

**STATE OF NEW HAMPSHIRE
HIGHWAY FUND**

**AUDITED FINANCIAL STATEMENTS
FISCAL YEAR ENDED
JUNE 30, 2005**

**STATE OF NEW HAMPSHIRE
HIGHWAY FUND**

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY SECTION	
Reporting Entity And Scope	1
Organization.....	1
Responsibilities.....	1
Funding	1
Prior Audit	5
Audit Objectives And Scope.....	5
 FINANCIAL SECTION	
Independent Auditor’s Report	6
 Financial Statements	
<i>Highway Fund</i>	
Balance Sheet.....	8
Statement Of Revenues, Expenditures, And Changes In Fund Balance.....	9
Notes To The Financial Statements	10
 Required Supplementary Information	
Budget To Actual (Non-GAAP Budgetary Basis) Schedule	21
Note To The Required Supplementary Information - Budgetary Reporting	22
 Other Supplementary Information	
Combining Schedule Of Balance Sheet Accounts.....	24
Combining Schedule Of Revenues, Expenditures, And Changes In Fund Balance Accounts	25
Schedule Of Expenditures Of Federal Awards (Cash Basis).....	26

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STATE OF NEW HAMPSHIRE HIGHWAY FUND

Reporting Entity And Scope

The reporting entity and scope of these financial statements is the Highway Fund as of and for the fiscal year ended June 30, 2005.

Organization

The Highway Fund was established pursuant to Part II, Article 6-a of the New Hampshire Constitution and is a major governmental fund of the State of New Hampshire. RSA 228:7 describes the Highway Fund as being accounted for on a fiscal year basis by the Department of Transportation.

At June 30, 2005, the Department of Transportation employed 1,419 full-time and 94 part-time employees paid from the Highway Fund.

Responsibilities

The Highway Fund is used to account for the revenues and expenditures used exclusively in the construction, reconstruction, and maintenance of the 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.

Funding

Per Part II, Article 6-a of the New Hampshire constitution, "All revenue in excess of the necessary cost of collection and administration accruing to the state from registration fees, operators' licenses, gasoline road tolls or any other special charges or taxes with respect to the operation of motor vehicles or the sale or consumption of motor vehicle fuels shall be appropriated and used exclusively for the construction, reconstruction and maintenance of public highways within this state, including the supervision of traffic thereon and payment of the interest and principal of obligations incurred for said purposes; and no part of such revenues shall, by transfer of funds or otherwise, be diverted to any other purpose whatsoever." A summary of the Highway Fund revenues and expenditures for the fiscal year ended June 30, 2005, is shown in the following table.

**Summary Of Revenues And Expenditures - Highway Fund
Fiscal Year Ended June 30, 2005**

(Amounts in Thousands)

Total Revenues	\$ 418,752
Total Expenditures	<u>\$ 409,891</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u><u>\$ 8,861</u></u>

Capital Assets

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statements that follow. Capital assets are included in the government-wide presentation in the State's Comprehensive Annual Financial Report (CAFR). The information presented below is provided as additional information for the reader.

**Highway Fund Capital Assets
Fiscal Year Ended June 30, 2005**
(Amounts in Thousands)

	Balance <u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2005</u>
Capital Assets Not Being Depreciated:				
Land And Land Improvements	\$ 186,692	\$ 33,917	\$ -0-	\$ 220,609
Construction In Progress	<u>173,090</u>	<u>51,315</u>	<u>545</u>	<u>223,860</u>
Total Capital Assets Not Being Depreciated	<u>359,782</u>	<u>85,232</u>	<u>545</u>	<u>444,469</u>
Other Capital Assets:				
Equipment And Computer Software	43,127	1,711	377	44,461
Building And Building Improvements	24,304	3,849	165	27,988
Infrastructure	<u>2,531,840</u>	<u>545</u>	<u>-0-</u>	<u>2,532,385</u>
Total Other Assets	<u>2,599,271</u>	<u>6,105</u>	<u>542</u>	<u>2,604,834</u>
Less Accumulated Depreciation For:				
Equipment And Computer Software	32,249	4,926	377	36,798
Buildings And Building Improvements	6,350	746	165	6,931
Infrastructure	<u>1,545,948</u>	<u>36,087</u>	<u>-0-</u>	<u>1,582,035</u>
Total Accumulated Depreciation	<u>1,584,547</u>	<u>41,759</u>	<u>542</u>	<u>1,625,764</u>
Other Capital Assets, Net	<u>1,014,724</u>	<u>(35,654)</u>	<u>-0-</u>	<u>979,070</u>
Capital Assets, Net	<u><u>\$ 1,374,506</u></u>	<u><u>\$ 49,578</u></u>	<u><u>\$ 545</u></u>	<u><u>\$ 1,423,539</u></u>

Long-Term Debt

Certain long-term liabilities are not payable by current available resources and therefore are not reported in the fund financial statements that follow. That information is included in the government-wide presentation in the State CAFR. The information presented below is provided as additional information for the reader.

Advance Refunding: The following is a summary of general obligation bonds attributable to the Highway Fund that were 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 Highway Fund’s financial statements.

Highway Fund General Obligation Bonds

(Amounts in Thousands)

<u>Date Of Advanced Refunding</u>	<u>Amount Outstanding</u> <u>At June 30, 2005</u>
December 11, 1998	\$ 844
August 1, 2002	<u>658</u>
Total	<u>\$ 1,502</u>

Changes In Long-Term Liabilities: The following is a summary of the changes in the long-term liabilities for bonds and compensated absences related to the Highway Fund during the fiscal year:

Highway Fund Long-Term Liability

Fiscal Year Ended June 30, 2005

(Amounts in Thousands)

	<u>Balance</u>				<u>Balance</u>		
	<u>July 1, 2004</u>	<u>Accretion</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2005</u>	<u>Current</u>	<u>Long-Term</u>
General Obligation Bonds Payable	\$ 40,532	\$ 805	\$ 9,024	\$ 4,515	\$ 45,846	\$ 4,941	\$ 40,905
Compensated Absences	<u>10,586</u>	<u>-0-</u>	<u>5,620</u>	<u>5,819</u>	<u>10,387</u>	<u>1,910</u>	<u>8,477</u>
Total Highway Fund	<u>\$ 51,118</u>	<u>\$ 805</u>	<u>\$ 14,644</u>	<u>\$ 10,334</u>	<u>\$ 56,233</u>	<u>\$ 6,851</u>	<u>\$ 49,382</u>

Capital Appreciation Bonds: A portion of six of the State’s general obligation capital improvement bonds issued since November 1990 are attributable to the Highway Fund. These bonds represent capital appreciation bonds (College Savings Bond Program) with interest being accrued and compounded semiannually. At June 30, 2005 the Highway Fund portion of the cumulative interest accretion since issuance for the five capital appreciation bonds is approximately \$16.3 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%. The annual maturities for the Highway Fund are as follows:

Highway Fund Debt Maturity

(Amounts in Thousands)

Fiscal Year(s)	Highway Fund	
	Principal	Interest
2006	\$ 4,941	\$ 1,225
2007	4,937	1,110
2008	4,604	995
2009	4,622	891
2010	4,406	794
2011 - 2015	12,281	2,743
2016 - 2020	5,994	1,253
2021 - 2025	<u>2,725</u>	<u>265</u>
Total	<u>\$ 44,510</u>	<u>\$ 9,276</u>

Use Of The Highway Fund

During the fiscal year ended June 30, 2005, the Highway Fund supported the transportation activities of the following entities and programs.

Transportation Expenditures

Fiscal Year Ended June 30, 2005

(Amounts in Thousands)

Department Of Transportation	\$ 156,786
Department Of Safety	59,347
Superior And District Court Administration	2,000
Department Of Justice	849
Highway Safety Agency	416
Department Of Health And Human Services	376
Board Of Tax And Land Appeals	155
Department Of Environmental Services	95
Highway Block Grant	<u>29,450</u>
Total Transportation Expenditures	<u>\$ 249,474</u>

Prior Audit

The most recent prior financial and compliance audits related to the Department of Transportation were an audit of the Department, excluding the Bureau of Turnpikes, for the fiscal year ended June 30, 1994, and an audit of the Department's Fuel Distribution Section for the fiscal year ended June 30, 2001. Copies of the prior audit reports can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House Room 102, Concord, NH 03301-4906.

Audit Objectives And Scope

The primary objective of our audit is to express an opinion on the fairness of the presentation of the financial statements of the Highway Fund as of and for the fiscal year ended June 30, 2005. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we considered the effectiveness of the internal controls in place at the Department of Transportation and tested the Department's compliance with certain provisions of applicable laws, rules, and contracts related to the Highway Fund. Major accounts or areas subject to our examination included, but were not limited to, the following:

- Revenues and Receivables,
- Expenditures and Liabilities,
- Cash and Investments, and
- Federal Compliance.

Our reports on internal control over financial reporting and on compliance and other matters and on management issues and the related observations and recommendations are issued under separate cover in our report dated March 16, 2006. Our independent auditor's report and the financial statements of the Highway Fund are contained on the following pages.

Independent Auditor's Report

To The Fiscal Committee Of The General Court:

We have audited the accompanying financial statements of the New Hampshire Highway Fund as of and for the fiscal year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the New Hampshire Department of Transportation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements referred to above are intended to present the financial position and changes in financial position of only the Highway Fund and do not purport to, and do not, present fairly the financial position of the State of New Hampshire as of June 30, 2005 and the changes in its financial position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the Highway Fund as of June 30, 2005, and the changes in financial position thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Department has not presented the management discussion and analysis that the Government Accounting Standards Board has deemed necessary to supplement, although not required to be part of, the financial statements.

The Budget to Actual (Non-GAAP Budgetary Basis) Schedule on page 21 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph. The Combining Schedule of Balance Sheet Accounts, Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance Accounts, and the Schedule Of Expenditures Of Federal Awards on pages 24, 25, and 26, respectively, are presented for the purpose of additional analysis and are not a required part of the financial statements of the Highway Fund. Such information has been subjected to the auditing procedures applied in our audit of the financial statements referred to in the first paragraph and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 16, 2006 on our consideration of the Department of Transportation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, grant agreements, contracts, and other matters as it relates to the Highway Fund. 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 read in assessing the results of our audit.

Office Of Legislative Budget Assistant
Office Of Legislative Budget Assistant

March 16, 2006

**STATE OF NEW HAMPSHIRE
HIGHWAY FUND**

**BALANCE SHEET
JUNE 30, 2005
(Amounts in Thousands)**

ASSETS

Cash And Cash Equivalents	\$ 112,474
Receivables (Net Of Allowances For Uncollectibles)	42,590
Inventories	<u>5,715</u>
Total Assets	<u><u>\$ 160,779</u></u>

LIABILITIES

Accounts Payable	\$ 23,128
Accrued Payroll	3,933
Deferred Revenue	<u>8,480</u>
Total Liabilities	<u>35,541</u>

FUND BALANCES

Reserved For Encumbrances	54,800
Reserved For Inventories	5,715
Reserved For Unexpended Appropriations	57,749
Unreserved, Undesignated (Note 6)	<u>6,974</u>
Total Fund Balance	<u>125,238</u>
Total Liabilities And Fund Balance	<u><u>\$ 160,779</u></u>

The accompanying notes are an integral part of this financial statement.

**STATE OF NEW HAMPSHIRE
HIGHWAY FUND**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

(Amounts in Thousands)

REVENUES

Motor Fuel Road Toll	\$ 154,335
Vehicle Registrations And Operator Licensing	73,216
Fees	22,258
Fines, Penalties, And Interest	612
Grants From Federal Government	148,072
Grants From Private And Local Sources	3,321
Interest, Premiums, And Discounts	2,134
Sale Of Commodities	173
Sale Of Services	4,350
Grants From Other Agencies	1,273
Miscellaneous	<u>9,008</u>
Total Revenues	<u>418,752</u>

EXPENDITURES

Administration Of Justice And Public Protection	1,381
Transportation	249,474
Debt Service	5,674
Capital Outlay	<u>153,362</u>
Total Expenditures	<u>409,891</u>

Excess (Deficiency) Of Revenues

Over (Under) Expenditures 8,861

OTHER FINANCING SOURCES (USES)

Transfers Out (Note 4)	<u>(1,676)</u>
Total Other Financing Sources (Uses)	<u>(1,676)</u>

Excess (Deficiency) Of Revenues

And Other Sources Over (Under)

Expenditures And Other Uses 7,185

Fund Balance - July 1	118,243
Change In Reserve For Inventory	<u>(190)</u>
Fund Balance - June 30	<u>\$ 125,238</u>

The accompanying notes are an integral part of this financial statement.

**STATE OF NEW HAMPSHIRE
HIGHWAY FUND**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Highway Fund 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. Financial Reporting Entity

The Highway Fund, established pursuant to Part II, Article 6-a of the New Hampshire Constitution, is used to account for the revenues and expenditures used exclusively in the construction, reconstruction, and maintenance of the 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. The accompanying financial statements report the financial activity of the Highway Fund.

B. Fund Financial Statements

The Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance report information on the activities of the Highway Fund. These activities are normally supported through motor vehicle registration fees, operators' licenses, motor fuel road toll, other special charges or taxes with respect to the operation of motor vehicles or the sale or consumption of motor vehicle fuels, and through federal grants-in-aid received by the State for highway purposes.

The Balance Sheet presents the reporting entity's current assets and liabilities, with the difference reported as fund balance. Fund balance is reserved when constraints placed on it are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as reserved fund balance.

The Statement of Revenues, Expenditures, and Changes in Fund Balance demonstrates the degree to which expenditures are offset by revenues. Revenues are classified by source and expenditures are classified by character.

C. Measurement Focus And Basis Of Accounting

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 the 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.

D. Financial Statement Presentation

The financial activity of the Highway Fund is accounted for and reported in the State's Governmental Funds in the State of New Hampshire's Comprehensive Annual Financial Report (CAFR). Assets, liabilities, and fund balances are reported by fund for the State as a whole in the CAFR.

The activities of the Highway Fund are recorded in a governmental fund, which is a separate accounting entity with a set of self-balancing 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. Capital assets and long-term liabilities are not recorded in the governmental fund, but are recorded in the government-wide financial statements of the State of New Hampshire, and therefore are not reflected in these statements.

E. Receivables

Receivables in the governmental fund financial statements represent amounts owed 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.

F. Inventories

Inventories for materials and supplies are determined by physical count. Governmental fund inventories are stated at average cost and 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".

G. Deferred Revenue

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.

H. 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 type.

I. 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); or 2) funds legally segregated for a specific future use (Reserve for Encumbrances). The Reserve for Unexpended Appropriations is 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.

J. Capital Outlays

Capital outlays represent expenditures for the 10-year State capital highway construction program and equipment purchases.

K. Revenues And Expenditures

In the Highway 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. Expenditures are reported by character: “Current”, “Debt Service”, or “Capital Outlay.” Current expenditures are sub classified 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 capital assets such as infrastructure and equipment.

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

L. Interfund Activity

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.

M. Budget Control And Reporting

General Budget Policies

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 that 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 fund types with the exception of the Capital Projects Fund. The Capital Projects Fund budget represents individual projects that extend over several fiscal years. Fiduciary funds are not budgeted.

In addition to the enacted biennial operating budget, the Governor may submit to the Legislature supplemental budget requests 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 department 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 Joint Legislative Fiscal Committee, the Joint Legislative Capital Budget Overview Committee, and the Office of 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 is 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.

A Budget To Actual (Non-GAAP Budgetary Basis) Schedule – Highway Fund is included as Required Supplementary Information.

N. 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.

NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

GASB Statement No. 40 *Deposits and Investment Risk Disclosures-an amendment of GASB Statement No. 3* was implemented for the fiscal year ended June 30, 2005. As a result, the disclosures related to deposit and investment risks were changed.

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. Operating funds are invested per investment policies that further define appropriate investment choices and constraints as they apply to those investment types.

Custodial Credit Risk: The custodial risk for deposits is the risk that in the event of a bank failure, the State's Highway Fund deposits may not be recovered.

Custodial credit risk is managed in a variety of ways. Although State law does not require deposits to be collateralized, the Treasurer does utilize such arrangements where prudent and/or cost effective. All banks, where the State has deposits and/or active accounts, are monitored as to their financial health through the services of Veribanc, Inc., a bank rating firm. In addition, ongoing reviews with officials of depository institutions are used to allow for frequent monitoring of custodial credit risk.

All depositories used by the State must be approved at least annually by the Governor and Executive Council. All commercial paper must be from issuers having an A1/P1 rating or better and an AA- or better long-term debt rating from one or more of the nationally recognized rating agencies. Certificates of deposits must be with state or federally chartered banking institutions with a branch in New Hampshire. The institution must have the highest rating as measured by Veribanc, Inc.

Whereas all payments made to the State are to be in U.S. dollars, foreign currency risk is essentially nonexistent on State deposits.

As of June 30, 2005, the State's Highway Fund bank balances were exposed to custodial credit risk as follows:

Highway Fund Deposit Credit Risk

June 30, 2005 (Amounts in Thousands)

Type	Insured	Collateralized And Held In State's	
		Name	Uncollateralized
Demand Deposits	\$ -0-	\$ -0-	\$ 38,591
Money Market	-0-	-0-	75,084
Total	\$ -0-	\$ -0-	\$ 113,675

Investments:

The Treasury Department has adopted policies to ensure reasonable rates of return on investments while minimizing risk factors. Approved investments are defined in statute (RSA 6:8, 387:6, 387-6a, and 387:14). Additionally, investment guidelines exist for operating funds as well as trust and custodial funds. All investments will be denominated in U.S. dollars. As of June 30, 2005, the State had Highway Fund assets in the following types of investments:

Highway Fund Investments

June 30, 2005 (Fair Value in Thousands)

<u>Investment Type</u>	<u>Balance</u>
Fixed Income Open Ended Mutual Funds	<u>\$ 6,146</u>

The table below reconciles the cash and investments in the financial statements to the footnote.

Highway Fund Cash And Investments

Reconciliation Between Financial Statements And Footnote

June 30, 2005 (Amounts in Thousands)

Per Balance Sheet

Cash And Cash Equivalents	<u>\$ 112,474</u>
---------------------------	-------------------

Per Footnote

Cash On Hand	\$ 907
Carrying Amount Of Deposits	105,421
Investments	<u>6,146</u>
Total Per Footnote	<u>\$ 112,474</u>

The \$6.1 million mutual fund investment above is included in the cash and cash equivalents reported on the Highway Fund Balance Sheet due to the investment's liquidity. For the purposes of the note to the financial statements, the mutual fund investment is defined as an investment in accordance with GASB Statement No. 3.

Debt Securities: The State invests Highway Fund assets in mutual funds.

Credit Risk: The risk that the issuer will not fulfill its obligations. Highway Fund assets are invested in grade securities which are defined as those with a grade B or higher.

Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk.

Interest Rate Risk: The risk that changes in interest rates will adversely affect the fair value of the State's investments. Interest rate risk is primarily measured and monitored by defining or

limiting the maturity of any investment or weighted average maturity of a group of investments. Fixed income mutual funds, which consist of shares of funds that hold diversified portfolios of fixed income securities, are limited to those with average maturity not to exceed 5 years. Trust and custodial funds manage and monitor interest rate risk primarily through a weighted average maturity approach (WAM). The State's WAM is dollar-weighted in terms of years. The specific target or limits of such maturity and percentage allocations are tailored to meet the investment objective(s) and defined in the investment guidelines associated with those funds.

Custodial Credit Risk: The custodial credit risk for investments is the risk that, in the event of the failure of the counter-party to a transaction, a government will not be able to recover the value of investments that are in the possession of an outside party. Open-ended mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The State's selection criteria is aimed at investing only in high-quality institutions where default is extremely unlikely.

The State's exposed risks related to Highway Fund investments at June 30, 2005 are noted below.

Highway Fund Investment Risk Exposure

June 30, 2005 (Amounts in Thousands)

<u>Investment Type</u>	<u>Credit Risk</u>		<u>Interest Rate Risk</u>
	<u>Grade</u>	<u>Unrated</u>	<u>WAM</u>
Fixed Income Open Ended Mutual Funds	<u>-0-</u>	<u>\$ 6,146</u>	<u>5.34</u>

NOTE 3 - 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 including fleet automobile liability 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 (EBRM) Fund, an internal service fund, to account for its uninsured risks of loss related to employee and retiree health benefits. Under this program, the EBRM 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. Contributions are made from the Highway Fund to the EBRM Fund on a cost-sharing basis to cover the actuarially determined cost of Highway Fund employee health benefits. For fiscal year 2005, the Highway Fund contributed \$16.6 million to the EBRM Fund.

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 the claims liabilities during the fiscal year ended June 30, 2005.

Highway Fund - Workers Compensation Claims Payable

Fiscal Year Ended June 30, 2005

(Amounts in Thousands)

	Balance			Balance		
	July 1, 2004	Increases	Decreases	June 30, 2005	Current	Long-Term
Claims	\$ 2,861	\$ 2,083	\$ 1,018	\$ 3,926	\$ 1,598	\$ 2,328

NOTE 4 - INTERFUND TRANSFERS

Interfund transfers during fiscal year 2005 totaled \$1,676,000. Of that amount, \$838,000 was transferred into the Fish and Game Fund from the Highway Fund and \$838,000 was transferred into the General Fund from the Highway Fund pursuant to RSA 260:60. RSA 260:60 requires the transfer of unrefunded gas tax out of the Highway Fund and, on a 50/50 basis, into the State's General and Fish and Game Funds.

NOTE 5 - EMPLOYEE BENEFIT PLANS

New Hampshire Retirement System

Employees funded by the Highway Fund, as employees of the State government, participate in the New Hampshire Retirement System (Plan). The Plan is a contributory defined-benefit plan providing service, disability, death, and vested deferred retirement benefits to member and beneficiaries. The Plan covers substantially all full-time employees of the State. The Plan qualifies as a tax-exempt organization under Sections 401 (a) and 501 (a) of the Internal Revenue Code. RSA 100-A established the Plan and the contribution requirements. The Plan, which is a cost-sharing, multiple-employer Public Employees Retirement System (PERS), 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 AFC 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 ten or more years of creditable service who are between ages 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.

All State employees paid directly from the Highway Fund are members of Group I.

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.

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. During the fiscal year ended June 30, 2005, Group I and II members were required to contribute 5% and 9.3%, respectively, of gross earnings. The Highway Fund is charged for 100% of the employer cost for all Highway Fund employees enrolled in the Plan. The annual contribution required to cover any normal cost beyond the employee contribution is determined every two years based on the Plan's actuary.

Payments from the Highway Fund for normal contribution costs for the fiscal year ended June 30, 2005 amounted to 5.90% of the covered payroll for its Group I employees. Employers of Group II employees paid 12.11% of the covered payroll for those Group II employees. The Highway Fund's normal contributions for the fiscal year ended June 30, 2005 were \$3,176,215.

Pursuant to RSA 100-A:52 and 100-A:52-b, the New Hampshire Retirement System also provides a post-retirement medical premium subsidy for Group I and II members.

A special account was established by RSA 100-A:16, II (h) for additional benefits. The account is credited with all 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 ½ of 1%.

The New Hampshire Retirement System issues a publicly available financial report that may be obtained by writing to them at 54 Regional Drive, Concord, NH 03301-8509 or from their web site at <http://www.nh.gov/retirement>.

Health Insurance For Retired Employees

In addition to providing pension benefits, RSA 21-I:30 specifies that the State provide certain health care benefits for retired employees and their spouses within the limits of the funds appropriated at each legislative session. These benefits include group hospitalization, hospital, medical, and surgical care and pharmaceutical benefits. 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 are provided through the Employee Benefit Risk Management (EBRM) Fund, which is the State's self-insurance fund implemented in October 2003 for active State employees and retirees. The State recognizes the cost of providing these benefits by paying actuarially determined insurance contributions into the fund, which are offset by the New Hampshire Retirement System's medical premium subsidy program for Group I and Group II employees.

During fiscal year 2005, the Highway Fund contributed \$7.9 million to the EBRM Fund for health insurance for its retired employees and eligible dependents.

NOTE 6 - HIGHWAY FUND EQUITY

The Highway Fund is comprised of two accounts, an operating account and capital account. The capital account is comprised of four main construction accounts (federal construction aid, state aid, municipal bridge, and betterment). The operating account represents the total highway fund less the capital account activities. Except for the betterment account, cash raised from current year revenue transactions, such as gasoline road toll, licenses, fees, etc, are maintained in the operating account and transferred to the capital accounts on demand as cash is needed to fund current year costs. By law, the betterment account receives a cash transfer each month, representing 88% of 3 cents of the motor fuel road toll tax.

The unreserved surplus (deficit) for the capital and operating accounts and the total Highway Fund, at June 30, 2005 were as follows:

Highway Fund Unreserved Surplus (Deficit)

June 30, 2005 (Amounts in Millions)

	<u>Capital Account</u>	<u>Operating Account</u>	<u>Total Highway Fund</u>
Unreserved Surplus/(Deficit)	<u>\$ (76.2)</u>	<u>\$ 83.1</u>	<u>\$ 6.9</u>

The deficit in the capital account at June 30, 2005 was \$76.2 million. The deficit exists primarily because funds are appropriated from the current year fund balance for multi-year highway construction projects.

The surplus in the operating account at June 30, 2005 was \$83.1 million. Current contracts for highway construction projects that are in progress have been encumbered and are reflected in the capital account. Future projects, where no contract has been encumbered, are not yet a charge against surplus. The surplus balance therefore, remains in the operating account ready to be used when anticipated project plans are converted to specific contracts, which will be approved and appropriated in future fiscal years.

NOTE 7 - SUBSEQUENT EVENT

Flood Related Expenditures And Impairment Of Assets

Severe flooding in October 2005 resulted in the Governor declaring a State of Emergency in five counties. In the Alstead area in the western part of the State, 15 inches of rain was received in a 30-hour period. The Flood of 2005 resulted in loss of life, damage to private property, destruction of homes and businesses, and severe damage to public infrastructure. The flood resulted in certain sections of the State highway system, in particular Route 123 in Alstead, to be impaired. The total flood related expenditures to the Highway Fund including emergency repairs is estimated to total \$31.2 million, of which an estimated \$25.7 million will be reimbursed by the Federal Government. The N.H. Department of Transportation has estimated costs as follows: permanent repairs to the infrastructure - \$18.5 million; own-forces emergency repairs - \$2.1 million; contract emergency expenditures to the State highway system - \$4.4 million; and clean up and other expenditures - \$6.2 million.

**STATE OF NEW HAMPSHIRE
HIGHWAY FUND
REQUIRED SUPPLEMENTARY INFORMATION**

**BUDGET TO ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Amounts in Thousands)**

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Motor Fuel Road Toll	\$ 148,020	\$ 148,020	\$ 154,335	\$ 6,315
Vehicle Registrations And Operator Licensing	76,110	76,110	73,216	(2,894)
Fees	19,818	19,818	21,805	1,987
Fines, Penalties, And Interest	936	936	612	(324)
Grants From Federal Government	288,064	288,164	182,008	(106,156)
Grants From Private And Local Sources	21,568	21,568	8,107	(13,461)
Interest, Premiums, And Discounts	2,500	2,500	2,134	(366)
Sale Of Commodities	1,236	1,236	173	(1,063)
Sale Of Services	27,477	27,477	16,788	(10,689)
Grants From Other Agencies	1,718	1,718	1,521	(197)
Miscellaneous	(16,952)	(16,915)	23,322	40,237
Total Revenues	<u>570,495</u>	<u>570,632</u>	<u>484,021</u>	<u>(86,611)</u>
<u>EXPENDITURES</u>				
Administration Of Justice And Public Protection	4,320	4,320	1,730	2,590
Transportation	532,714	543,480	319,774	223,706
Debt Service	5,629	5,674	5,674	-0-
Capital Outlay	164,976	164,976	152,648	12,328
Total Expenditures	<u>707,639</u>	<u>718,450</u>	<u>479,826</u>	<u>238,624</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>(137,144)</u>	<u>(147,818)</u>	<u>4,195</u>	<u>152,013</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers In (Out)	-0-	(1,676)	(1,676)	-0-
Miscellaneous	-0-	(190)	(190)	-0-
Total Other Financing Sources (Uses)	<u>-0-</u>	<u>(1,866)</u>	<u>(1,866)</u>	<u>-0-</u>
Excess (Deficiency) Of Revenues And Other Sources Over (Under) Expenditures And Other Uses	<u>(137,144)</u>	<u>(149,684)</u>	<u>2,329</u>	<u>152,013</u>
Fund Balance - July 1	131,729	131,729	131,729	-0-
Fund Balance - June 30	<u>\$ (5,415)</u>	<u>\$ (17,955)</u>	<u>\$ 134,058</u>	<u>\$ 152,013</u>

See accompanying Independent Auditor's Report. The accompanying note is an integral part of this schedule.

Note To The Required Supplementary Information – Budgetary Reporting

The Department of Transportation’s biennial budget is prepared principally on a modified cash basis. The “actual” results column of the Budget To Actual Schedule is presented on a “budgetary basis” to provide a meaningful comparison to budget.

The budget is composed of the initial operating budget, supplemented by additional appropriations. These additional appropriations and estimated revenues from various sources are authorized by Governor and Council action, annual session laws, and existing statutes which require appropriations under certain circumstances. For reporting purposes, the original budget is equal to the initial operating budget plus any balances brought forward, additional appropriations, and other legally authorized legislative and executive changes made before the beginning of the fiscal year. The final budgeted amount includes the original budget plus supplemental appropriation warrants and transfers made throughout the fiscal year.

The variance column on the Budget To Actual Schedule highlights differences between the final budget and actual revenue and expenditures. For revenue, these variances are caused by actual revenue exceeding budget, generating a favorable variance, or actual being less than budget, generating an unfavorable variance. For expenditures, a favorable variance results from actual expenditures being less than the amount budgeted for the fiscal year, and unfavorable variances represent actual expenditures for the reporting period exceeding the amounts budgeted for the fiscal year.

Budgetary vs GAAP basis

Because the budget is prepared on a budgetary basis and not in accordance with generally accepted accounting principles (GAAP) there are differences in the revenue and expenditures amounts reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance and the Budget To Actual Schedule.

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

1. Expenditures (Budgetary) are recorded when cash is paid or committed (encumbrance), rather than when the obligation is incurred (GAAP). Revenues (Budgetary) are based on cash received plus estimated revenue related to the budgetary expenditures and contractual obligations (encumbrances). Additional revenue accruals are made on a GAAP basis only.
2. On a GAAP basis, major intra-agency transactions are eliminated in order to not double count revenues and expenditures.

The following schedule reconciles the Highway Fund for differences between budgetary accounting methods and the GAAP basis accounting principles for the fiscal year ended June 30, 2005.

RECONCILIATION OF BUDGETARY TO GAAP

Fiscal Year Ended June 30, 2005 (Amounts in Thousands)

Excess (Deficiency) Of Revenues And Other Sources Over (Under) Expenditures And Other Uses (Non-GAAP Budgetary Basis)	\$ 2,329
Adjustments And Reclassifications:	
To Record Accounts Payable And Accrued Payroll	(5,662)
To Record Encumbrances	60,028
To Record Accounts Receivable And Deferred Revenue	<u>(49,700)</u>
Net Adjustments And Reclassifications	<u>4,666</u>
Excess (Deficiency) Of Revenues And Other Sources Over (Under) Expenditures And Other Uses (GAAP Basis)*	<u>\$ 6,995</u>

* Includes \$(190) change in inventory reserve.

**STATE OF NEW HAMPSHIRE
HIGHWAY FUND**

**COMBINING SCHEDULE OF BALANCE SHEET ACCOUNTS
JUNE 30, 2005**

(Amounts in Thousands)

	Highway Capital	Highway Operating	Total Highway Fund
<u>ASSETS</u>			
Cash And Cash Equivalents	\$ 23,732	\$ 88,742	\$ 112,474
Receivables (Net Of Allowances For Uncollectibles)	28,007	14,583	42,590
Inventories	<u>-0-</u>	<u>5,715</u>	<u>5,715</u>
Total Assets	<u>\$ 51,739</u>	<u>\$ 109,040</u>	<u>\$ 160,779</u>
<u>LIABILITIES</u>			
Accounts Payable	\$ 20,184	\$ 2,944	\$ 23,128
Accrued Payroll	-0-	3,933	3,933
Deferred Revenue	<u>8,480</u>	<u>-0-</u>	<u>8,480</u>
Total Liabilities	<u>28,664</u>	<u>6,877</u>	<u>35,541</u>
<u>FUND BALANCES</u>			
Reserved For Encumbrances	48,933	5,867	54,800
Reserved For Inventories	-0-	5,715	5,715
Reserved For Unexpended Appropriations	50,313	7,436	57,749
Unreserved, Undesignated	<u>(76,171)</u>	<u>83,145</u>	<u>6,974</u>
Total Fund Balance	<u>23,075</u>	<u>102,163</u>	<u>125,238</u>
Total Liabilities And Fund Balance	<u>\$ 51,739</u>	<u>\$ 109,040</u>	<u>\$ 160,779</u>

See accompanying Independent Auditor's Report.

**STATE OF NEW HAMPSHIRE
HIGHWAY FUND**

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE ACCOUNTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Amounts in Thousands)**

	<u>Highway Capital</u>	<u>Highway Operating</u>	<u>Total Highway Fund</u>
<u>REVENUES</u>			
Motor Fuel Road Toll	\$ 22,629	\$ 131,706	\$ 154,335
Vehicle Registrations And Operator Licensing	-0-	73,216	73,216
Fees	-0-	22,258	22,258
Fines, Penalties, And Interest	-0-	612	612
Grants From Federal Government	147,557	515	148,072
Grants From Private And Local Sources	1,746	1,575	3,321
Interest, Premiums, And Discounts	-0-	2,134	2,134
Sale Of Commodities	-0-	173	173
Sale Of Services	-0-	4,350	4,350
Grants From Other Agencies	-0-	1,273	1,273
Miscellaneous	26	8,982	9,008
Total Revenues	<u>171,958</u>	<u>246,794</u>	<u>418,752</u>
<u>EXPENDITURES</u>			
Administration Of Justice And Public Protection	-0-	1,381	1,381
Transportation	28,265	221,209	249,474
Debt Service	-0-	5,674	5,674
Capital Outlay	150,794	2,568	153,362
Total Expenditures	<u>179,059</u>	<u>230,832</u>	<u>409,891</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>(7,101)</u>	<u>15,962</u>	<u>8,861</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In (Out)	13,444	(13,444)	-0-
Transfers Out	-0-	(1,676)	(1,676)
Total Other Financing Sources (Uses)	<u>13,444</u>	<u>(15,120)</u>	<u>(1,676)</u>
Excess (Deficiency) Of Revenues And Other Sources Over (Under) Expenditures And Other Uses	<u>6,343</u>	<u>842</u>	<u>7,185</u>
Fund Balance - July 1	16,732	101,511	118,243
Change In Reserve For Inventory	-0-	(190)	(190)
Fund Balance - June 30	<u>\$ 23,075</u>	<u>\$102,163</u>	<u>\$125,238</u>

See accompanying Independent Auditor's Report.

**STATE OF NEW HAMPSHIRE
HIGHWAY FUND**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CASH BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<u>Federal Catalog Number</u>	<u>Federal Grantor <i>Federal Program Title</i></u>	<u>Expenditures</u>
20.205	Federal Highway Administration <i>Highway Planning And Construction</i>	\$ 138,325,954

See accompanying Independent Auditor's Report.