first nine months of the program.

Significant initiatives for SFY08 include:

- Implement the pilot project for enhanced care coordination which supports the efficient and effective delivery of primary and specialty care services focused on prevention and each client having a medical home
- Implement expansion of programs with Governor's Commission on Alcohol and Drug Abuse Prevention, Intervention and Treatment
- Begin the three-year plan to expand developmental services so that at the end of the third year, eligible individuals receive services within 90 days of becoming eligible for such services.
- Implement the new childcare co-pay program authorized by the Legislature.
- Implement Legislative initiative for state-wide comprehensive cancer plan

During fiscal year 2007, the New Hampshire Department of Transportation (DOT) continued to improve and upgrade the state's transportation system, making travel safer and more accessible for NH tourists and its residents.

April 2007 Flooding: The third 100-year flood event in just 18 months struck New Hampshire again in April of 2007. Highway Maintenance personnel set up hundreds of road closures and made over \$7 million dollars in emergency and permanent repairs throughout the state. At the height of the flooding activity, 400 sections of state and local roads were washed out or closed by high water.

Highway maintenance personnel, continue to make repairs and coordinate with the Federal Emergency Management Agency, the Federal Highway Agency, and municipalities for reimbursements for these past natural disasters. Mitigation work to prevent future problems will continue into future years.

Upgrading New Hampshire's Transportation System: During FY 2007 the NHDOT awarded 65 construction contracts to 35 prime contractors totaling approximately \$180 million. At the close of FY 2007 construction work was ongoing on approximately 85 contracts totaling \$315 million. A total of 55 contracts were completed and accepted for maintenance by NHDOT district forces. Major roadway work completed in FY 2007 included the reconstruction of:

- NH Route 16 in North Conway (\$11.7 million)
- NH Route 202 in Peterborough (\$6.1 million)
- NH Route 16 in Gorham (\$4.3 million)
- NH Route 25 in Warren and Wentworth (\$4.0 million)

Major bridge construction completed in FY 2007 included replacement of:

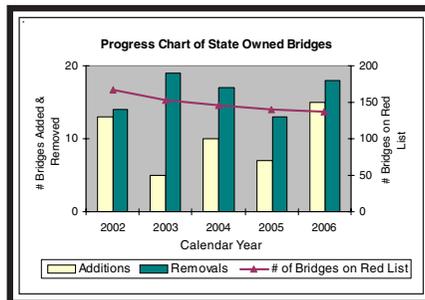
- NH Route 121 bridge over Little River and B&M Railroad in Plaistow & Atkinson (\$7.5 million)
- NH Route 85 bridge over the B&M Railroad in Newfields (\$4.0 million)
- US Route 3 deck replacement of bridge over Lake Winnisquam in Belmont (\$3.4 million)
- NH Route 145 bridge over the Connecticut River in Clarksville & Pittsburg (\$2.9 million)

New Commuter Bus Service Introduced from Nashua to Boston: Calling it the "first step in expanding the mass transit options in southern New Hampshire," Governor John Lynch hailed a new commuter bus service that began trips between Nashua and Boston on February 13, 2007. The Bureau of Rail and Transit assisted with the start-up of the new service provided by Boston Express that utilizes six new commuter coaches making several daily roundtrip runs from the Everett Turnpike's Exit 8 park and ride lot and the Exit 6 Welcome Center to Boston. In March, this new transit service carried more than 7,300 passengers.

New Initiatives:

- Implemented a Traffic Management Center to help better manage its transportation network.
- Implemented new salt spreaders that use a "Pre-Wetting" technique to increase anti-icing efficiency.
- Developing a "Maintenance Decision Support System" a software tool that merges weather forecasting with roadway maintenance.

The Department's Red List reports bridges with known deficiencies. The calendar year Red List reported 137 state-owned bridges on the list, with 15 added while 18 were removed during the year.



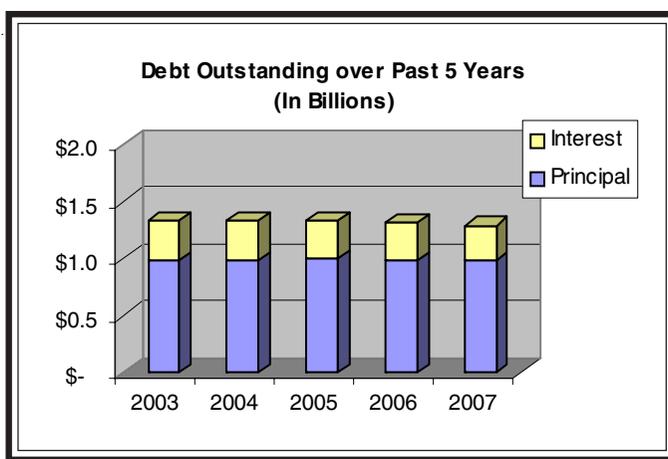
The state may issue general obligation bonds, revenue bonds, and notes in anticipation of such bonds authorized by the Legislature and Governor and Council. The state may also directly guarantee certain authority or political subdivision obligations. At the end of the current fiscal year, the state had total bonded debt outstanding of \$984.3 million. Of this amount, \$715.3 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.

On November 23, 2005, the state issued \$39.4 million of turnpike system revenue refunding bonds. The interest rate on these new bonds is 5.0%. The closing date for this bond issue was August 24, 2006. These bonds were used to refund \$39.4 million of defeased revenue bonds. This refunding transaction will result in a cash flow savings of \$4.1 million over the next 10 years and a long-term economic gain (or present value savings) of \$3.2 million.

On December 13, 2006, the state issued \$75.0 million of general obligation capital improvement bonds. The interest rates on these serial bonds range from 3.5% to 5.0%, and the maturity dates range from 2008 through 2026.

On December 15, 2006, the state issued \$121.9 million of general obligation refunding bonds. The interest rate on these serial bonds range from 4.0% to 5.0%, and the maturity dates range from 2009 through 2020. These bonds were used to refund \$122.6 million of defeased general obligation bonds. This refunding transaction will result in cash flow savings of \$4.2 million over the next 14 years and a long-term economic gain (or present value savings) of \$3.7 million.

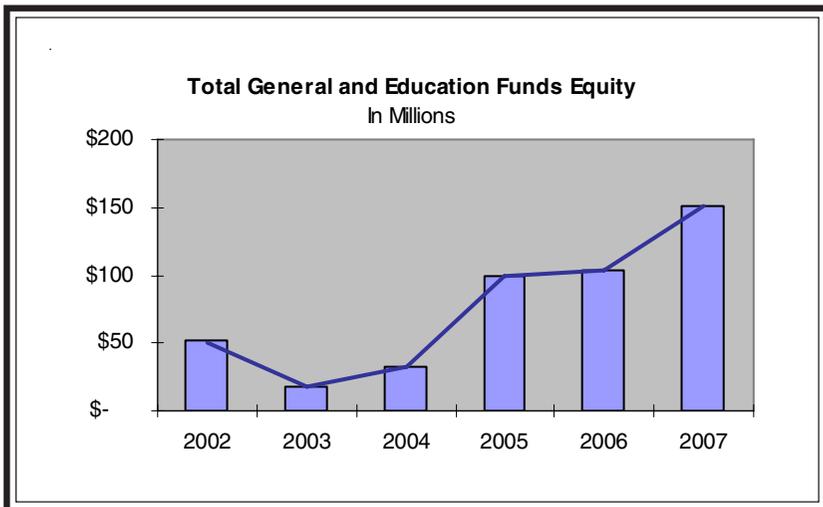
The state does not have any debt limitations, except for contingent debt guarantees, which are detailed in the state's Comprehensive Annual Financial Report (CAFR). Additional information on the state's long-term debt obligations can be found in Footnote 5 of the CAFR.



Surplus: General & Education Funds

(In Millions)

	FY 2005	FY 2006			FY 2007		
	Total	General	Education	Total	General	Education	Total
Undesignated Fund Balance, July 1	\$ 15.3	\$ 82.2	\$ -	\$ 82.2	\$ 26.0	\$ 8.4	\$ 34.4
Additions:							
Unrestricted Revenue	2,161.9	1,329.5	852.8	2,182.3	1,421.6	869.6	2,291.2
Transfers of Appropriation from General Fund	61.4		-	-			
Total Additions	2,223.3	1,329.5	852.8	2,182.3	1,421.6	869.6	2,291.2
Deductions:							
Appropriations Net of Estimated Revenues	(2,202.2)	(1,380.2)	(841.9)	(2,222.1)	(1,432.6)	(843.1)	(2,275.7)
Less Lapses	39.0	34.0	(4.6)	29.4	41.6	4.5	46.1
Total Net Appropriations	(2,163.2)	(1,346.2)	(846.5)	(2,192.7)	(1,391.0)	(838.6)	(2,229.6)
GAAP and Other Adjustments	6.8	12.2	2.1	14.3	(15.5)	1.2	(14.3)
Current Year Balance	66.9	(4.5)	8.4	3.9	15.1	32.2	47.3
Fund Balance Transfers (To)/From:							
Rainy Day Fund		(51.7)		(51.7)	(20.0)		(20.0)
Health Care Fund							
Education Trust Fund					40.6	(40.6)	
Undesignated Fund Balance, June 30,	\$ 82.2	\$ 26.0	\$ 8.4	\$ 34.4	\$ 61.7	\$ -	\$ 61.7
Reserved for Rainy Day Account	17.3	69.0		69.0	89.0		89.0
Total Equity	\$ 99.5	\$ 95.0	\$ 8.4	\$ 103.4	\$ 150.7	\$ -	\$ 150.7



The combined General and Education Fund Balances, including Revenue Stabilization Reserves (Rainy Day Fund) at June 30, 2007 was \$150.7 million. Fund Balances have been on the rise since the last recession period low point of \$17.3 million in FY2003. Prior to year-end transfers, the current year 2007 operating surplus was \$47.3 million for the General and Education Funds combined.

A portion of the cumulative combined surplus of \$81.7 million (current year surplus of \$47.3 million and carry forward surplus of \$34.4 million) was transferred to the Rainy Day Fund at year-end. In accordance with Chapter 263:111, Laws of 2007, the \$40.6 million surplus remaining in the Education Trust Fund at June 30, 2007 was transferred to the General Fund. In addition, pursuant to Chapter 263:110, Laws of 2007, any surplus in excess of \$20.0 million for the close of the fiscal biennium ending June 30, 2007 shall not be deposited into the Rainy Day Fund but shall remain in the General Fund. Therefore, \$20.0 million was transferred from the General Fund to the Rainy Day Fund bringing the balance up to \$89.0 million at June 30, 2007.

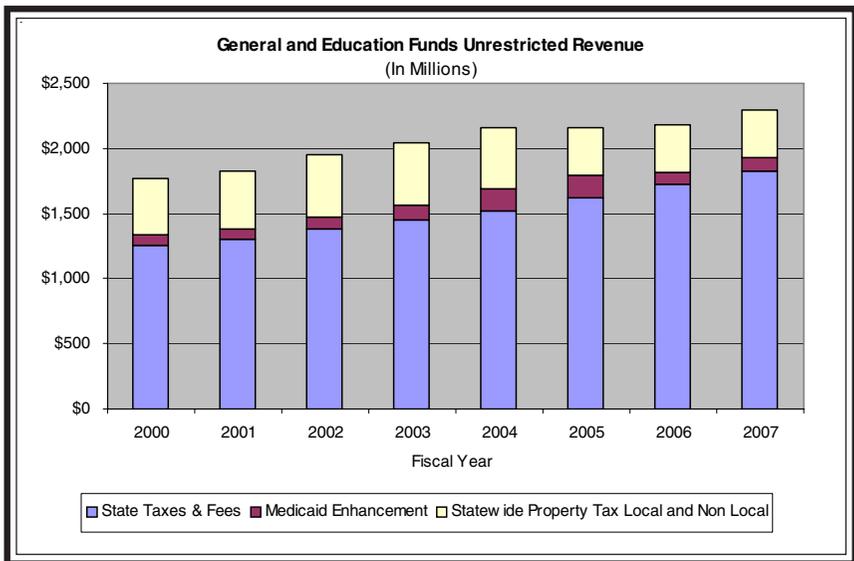
After the Rainy Day transfer, the combined General and Education Fund surplus at June 30, 2007 was \$61.7 million. The surplus was primarily revenue driven as a result of greater than expected collections. Strong performance from Business Taxes, Interest and Dividends Tax and Other taxes more than offset the continued unfavorable results seen in the Real Estate Transfer tax. Total General and Education Fund unrestricted revenue for fiscal 2007 were \$2,291.2 million or \$87.9 million (4%) greater than plan and \$108.9 million (5%) greater than prior year.

Total net appropriations, including anticipated budget reductions and savings from budget initiatives, for the General and Education Fund were \$2,229.6 million, which was a minimal 2% increase over the prior year.

Unrestricted Revenue

Revenue Category	FY 2005	FY 2006			FY 2007			FY 2007
		General	Education	Total	General	Education	Total	Combined Plan (1)
Business Profits Tax.....	\$ 247.3	\$ 264.0	\$ 56.6	\$ 320.6	\$ 287.4	\$ 57.8	\$ 345.2	\$ 298.6
Business Enterprise Tax.....	244.7	75.2	150.4	225.6	79.3	174.2	253.5	225.3
Subtotal.....	492.0	339.2	207.0	546.2	366.7	232.0	598.7	523.9
Meals & Rooms Tax.....	193.6	193.8	7.1	200.9	202.6	7.2	209.8	217.6
Tobacco Tax.....	101.5	69.9	80.9	150.8	65.3	78.3	143.6	144.5
Liquor Sales and Distribution.....	112.6	120.6		120.6	124.7		124.7	129.0
Interest & Dividends Tax.....	67.9	80.5		80.5	108.1		108.1	73.3
Insurance Tax.....	88.7	90.5		90.5	97.9		97.9	95.3
Communications Tax.....	70.0	70.5		70.5	73.0		73.0	74.1
Real Estate Transfer Tax.....	159.8	106.2	52.5	158.7	91.7	45.7	137.4	181.0
Estate and Legacy Tax.....	11.7	3.2		3.2	0.6		0.6	4.1
Transfers from Lottery Commission.....	70.3		82.0	82.0		80.5	80.5	78.0
Tobacco Settlement.....	42.4		39.0	39.0	-	40.8	40.8	43.0
Utility Property Tax.....	20.1		20.9	20.9		21.8	21.8	24.1
Property Tax Not Retained Locally.....	20.9						-	-
Property Tax Retained Locally.....	350.4		363.4	363.4		363.3	363.3	363.0
Other.....	150.7			157.0	191.8		191.8	159.6
Subtotal.....	1,952.6	1,231.4	852.8	2,084.2	1,322.4	869.6	2,192.0	2,110.5
Net Medicaid Enhancement								
Revenues.....	147.2	73.6		73.6	83.3		83.3	75.8
Recoveries.....	23.0	24.5		24.5	15.9		15.9	17.0
Subtotal.....	2,122.8	1,329.5	852.8	2,182.3	1,421.6	869.6	2,291.2	2,203.3
Other Medicaid Enhancement								
Revenues to Fund Net Appropriations.....	39.1				-		-	-
Total.....	\$ 2,161.9	\$ 1,329.5	\$ 852.8	\$ 2,182.3	\$ 1,421.6	\$ 869.6	\$ 2,291.2	\$ 2,203.3

(1) Plan represents the original legislative estimates contained in the operating budget that was adopted in 2005 for the fiscal 2006-2007 biennium.



With continued economic growth along with improvement in the investment markets, revenue collections came in much stronger than original estimates. Fiscal 2007 unrestricted revenue for the General and Education funds totaled \$2,291.2 million, which exceeded the plan and prior year by \$87.9 million and \$108.9 million, respectively. This strong fiscal year performance over plan and prior year was seen primarily from Business Taxes, Interest & Dividends Tax and Other taxes.

- Business Taxes (BPT & BET) totaled \$598.7 million for the year, which were \$74.8 million ahead of plan and \$52.5 million above the prior year. The growth in FY 07 was a combination of audit revenue collections during the year and increases in final returns and extensions filed in March and April.
- Interest & Dividends Tax (I & D) collections were \$108.1 million and were above plan by \$34.8 million and \$27.6 million above prior year. Stronger economic growth and higher interest and dividend activity resulted in many new taxpayers exceeding exemption thresholds.
- The Other category saw receipts of \$191.8 million, which were \$32.2 million above plan and \$34.8 million above prior year due in large part to an escheatment processed by the Treasury Dept. which included unclaimed shares received by the state in fiscal 2004 related to the demutualization of insurance companies. It should be noted, however, that in accordance with accounting standards, a substantial portion of this escheatment had been previously recognized as revenue and included in prior year surplus.

Offsetting the performance of Business Taxes, I&D and Other were large decreases in the Real Estate Transfer Tax, Meals and Rooms Tax and the Tobacco Tax.

- The Real Estate Transfer Tax (RET) performed below expectations with receipts totaling \$137.4 million, which were below the plan by \$43.6 million and below prior year by \$21.3 million. Due to the significant downturn in the housing market, the weak performance of RET which began during the second half of prior year continued throughout fiscal 2007 ending the year 24.1% and 13.4% below estimates and prior year, respectively.
- Although the Meals and Rooms Tax (M&R) performed below expectations with receipts totaling \$209.8 million, which were \$7.8 million (3.6%) below plan, M&R exceeded the prior year by \$8.9 million (4.4%).
- The Tobacco Tax collected \$143.6 million for the year, \$0.9 million below plan and \$7.2 million (4.8%) below prior year due to a decrease in demand for tobacco products.

New Hampshire's government-wide financial statements include a Statement of Net Assets and a Statement of Activities. On both statements, governmental and business-type activities are segregated. Governmental Activities represent most of the state's basic services and are generally supported by taxes, grants, and intergovernmental revenues. Business-Type 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.

The full accrual method of accounting is used, like many businesses, and recognizes revenue and expenses when the earning process is complete regardless of when cash is received or disbursed. This results in the broadest perspective on finances.

The Statement of Net Assets reports the state's total assets and liabilities. The difference between assets and liabilities represents net assets.

	Governmental Activities	Business-Type Activities	Total
Current assets	\$ 1,109.0	\$ 395.7	\$ 1,504.7
Capital assets	2,221.9	568.9	2,790.8
Other assets	292.2	7.0	299.2
Total assets	3,623.1	971.6	4,594.7
Long-term liabilities	716.3	265.4	981.7
Other liabilities	525.3	79.3	604.6
Total liabilities	1,241.6	344.7	1,586.3
Net assets:			
Invested in capital assets, net of related debt	1,547.9	298.1	1,846.0
Restricted	355.9	307.1	662.9
Unrestricted	477.8	21.7	499.5
Total net assets	\$ 2,381.5	\$ 626.9	\$ 3,008.4

The state's combined net assets (government and business-type activities) totaled \$3.0 billion at the end of 2007, compared to \$2.8 billion at the end of the previous year.

Investment in Capital Assets: The largest portion of the state's net assets (61%) 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 state's investment in capital assets increased \$139.1 million from prior year. This increase was the result of net increase in capital assets of \$135.4 million during the year

combined with a reduction in capital related debt of \$3.7 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 (22%) represents resources that are subject to external restrictions on how they may be used. Restricted net assets increased \$26.2 million from prior year due largely to an increase in revenue stabilization (Rainy Day) reserves during the year.

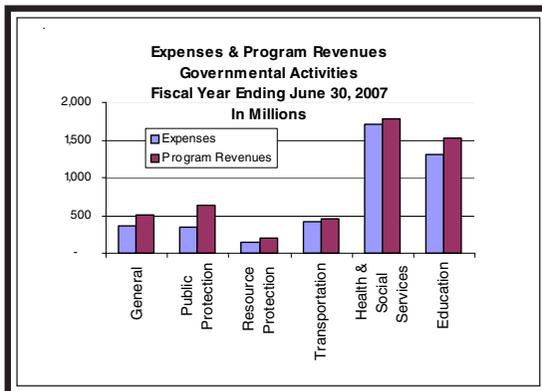
Unrestricted Net Assets: The state's unrestricted net assets, totaling \$499.5 million, increased \$74.5 million from the previous year, as a result of strong performance from business taxes and interest and dividends tax offset by transfers of prior year surplus to Rainy Day reserves. These assets may 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.

Governmental Activities

Direct expenses from Governmental activities of \$4.3 billion exceeded program revenues of \$2.2 billion resulting in a shortfall of \$2.1 billion. Program revenues, include charges for goods or services and Federal and Local Grants, which directly support program expenses. The shortfall of \$2.1 billion was funded through General Revenues, primarily taxes. Although expenses grew 1.3%, the growth in total governmental activity revenues of 3.0% was sufficient to offset the increased costs.

Condensed Schedule of Expenses & Program Revenues			
Primary Government-Governmental Activities			
For Fiscal Years Ending June 30, 2007			
(In Millions)			
Functions/Programs	Expense	Program Revenues	Net Revenue/(Expense)
Governmental Activities:			
General government	\$ 358.1	\$ 196.2	\$ (161.8)
Administration of justice and public protection	341.5	391.4	49.9
Resource protection and development	139.1	107.4	(31.7)
Transportation	411.5	217.2	(194.3)
Health and social services	1,714.4	1,069.3	(645.1)
Education	1,310.3	220.5	(1,089.7)
Interest Expense	28.2		(28.2)
Total Governmental Activities	\$ 4,303.0	\$ 2,202.0	\$ (2,101.0)

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 the state’s taxes, such as the statewide property tax, business profits tax, business enterprise tax, real estate transfer, tobacco, meals and rooms, interest and dividends, etc. Health and Social Services expenses increased approximately 2.0% from the previous year, while Educational expenses grew approximately 1.6% due to higher education grant funding.

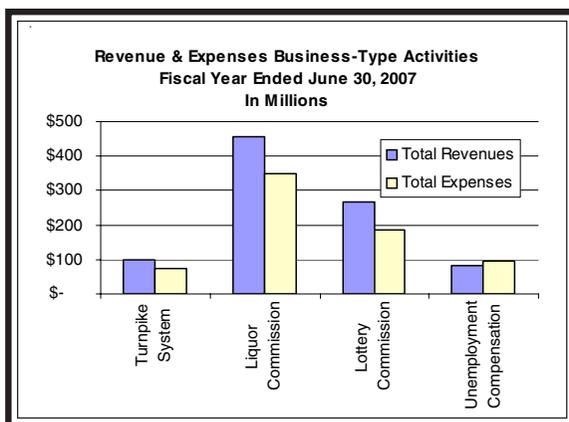


Business Type Activities

Business-Type activities include the operations from the Liquor Commission, Lottery Commission, Unemployment Compensation Fund, and Turnpike Fund. A comparison of revenue and expenses for business-type activities is shown below. 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 program revenue greater than the expenses by \$198.0 million.

Condensed Schedule of Expenses & Program Revenues			
Primary Government-Business-Type Activities			
For Fiscal Year Ending June 30, 2007			
(In Millions)			
Functions/Programs	Expense	Program Revenues	Net Revenue/(Expense)
Business-type Activities:			
Turnpike System	\$ 72.1	\$ 99.8	\$ 27.7
Liquor Commission	349.1	454.9	105.8
Lottery Commission	186.9	267.3	80.4
Unemployment Compensation	95.7	79.8	(15.9)
Total Business-type Activities	\$ 703.8	\$ 901.8	\$ 198.0

- Sales growth from the operations of the Liquor Commission resulted in net proceeds of \$105.8 million, a 2.5% increase from prior year which were transferred to the General Fund to fund the general operations of the State.
- Increased operating expenses and relatively flat sales during the year contributed to a 1.8% decrease in net proceeds of \$80.4 million from the Lottery Commission which were transferred to the Education Fund.
- The Turnpike System net revenue increased by \$3.1 million or 12.6% as a result of growth in toll revenues primarily due to the implementation of the E-ZPass electronic toll collection system.
- The operations of Unemployment Compensation resulted in a decrease of net assets of \$15.9 million as a result of higher unemployment benefit payments this fiscal year.





**State of New Hampshire
Department of Administrative Services
Division of Accounting Services**

Front Cover Photo taken by and provided courtesy of Frank Harris.
The photo was taken in Webster, NH at the Blackwater River.

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