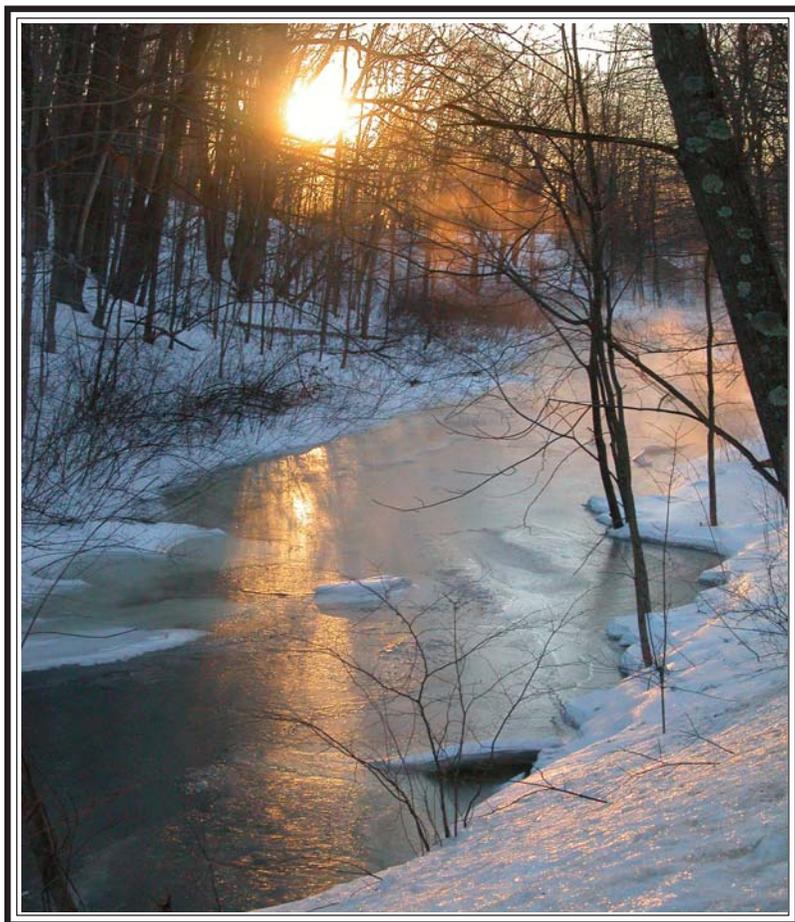


State of New Hampshire's Annual Citizens Report

**For The Fiscal Year Ended
June 30, 2006**



**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, 2006



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**Prepared by the Department of
Administrative Services**

Donald S. Hill, Commissioner

Division of Accounting Services

Sheri L. Rockburn, Comptroller

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Diana L. Smestad

Kelly J. Brown

State Officials



Photo(L-R) Back: Commissioner Hill, Councilor Spaulding.
Front: Councilor Wieczorek, Councilor Griffin, Governor Lynch,
Councilor Burton, Councilor Pignatelli.

Selected State Officials as of June 30, 2006:

Governor

John H. Lynch

Executive Council

Raymond S. Burton, District 1
Peter J. Spaulding, District 2
Ruth L. Griffin, District 3
Raymond J. Wieczorek, District 4
Debora B. Pignatelli, District 5

President of the Senate

Theodore L. Gatsas
24 Senators

Speaker of the House of Representatives

W. Douglas Scamman Jr.
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 2006 State of New Hampshire Annual Report to the Citizens*.

We live in the greatest state in the greatest country in the world, and I am committed to continuing to work with all the people of New Hampshire to keep it that way. We continue to come together in Concord – Democrats and Republicans – to put aside partisanship and focus on getting good results for the people of New Hampshire. Together, we balanced the state's budget, worked to conduct state government's business efficiently and effectively, and to make smart investments in New Hampshire's future and people, including providing urgent assistance to communities and people hit hard by flooding and to seniors struggling to get their medications under the new federal prescription drug law.

During the past year, we made significant progress on issues important to New Hampshire and its citizens:

- We put \$51.7 million in the state's Rainy Day Fund to help ensure our future fiscal stability.
- We provided critical assistance to families hardest-hit by severe flooding so that they could recover from the devastation.
- We acted to make sure seniors could still get their medications after problems with the new federal prescription drug law prevented some from getting their prescriptions filled.
- We ensured college students with life-threatening illnesses would not lose their health insurance just when they needed it most.
- We put in place a strong, new ethics law, creating the first-ever ethics commission for the Executive Branch.
- We committed to preserving the public's safety, passing one of the toughest and most comprehensive laws in the country to protect children from sexual predators, making important licensing information regarding childcare centers more accessible, and toughening existing penalties for producers of methamphetamine.
- We acted to preserve and protect the natural resources and beauty that make New Hampshire such a great place to live and work, implementing legislation significantly reducing mercury, putting a moratorium on the burning of toxic construction and demolition debris in the state and leading by example by working to make state government more energy efficient.

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

New Hampshire's Scoreboard

<i>New Hampshire's Economic Scoreboard for 2006</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, 2006)	2nd	2nd
Standard of Living (by Poverty Rate)	1st	1st
Child and Family Well-Being (Annie E. Casey, 2005)	1st	1st
Safest State (Lowest crime rate, 2004)	3rd	1st
Most Livable State (Morgan Quitno, 2006)	1st	1st
College Educated Population	4th	2nd

New Hampshire has continued to receive high quality of life rankings in Morgan Quitno's Most Livable State Awards, ranking first in standard of living, family well being, and the most livable state.

Message From the Commissioner

We would like to present our fiscal year 2006 *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 slowdown in the housing market during the latter half of fiscal 2006. New Hampshire's diversified tax structure, with its reliance on business enterprise taxes and the statewide property tax, have added stability to our revenue streams as compared to other states, which rely heavily on income tax proceeds. During 2006, the state's unrestricted revenue was \$55.7 million or 2.6% ahead of plan. The major contributor to this growth was strong collections from Business Taxes which included one-time collections related to the repatriation of foreign earnings.

The combined General and Education Fund Balances at the start of the fiscal year totaled \$82.2 million. Lawmakers included \$30.5 million of the surplus to help balance the fiscal 2006-07 biennial budget and, during fiscal 2006, directed the remaining \$51.7 million be transferred to the Rainy Day Account, bringing the balance in the Rainy Day Account to \$69.0 million at June 30, 2006.

After the Rainy Day transfer, the combined General and Education Fund balance at June 30, 2006 was \$34.4 million, largely the result of revenue collections exceeding estimates during the year.



Donald S. Hill, Commissioner

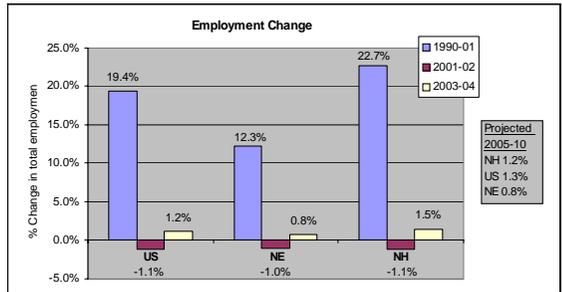
Economic Highlights of the Granite State

New Hampshire's economy is expected to continue to grow, but at a somewhat slower rate of growth than that experienced during the first half of this decade. The state continues to experience one of the strongest growth rates in population and employment in New England. Per capita income levels are rising and poverty rates remain one of the lowest in the nation. The state has retained 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.

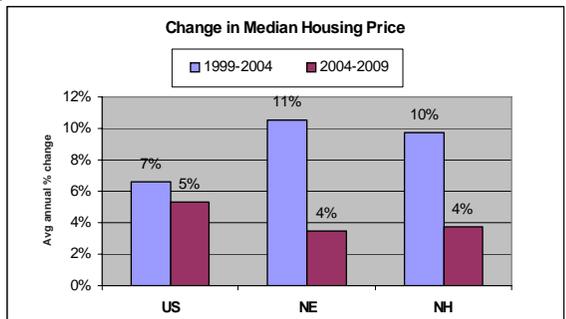
New Hampshire has continued to receive high quality of life rankings in Morgan Quitno's Most Livable State Awards, ranking first in standard of living, family well being, and the most livable state.

Personal income levels continued to rise with a 6.6% increase for the year ending June 2006.

New Hampshire's employment growth is expected to be slightly below the national average over the next few years. However, through 2010, New Hampshire is forecasted to be the only New England State with employment growth greater than 1%. In addition, New Hampshire is forecasted to be above regional growth averages in all major employment "super-sectors" except manufacturing. Granite State manufacturing jobs declined at a 5.0% annual rate during the period 2000-2005. Going forward, this rate of decline is forecasted to slow to a 1.2% average loss per year. As of June 2006, New Hampshire's seasonally adjusted total nonfarm employment grew by 0.3% from June of last year, and the state's unemployment rate was 3.3%, which continues to track lower than New England (4.5%) and the national average (4.6%).



One of the strongest sectors of the New Hampshire economy since the mid 1990's is now showing undeniable signs of slowing and perhaps even contraction. Residential housing, which has put billions of dollars into consumer pocketbooks through sales of new and existing homes, refinancing and home equity loans, has begun to correct. New Hampshire's housing sector is expected to have a "soft landing" with a modest decline in housing prices followed by slight growth in prices through 2010. New Hampshire's median home price is forecasted to increase at an annual rate of about half the US average.



Economists caution, however, that economic forecasts could have a relatively high downside potential as influenced by uncertainty in the housing market. A weaker and longer to recover housing market would have negative influence on the regional economy, including New Hampshire. Some recession risks will remain elevated as long as the housing correction continues to unfold.

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

Major Initiatives

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 \$5.5 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 2008.

E-ZPass

The first year of E-ZPass electronic tolling on the New Hampshire Turnpike System saw consistent growth in the number of users and positive results in improving traffic flow. The total number of E-ZPass accounts in FY 2006 was approximately 168,000, with the total number of transponders sold totaling approximately 295,000. As of June 30, 2006, the E-ZPass market share was at 40%. The conversion of the entire toll collection system to E-ZPass was completed in August 2005 at the Bedford Toll, Hooksett Main and Hooksett Ramp, FE Everett Turnpike, Hampton, and Spaulding Turnpike. In September 2005, commercial charge card accounts from approximately 3,000 customers were phased out.

Tokens ceased to be accepted for payment of tolls on December 31, 2005. A 30% discount is now applied to all New Hampshire based E-ZPass private accounts, and a 10% discount is applied to all New Hampshire based business accounts. This combined change in the discount program has contributed to revenues increasing by approximately 21% over FY 2005.



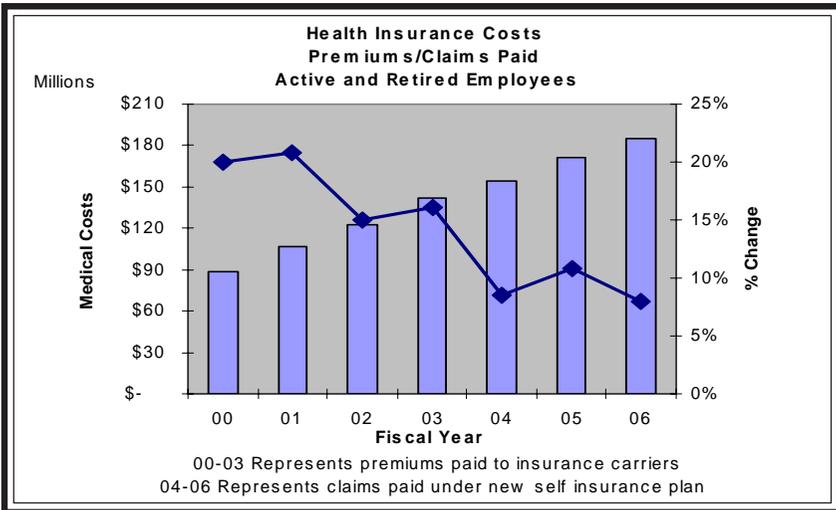
Self - Insurance Initiative

Employee Benefit Risk Management Fund

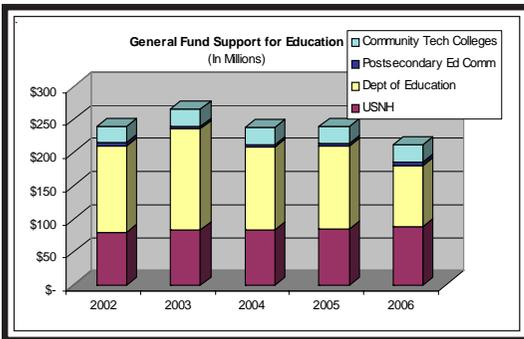
Chapter 251, Laws of 2001, authorized the Commissioner of Administrative Services to provide a self-funded alternative to traditional insurance programs for employee benefits to aid in controlling the rise in insurance costs. As a result, a new fund, titled the Employee Benefit Risk Management Fund, 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 health benefits for active state employees and retirees. Agencies are charged an actuarially determined contribution to be paid into this new fund on a bi-weekly basis. These contributions 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 daily out of this new fund.

The state is currently analyzing the first twenty-one 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 fund and to determine the best way to control health benefit costs through this arrangement.

At June 30, 2006, the fund ended the year with a surplus of \$21.4 million and cash on hand of \$38.0 million.



Education



The Department has dispersed over \$250 million dollars in federal aid to local districts to support student learning. In addition, during the 2006 school year, state aid for local schools districts was allocated in the following ways: (1) Adequate Education Grants \$836.2 million; (2) Building Aid \$37.8 million; (3) Catastrophic Aid \$28.0 million; (4) Tuition and Transportation for Career and Technical Programs \$5.1 million; and (5) Kindergarten Aid \$567,600.

The **Department of Education** continues its commitment to defining the state's standards of measurement of school progress. During the 2006 school year \$836 million dollars was appropriated for adequate education grants to local schools and was paid out of the state's Education Trust Fund.

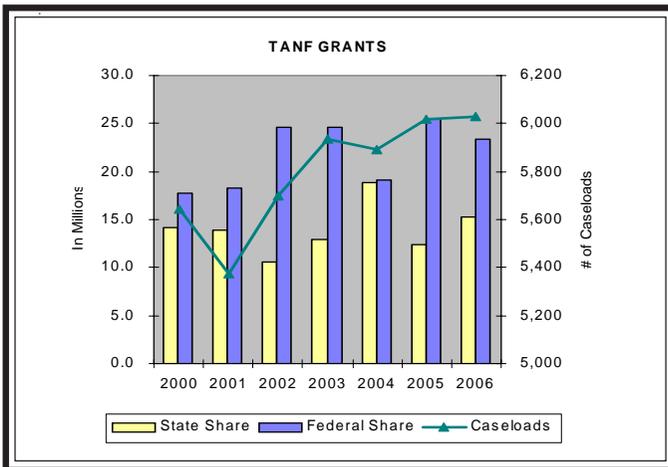
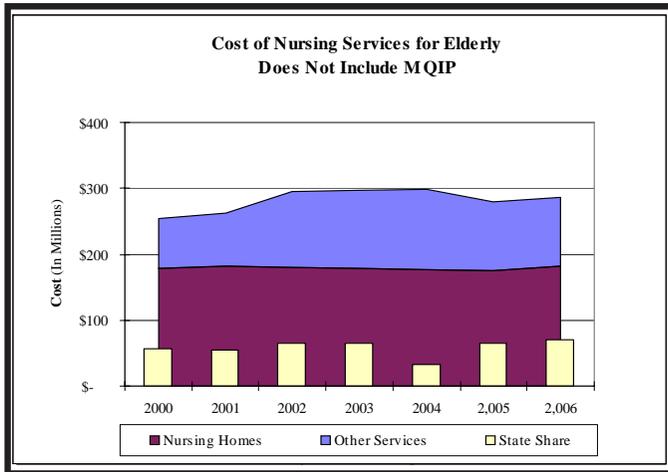
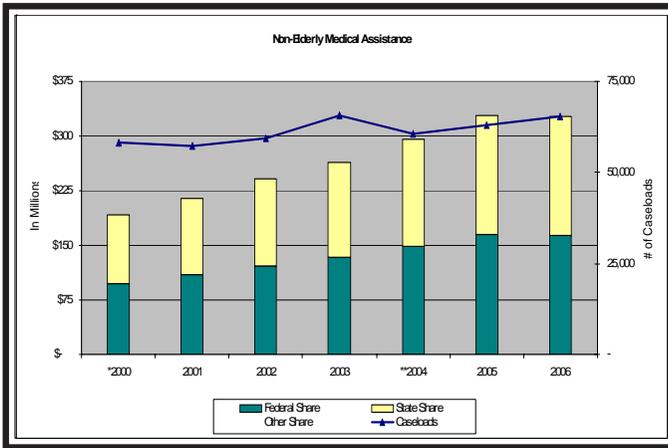
The Department promotes the **Follow The Child Initiative**, which calls for a personalized education for each child in New Hampshire. This initiative documents the progress of every student, using multiple measures of assessment, personally, physically, socially, and academically. To this end, the Department has submitted an application to the United States Department of Education that will allow for the use of growth targets toward academic proficiency for each NH child in Grades 3-8. The New England Common Assessment Program (NECAP) is used annually in Grades 3-8 to measure proficiency in reading and mathematics, and in Grades 5 and 8 for writing. Results from the 2006 NECAP tests were released in February 2007. Also, in 2006, 82% of NH high school students participated in the College Board SAT tests with mean scores of 520 in critical reading, 524 in mathematics and 509 in writing.

The Department's goal is that each NH student will graduate from high school ready for postsecondary learning, work and life. To accomplish this, Commissioner Lyonel B. Tracy asks that every school review the data on each child that does not reach proficiency and define a personalized learning plan for that student. Currently, of the 95,539 students participating in the NECAP, about 25,000 did not reach proficiency. However, in comparison to the recorded results from the test given to the 2005- 2006 NH students the results have improved in both Reading and Math. In 2006, 66% of students tested scored proficient or better in Reading, in the 2007 NECAP report, 71% of students tested proficient or better. This increase also proves true in Math where students increased their scores from 62% testing proficient or better in 2006 to 65% in 2007.

The state's **Community Technical College System** (NHCTCS) continues to respond to the needs of industry and the community and the interests of students. At NH Technical Institute in Concord, three new academic programs were planned and achieved approval from the NHCTCS Board of Trustees.

The programs are an Associate in Science Degree in Animation and Graphic Game Programming, which responds to the fast-growing \$10 billion game programming industry (more than 30 students enrolled in this program in September, 2006 when it was first offered); an Associate in Arts Degree in Visual Arts, recognizing a high degree of student interest and a recognition and encouragement of the "creative economy" in the Concord area and throughout New Hampshire; and an innovative Teacher Education Conversion Program, approved by the NH Department of Education, to prepare future Teachers of math, science and general special education.

Health & Human Services



Program Summary

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

Close to 40% of total state spending is for Health & Human Service Programs. Expenditures for Health & Human Services totaled \$1.6 billion in FY06, a decrease of \$132.2 million (7.4%) from last year.

provided by 4,000 community providers who receive reimbursement from the Medicaid program. The Medicaid program finances medical services for approximately 65,279 families and 100,370 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 4,781 and the number of elderly supported in the community has increased from 1,318 to 2,223. 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 also implemented the Medicare Part D drug benefit, which began January 1, 2006.

Significant initiatives for SFY07 include:

- Implementing a 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.
- Implementing the Work Participation Plan to help parents of the Temporary Assistance to Needy Families (TANF) program move to financial independence through work.

Public Works

During fiscal year 2006, 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.

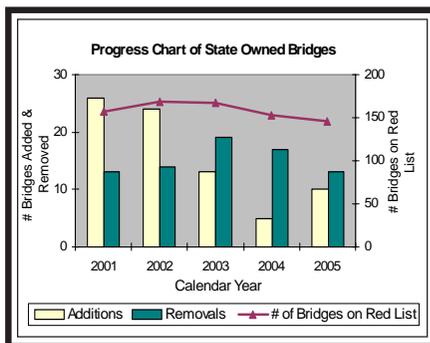
The Floods of October 2005 and May 2006: These floods were 100-year events that occurred within seven months of each other. Heavy rains and resulting flooding struck the Monadnock Region in October of 2005 and much of the southern part of the state in May 2006.

Virtually all NHDOT Bureaus contributed to the response and recovery effort, that in some locations took just hours or days to fix, with others taking months to restore. In addition, highway maintenance personnel continue to make repairs and coordinate with the Federal Emergency Management Agency, the Federal Highway Administration and municipalities for reimbursements.

Transportation Improvements: During FY 2006 the NHDOT awarded 56 construction contracts to 33 prime contractors totaling approximately \$100 million. At the close of FY 2006 construction work was ongoing on approximately 90 contracts totaling \$295 million. Major roadway work completed in FY 2006 included the reconstruction of:

- I-293 in Manchester from South Willow Street to the I-93/I-293 split (\$8.4 million)
- NH Routes 9 and 10 in Keene and Swanzey (\$7.8 million)
- Exit 4 on the Spaulding Turnpike in Newington (\$4.6 million)
- The Kancamagus Highway (NH 112) in Albany (\$4.3 million)
- US Route 3 in Hooksett (\$3.0 million)
- US Route 3 in Nashua-Merrimack-Bedford (\$2.9 million)
- US Route 2 in Lancaster (\$2.5 million)
- NH 4A in Lebanon (\$2.2 million)

The Department's Red List reports bridges with known deficiencies. The calendar year Red List reported 140 state-owned bridges on the list, with 7 added while 13 were removed during the year.



Mechanical Services Bureau Moves to its New Home in Concord: The Bureau of Mechanical Services undertook a major move from its longtime Stickney Avenue home in Concord to a massive 87,000 square foot facility costing \$10.2 million on NH Route 106 next to the Traffic Bureau. The improvements and upgrades in the new building will assist the Bureau in managing the State's fleet of vehicles.

New Remote Weather Stations Promise More Timely and Accurate Information:

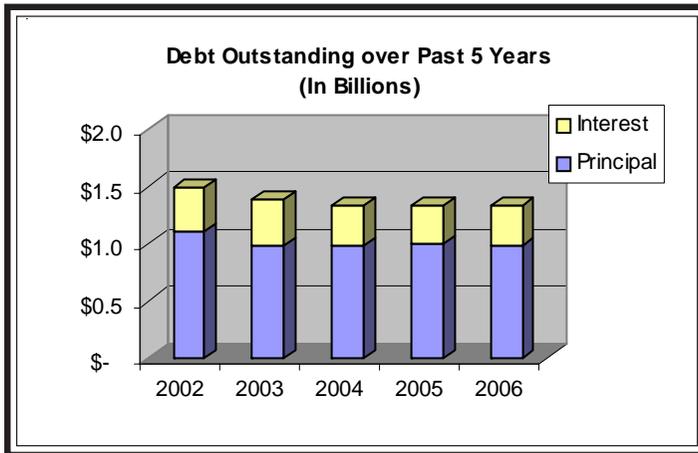
The NH Department of Transportation introduced new stations across New Hampshire to provide the building blocks for a Road Weather Information System (RWIS). These "environmental sensor stations" strategically located along highways will include the hardware, software and communication equipment to provide such valuable meteorological information as soil, pavement and air temperatures, wind speed and direction, water vapor (dew points and relative humidity), and rain and snowfall.

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 \$993.0 million. Of this amount, \$708.8 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 December 20, 2005, the state issued \$75.0 million of general obligation capital improvement bonds. The interest rates on these serial bonds range from 4.0% to 5.0%, and the maturity dates range from 2007 through 2025.

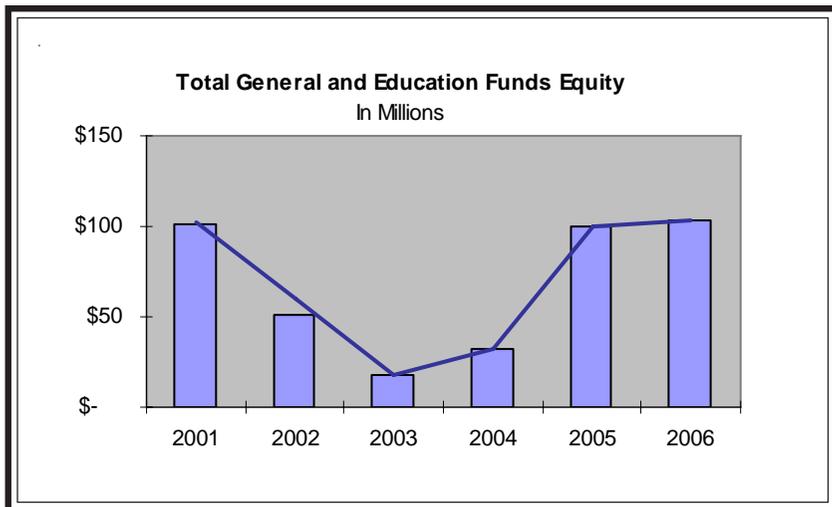
The state does not have any debt limitations, except for contingent debt guarantees, which are detailed in the state's Comprehensive Annual Financial Report (CAFR). Additional information on the state's long-term debt obligations can be found in Footnote 5 of the CAFR.



Surplus: General & Education Funds

(In Millions)

	FY 2004	FY 2005			FY 2006		
	Total	General	Education	Total	General	Education	Total
Undesignated Fund Balance, July 1	\$0.0	\$15.3	\$0.0	\$15.3	\$82.2	\$0.0	\$82.2
Additions:							
Unrestricted Revenue	2,158.7	1,391.6	770.3	2,161.9	1,329.5	852.8	2,182.3
Transfers of Appropriation from General Fund	62.6		61.4	61.4		-	-
Total Additions	2,221.3	1,391.6	831.7	2,223.3	1,329.5	852.8	2,182.3
Deductions:							
Appropriations Net of Estimated Revenues	(2,257.3)	(1,409.2)	(793.0)	(2,202.2)	(1,380.2)	(841.9)	(2,222.1)
Less Lapses	34.5	58.0	(19.0)	39.0	34.0	(4.6)	29.4
Total Net Appropriations	(2,222.8)	(1,351.2)	(812.0)	(2,163.2)	(1,346.2)	(846.5)	(2,192.7)
GAAP and Other Adjustments	(6.2)	4.0	2.8	6.8	12.2	2.1	14.3
Other One-Time Revenue Adjustments							
DHHS Enhancement Revenue	19.2			-			-
Other Revenue Adjustments	3.8			-			-
Current Year Balance	15.3	44.4	22.5	66.9	(4.5)	8.4	3.9
Fund Balance Transfers (To)/From:							
Rainy Day Fund					(51.7)		(51.7)
Health Care Fund							
Education Trust Fund		22.5	(22.5)				
Undesignated Fund Balance, June 30,	\$15.3	\$82.2	\$0.0	\$82.2	\$26.0	\$8.4	\$34.4
Reserved for Rainy Day Account	17.3	17.3		17.3	69.0		69.0
Total Equity	\$32.6	\$99.5	\$0.0	\$99.5	\$95.0	\$8.4	\$103.4



Fund Level Highlights

In order to balance the fiscal 2006-07 biennial budget, the legislature anticipated a surplus of \$30.5 million for fiscal 2005. However, the actual combined General and Education Fund surplus at June 30, 2005 was \$82.2 million, \$51.7 million higher than expected. The favorable surplus in fiscal 2005 was primarily the result of continued growth in the real estate market, increases in revenue from business taxes, one time business audit settlements, and greater than expected lapses. In accordance with Chapter 177:53, Laws of 2005, the biennial transfer of surplus from the General Fund to the Rainy Day Accounts was suspended. Furthermore, Chapter 35:1, Laws of 2006 directed that any undesignated General Fund surplus for the fiscal year ending June 30, 2005 in excess of \$30.5 million shall be transferred to the Rainy Day Account. As a result, \$51.7 million was transferred from the General Fund, bringing the balance in the Rainy Day Account to \$69.0 million at June 30, 2006.

After the Rainy Day transfer, the combined General and Education Fund surplus at June 30, 2006 was \$34.4 million. The surplus was primarily revenue driven as a result of greater than expected collections. Strong performance from Business Taxes and the Interest and Dividends Tax more than offset the unfavorable results seen in the Real Estate Transfer Tax. Total General and Education Fund unrestricted revenue for fiscal 2006 was \$2,182.3 million or \$55.7 million (3%) greater than plan.

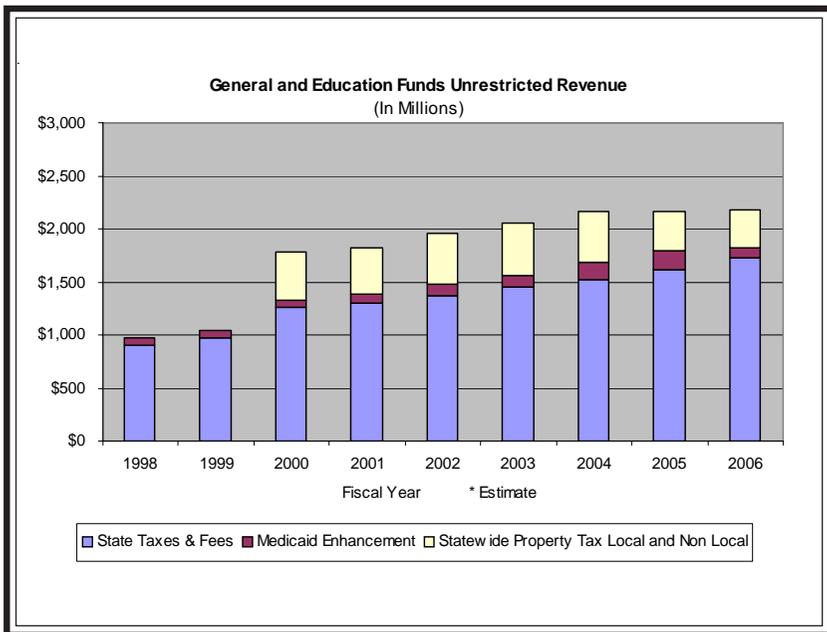
Net appropriations, including anticipated budget reductions and savings from budget initiatives, for the General and Education Fund were \$2,222.1 million, which was a minimal increase of less than 1% over the prior year. Additional appropriations of approximately \$10.7 million were granted for flood relief as a result of the Fall 2005 and Spring 2006 floods that swept across New Hampshire. A supplemental appropriation was also granted for \$2.3 million for anticipated energy costs as fuel demands and prices rose in fiscal 2006.

Lapses for fiscal 2006 for the General Fund were \$34.0 million as compared to \$58.0 for fiscal 2005. Although lapses from salary and benefits were similar year to year, fiscal 2005 had significant non re-occurring lapses from certain program areas under the Department of Health and Human Services, the Liquor Commission and Retirees Health Insurance.

Unrestricted Revenue

Revenue Category	FY 2004	FY 2005			FY 2006			FY 2006 Combined Plan
		General	Education	Total	General	Education	Total	
Business Profits Tax.....	\$ 172.6	\$ 196.6	\$ 50.7	\$ 247.3	\$ 264.0	\$ 56.6	\$ 320.6	\$ 280.2
Business Enterprise Tax.....	235.4	114.1	130.6	244.7	75.2	150.4	225.6	211.4
Subtotal.....	408.0	310.7	181.3	492.0	339.2	207.0	546.2	491.6
Meals & Rooms Tax.....	185.4	186.5	7.1	193.6	193.8	7.1	200.9	206.3
Tobacco Tax.....	100.1	73.3	28.2	101.5	69.9	80.9	150.8	144.5
Liquor Sales and Distribution.....	106.7	112.6		112.6	120.6		120.6	122.5
Interest & Dividends Tax.....	55.6	67.9		67.9	80.5		80.5	70.3
Insurance Tax.....	86.2	88.7		88.7	90.5		90.5	92.6
Communications Tax.....	65.8	70.0		70.0	70.5		70.5	71.3
Real Estate Transfer Tax.....	142.7	107.8	52.0	159.8	106.2	52.5	158.7	171.6
Estate and Legacy Tax.....	27.0	11.7		11.7	3.2		3.2	6.8
Transfers from Lottery Commission.....	73.7	-	70.3	70.3		82.0	82.0	75.0
Tobacco Settlement.....	41.8	2.4	40.0	42.4	-	39.0	39.0	43.0
Utility Property Tax.....	20.2	-	20.1	20.1		20.9	20.9	22.8
Property Tax Not Retained Locally.....	29.8		20.9	20.9			-	-
Property Tax Retained Locally.....	443.4		350.4	350.4		363.4	363.4	363.0
Other.....	167.0	150.7		150.7	157.0		157.0	154.7
Subtotal.....	1,953.4	1,182.3	770.3	1,952.6	1,231.4	852.8	2,084.2	2,036.0
Net Medicaid Enhancement								
Revenues.....	149.8	147.2		147.2	73.6		73.6	73.0
Recoveries.....	20.4	23.0		23.0	24.5		24.5	17.6
Subtotal.....	2,123.6	1,352.5	770.3	2,122.8	1,329.5	852.8	2,182.3	2,126.6
Other Medicaid Enhancement								
Revenues to Fund Net Appropriations..	35.1	39.1		39.1	-		-	-
Total.....	\$ 2,158.7	\$ 1,391.6	\$ 770.3	\$ 2,161.9	\$ 1,329.5	\$ 852.8	\$ 2,182.3	\$ 2,126.6

(1) Plan represents the original legislative estimates contained in the operating budget that was adopted in 2005.



Unrestricted Revenue Highlights

With continued growth in the economy, revenue collections came in higher than original estimates. Fiscal 2006 unrestricted revenue for the General and Education funds totaled \$2,182.3 million, which exceeded the plan by \$55.7 million. This strong fiscal year performance over plan was seen primarily from Business Taxes.

Current Year Performance highlights are noted below:

- Business Taxes (BPT & BET) totaled \$546.2 million, \$54.6 million ahead of plan and \$54.2 million above the prior year. The growth in FY 06 was a combination of one-time revenue collections related to the repatriation of foreign earnings as a result of the American Jobs Creation Act of 2004 and increases in final returns filed in March and April.
- The Tobacco Tax collected \$150.8 million, \$6.3 million above plan and \$49.3 million above prior year. The growth over the prior year reflects the tax increase to .80 cents per pack (previously .52 cents) effective July 1, 2005.
- Interest & Dividends Tax (I & D) collections were \$80.5 million, \$10.2 million above plan and \$12.6 million above prior year as a result of stronger economic growth.
- The Real Estate Transfer Tax (RET) performed below expectations with receipts totaling \$158.7 million, \$12.9 million (7.5%) below plan and \$1.1 million (.7%) below prior year. During the first six months the growth was on track with plan showing a 5% increase over the prior year. The decline in growth occurred in the last six months of the year falling to 19% below plan in June.
- Although the Meals and Rooms Tax (M&R) performed below expectations with receipts totaling \$200.9 million, \$5.4 million (2.6%) below plan, M&R exceeded the prior year by \$7.3 million (3.8%).
- Transfers from Sweepstakes totaled \$82.0 million, \$7.0 million above plan and \$11.7 million above prior year. The growth included 2 large Powerball rollover jackpots and minimal contributions from the introduction of the \$20 instant scratch ticket.

Prior Year Comparison:

When comparing fiscal 2006 results to 2005, total unrestricted revenue for the General and Education funds were ahead by \$20.4 million. Offsetting the growth over the prior year from Business Taxes, M&R, Tobacco Tax, I&D and Lottery was the decrease in Medicaid Enhancement Revenues due to the implementation of MQIP which eliminated Proshare and the change in budgeting of NH DSH from unrestricted to restricted, decreases in Estate and Legacy from the phase out of the tax, decreases in the statewide property tax as a result of rate changes, and shortfalls from the tobacco settlement from companies who are challenging the MSA.

Government-Wide Financial Data: Net Assets

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		Total
	Activities	Business-Type Activities	
Current assets	\$ 972.6	\$ 401.5	\$ 1,374.1
Capital assets	2,090.7	564.8	2,655.5
Other assets	291.4	17.1	308.5
Total assets	3,354.7	983.4	4,338.1
Long-term liabilities	710.8	282.1	992.9
Other liabilities	490.5	85.9	576.4
Total liabilities	1,201.3	368.0	1,569.3
Net assets:			
Invested in capital assets, net of related debt	1,430.8	276.1	1,706.9
Restricted	311.5	325.3	636.8
Unrestricted	411.0	14.1	425.1
Total net assets	\$ 2,153.3	\$ 615.5	\$ 2,768.8

The state's combined net assets (government and business-type activities) totaled \$2.8 billion at the end of 2006, compared to \$2.7 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 state's investment in capital assets increased \$154.2 million from prior year. This increase was the result of net additions of capital assets of \$149.9 million during the year combined with a reduction in capital related debt of \$4.3 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 \$55.7 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 \$425.1 million, decreased \$21.3 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.

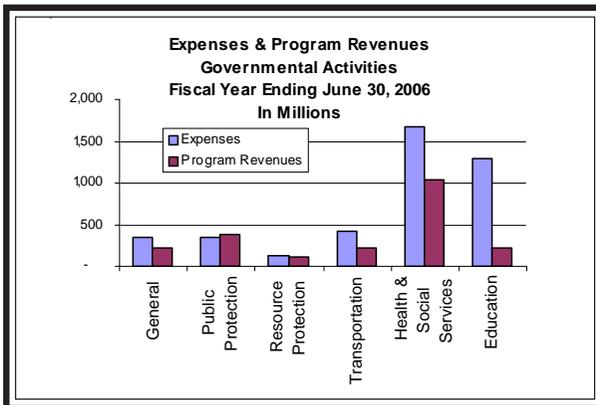
Governmental Type Activities

Governmental Activities

Direct expenses from Governmental activities of \$4.2 billion exceeded program revenues of \$2.2 billion resulting in a shortfall of \$2.0 billion. Program revenues, include charges for goods or services and Federal and Local Grants, which directly support program expenses. The shortfall of \$2.0 billion was funded through General Revenues, primarily taxes. Although expenses grew 1.5%, the growth in total governmental activity revenues of 0.4% was not sufficient to offset the increased costs.

Condensed Schedule of Expenses & Program Revenues			
Primary Government - Governmental Activities			
For Fiscal Year Ending June 30, 2006			
(In Millions)			
Fuctions/Programs	Program		Net
	Expense	Revenues	Revenue/(Expense)
Governmental Activities:			
General government	\$ 353.8	\$ 218.4	\$ (135.4)
Administration of justice and public protection	345.8	381.7	35.9
Resource protection and development	131.8	109.2	(22.6)
Transportation	416.5	226.2	(190.3)
Health and social services	1,681.2	1,042.0	(639.2)
Education	1,289.7	223.1	(1,066.6)
Interest Expense	28.0		(28.0)
Total Governmental Activities	<u>\$ 4,246.8</u>	<u>\$ 2,200.6</u>	<u>\$ (2,046.2)</u>

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 decreased approximately 6.0% from the previous year, while Educational expenses grew approximately 4.0% from the previous year.



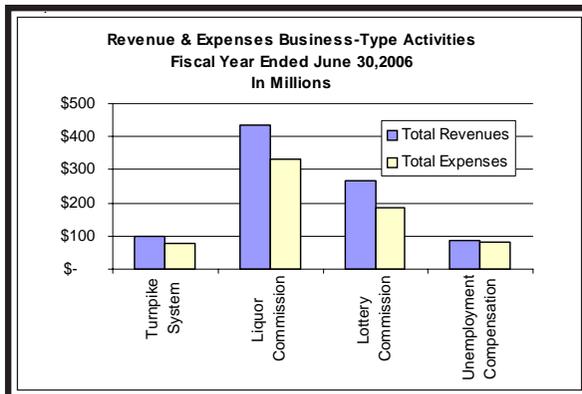
Business-Type Activities

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 \$215.5 million.

Condensed Schedule of Expenses & Program Revenues				
Primary Government - Business-Type Activities				
For Fiscal Year Ending June 30, 2006				
(In Millions)				
Fuctions/Programs	Program		Net	
	Expense	Revenues	Revenue/(Expense)	
Business-type Activities:				
Turnpike System	\$ 75.6	\$ 100.2	\$ 24.6	
Liquor Commission	330.7	433.5	102.8	
Lottery Commission	183.9	265.8	81.9	
Unemployment Compensation	81.6	87.7	6.1	
Total Business-type Activities	\$ 671.7	\$ 887.2	\$ 215.5	

- Sales growth from the operations of the Liquor Commission resulted in net proceeds of \$102.8 million, a 4.9% increase from prior year which were transferred to the General Fund to fund the general operations of the State.
- Significant Powerball drawings during the year contributed to a 16.5% increase in net proceeds of \$81.9 million from the Lottery Commission which were transferred to the Education Fund.
- The Turnpike System net revenue increased by \$8.9 million or 57.1% as a result of growth in toll revenues primarily due to the implementation of the E-ZPass electronic toll collection system during the year.
- The operations of Unemployment Compensation resulted in net revenue of \$6.1 million 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 Franklin, NH at Chance Pond.

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