NEW ISSUE – Book Entry Only

Ratings: **Fitch Ratings: AA**
Moody's: Aa2
Standard & Poor's: AA
(See "RATINGS")

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Under existing law, interest on the Bonds is exempt from the New Hampshire personal income tax on interest and dividends. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. (See "TAX EXEMPTION" and Appendix A herein.)

$75,000,000
STATE OF NEW HAMPSHIRE
GENERAL OBLIGATION CAPITAL IMPROVEMENT BONDS
2008 SERIES A

Dated: Date of Delivery **Due:** as shown below

The Bonds will be issued as fully registered bonds, registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"). Purchases of beneficial interests in the Bonds will be made in book-entry form (without certificates) in the denomination of $5,000 or any integral multiple thereof. (See "THE BONDS--Book-Entry Only System" herein.)

Interest on the Bonds will be payable semiannually on March 1 and September 1 of each year, commencing September 1, 2008 until maturity or redemption prior to maturity. The Bonds are subject to redemption prior to maturity as provided herein.

Due March 1	Principal Amount	Interest Rate	Price or Yield	CUSIP† 644682	Due March 1	Principal Amount	Interest Rate	Price or Yield	CUSIP† 644682
2009	$4,500,000	3.50%	2.68%	XH4	2019*	$4,500,000	5.00%	3.58%	XT8
2010	4,500,000	3.50	2.72	XJ0	2020*	4,500,000	5.00	3.64	XU5
2011	4,500,000	3.375	2.80	XK7	2021*	3,000,000	4.00	3.80	XV3
2012	4,500,000	3.375	2.88	XL5	2022*	3,000,000	4.00	3.88	XW1
2013	4,500,000	3.375	2.96	XM3	2023*	3,000,000	4.00	3.94	XX9
2014	4,500,000	3.375	3.05	XN1	2024	3,000,000	4.00	100	XY7
2015	4,500,000	5.00	3.15	XP6	2025	3,000,000	4.00	4.06	XZ4
2016	4,500,000	3.50	3.25	XQ4	2026	3,000,000	4.00	4.11	YA8
2017	4,500,000	3.50	3.35	XR2	2027	3,000,000	4.00	4.15	YB6
2018	4,500,000	3.50	3.44	XS0					

The Bonds are offered subject to the final approving opinion of Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel, and to certain other conditions referred to in the Notice of Sale. Public Resources Advisory Group has acted as Financial Advisor to the State with respect to the Bonds. Delivery of the Bonds to DTC or its custodial agent is expected on or about January 17, 2008.

January 10, 2008

* Priced at the stated yield to the March 1, 2018 optional redemption date at a redemption price of 100%. See "THE BONDS – Redemption Provisions" herein.

No dealer, broker, salesperson or other person has been authorized by the State of New Hampshire to give any information or to make any representations with respect to the State or the Bonds, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the State of New Hampshire.

This Official Statement is not to be construed as a contract or agreement between the State of New Hampshire and the purchasers or owners of any of the Bonds. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as opinion and not as representations of fact. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in any of the information set forth herein since the date hereof.

This Official Statement is provided only in connection with the sale of the Bonds by the State of New Hampshire pursuant to the Notice of Sale dated January 3, 2008 and may not be reproduced or used in whole or in part for any other purpose without the express written consent of the State Treasurer. Reference is made to the Notice of Sale for a description of the terms and conditions of the sale of the Bonds to the original purchasers thereof.

TABLE OF CONTENTS

STATEMENT PURSUANT TO NEW HAMPSHIRE REVISED STATUTES ANNOTATED 421-B:20:

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

STATE OF NEW HAMPSHIRE

GOVERNOR
JOHN H. LYNCH

EXECUTIVE COUNCIL
RAYMOND S. BURTON
BEVERLY A. HOLLINGWORTH
DEBORA B. PIGNATELLI
JOHN D. SHEA
RAYMOND J. WIECZOREK

STATE TREASURER
CATHERINE A. PROVENCHER

SECRETARY OF STATE
WILLIAM M. GARDNER

ATTORNEY GENERAL
KELLY A. AYOTTE

COMMISSIONER OF ADMINISTRATIVE SERVICES
DONALD S. HILL

BUDGET DIRECTOR
LINDA M. HODGDON

BOND COUNSEL
Edwards Angell Palmer & Dodge LLP
111 Huntington Avenue at Prudential Center
Boston, Massachusetts 02199-7613

FINANCIAL ADVISOR
Public Resources Advisory Group
40 Rector Street
New York, New York 10006

[THIS PAGE INTENTIONALLY LEFT BLANK]

OFFICIAL STATEMENT

OF

THE STATE OF NEW HAMPSHIRE

$75,000,000

GENERAL OBLIGATION CAPITAL IMPROVEMENT BONDS
2008 SERIES A

PART I: INFORMATION CONCERNING THE BONDS

This Official Statement, including the cover page, is provided for the purpose of presenting certain information relating to the State of New Hampshire (the "State") in connection with the sale of $75,000,000 aggregate principal amount of its General Obligation Capital Improvement Bonds, 2008 Series A, dated their date of delivery (the "Bonds").

This Official Statement consists of two parts: Part I (including the cover and Appendices A, B, and C) and Part II, the State's Information Statement dated January 10, 2008 (the "Information Statement"). The Information Statement will be provided to the nationally recognized municipal securities information repositories ("NRMSIRs") currently recognized by the Securities and Exchange Commission for purposes of Rule 15c2-12. The Information Statement includes as Exhibit A the State's audited financial statements for fiscal year 2007. KPMG LLP, the State's independent auditor, has not been engaged to perform and has not performed, since the date of its report referenced in the Information Statement, any procedures on the financial statements addressed in that report. KPMG LLP has also not performed any procedures relating to this Official Statement, including the Information Statement. See "STATE FINANCES - General" in the Information Statement included as Part II of this Official Statement.

THE BONDS

Description of the Bonds

The Bonds will be dated their date of delivery and will bear interest payable semiannually on March 1 and September 1 of each year, commencing September 1, 2008, until maturity or redemption prior to maturity. The record date with respect to each payment of interest shall be the fifteenth day of the month preceding such interest payment date. The Bonds will mature in the years and in the principal amounts and bear interest at the rates shown on the cover page of this Official Statement. The Bonds are subject to redemption prior to maturity as described below.

The Bonds are being issued only as fully registered Bonds and, when issued, will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of beneficial interests in the Bonds will be made in book-entry form, in the denomination of $5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in Bonds purchased. So long as DTC or its nominee, Cede & Co., is the Bondowner, payments of principal and interest will be made directly to such Bondowner. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants, as more fully described herein. (See "Book-Entry Only System" herein.)

Redemption Provisions

Optional Redemption

The Bonds maturing on and prior to March 1, 2018 are not subject to redemption prior to maturity. The Bonds maturing after March 1, 2018 are subject to redemption at the option of the State on and after March 1, 2018 as a whole or in part at any time, with maturities to be designated by the State (and by lot within any maturity), at par, plus accrued interest to the redemption date.

If less than all of the Bonds are called for redemption, the Bonds to be redeemed shall be selected in such manner as may be determined by the State Treasurer to be in the best interests of the State.

Notice of Redemption

So long as DTC is the registered owner of the Bonds, notice of any redemption of Bonds prior to their maturities, specifying the Bonds (or the portions thereof) to be redeemed shall be mailed to DTC not more than 60 days nor less than 30 days prior to the redemption date. Any failure on the part of DTC to notify the DTC Participants of the redemption or failure on the part of the DTC Participants or of a nominee of a Beneficial Owner (having received notice from a DTC Participant or otherwise) to notify the Beneficial Owner shall not affect the validity of the redemption. Following proper notice of the redemption of any Bonds, if sufficient moneys are deposited with U.S. Bank National Association, or its successor, as Paying Agent (the "Paying Agent") for redemption, interest thereon ceases to accrue as of the redemption date.

Security for the Bonds

In the opinion of Bond Counsel, the Bonds when duly issued will constitute valid general obligations of the State and the full faith and credit of the State will be pledged for the punctual payment of the principal of and interest on the Bonds.

Each Bond when duly issued and paid for will constitute a contract between the State and the owner of the Bond. While the doctrine of sovereign immunity (the sovereign right of a state not to be sued without its consent) applies to the State, the Legislature has conferred jurisdiction on the Superior Court to enter judgment against the State founded upon any express or implied contract. The Supreme Court of New Hampshire has stated that that statutory provision constitutes a waiver of the State's right of sovereign immunity in such a case. Although a bond of the State constitutes a contract with the owner of the bond, the State Supreme Court has not considered the issue of sovereign immunity in a case expressly involving the enforceability of a bond. Under State law, the Attorney General of the State is directed to present any claim founded upon a judgment against the State to the department or agency which entered into the contract for payment from available appropriations or, if such appropriations are insufficient, to present the claim to the Legislature. Payment of a claim against the State for which available appropriated funds are insufficient would require appropriation by the Legislature. Enforcement of a claim for payment of principal of or interest on the Bonds may also be subject to the provisions of federal or State statutes, if any, hereafter enacted extending the time for payment or imposing other constraints upon enforcement, insofar as those provisions may be constitutionally applied.

The State Constitution provides that the public charges of government may be raised by taxation upon polls, estates and other classes of property including franchises and property when passing by will or inheritance, and authorizes the Legislature to impose and levy proportional and reasonable assessments, rates and taxes upon all the inhabitants of, and residents within, the State and upon all property within the State.

Authorization, Purpose and Application of Proceeds

The Bonds are being issued pursuant to a vote of the Governor and Council under Chapter 6-A of the New Hampshire Revised Statutes Annotated ("RSA") and various other laws. Proceeds from the sale of the Bonds are expected to be used to finance all or a portion of the costs of a number of capital projects and to pay issuance costs.

Book-Entry Only System

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One-fully registered Bond certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at **www.dtcc.com** and **www.dtc.org.**

Purchases of securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the securities on DTC's records. The ownership interest of each actual purchaser of each security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the securities is discontinued.

To facilitate subsequent transfers, all securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent to vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State or the Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the State or the Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State or the Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the State or the Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the State believes to be reliable, but the State takes no responsibility for the accuracy thereof.

TAX EXEMPTION

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel to the State ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. Failure to comply with these requirements may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The State has covenanted to comply with such requirements to ensure that interest on the Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these requirements.

Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is exempt from the New Hampshire personal income tax on interest and dividends. Bond Counsel expresses no opinion regarding any other New Hampshire tax consequences arising with respect to the Bonds. Bond Counsel also has not opined as to the taxability of the Bonds or the income therefrom under the laws of any state other than New Hampshire. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix A hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each

Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and is exempt from the New Hampshire personal income tax on interest and dividends. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Bonds, or, in some cases, at the earlier redemption date of such Bonds ("Premium Bonds"), will be treated as having amortizable bond premium for federal income tax purposes and for purposes of the New Hampshire personal income tax on interest and dividends. No deduction is allowable for the amortizable bond premium in the case of obligations, such as the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a Beneficial Owner's basis in a Premium Bond will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Holders of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Further, no assurance can be given that pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any future judicial, regulatory or administrative interpretation or development with respect to existing law, will not adversely affect the value of, or the tax status of interest on, the Bonds. Prospective Beneficial Owners are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Prospective Beneficial Owners should also be aware that the statutory framework on which the exemption from the New Hampshire personal income tax on interest and dividends described above is similar to that at issue in Department of Revenue of *Kentucky v. Davis*, 197 S.W. 3d 557 (Ky. App. 2006), cert. granted (May 21, 2007), in which the Kentucky court held that a statute that provided more favorable income tax treatment for holders of bonds issued by Kentucky issuers than for holders of out-of-state municipal bonds violated the commerce clause of the United States Constitution. Should the United States Supreme Court affirm the holding of the Kentucky court, subsequent New Hampshire judicial decisions or statutory enactments intended to ensure the constitutionality of New Hampshire tax law could, among other alternatives, adversely affect the New Hampshire tax exemption of outstanding municipal bonds, including the Bonds, to the extent constitutionally permissible, or result in the exemption from the New Hampshire personal income tax on interest and dividends of interest on non-New Hampshire municipal bonds, either of which could adversely affect the market price of the Bonds.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from the New Hampshire personal income tax on interest and dividends, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Bondholder's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences, and Bondholders should consult with their own tax advisors with respect to such consequences.

LEGAL MATTERS

Legal matters incident to the authorization and sale of the Bonds are subject to the approval of Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel. The proposed form of the approving opinion of Edwards Angell Palmer & Dodge LLP is set forth in Appendix A. The opinion will be dated the date of the issuance of the Bonds and will speak only as of that date.

FINANCIAL ADVISOR

Public Resources Advisory Group has acted as financial advisor to the State with respect to the issuance of the Bonds.

RATINGS

Fitch Ratings, Moody's Investors Service, Inc. and Standard & Poor's have assigned the Bonds the ratings of "AA", "Aa2", and "AA", respectively. An explanation of the significance of each such ratings may be obtained from the rating agency furnishing the same. There is no assurance that those ratings will be maintained for any given period of time or that they may not be lowered or withdrawn entirely by the rating agencies, or any of them, if in their or its judgment circumstances so warrant. Any such downward change in or withdrawal of any of the ratings may have an adverse effect on the market price of the Bonds.

COMPETITIVE SALE OF BONDS

After competitive bidding on January 10, 2008, the Bonds were awarded to a group of underwriters managed by Robert W. Baird & Co., Inc. (the "Underwriters"). The Underwriters have supplied the information as to the public offering yields or prices of the Bonds set forth on the cover hereof. The Underwriters have informed the State that if all of the Bonds are resold to the public at those yields or prices, they anticipate the total Underwriters' compensation to be $327,750.00. The Underwriters may change the public offering yields or prices from time to time.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission (the "Rule"), the State will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the State (the "Annual Report"), by not later than 270 days after the end of each fiscal year and to provide notices of the occurrence of certain enumerated events, if material. The covenants will be contained in a Continuing Disclosure Certificate, the proposed form of which is provided in Appendix B. The Certificate will be executed by the signers of the Bonds, and incorporated by reference in the Bonds. Except as described below with respect to fiscal years 2005 and 2006, the State has never failed to comply in all material respects with any previous undertakings to provide annual reports or notices of material events in accordance with the Rule. The State did not include audited financial statements for fiscal year 2005 in its Annual Report for fiscal year 2005 or the Annual Report for the State's Turnpike System Revenue Bonds for fiscal year 2005. The Turnpike System filed audited financial statements for fiscal year 2005 in March, 2006, and the State's audited financial statements for fiscal year 2005 were filed in May, 2006. The State had undertaken pursuant to the Rule to provide its draft financial statements or audited financial statements for fiscal year 2006 to each NRMSIR by March 27, 2007, and on March 29, 2007, the State filed a notice of its failure to file such statements by the required date. The State's audited financial statements for fiscal year 2006 were filed on April 20, 2007. See "FINANCIAL STATEMENTS" in the Information Statement included as Part II of this Official Statement.

STATE OF NEW HAMPSHIRE

By: /s/ Catherine A. Provencher
State Treasurer

January 10, 2008

APPENDIX A

PROPOSED FORM OF OPINION OF BOND COUNSEL

EDWARDS ANGELL PALMER & DODGE LLP
111 Huntington Avenue Boston, MA 02199 617.239.0100 fax 617.227.4420 eapdlaw.com

(Date of Delivery)

The Honorable Catherine A. Provencher
State Treasurer
State House Annex
Concord, New Hampshire 03301

$75,000,000
State of New Hampshire
General Obligation Capital Improvement Bonds, 2008 Series A
Dated Date of Delivery

We have acted as Bond Counsel to the State of New Hampshire (the "State") in connection with the issuance by the State of the above-referenced bonds (the "Bonds"). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations and covenants of the State contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on this examination, we are of the opinion, under existing law, as follows:

1. The Bonds are valid and binding general obligations of the State, and the full faith and credit of the State are pledged for the punctual payment of the principal of and interest on the Bonds.

2. The interest on the Bonds is exempt from the New Hampshire personal income tax on interest and dividends. We express no opinion regarding any other New Hampshire tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than New Hampshire.

3. Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the State with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The State has covenanted to comply with all such requirements. Failure by the State to comply with certain of such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Bonds and the enforceability of the Bonds may be subject to insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

EDWARDS ANGELL PALMER & DODGE LLP

APPENDIX B

PROPOSED FORM OF
CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the State of New Hampshire (the "Issuer") in connection with the issuance of its $75,000,000 General Obligation Capital Improvement Bonds, 2008 Series A, dated their date of delivery (the "Bonds"). The State covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the State for the benefit of the Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule.

SECTION 2. Definitions. For purposes of this Disclosure Certificate the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the State pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any nationally recognized municipal securities information repository for purposes of the Rule. The current National Repositories are listed on Exhibit A attached hereto.

"Owners of the Bonds" shall mean the registered owners, including beneficial owners, of the Bonds.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Depository.

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State Depository" shall mean any public or private depository or entity designated by the State of New Hampshire as a state information depository for the purpose of the Rule. (As of the date of this Disclosure Certificate there is no State Depository).

"Transmission Agent" shall mean any central filing office, conduit or similar entity which undertakes responsibility for accepting filings under the Rule for submission to each Repository. The current Transmission Agent is listed on Exhibit A attached hereto.

SECTION 3. Provision of Annual Reports.

(a) The State shall, not later than 270 days after the end of each fiscal year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the State may be submitted when available separately from the balance of the Annual Report.

(b) If the State is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the State shall send a notice to the Repositories in substantially the form attached as Exhibit B.

SECTION 4. Content of Annual Reports. The State's Annual Report shall contain or incorporate by reference the following:

(a) quantitative information for the preceding fiscal year of the type presented in the State's Information Statement dated January 10, 2008 regarding (i) the revenues and expenditures of the State relating to its General Fund and Education Fund, (ii) capital expenditures, (iii) fund balances, (iv) revenue information, (v) indebtedness of the State, and (vi) pension obligations of the State, and

(b) the most recently available audited financial statements of the State, prepared in accordance with generally accepted accounting principles.

If audited financial statements for the preceding fiscal year are not available when the Annual Report is submitted, the Annual Report will include unaudited financial statements for the preceding fiscal year.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements for debt issues of the State or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The State shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Material Events.

(a) The State shall give notice, in accordance with subsection 5(b) below, of the occurrence of any of the following events with respect to the Bonds, if material:

1. Principal and interest payment delinquencies.

2. Non-payment related defaults.

3. Unscheduled draws on debt service reserves reflecting financial difficulties.

4. Unscheduled draws on credit enhancements reflecting financial difficulties.

5. Substitution of credit or liquidity providers, or their failure to perform.

6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds.

7. Modifications to rights of the Owners of the Bonds.

8. Bond calls.

9. Defeasance of the Bonds or any portion thereof.

10. Release, substitution or sale of property securing repayment of the Bonds.

11. Rating changes.

As of the date of this Disclosure Certificate events of the types listed in paragraphs 2, 3, 4, 5 and 10 above are not applicable to the Bonds.

(b) Whenever the State obtains knowledge of the occurrence of a Listed Event, the State shall as soon as possible determine if such an event would be material under applicable federal securities laws and if so, the State shall promptly file a notice of such occurrence with the Repositories.

SECTION 6. Alternative Methods for Reporting. The State may satisfy its obligations to make a filing with each Repository hereunder by transmitting the same to a Transmission Agent if and to the extent such Transmission Agent has received an interpretive advice from the SEC, which has not been withdrawn, to the effect that an undertaking to transmit a filing to such Transmission Agent for submission to each Repository is an undertaking described in the Rule.

SECTION 7. Termination of Reporting Obligation. The State's obligations under this Disclosure Certificate shall terminate upon the legal defeasance in accordance with the terms of the Bonds, prior redemption or payment in full of all of the Bonds.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the State may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived if such amendment or waiver is permitted by the Rule, as evidenced by an opinion of counsel expert in federal securities law (which may also include bond counsel to the State), to the effect that such amendment or waiver would not cause the Disclosure Certificate to violate the Rule. The first Annual Report filed after enactment of any amendment to or waiver of this Disclosure Certificate shall explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of information being provided in the Annual Report.

If the amendment provides for a change in the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information in order to provide information to investors to enable them to evaluate the ability of the State to meet its obligations. To the extent reasonably feasible, the comparison shall also be quantitative. A notice of the change in the accounting principles shall be sent to each Repository.

SECTION 9. Default. In the event of a failure of the State to comply with any provision of this Disclosure Certificate any Owner of the Bonds may seek a court order for specific performance by the State of its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not constitute a default with respect to the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the State to comply with this Disclosure Certificate shall be an action for specific performance of the State's obligations hereunder and not for money damages in any amount.

SECTION 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Owners of the Bonds from time to time, and shall create no rights in any other person or entity.

Date: January __, 2008

STATE OF NEW HAMPSHIRE

By:____________________________________
State Treasurer

____
Governor

[EXHIBIT A: List of National Repositories and Transmission Agent – to be attached]

[EXHIBIT B: Form of Notice of Failure to File Annual Report – to be attached]

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX C

NOTICE OF SALE

$75,000,000

STATE OF NEW HAMPSHIRE
GENERAL OBLIGATION CAPITAL IMPROVEMENT BONDS
2008 SERIES A

Notice is hereby given that electronic bids will be received until 11:00 A.M. (local Concord, New Hampshire time) on Thursday, January 10, 2008 by Catherine A. Provencher, State Treasurer of the State of New Hampshire, for the purchase of $75,000,000 State of New Hampshire General Obligation Capital Improvement Bonds, 2008 Series A (the "Bonds").

Description of the Bonds

The Bonds will be issued only as fully registered bonds in book-entry form. The Bonds will be dated their date of delivery and will be issued in denominations of $5,000 or any integral multiple thereof. Interest on the Bonds will be calculated on a 30/360 day basis and will be payable semi-annually on March 1 and September 1, commencing September 1, 2008.

Principal on the Bonds will be paid (subject to prior redemption) on March 1 in the following years and amounts:

Year	Principal Amount(1)	Year	Principal Amount(1)
2009	$4,500,000	2019	$4,500,000
2010	4,500,000	2020	4,500,000
2011	4,500,000	2021	3,000,000
2012	4,500,000	2022	3,000,000
2013	4,500,000	2023	3,000,000
2014	4,500,000	2024	3,000,000
2015	4,500,000	2025	3,000,000
2016	4,500,000	2026	3,000,000
2017	4,500,000	2027	3,000,000
2018	4,500,000		

(1) May represent mandatory sinking fund redemption amount or portion of stated maturity if Term Bonds (as defined herein) are specified.

Authorization and Security

The Bonds will be general obligations of the State of New Hampshire and the full faith and credit of the State will be pledged for the punctual payment of the principal and interest on the Bonds. The Bonds are being issued pursuant to a vote of the Governor and Council under Chapter 6-A of the New Hampshire Revised Statutes Annotated and various other laws.

Optional Redemption

Bonds maturing on and before March 1, 2018 are not subject to redemption prior to maturity. Bonds maturing after March 1, 2018 are subject to redemption at the option of the State on and after March 1, 2018 as a whole or in part at any time, with maturities or mandatory redemption installments to be designated by the State, at par plus accrued interest to the redemption date.

Whenever Bonds are to be redeemed, the State Treasurer shall cause notice of the call for redemption to be sent by registered or certified mail not less than 30 nor more than 60 days before the redemption date, to the registered owner of any Bond to be redeemed. If less than all of the Bonds are called for redemption, the Bonds to be redeemed shall be selected in such manner as may be determined by the State Treasurer to be in the best interests of the State. If less than all of the Bonds of a single maturity are called for redemption, the Bonds to be redeemed shall be selected by lot. During the period that DTC or its nominee is registered owner of the Bonds, the State Treasurer shall not be responsible for mailing notices of redemption to DTC Participants or Beneficial Owners.

Mandatory Redemption

If the successful bidder designates principal amounts of the Bonds to be combined into one or more term bonds each such term bond shall be subject to mandatory redemption commencing on March 1 of the first year which has been combined to form such term bond and continuing on March 1 in each year thereafter until the stated maturity date of that term bond. The amount redeemed or paid at maturity in any year shall be equal to the principal amount for such year set forth in the foregoing maturity schedule. Bonds to be redeemed in any year by mandatory redemption shall be redeemed at par and selected by lot from among the Bonds of the same maturity. The State Treasurer may credit against any mandatory redemption requirement term bonds of the maturity then subject to redemption which have been purchased and canceled by the State or have been redeemed and not theretofore applied as a credit against any mandatory redemption requirement.

Book-Entry Only

Initially, one bond certificate for each maturity will be issued to The Depository Trust Company, New York, New York ("DTC") or its nominee, which will be designated as the securities depository for the Bonds. So long as DTC is acting as securities depository for the Bonds, a book-entry system will be employed, evidencing ownership of the Bonds in principal amounts of $5,000 and multiples thereof, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. Principal of and interest on the Bonds will be payable to DTC or its nominee as registered owner of the Bonds. Principal of and interest on the Bonds will be payable in lawful money of the United States of America by U.S. Bank National Association, as Paying Agent. Transfers of principal and interest payments to beneficial owners (the "Beneficial Owners") will be the responsibility of such participants and other nominees of the Beneficial Owners. The State will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

In the event that (a) DTC determines not to continue to act as securities depository for the Bonds, (b) the State determines that DTC is incapable of discharging its duties or that continuation with DTC as securities depository is not in the best interests of the State or (c) the State determines that continuation of the book-entry system of evidence and transfer of ownership of the Bonds is not in the best interests of the State or the Beneficial Owners, the State will discontinue the book-entry system with DTC. If the State fails to identify another qualified securities depository to replace DTC, the State will cause the execution and delivery of replacement bonds in the form of fully registered certificates.

Electronic Bidding Procedures

Proposals to purchase bonds (all or none) must be submitted electronically via *PARITY*. Bids will be communicated electronically to the State at 11:00 a.m., local Concord, New Hampshire time, on Thursday, January 10, 2008. Prior to that time, a prospective bidder may (1) submit the proposed terms of its bid via *PARITY*, (2) modify the proposed terms of its bid, in which event the proposed terms as last modified will (unless the bid is withdrawn as described herein) constitute its bid for the Bonds or (3) withdraw its proposed bid. Once the bids are communicated electronically via *PARITY* to the State, each bid will constitute an irrevocable offer to purchase the Bonds on the terms therein provided. For purposes of the electronic bidding process, the time as maintained on *PARITY* shall constitute the official time. The State will not accept bids by any means other than electronically via *PARITY*.

Disclaimer

Each prospective bidder shall be solely responsible to submit its bid via *PARITY* as described above. Each prospective bidder shall be solely responsible to make necessary arrangements to access *PARITY* for the purpose of submitting its bid in a timely manner and in compliance with the requirements of the Notice of Sale. Neither the State nor *PARITY* shall have any duty or obligation to provide or assure access to *PARITY* to any prospective bidder, and neither the State nor *PARITY* shall be responsible for proper operation of, or have any liability for any delays or interruptions of, or any damages caused by, *PARITY*. The State is using *PARITY* as a communication mechanism, and not as the State's agent, to conduct the electronic bidding for the Bonds. The State is not bound by any advice and determination of *PARITY* to the effect that any particular bid complies with the terms of this Notice of Sale and in particular the "Bid Specifications" hereinafter set forth. All costs and expenses incurred by prospective bidders in connection with their submission of bids via *PARITY* are the sole responsibility of the bidders; and the State is not responsible, directly or indirectly, for any of such costs or expenses. If a prospective bidder encounters any difficulty in submitting, modifying, or withdrawing a bid for the Bonds, the bidder should telephone *PARITY* at i-Deal (212) 404-8102 and notify the State's Financial Advisor, Public Resources Advisory Group, by facsimile at (212) 566-7816. To the extent any instructions or directions set forth in *PARITY* conflict with this Notice of Sale, the terms of this Notice of Sale shall control. For further information about *PARITY*, potential bidders may contact *PARITY* at i-Deal (212) 404-8102.

Bid Specifications

Bidders should state the rate or rates of interest that the Bonds are to bear, in multiples of 1/8 or 1/20 of one percent. Any number of rates may be named, except that bonds maturing on the same date must bear interest at the same rate. Each bidder must specify in its bid the amount and maturities of bonds of each rate. No interest rate may exceed 5.00%. No bond of any maturity may be reoffered at a price less than 95% of the principal amount of such bond. Bids must be for not less than 100% or not more than 103% of the par value of the aggregate principal amounts of the Bonds. No bid for other than all of the Bonds will be accepted.

Serial Bonds and Term Bonds

The successful bidder may provide in its bid for all of the Bonds to be issued as serial bonds or may designate consecutive annual principal amounts of the Bonds to be combined into term bonds. Each such term bond shall be subject to mandatory redemption as described above under "Mandatory Redemption."

Bond Insurance

The State has not contracted for the issuance of any policy of municipal bond insurance for the Bonds. If the Bonds qualify for any such policy or commitment therefor, any purchase of such insurance or commitment shall be at the sole option and expense of the successful bidder, and any increased costs of issuance or delivery of the Bonds resulting by reason of such insurance or commitment shall be assumed by such bidder. Bids shall not be conditioned upon the issuance of any such policy or commitment. Any failure of the Bonds to be so insured or of any such policy or commitment to be issued, or any rating downgrade or other material event occurring relating to the issuer of any such policy or commitment, shall not in any way relieve the successful bidder of its contractual obligations arising from the acceptance of its bid for the purchase of the Bonds.

Basis of Award

The Bonds will be awarded to the bidder offering to purchase all of the Bonds at the lowest interest cost to the State. The lowest interest cost shall be determined in accordance with the true interest cost (TIC) method by doubling the semi-annual interest rate (compounded semi-annually) necessary to discount the debt service payments from the payment dates to the date of the Bonds (January 17, 2008) and to the price bid, excluding interest accrued to the date of delivery. If there is more than one such proposal making said offer at the same lowest true interest cost, the Bonds will be sold to the bidder whose proposal is selected by the Treasurer by lot from among all such proposals at the same lowest true interest cost. It is requested that each bid be accompanied by a statement of the true interest cost computed at the interest rate or rates stated in such bid in accordance with the above method of calculation (computed to six decimal places) but such statement will not be considered as a part of the bid.

Bids will be accepted or rejected promptly after receipt and not later than 3:00 p.m. (E.S.T.) on the date of the sale.

The State reserves the right to reject any or all proposals and to reject any proposals not complying with the Notice of Sale. The State also reserves the right, so far as permitted by law, to waive any irregularity or informality with respect to any proposal.

CUSIP Numbers

It is anticipated that CUSIP identification numbers will be printed on the Bonds. All expenses in relation to the printing of CUSIP numbers on the Bonds shall be paid for by the State; provided, however, that the CUSIP Service Bureau charge for the assignment of the numbers shall be the responsibility of and shall be paid for by the successful bidder.

Expenses

The State will pay: (i) the cost of the preparation of the Bonds; (ii) the fees and expenses of Bond Counsel, and the Financial Advisor; (iii) the fees of the rating agencies relating to the Bonds, and (iv) the cost of preparation and printing of the Official Statement.

Undertakings of the Successful Bidder

The successful bidder shall make a bona fide public offering of the Bonds and shall, within 30 minutes of being notified of the award of the Bonds, advise the State in writing (via facsimile transmission) of the initial public offering prices of the Bonds (the "Initial Reoffering Prices"). The successful bidder must, by facsimile transmission or delivery received by the State Treasurer within 24 hours after notification of the award, furnish the following information to Bond Counsel to complete the Official Statement in final form, as described below:

A. Selling compensation (aggregate total anticipated compensation to the underwriters expressed in dollars, based on the expectation that all Bonds are sold at the prices or yields at which the successful bidder advised the State Treasurer that the Bonds were initially offered to the public).

B. The identity of the underwriters if the successful bidder is part of a group or syndicate.

C. Any other material information the State Treasurer determines is necessary to complete the Official Statement in final form.

On or prior to the date of delivery of the Bonds, the successful bidder shall furnish to the State a certificate acceptable to Bond Counsel to the State generally to the effect that (i) as of January 10, 2008 (the "Sale Date"), the successful bidder had offered or reasonably expected to offer all of the Bonds to the general public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriters or wholesalers) in a bona fide public offering at the prices set forth in such certificate, plus accrued interest, if any, (ii) such prices represent fair market prices of the Bonds as of the Sale Date, and (iii) as of the date of such certificate, all of the Bonds have been offered to the general public in a bona fide offering at the prices set forth in such certificate, and at least 10% of each maturity of the Bonds actually has been sold to the general public at such prices. To the extent the certifications described in the preceding sentence are not factually accurate with respect to the reoffering of the Bonds, Bond Counsel should be consulted by the bidder as to alternative certifications that will be suitable to establish the "issue price" of the Bonds for federal tax law purposes. If a municipal bond insurance policy or similar credit enhancement is obtained with respect to the Bonds by the successful bidder, such bidder will also be required to certify as to the net present value savings on the Bonds resulting from payment of insurance premiums or other credit enhancement fees.

Delivery of the Bonds

The Bonds will be delivered on or about January 17, 2008 (unless a notice of change in the delivery date is announced on TM3 not later than 1:00 p.m. (E.S.T.) on the last business day prior to any announced date for receipt of bids) in Boston on behalf of DTC against payment of the purchase price therefor in Federal Funds.

Documents to be Delivered at Closing

It shall be a condition to the obligation of the successful bidder to accept delivery of and pay for the Bonds that contemporaneously with or before accepting the Bonds and paying therefore, the successful bidder shall be furnished, without cost, with (a) the approving opinion of the firm of Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel to the State, as to the validity and tax status of the Bonds, substantially in the form provided in Appendix B to the Official Statement, referred to below; (b) a certificate of the State Treasurer and the Commissioner of the Department of Administrative Services to the effect that, to the best of their respective knowledge and belief, the Official Statement referred to below, both as of its date and as of the date of delivery of the Bonds, does not contain any untrue statement of a material fact and does not omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading; (c) a certificate of the Attorney General of the State in form satisfactory to Bond Counsel, dated as of the date of delivery of the Bonds and receipt of payment therefor, to the effect that there is no litigation pending or, to his or her knowledge, threatened seeking to restrain or enjoin the issuance or delivery of the Bonds, in any way affecting the validity of the Bonds or in any way contesting the power of the State Treasurer to sell the Bonds as contemplated in this Notice of Sale; and (d) a Continuing Disclosure Certificate substantially in the form described in the Preliminary Official Statement.

Official Statement

The Preliminary Official Statement dated January 3, 2008 and the information contained therein have been deemed final by the State as of its date within the meaning of Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12") with permitted omissions, but is subject to change without notice and to completion or amendment in the Official Statement in final form (the "Final Official Statement").

The State, at its expense, will make available to the successful bidder up to 200 copies of the Final Official Statement, for delivery to each potential investor requesting a copy of the Final Official Statement and to each person to whom the bidder and members of its bidding group initially sell the Bonds, within seven business days of the award of the Bonds, provided that the successful bidder cooperate in providing the information required to complete the Final Official Statement.

The successful bidder shall comply with the requirements of Rule 15c2-12 and the rules of the Municipal Securities Rulemaking Board, including an obligation, if any, to update the Final Official Statement.

Continuing Disclosure

In order to assist bidders in complying with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission, the State will undertake to provide annual reports and notices of certain material events. A description of this undertaking is set forth in the Preliminary Official Statement.

Right to Change the Notice of Sale and to Postpone Offering

The State reserves the right to make changes to the Notice of Sale and also reserves the right to postpone, from time to time, the date and time established for the receipt of bids. ANY SUCH POSTPONEMENT WILL BE ANNOUNCED VIA TM3 NOT LATER THAN 9:00 A.M. (E.S.T.) ON THE ANNOUNCED DATE FOR RECEIPT OF BIDS. If any date and time fixed for the receipt of bids and the sale of the Bonds is postponed, an alternative sale date and time will be announced via TM3 at least 48 hours prior to such alternative sale date. On any such alternative sale date and time, any bidder may submit an electronic bid for the purchase of the Bonds in conformity in all respects with the provisions of this Notice of Sale, except for the date and time of sale and except for any changes announced over TM3 at the time the sale date and time are announced.

Additional Information

For further information relating to the Bonds, reference is made to the Preliminary Official Statement dated January 3, 2008 prepared for and authorized by the State Treasurer. The Preliminary Official Statement may be obtained by accessing the following website: www.muniOS.com. For further information, please contact the undersigned at the Office of the State Treasurer, State House Annex, Concord, New Hampshire 03301 (telephone 603-271-2621; telecopy 603-271-3922) or from Public Resources Advisory Group, 40 Rector Street, Suite 1600, New York, New York 10006, Attention: Monika Conley (telephone 212-566-7800; telecopy 212-566-7816).

THE STATE OF NEW HAMPSHIRE

By Catherine A. Provencher
State Treasurer

Date: January 3, 2008

The State of New Hampshire

INFORMATION STATEMENT

This Information Statement, including Exhibit A, which is included herein by reference, contains certain financial and economic information concerning the State of New Hampshire (the "State") that has been furnished by the State and the other sources indicated herein. The information is authorized by the State to be distributed to prospective purchasers in connection with bonds or notes offered for sale by the State or debt securities offered by its authorities, agencies or political subdivisions guaranteed by the State, or for the payment of which the State may otherwise be directly or contingently liable, and to the nationally recognized municipal securities information repositories currently recognized by the Securities and Exchange Commission for purposes of its Rule 15c2-12. The Information Statement may not be reproduced or used in whole or in part for any other purpose without the express written consent of Catherine A. Provencher, State Treasurer, State House Annex, Concord, New Hampshire.

Any statements in this Information Statement involving matters of opinion, whether or not expressly so stated, are intended merely as opinion and not as representations of fact. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Information Statement nor any sale made pursuant to any official statement or offering memorandum to which it is appended, in which it is included by reference or with which it is distributed shall, under any circumstances, create any implication that there has been no change in the affairs of the State, or its agencies, authorities and political subdivisions, since the date hereof.

STATE OF NEW HAMPSHIRE

Catherine A. Provencher
State Treasurer

January 10, 2008

TABLE OF CONTENTS

STATE OF NEW HAMPSHIRE

GOVERNOR
JOHN H. LYNCH

EXECUTIVE COUNCIL
RAYMOND S. BURTON
BEVERLY A. HOLLINGWORTH
DEBORA B. PIGNATELLI
JOHN D. SHEA
RAYMOND J. WIECZOREK

STATE TREASURER
CATHERINE A. PROVENCHER

SECRETARY OF STATE
WILLIAM M. GARDNER

ATTORNEY GENERAL
KELLY A. AYOTTE

COMMISSIONER OF ADMINISTRATIVE SERVICES
DONALD S. HILL

BUDGET DIRECTOR
LINDA M. HODGDON

[THIS PAGE INTENTIONALLY LEFT BLANK]

STATE GOVERNMENT

Executive Branch

The executive officers of the State consist of the Governor, the State Treasurer, the Secretary of State and the five-member Executive Council (the "Council"). The Governor, who holds office for a two-year term, is responsible for the faithful execution of all laws enacted by the Legislature and the management of the executive departments of the State. The State Treasurer and the Secretary of State are elected by joint ballot of the House and Senate for two-year terms. The Council is elected by the people biennially, one Councilor for each of the five Councilor districts in the State. The Council's chief function is to provide advice and consent to the Governor in the executive function of government. The Governor and Council can negate each other in nominations of and appointments to executive positions in the judicial and executive branches.

The executive branch is organized into a number of departments, each headed by a Commissioner. Major departments of the executive branch include: Health and Human Services, Transportation, Education (including departments for primary and secondary education, post-secondary education and the university system), Resources and Economic Development, Treasury, Corrections, Environmental Services and Administrative Services. The agencies and authorities which have borrowing authority are discussed in more detail in the section entitled "STATE INDEBTEDNESS-Agencies, Authorities and Bonded Indebtedness." In addition, a State liquor commission manages the sale and distribution of beer and alcohol statewide. A lottery commission operates various games, the net proceeds of which are restricted for appropriation to primary and secondary education. A number of other boards and commissions regulate licensing and standards in areas such as public accounting, real estate, sports and medicine.

The State Comptroller position has been vacant since January, 2007. The State is in the process of filling this position.

Legislative Branch

The legislative power of the State is vested in the General Court (the "Legislature") consisting of the 400-member House of Representatives and the 24-member Senate, both meeting annually. Members of the House are elected biennially from districts apportioned among cities and towns of the State on the basis of population. Senate members are elected biennially from single-member Senate districts.

Money bills originate in the House, but the Senate may propose or concur in amendments. Every bill which passes both houses of the Legislature is presented to the Governor for approval or veto. If a bill is vetoed by the Governor, that veto may be overridden by a vote of two-thirds of the members of each house of the Legislature. If the Governor fails to act within five days (except Sundays) on a bill presented for approval, the bill automatically becomes law unless the Legislature is not then in session.

Judicial Branch

The judicial branch of the government consists of a Supreme Court, Superior Court, Judicial Council, 10 probate courts (one in each county), 41 district courts and 4 municipal courts. With the exception of the Judicial Council, all justices and judges are appointed by the Governor and Council and serve until seventy years of age.

STATE DEMOGRAPHIC AND ECONOMIC DATA

General

New Hampshire is located in the New England census region and is bordered by the states of Maine, Massachusetts and Vermont and the Province of Quebec, Canada. The State is 9,304 square miles in area and has 18 miles of general coastline on the Atlantic Ocean and 131 miles of tidal shoreline.

Population

New Hampshire experienced a steady increase in population between 1996 and 2006, primarily as a result of net migration from neighboring states. The State's population was 1,314,895 in July 2006 according to the U.S. Census Bureau. The table below shows New Hampshire's resident population and the change in its population relative to New England and the nation.

Population Trends
(In Thousands)

Year	New Hampshire	Change During Period	New England	Change During Period	United States	Change During Period
1996	1,160	1.0%	13,328	0.1%	265,228	0.9%
1997	1,173	1.1	13,378	0.4	267,783	1.0
1998	1,185	1.0	13,428	0.4	270,248	0.9
1999	1,201	1.4	13,495	0.5	272,691	0.9
2000	1,241	3.3	13,954	3.4	282,217	3.5
2001	1,258	1.4	14,056	0.7	285,226	1.1
2002	1,274	1.3	14,145	0.6	288,126	1.0
2003	1,286	0.9	14,208	0.4	290,796	0.9
2004	1,298	0.9	14,241	0.2	293,638	1.0
2005	1,307	0.7	14,255	0.1	296,507	1.0
2006	1,315	0.6	14,270	0.1	299,398	1.0
Percent Change:						
1996–2006	--	13.4	--	7.1	--	12.9
2001–2006	--	4.5	--	1.5	--	5.0

Source: U.S. Census Bureau.

Personal Income

The State's per capita personal income increased 50.1% between 1996 and 2006 (as contrasted with an increase of 51.5% in the per capita personal income for the United States and a 57.0% increase for the New England region). The State's per capita personal income ranked 7th in 2006 with $39,655 or 108% of the national average. The State's total personal income for 2006 was $52.1 billion. The following table sets forth information on personal income for New Hampshire, New England and the United States since 1996.

Comparisons of New Hampshire Personal Income to New England and United States, 1996-2006

	New Hampshire Total Personal Income (In Millions)	Per Capita Personal Income			Percent Change			New Hampshire Per Capita Personal Income Ranking[1]
		New Hamp-shire	New England	United States	New Hamp-shire	New England	United States	
1996	$31,045	$26,427	$28,194	$24,175	6.8%	5.1%	4.8%	8
1997	32,420	27,257	29,687	25,334	3.1	5.3	4.8	7
1998	35,149	29,147	31,677	26,883	6.9	6.7	6.1	7
1999	37,125	30,380	33,126	27,939	4.2	4.6	3.9	8
2000	41,429	33,393	36,116	29,843	9.9	9.0	6.8	6
2001	42,624	33,871	37,308	30,562	1.4	3.3	2.4	6
2002	43,393	34,061	37,330	30,795	0.6	0.1	0.8	6
2003	44,327	34,471	37,894	31,466	1.2	1.5	2.2	6
2004	47,170	36,342	39,976	33,072	5.4	5.5	5.1	6
2005	48,979	37,480	41,797	34,685	3.1	4.6	4.9	6
2006	52,142	39,655	44,252	36,629	5.8	5.9	5.6	7

Source: U.S. Department of Commerce, Bureau of Economic Analysis.
(1) Does not include the District of Columbia.

Civilian Labor Force, Employment and Unemployment

Employment in New Hampshire grew faster than in the region and in the nation from 1996 to 2006. The following table sets forth the level of employment in New Hampshire, the other New England states and the United States.

Employment in New Hampshire, New England States and the United States

	Employment (In Thousands)		Average Annual Growth
	1996	2006	1996-2006
New Hampshire	618	711	1.41%
Connecticut	1,660	1,765	0.62
Maine	617	679	0.96
Massachusetts	3,083	3,235	0.48
Rhode Island	490	548	1.12
Vermont	310	348	1.16
New England	6,778	7,286	0.73
United States	126,708	144,427	1.32

Source: U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics Division.

Over the past ten years, New Hampshire's unemployment rate was lower than the rate for New England and the United States, and was often the lowest in the nation. Monthly unemployment data for November, 2007, the latest available, show that New Hampshire's unemployment rate was below both the regional and the national level. The table below sets forth information on the civilian labor force, employment and unemployment statistics since 1996.

Labor Force Trends
New Hampshire Labor Force
(In Thousands)[1]

Year	Civilian Labor Force	Employed	Unemployed	Unemployment Rate[1] New Hampshire	New England	United States
1996	624	598	26	4.2%	4.8%	5.4%
1997	645	625	20	3.1	4.4	4.9
1998	652	633	19	2.9	3.5	4.5
1999	668	649	18	2.7	3.3	4.2
2000	694	675	19	2.7	2.8	4.0
2001	705	681	24	3.4	3.6	4.7
2002	712	680	32	4.5	4.8	5.8
2003	716	684	32	4.4	5.4	6.0
2004	722	694	28	3.9	4.9	5.5
2005	730	703	27	3.6	4.7	5.1
2006	737	712	25	3.4	4.6	4.6
November, 2007	747	723	24	3.2	4.2	4.5

Source: U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics Division.
[1]Not seasonally adjusted.

Composition of Employment

The service sector was the largest employment sector in New Hampshire in 2006, accounting for 40.5% of nonagricultural employment, as compared to 37.4% in 1996. This sector surpassed retail and wholesale trade as the primary economic activity of New Hampshire in 1991. This upward trend in service sector employment parallels the shift in the national economy, where services was the largest employment sector, accounting for 41.9% of employment in 2006, up from 38.1% in 1996.

The second largest employment sector in New Hampshire during 2006 was wholesale and retail trade, accounting for 19.7% of total employment as compared to 15.6% nationally. In 1996, wholesale and retail trade accounted for 19.0% of total employment in New Hampshire.

Manufacturing remains an important economic activity in New Hampshire although the percentage has dropped in recent years. Manufacturing accounted for 12.1% of nonagricultural employment in 2006, down from 17.9% in 1996. For the United States as a whole, manufacturing accounted for 10.4% of nonagricultural employment in 2006, versus 14.4% in 1996. The following table sets out the composition of nonagricultural employment in the State and the United States.

Composition of Nonagricultural Employment in New Hampshire and the United States

	New Hampshire		United States	
	1996	2006	1996	2006
Manufacturing	17.9%	12.1%	14.4%	10.4%
Durable Goods	13.1	9.2	8.8	6.6
Nondurable Goods	4.8	2.9	5.6	3.8
Nonmanufacturing	82.1	87.9	85.6	89.6
Construction & Mining	3.8	4.8	5.2	6.2
Wholesale and Retail Trade	19.0	19.7	16.4	15.6
Service Industries	37.4	40.5	38.1	41.9
Government	14.1	14.3	16.3	16.1
Finance, Insurance & Real Estate	5.4	6.2	5.8	6.1
Transportation & Public Utilities	2.4	2.4	3.8	3.7

Source: U.S. Department of Labor, Bureau of Labor Statistics.

Largest Employers

The following table lists the twenty largest private employers in the State and their approximate number of employees as of December 2007.

Largest Employers
(Excluding Federal, State and Local Governments)

Company	Employees	Primary New Hampshire Site	Principal Product
1. Wal-Mart Stores, Inc.	8,012	Bedford	Retail Department Stores
2. DeMoulas & Market Basket	6,600	Nashua	Supermarkets
3. Dartmouth Hitchcock Medical Center	6,211	Lebanon	Acute Care Hospital
4. Fidelity Investments	5,430	Merrimack	Financial Services
5. Shaw Supermarkets Inc.	4,700	Stratham	Supermarkets
6. Hannaford Brothers-Shop 'N Save	4,663	Manchester	Supermarkets
7. Dartmouth College	4,246	Hanover	Private College
8. BAE Systems	4,100	Nashua	Communications
9. Liberty Mutual	4,000	Bedford	Financial Services
10. Home Depot	3,000	Manchester	Hardware Store
11. Concord Hospital	2,836	Concord	Hospital
12. Elliot Hospital	2,821	Manchester	Hospital
13. Wentworth-Douglas Hospital	1,824	Dover	Hospital
14. Southern New Hampshire Medical Center	1,719	Nashua	Healthcare Providers
15. Catholic Medical Center	1,700	Manchester	Healthcare Providers
16. Verizon Communications	1,650	Manchester	Telecommunications
17. Osram Sylvania Inc.	1,530	Hillsboro	Light Sources
18. New Hampshire International Speedway	1,500	Loudon	Motorsports Facility
19. Sears at Fox Run Mall	1,500	Newington	Home and Automotive Products
20. Freudenberg-NOK	1,165	Bristol	Custom-molded products

Source: *New Hampshire Business Review*, December, 2007.

State and Local Taxation

The State finances its operations through a combination of specialized taxes, user charges and revenues received from the State liquor sales and distribution system. The most important taxes are the business profits and business enterprise taxes and a meals and rooms tax. The State does not levy any personal earned income tax or general sales tax but does impose a tax on interest and dividends. The State believes its tax structure has played an important role in the State's economic growth. According to the U.S. Bureau of the Census, in 2006, individual income taxes represented 3.9% of the State's total government taxes. New Hampshire's per capita state taxes of $1,582 in 2006 were among the three lowest in the nation.

New Hampshire has generally been the highest among all states in local property tax collections per $1,000 of personal income, because local property taxes were traditionally the principal source of funding for primary and secondary education. See "SCHOOL FUNDING" below for a description of the State's current statutory system of financing operation of elementary and secondary public schools.

Housing

According to the 2000 federal census, housing units in the State numbered 547,024, of which 86.8% were occupied. In 1996, housing units in the State numbered 529,964, while in 2006, housing units in the State numbered 589,840, of which 85.5% were occupied. The median purchase price of a housing unit in 2006 was $265,000, a decrease of 1.9% from 2005, but an increase of 125.5% over 1996. The table below sets forth housing prices and rents in recent years.

Housing Statistics
Median Purchase Price and Gross Rent

	Owner-Occupied Non-Condominium Housing Unit Median Purchase Price	Percent Change	Renter-Occupied Housing Unit Median Gross Rent[1]	Percent Change
1996	$117,500	2.7%	$596	5.9%
1997	117,000	(0.4)	606	1.7
1998	127,000	8.5	636	5.0
1999	136,500	7.5	665	4.6
2000	152,500	11.7	697	4.8
2001	174,500	14.4	738	5.9
2002	200,880	15.1	810	9.8
2003	229,400	14.2	854	5.4
2004	252,660	10.1	896	4.9
2005	270,000	6.9	901	0.6
2006	265,000	(1.9)	928	3.0

Source: New Hampshire Housing Finance Authority.
[1] Includes utilities.

Building Activity

The pattern of building activity in New Hampshire in recent years, as evidenced by the issuance of residential building permits, has paralleled that of the New England region. There was growth in the 1992 to 2002 period in New Hampshire, New England, and the nation, while in 2003 the State experienced a 7.0% decrease in the number of permits. The number of permits and dollar value peaked in 2004 and declined in 2005 and 2006. In 2006, building permits totaled 5,677, with a value of $1,037 million. This represents a decrease of 25.2% in the number of permits, and a decrease of 23.3% in dollar value, from 2005. Set out in the following table are the number and value of building permits issued for housing units in New Hampshire, New England and the United States.

Building Permits Issued
By Number of Units and Value
(Value in millions)

	1996	2002	2003	2004	2005	2006
New Hampshire						
Single Family	4,233	6,754	6,583	7,002	6,432	4,826
Multi-Family	693	1,954	1,512	1,651	1,154	851
Total.................	4,926	8,708	8,095	8,653	7,586	5,677
Value.................	$517	$1,203	$1,208	$1,385	$1,352	$1,037
New England						
Single Family	35,312	39,928	39,486	43,749	41,812	33,204
Multi-Family	4,629	9,103	9,663	14,109	16,930	13,578
Total.................	39,941	49,031	49,149	57,858	58,742	46,782
Value.................	$4,417	$7,268	$7,825	$9,312	$9,791	$8,091
United States						
Single Family	1,069,472	1,332,620	1,460,887	1,613,445	1,681,986	1,378,220
Multi-Family	356,144	415,058	345,814	456,632	473,330	460,683
Total.................	1,425,616	1,747,678	1,806,701	2,070,077	2,155,316	1,838,903
Value.................	$ 134,176	$ 219,188	$ 249,693	$ 292,414	$ 329,254	$291,314

Source: U.S. Census Bureau.

Transportation

New Hampshire has more than 4,000 miles of State and federal highways. In 1986, the State Legislature enacted a highway plan to serve as a guideline for highway development in the State. A major component of the 1986 highway plan legislation as amended in 1991 provides for continued development of the State's Turnpike System.

There are twenty-four public commercial airports in the State, three of which have scheduled air service, eight private commercial airports and nine private non-commercial airports. Manchester-Boston Regional Airport, the State's largest commercial airport, undertook a major terminal expansion and renovation project in 1992. Bonds guaranteed by the State were issued in June 1992 (and subsequently refunded and paid on January 1, 2002 with the proceeds of non-guaranteed airport revenue bonds of the City); the new terminal opened on January 1, 1994. Since that time, the airport has grown from 427,657 enplanements in fiscal year 1994 to 1,909,027 enplanements in fiscal year 2007. The Airport experienced a nearly 10% decline in enplanements and passengers in fiscal year 2007 as compared with fiscal year 2006 enplanements due to airline industry bankruptcies and at least one airline failure (Independence Air). Manchester – Boston Regional Airport has undertaken a number of additional significant expansion, improvement and renovation projects, which were financed by the City of Manchester through the issuance of airport revenue bonds in October, 1998, April, 2000, June, 2002, and June, 2005. The projects are expected to enhance the airport's capacity for increased passenger and freight traffic. The 1998, 2000, 2002, and 2005 bonds are not guaranteed by the State.

Rail freight service is provided by twelve railroads. The Portsmouth Harbor is an important commercial shipping center that can accommodate deep-draft vessels. The State Port Authority Marine Terminal is located on Noble's Island in Portsmouth Harbor.

The New Hampshire Rail Transit Authority was created pursuant to Chapter 360 of the Laws of 2007 for the purpose of establishing regular commuter rail or other passenger rail service between points within and adjacent to the State. See "STATE INDEBTEDNESS – Agencies, Authorities and Bonded or Guaranteed Indebtedness – New Hampshire Rail Transit Authority."

Education

New Hampshire provides a mix of public and private educational opportunities. The education function of the State is carried out through the State Board of Education, the Department of Education and the University System of New Hampshire. The State Board and the Department of Education provide curriculum guidance and administrative support to 177 public school districts ranging in grades from kindergarten through grade twelve. In addition to public education, there are numerous private preparatory schools in the State, including Phillips Exeter Academy in Exeter and St. Paul's School in Concord. See also "SCHOOL FUNDING" and "LITIGATION."

At the university level, the State offers undergraduate and graduate programs in liberal arts and various sciences through the University System of New Hampshire, which includes the University of New Hampshire, Keene State College and Plymouth State University. The University System also operates Granite State College, which offers continuing education to the non-traditional student. In addition to the state-supported university system, eighteen private higher educational institutions are located in New Hampshire, including Dartmouth College in Hanover. The State also supports a network of technical colleges comprised of the New Hampshire Technical Institute in Concord and six other colleges located throughout the State. The Institute and colleges offer a two-year associates degree and a variety of certificates in approximately 100 different industrial, business and health programs. Since 1983, over 50% of New Hampshire high school graduates have continued their education beyond the high school level.

As the following table indicates, the educational level of New Hampshire residents over the age of 25 is higher than that of the nation as a whole.

Level of Education

	1990		2000	
Level of Education	New Hampshire	United States	New Hampshire	United States
9-11 years	93.3%	89.6%	N/A	84.5%
12 years	82.2	75.2	88.1%	78.5
1-3 years post-secondary	50.5	45.2	N/A	47.5
4 or more years post-secondary	24.4	20.3	30.1	21.9

Source: 2000 U.S. Census of Population, Census Bureau.

STATE FINANCES

General

Responsibility for financial management of the State is vested in several State officials. The State Treasurer is responsible for investment, debt and cash management. The Commissioner of the Department of Administrative Services is responsible for managing statewide administrative and financial functions including general budget oversight, maintaining the State's accounting system and issuing the State's Comprehensive Annual Financial Report ("CAFR").

The Department of Administrative Services prepares the State's CAFR in accordance with U.S. generally accepted accounting principles ("GAAP"). New Hampshire was one of the first states to present audited statements on a GAAP basis. The financial statements were independently audited each year from 1979 to 1996 by Ernst & Young LLP (or its predecessors), certified public accountants. The State contracted with KPMG LLP to provide audit services for fiscal years 1997 through 2008. The audited financial statements of the State for fiscal year 2007, together with the *qualified* report thereon of KPMG LLP, are attached as Exhibit A hereto. The State's audited financial statements for fiscal year 2007 do not include certain information as required by GAAP. Accordingly, the report of KPMG LLP includes an adverse opinion and a qualified opinion with respect to certain aspects of the State's audited financial statements for fiscal year 2007. See "FINANCIAL STATEMENTS" and pages A-2-3 of Exhibit A hereto for additional information. The audited financial statements for fiscal year 2007 are also available as part of the State's fiscal year 2007 CAFR (pages 12 through 69 of the CAFR) at the website of the State's Department of Administrative Services, Bureau of Financial Reporting at http://admin.state.nh.us/accounting/reports.htm.

One correction should be noted in the CAFR for fiscal year 2007. The last paragraph on page A-9 attached hereto incorrectly sets forth the current ratings assigned to the State's general obligation bonds as being "AAA" from Fitch Ratings ("Fitch") and Standard & Poor's ("S&P") and "Aaa" from Moody's Investors Service ("Moody's). These ratings only apply to bonds of the State that have the benefit of bond insurance policies issued by certain bond insurers. The underlying ratings assigned to the State's general obligation bonds as of June 30, 2007 by Fitch, Moody's and S&P were "AA," "Aa2," and "AA," respectively. See "RATINGS" in Part I of the Official Statement to which this Information Statement is attached for information regarding the current ratings assigned to the State's general obligation bonds.

For information relating to delays in the delivery of the audited financial statements for fiscal years 2005 and 2006, and matters relating to management letters delivered to the State for fiscal years 2005, 2006 and 2007, see "FINANCIAL STATEMENTS."

The CAFR currently includes comparisons to budgetary basis accounting and is presented as Required Supplementary Information (RSI). Accounting on a GAAP basis differs from accounting on a budgetary basis by recognizing revenues and related assets when earned rather than when cash is received and by recording expenditures and related liabilities when incurred rather than when cash is paid. For example, GAAP accounting calls for full recognition of accounts payable, accrued payroll and pension costs incurred at the close of a fiscal year even though those items are appropriated and paid in the following fiscal year under budgetary accounting. Reconciliation of the budgetary basis with GAAP appears in a Note to the RSI in the CAFR.

The State budget (the overall financial plan for the two years of the biennium) is enacted by a series of bills that establish appropriations and estimated revenues for each subunit (department, division, bureau, section and commission) within State Government. Appropriations are also established by supplemental and special legislation during annual legislative sessions.

The State controls expenditures against appropriations through an integrated financial system. Under this system accumulated total expenditures and encumbrances are compared with the amount of remaining available appropriations, prior to creating an expenditure (a charge against an appropriation which generates a payment) or an encumbrance (a charge against an appropriation pending payment). When the appropriated amount is fully expended or encumbered, no further obligations are incurred or paid until additional appropriations are made available.

By State law, unexpended and unencumbered balances of appropriations lapse to undesignated fund balance in the applicable fund at fiscal year-end, with certain exceptions. Generally, revenues in excess of official estimates, unless appropriated by supplemental appropriation legislation, also lapse to undesignated fund balance in the applicable fund. Such amounts, whether unexpended or unencumbered appropriations or unappropriated revenue, are known as lapses. Lapses constitute a credit to undesignated fund balance at the end of each fiscal period and may become available for subsequent appropriation by the Legislature.

GASB Statement 34. Beginning with fiscal 2002, the State's GAAP financial statements were revised and reorganized in accordance with the implementation of GASB Statement 34. The changes effectively added an additional layer of reporting to the current fund perspective reports, which also continue. The financial statements are presented on a government-wide perspective, which includes incorporating debt, fixed assets (infrastructure and depreciation) and recording revenues and expenditures on a full accrual basis. Also the State's CAFR presents additional information including a new section entitled Management's Discussion and Analysis (MD&A). The Basic Financial Statements of the CAFR include reconciliations of the Balance Sheet and Statement of Revenues and Expenditures prepared on a fund basis to the Statement of Net Assets and Statement of Activities presented on the Government-wide basis in accordance with GASB Statement 34. See Exhibit A to this Information Statement.

See "HEALTH CARE INSURANCE FOR RETIRED EMPLOYEES" and "STATE RETIREE HEALTH PLAN COMMISSION" for information pertaining to GASB Statements 43 and 45.

Fund Types

The budgets and operations of State departments and their subunits are accounted for in a number of funds fitting into three types: Governmental, Proprietary and Fiduciary.

Governmental Funds

General Fund. The General Fund is the principal fund and includes all State activities and functions not allocated by law to other funds. By law, all revenues received by any department or agency of the State (other than revenues allocated by statute directly to specific agencies or other funds) are paid at least weekly into the State Treasury. All such revenues are credited to the General Fund, and expenditures for all State activities and functions not allocated by law to other funds are charged to the General Fund. Revenues that are dedicated to fund specific activities including federal grants are recorded as restricted revenue and are subtracted from total appropriations to arrive at appropriations net of estimated revenues as shown on the fund balance schedules.

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

Fish and Game Fund. The operations of the State Fish and Game Department, including the operation of fish hatcheries, inland and marine fisheries and wildlife areas and related law enforcement functions, land acquisition, and wildlife management and research, and the payment of principal and interest on bonds issued for fish and game purposes, are financed through the Fish and Game Fund. Principal revenues to this Fund include fees from fish and game licenses, the marine gas tax, a portion of off-highway vehicle registration fees, penalties and recoveries and federal grants-in-aid related to fish and game management, all of which are appropriated annually by the Legislature for the use of the Fish and Game Department.

Capital Projects Fund. The State credits to the Capital Projects Fund appropriations for certain capital improvements, primarily those that are funded by the issuance of State debt (other than debt for highway or turnpike purposes), or by the application of certain federal matching grants.

Education Fund. The Education Fund was established by Chapter 17 of the Laws of 1999 ("Chapter 17"). See "SCHOOL FUNDING." Equitable education grants to school districts are appropriated from this fund. Additionally, a number of revenues are dedicated to this fund including the State's rental car tax and lottery revenues. Chapter 17 also dedicates portions of the State's business, cigarette, and real estate transfer taxes and tobacco settlement funds. While the uniform education property tax on utility property is deposited directly to the Education

Fund, only that portion of the statewide enhanced education tax on all other types of properties that is determined to be excess is deposited to the Education Fund.

Proprietary (Enterprise) Funds

Liquor Commission. By statute, all liquor sold in New Hampshire must be sold through a sales and distribution system operated by the State Liquor Commission. The Commission is comprised of three members appointed by the Governor with the consent of the Council. The Commission is directed by statute to set liquor prices at levels sufficient to pay all costs of liquor purchased and operating expenses of the Commission and the State stores and to impose additional charges for overhead and a profit for the State.

Lottery Commission. The State conducts daily and weekly lotteries and instant games through tickets sold by or on behalf of the State Lottery Commission in State liquor stores, at horse and dog race tracks and at authorized retail outlets in the State. Monthly net profit from lotteries are transferred to the Education Fund for distribution to school districts in the form of adequate education grants.

Turnpike System. The State constructs, maintains and operates transportation toll roads and bridges. The State has covenanted in the General Bond Resolution authorizing the issuance of Turnpike System revenue bonds that it will establish and collect tolls and charges for the use of the Turnpike System adequate at all times, with other available funds, to provide for the proper operation and maintenance of the System and for the timely payment of principal of and interest on Turnpike System revenue bonds and all other required payments in connection with the System. Under RSA 237-A any funds established in connection with the issuance of Turnpike System revenue bonds thereunder are kept separate from other funds of the State.

Unemployment Trust Fund. The Unemployment Trust Fund previously reported as a Fiduciary Fund has been reclassified in accordance with GASB Statement 34. This fund is used to account for contributions from employers and the benefit payments to eligible unemployed workers.

Internal Service Fund. Beginning in fiscal year 2004, as a result of Chapter 251 of the Laws of 2001, the State created a new internal service fund titled the Employee Benefit Risk Management Fund. The fund was created to manage the State's new self-insurance program and to pool all resources to pay for the cost associated with providing employee benefits for active state employees and retirees. See also "HEALTH CARE INSURANCE FOR RETIRED EMPLOYEES."

Fiduciary Funds

Transactions related to assets held by the State in a trustee or agency capacity are accounted for in Fiduciary Funds. The State's Pension Funds are included in this category.

Investment Policy

The Treasury Department is entrusted with the fiduciary responsibility of managing State funds to ensure cash is available when required to maintain the efficient operation of the State while employing prudent investment policies and procedures. The Treasury Department has in place investment policies and procedures for the safekeeping and prudent management of various State assets. Certain trust and custodial funds have very specific investment guidelines in order to meet goals or income targets consistent with stated donor requests as well as state and federal law. General operating funds of the State are invested primarily to preserve the value and safety of the principal, maintain liquidity appropriate for short-term cash needs, and optimize the return on these investments consistent with the goals of safety and liquidity and in accordance with state and federal law. Investment decisions are made within the context of several risk categories, including custodial risk, concentration risk, and interest rate risk. Investment policies are developed, implemented, and reviewed periodically to insure best practices are followed and to incorporate strategies to reduce risk that may arise or become highlighted due to current events.

Budget and Appropriation Process

The Legislature meets annually but adopts a State budget on a biennial basis. Prior to the beginning of each biennium, all departments of the State are required by law to transmit to the Commissioner of the Department of

Administrative Services (the "Commissioner") requests for capital expenditures and estimates of operating expenditures, including personnel, equipment and program expenditures, for each fiscal year of the ensuing biennium.

Capital budget requests are summarized by the Commissioner and submitted to the Governor. After holding public hearings and evaluating additional information, the Governor prepares a capital budget for submission to the Legislature.

Operating budget requests and revenue estimates for each fiscal year of the ensuing biennium submitted by State agencies are also summarized and submitted to the Governor. Following public hearings, analysis of the tentative operating budget and consultation with the various department heads, the Governor prepares the final operating budget proposal, setting forth the financial program for the following two fiscal years.

By February 15th of each odd numbered year, the Governor must submit both a capital budget and an operating budget to the Legislature for its consideration. The Governor's budget message sets forth, among other things, a program for meeting the expenditure needs of the State for the next biennium. Although there is no constitutional requirement that the Governor propose or the Legislature adopt a balanced budget, there is currently a statutory requirement that the Governor propose and the Legislature adopt a balanced budget. In addition, if there is a budget deficit from a prior biennial budget, the Governor's budget proposal must address how this deficit will be eliminated in the current budget proposal. The Legislature has a similar statutory responsibility to approve a plan for addressing any past year's budget deficit in the budget it adopts for the ensuing biennial budget. If there is a budget deficit, the Governor is required by statute to make recommendations to the Legislature as to the manner in which the deficit shall be met.

After final budget bills are approved by the Legislature, they are presented to the Governor to be signed into law or vetoed. The State Constitution does not provide for a line item veto of appropriation bills by the Governor. If the Governor vetoes a budget bill, it is returned to the Legislature for an override vote or further legislative action. Once the budget bills become law, they represent the authorized appropriation spending for each State department during each of the next two fiscal years.

Financial Controls

All bills and obligations of the State are paid from the State Treasury. Under the State Constitution all payments except debt obligations made from the State Treasury must be authorized by a warrant signed by the Governor with advice and consent of the Council. Debt obligations of the State are exempt from the warrant requirement and are paid by the State Treasurer under statutory authority to pay principal and interest on all loans which may at any time come due.

Financial control procedures in the State are maintained by both the executive and legislative branches. In the executive branch, the Commissioner of the Department of Administrative Services is directed by statute to conduct a continuous study of the State's financial operations, needs and resources and to install and operate a system of governmental accounting. At the start of fiscal year 1986, the State's automated accounting operations were converted to an integrated financial system, allowing on-line data entry and inquiry.

After a number of feasibility studies in recent years, the State determined that replacing its existing general ledger, human resources and budgetary systems that had been in place since 1986 was necessary. In the 2002-2003 capital budget and in subsequent laws the legislature has appropriated nearly $22 million dollars to purchase and implement a new enterprise resource planning (ERP) system. ERP is a single computerized system that supports the common business functions of all State agencies including accounts payable, assets and inventory, budgeting, financial accounting, grants and projects, human resources, payroll, benefits administration, purchasing, revenues and receipts, and treasury functions.

The original contract schedule with CIBER/Lawson which was approved in April, 2006 outlined a 3 phase implementation. Phase I (financial accounting, grants management, treasury functions and budgeting) was to be delivered by July 1, 2007, Phase II (assets and inventory management and purchasing) was to be delivered by September 30, 2008, and Phase III (human resources, payroll and benefits) was scheduled to be delivered by September 30, 2008. Due to resource constraints and the complex nature of this project, this phased approach could not be achieved and was revised.

The current contract with CIBER/Lawson, which was approved on September 19, 2007 calls for the initial implementation of the new ERP system to go live during fiscal year 2009 in two phases and will focus primarily on the foundational financial, grants management, budget, procurement, revenue and receipts, and treasury functions (Phase I). After the foundational system is implemented, subsequent phases will be planned accordingly for human resources, payroll, benefits administration, and additional advanced functionality during fiscal year 2010 (Phase II).

The overall cost of the CIBER/Lawson contract has remained constant at this time. However, existing budgeted funds will be focused on the current Phase I initiative. After the foundational business functionality is implemented, Phase II functionality and required finances will be evaluated at that time.

The Comptroller, within the Department of Administrative Services, is directed by statute to maintain the State's accounting system in accordance with generally accepted accounting principles and report monthly to each State agency its total dollars expended, total encumbrances outstanding and appropriation balances then available for each agency through the previous month of the fiscal year. When it appears that a State department or agency is incurring operating expenditures at levels that will deplete its available appropriation prior to the close of the fiscal year, the Comptroller is required to report this fact to the Governor who shall investigate and may, if necessary, order the department head to reduce expenditures in proportion to the balance available and time remaining in the fiscal year. As noted above, the office of the Comptroller has been vacant since January, 2007. See "STATE GOVERNMENT – Executive Branch" above.

Legislative financial controls involve the Office of the Legislative Budget Assistant (the "Office"), acting under the supervision of the Fiscal Committee, and the Joint Legislative Capital Budget Overview Committee. The Office is responsible for the overall post-audit and review of the budgetary process on behalf of the Legislature. This responsibility involves conducting selected departmental audits and program result audits including, but not limited to, examinations as to whether the results contemplated by the authorizing body are being achieved by the department and whether such results could be obtained more effectively through other means. The Joint Legislative Capital Budget Overview Committee reviews the status of capital budget projects, and each State agency with capital budget projects is required to submit to the committee a status report on projects every sixty days.

Revenue Stabilization Account

Legislation was enacted in 1986 to establish a Revenue Stabilization Account (or "Rainy Day Fund") within the General Fund as of July 1, 1987. Pursuant to RSA 9:13-e, in the event of a General Fund undesignated deficit at the close of a fiscal biennium and a shortfall in revenue (as compared with the official budget), the Comptroller shall notify the Fiscal Committee and the Governor of such deficit and request to transfer from the Revenue Stabilization Account, to the extent available, an amount equal to the lesser of the deficit or the revenue shortfall. No monies in the Revenue Stabilization Account (except for interest earnings, which are deposited as unrestricted General Fund revenue) can be used for any purpose other than deficit reduction or elimination except by specific appropriation approved by two-thirds of each house of the Legislature and by the Governor.

Chapter 158:41 of the Laws of 2001 amended RSA 9:13-e regarding funding the Revenue Stabilization Account. At the close of each fiscal biennium, any surplus, as determined by the official audit, shall be transferred by the comptroller to the Revenue Stabilization Account, provided, however, that in any single fiscal year the total of such transfers shall not exceed one half of the total potential maximum balance allowable for the Revenue Stabilization Account. The maximum amount in the account is equal to 10% of General Fund unrestricted revenue for the most recently completed fiscal year.

Chapter 319 of the Laws of 2003 amended RSA 9:13-e by authorizing a transfer from the Revenue Stabilization Account, subject to fiscal committee approval, to the General Fund in the event of a fiscal year 2003 deficit as determined by the official audit. As of June 30, 2003, $37.9 million was transferred to the General Fund to eliminate the deficit which reduced the balance in the Revenue Stabilization Account to $17.3 million.

Pursuant to Chapter 177:53 of the Laws of 2005, the biennial transfer of surplus from the General Fund to the Rainy Day Fund, if any, was suspended for the biennium ending June 30, 2005. Chapter 35:1, Laws of 2006 directed that any undesignated General Fund surplus from the fiscal year ending June 30, 2005 in excess of $30.5 million be transferred to the Revenue Stabilization Account. During fiscal year 2006, $51.7 million was transferred to the Revenue Stabilization Account, for a balance of $69.0 million at June 30, 2006.

Chapter 263:110 of the Laws of 2007 directed that any surplus in excess of $20.0 million for the close of the fiscal biennium ending June 30, 2007, shall not be deposited in the Revenue Stabilization Account but shall remain in the General Fund. Therefore, at the end of fiscal year 2007, $20.0 million was transferred to the Revenue Stabilization Account, bringing the balance to $89.0 million at June 30, 2007. The remainder of the fiscal year 2007 surplus, $27.3 million, remained in the General Fund.

Health Care Fund

Chapter 122 of the Laws of 1994 established the State Health Care Transition Fund. The fund has since been renamed the Health Care Fund ("HCF"). The purpose of the fund is to provide financial resources for future changes in the State's health care system in order to increase the access to quality health care for the citizens of New Hampshire. The HCF was initially funded with $99 million of the $129 million one-time receipt by the State that resulted from the amendment to the State's Medicaid Plan relative to the New Hampshire Hospital disproportionate share revenues. Only the interest earnings on the principal assets held in the fund shall be expended for the purposes of the HCF and such interest shall be continually appropriated.

Over the years, legislation has allowed for the use of the HCF to offset General Fund deficits that resulted from increased Medicaid costs and Health and Human Services revenue initiatives that fell short of expectations. Chapter 351 of the Laws of 1997 budgeted $14.8 million of Health Care Funds for fiscal years 1998 and 1999 for computer system initiatives at the Department of Health and Human Services. Finally, as of June 30, 2003, in accordance with Chapter 319 of the Laws of 2003, the balance of $33.9 million of the HCF lapsed to the General Fund.

State Revenues

The State derives most of its revenues from a combination of specialized taxes, user charges and the operation of a statewide liquor sales and distribution system. The State of New Hampshire is the only state that imposes neither a personal income tax on earned income nor a statewide general sales or use tax.

Unrestricted revenues may be appropriated by the Legislature for any State purpose, including the payment of debt service on outstanding bonds of the State, without constitutional limitations (or program limitations, as in the case of federal grants).

The following are the principal sources of unrestricted revenues credited to the General Fund or, where noted, the Education Fund:

Meals and Rooms Tax. A tax is imposed equal to 8% of hotel, motel and other public accommodation charges and 8% of charges for meals served in restaurants, cafes and other eating establishments. Effective July 1, 1999, this tax was extended to cover rental cars, the receipts from which have been earmarked for the Education Fund.

Beginning in fiscal year 1995 a portion of the revenue derived from the meals and rooms tax is distributed to the cities, towns and certain unincorporated subdivisions of the State, eventually increasing to 40% of such revenue annually. For fiscal years 1997 and thereafter, the amount to be distributed is the sum of the prior year's distribution plus an amount equal to 75% of any increase in the income received from the tax for the preceding fiscal year, not to exceed $5,000,000. The fiscal year 2006 distribution to cities and towns was equal to 25.6% of the meals and rooms tax collections for fiscal year 2005. The fiscal year 2007 distribution to cities and towns was equal to 26.3% of the meals and rooms tax collections for fiscal year 2006.

Business Profits Tax. The business profits tax rate has been increased to 8.5% for tax years ending on or after July 1, 2001. Previously, the rate had been 8% for tax years ending on or after July 1, 1999 and 7% prior to that time. The increases (1.5%) have been dedicated to the Education Fund. The tax is imposed on the taxable business profits of business organizations deriving gross business profits from activities in the State, or both in and outside of the State. Business profits subject to the tax but derived from activities conducted outside the State are adjusted by the State's apportionment formula to allocate to the State a fair and equitable proportion of such business profits.

Business Enterprise Tax. Effective July 1, 1993, the State established a business enterprise tax. The rate is currently .75% for tax years ending on or before July 1, 2001 and previously had been .50% for tax years ending on or before July 1, 1999 and .25% prior to that time. The increases (.50%) have been dedicated to the Education Fund. The tax is assessed on wages paid to employees, interest paid on debt and dividends paid to shareholders. Businesses with less than $150,000 ($100,000 prior to July 1, 2001) in gross receipts and an enterprise value base of less than $75,000 ($50,000 prior to July 1, 2001) are exempt from the business enterprise tax. Effective for returns of taxable periods ending on and after January 1, 1997, every business enterprise shall make quarterly estimated tax payments due on the fifteenth day of the fourth, sixth, ninth and twelfth months of its taxable year.

Board and Care Revenue. These revenues are payments primarily from health insurers and the federal government (through the Medicaid program) to reimburse the State for costs of health and mental care services and board provided at State institutions, including the New Hampshire Hospital for the mentally ill.

Liquor Sales and Distribution. The State Liquor Commission is comprised of three members appointed by the Governor with the consent of the Council. The Commission makes all liquor purchases directly from the manufacturers and importers and operates State liquor stores in cities and towns that accept the provisions of the local option law. The Commission is authorized to lease and equip stores, warehouses and other merchandising facilities for liquor sales, to supervise the construction of State-owned liquor stores at various locations in the State, and to sell liquor at retail and to restaurants, hotels and other organizations. Revenues from the State Liquor Commission are credited to the Enterprise Fund for accounting purposes and the cash flow from operations is unrestricted and deposited into the State's pooled bank accounts.

Chapter 328 of the Laws of 2000 requires fifty percent of any current year's gross profits from liquor sales that exceed fiscal year 2001 actual gross profits be deposited into the alcohol abuse prevention and treatment fund established by RSA 176-A:1. This amount is limited to no more than 5 percent of the current year gross profits derived from the sale of liquor and other revenues. This law became effective July 1, 2001 and a General Fund appropriation of $3.3 million was recorded in fiscal year 2002. Chapter 319 of the Laws of 2003 suspended this allocation for the biennium ending June 30, 2005, and Chapter 177 of Laws of 2005 suspended this allocation for the biennium ending June 30, 2007. Chapter 263 of the Laws of 2007 suspended this allocation for the biennium ending June 20, 2009, providing that all gross revenue derived by the liquor commission from the sale of liquor, or from license fees, shall be deposited into the general funds of the State.

Tobacco Tax. Effective July 6, 1999, the cigarette tax rate increased by 15 cents to a rate of 52 cents per package of 20 cigarettes. The increase was dedicated for the Education Fund. Effective July 1, 2005, the tax was increased to 80 cents per pack, and effective July 1, 2007 the tax was increased to $1.08 per pack. Smokeless and loose tobacco, is generally taxed at a rate proportionate to the cigarette tax, but was not subject to the tax increase effective July 1, 2007.

Medicaid Enhancement Revenues. Effective July 1, 1993, the State lowered the Medicaid enhancement tax rate from 8% to 6%, and effective July 1, 2007, the State lowered such tax to 5.5%. Previously, the tax was assessed against the gross patient services revenue of hospitals operating in the State. "Gross patient services revenue" is defined as the amount that a hospital records at the hospital's established rates for patient services, regardless of whether full payment of such amounts is expected or paid. As of July 1, 2005, the tax is assessed against net patient services revenue, which means the gross charges of the hospital, less any deducted amount for bad debts, charity care and payor discounts. The revenue collected pursuant to the tax is placed in the Uncompensated Care Fund.

Also, under the State's federally approved Medicaid Plan, disproportionate share revenues are received by the State's institutions on a quarterly basis. Beginning in fiscal year 2006 and thereafter, these revenues are recorded as restricted revenue rather than as unrestricted revenue. The Commissioner of Health and Human Services continuously reviews and revises the State Medicaid plan to maximize the receipt of additional federal matching funds.

Insurance Tax. Prior to fiscal year 2008, the State imposed a tax on licensed insurance companies equal to 2% of net premiums written in the State (5% of taxable underwriting profit in the case of ocean marine insurance companies). Pursuant to Chapter 277 of the Laws of 2006, such tax was reduced to 1.75% effective July 1, 2007, 1.5% effective January 1, 2009, 1.25% effective January 1, 2010, and 1% effective January 1, 2011 for all lines of insurance except health insurance which remains at 2%. The purpose of the legislation is to stimulate economic growth by retaining current domestic insurers and recruiting other insurance companies to incorporate in the State. Effective for calendar year 2007, the new legislation also changes the collection of the tax from quarterly to annually on or before March 15 of each year. Under a retaliatory statute, the State also collects a tax in excess of such 2% on insurance companies in approximately 28 states. There is also a tax of 4% of gross premiums written in the State by insurance companies not licensed to do business in New Hampshire.

Interest and Dividends Tax. A tax of 5% is imposed on income in excess of $2,400 received from interest and dividends on stocks, bonds and other types of investments. Chapter 188 of the Laws of 1995 made several changes to the interest and dividends tax which became effective June 12, 1995. The minimum amount of interest and dividend income requiring a taxpayer to file a return was raised from $1,200 to $2,400 for individuals and from $2,400 to $4,800 for joint filers. The minimum exemption was also increased from $1,200 to $2,400 for individuals, partnerships, limited liability companies, associations, and certain trusts and fiduciaries. Interest and dividend income derived from New Hampshire and Vermont banks is no longer exempt from the tax. Chapter 163 of the Laws of 1998 allows for a deduction from taxable interest and dividend income any amount equal to any cash distributions made to a qualified investment capital corporation.

Estate and Legacy Tax. The State imposes an estate tax equal to the maximum amount of the credit for state taxes allowed under the federal estate tax. For decedents dying after December 31, 2004, Congress terminated the federal credit for state death taxes. Accordingly, the State's estate tax is not anticipated to raise material revenue in the future. In addition to this estate tax, the State had imposed a legacies and succession tax and a transfer tax on personal property of nonresident decedents, but these taxes were repealed for decedents dying after December 31, 2003.

Communications Tax. For the 2002-03 biennium, the communications tax was increased to a 7% aggregate tax applicable to the gross charges collected for most retail communication services. The 7% tax rate was made permanent pursuant to Chapter 319 of the Laws of 2003.

Real Estate Transfer Tax. The real estate transfer tax was increased by $2.50 to a rate of $7.50 per $1,000 of the selling price or consideration is assessed by the State upon each party involved in the transfer of real property with the exception of transfers made upon death. The increase has been dedicated to the Education Fund. Chapter 158 of the Laws of 2001 extended the tax to cover transfers of business properties.

Court Fines and Fees. The Unified Court System was established during the 1984-1985 biennium. All fines and fees collected by the various components of the court system are credited to the General Fund.

Statewide Enhanced Education Tax. The State imposes an education property tax at the rate on each $1,000 of the equalized value of real estate to raise $363.0 million. A statewide education property tax was established in 1999 in response to litigation challenging the State's method of financing public schools. See "School Funding" and "Litigation" herein. Since 1999, when the tax rate was established at $6.60 per $1,000, the State has periodically reduced the tax rate as real property valuations have risen. In addition, for fiscal years after June 30, 2004, the law requires the Commissioner of the Department of Revenue Administration to set the education property tax rate at a level sufficient to generate $363.0 million.

Statewide Utility Property Tax. Chapter 17 of the Laws of 1999 also established a statewide tax on utility property. A tax is imposed upon the value of utility property at the rate of $6.60 on each $1,000 of such value. During State fiscal year 2000, utilities were required to make both payments for the 1999 tax year as well as estimated payments on tax year 2000 liabilities. The proceeds from this tax have been dedicated to the Education Fund.

Utility Tax. The franchise tax on electric utilities was replaced in fiscal year 2001 with a tax on electricity consumption. A tax is imposed on the consumption of electricity at the rate of $.00055 per kilowatt hour. Consumers who are customers of municipal providers are exempt from the tax.

Beer Tax. The State Liquor Commission charges permit and license fees for the sale of beer through manufacturers, wholesalers and retailers plus a tax on beer sold by such manufacturers and wholesalers for resale and by manufacturers at retail at the rate of 30 cents per gallon. If a mandatory beverage container deposit requirement is enacted, the current statute requires the beer tax to be reduced to 18 cents per gallon.

Securities Revenue. Broker dealers and investment advisors are required to pay various registration, license or annual fees to conduct business in the State. Additionally, fees are charged for registrations of securities and mutual funds to be offered in the State.

Racing Revenue. The operation of greyhound, harness and thoroughbred racing in the State is conducted under the supervision of the New Hampshire Pari-Mutuel Commission. The State now imposes a tax ranging from 1% to 1.25% of the contributions plus one-quarter of the breakage of all harness and thoroughbred racing pari-mutuel pools. For greyhound racing pari-mutuel pools, the tax ranges from 1.25% to 1.5% of contributions plus one-quarter of the breakage.

Other. This revenue category includes over 200 individual types of fees, fines, assessments, taxes and income. These revenues are reported in the following nine broad subcategories: reimbursement of indirect costs; interest on surplus funds; corporate filing fees; interstate vehicle registration fees; corporate record fees; agricultural fees; non-highway motor vehicle fees and fines; and miscellaneous.

The State also derives substantial revenues from federal grant programs and certain independent divisions or activities of State government which operate in whole or in part from revenues collected from users. In some cases these revenues are restricted by statute for use by specific agencies. The following are the principal sources of restricted revenues derived by the State:

Lottery Receipts. The State conducts daily and weekly lotteries and instant games throughout the State through tickets sold by or on behalf of the Lottery Commission in State liquor stores, at horse and dog tracks and at authorized retail outlets in the State. In addition, the State together with the states of Maine and Vermont operates a tri-state lotto. Beginning November 1995, the State became a participant in the multistate Powerball lottery. Revenues are initially recorded in the Lottery Enterprise Fund and are netted with expenses and transferred monthly to the Education Fund.

Turnpike System Tolls. The State collects tolls and charges for the use of the Turnpike System. Toll revenues are credited to the Turnpike System Enterprise Fund with the restriction that these revenues be used to pay expenses of operation and maintenance of the Turnpike System and debt service on bonds or notes issued for Turnpike System purposes.

Fuel Tax. The State imposes a tax upon the sale of each gallon of motor fuel sold in the State at the rate of 18 cents per gallon for motor vehicle and marine fuels and 4 cents per gallon for aviation fuel. The proceeds of the motor vehicle gasoline tax are credited to the Highway Fund and, while not pledged, are required to be used first for the payment of principal of and interest on bonds or notes of the State issued for highway purposes. A portion of the motor vehicle fuel tax, 2.64 cents, is allocated to a separate account in the Highway Fund, the Highway and Bridge Betterment Account. Effective July 1, 2007, the amount allocated to the separate Highway and Bridge Betterment Account was reduced to 1.76 cents.

Federal Receipts. The State receives funds from the federal government which represent reimbursement to the State for expenditures for various health, welfare, transportation and educational programs and distribution of various restricted or categorical grants-in-aid. Federal grants-in-aid and reimbursements are normally conditioned to some degree on matching resources by the State. The largest categories of federal grants and reimbursements are made for the purposes of providing medical assistance payments for the indigent and medically needy, temporary assistance for needy families, and transportation and highway construction programs.

In addition to the taxes and activities described above, there are various taxes the revenues from which are available only to political subdivisions of the State. Such taxes are either collected by the political subdivisions directly or are collected by the State and distributed to the political subdivisions. Such taxes include a real and personal property tax, a resident tax, and a forest conservation tax based on the stumpage value of timber lands.

Expenditures

Expenditures are charges against appropriations for the expenses related to specific programs of individual departments and related subunits of the State government. Expenditures are accounted for by specific classes of expenses, such as personnel, supplies and equipment, within those programs. Statewide expenditures are grouped into the six categories described below.

General Government includes the legislative branch, office of the Governor and executive staff departments.

Administration of Justice and Public Protection includes the judicial branch, correctional and state police activities and those expenses relating to regulatory boards established to protect persons and property.

Resource Protection and Development includes the operation of State parks, the promotion of economic development, environmental protection and the management of wildlife resources.

Transportation includes design, construction and maintenance of highways and bridges, the operation of the Turnpike System and the Public Works Department and management of other transportation activities.

Health & Social Services includes programs for individuals who are physically, mentally and/or economically unable to provide essential needs for themselves. Programs include those for institutional and community-based care and mental health, programs for troubled youth, programs for the elderly and programs to support economically disadvantaged and chemically dependent individuals.

Education includes management and administration of statewide primary and secondary education and support of public post-secondary educational institutions, both academic and technical. See also "SCHOOL FUNDING."

Results of Operations

Fiscal Year 2003. Despite the recent economic recession, General and Education Fund unrestricted revenues for fiscal year 2003 showed modest increases over the prior year. Unrestricted revenues totaled $2,049.0 million, which was a $19.0 million (.9%) increase over plan and a 4.7% increase over prior year. The plan represents the legislative estimates contained in the original budget that was adopted in June 2001. Any significant shortfalls or gains over plan in the first year (fiscal year 2002) of the biennium were expected to reoccur in the second year (fiscal year 2003) of the biennium.

Business tax collections (business profits tax and business enterprise tax) totaled $392.8 million, which was $36.8 million below plan but $9.4 million (2.5%) over prior year. Meals and rooms taxes totaled $175.4 million, which was below plan by $18.0 million and had a small increase of $4.8 million (2.8%) over prior year. Insurance taxes totaled $82.2 million, which exceeded plan by $19.2 million and increased $6.1 million (8.0%) over prior year. Tobacco tax receipts totaled $94.1 million, which increased substantially (11.6%) over prior year due to the tax rate advantage as compared to neighboring states. Real estate transfer taxes again performed strongly, totaling $118.2 million, which exceeded both the plan and prior year by more than 15%. This increase can be attributed to increases in the prices of homes; increases in sales activity spurred by record low interest rates; and the repeal of the exemption from this tax for certain transfers of business property, including the Seabrook nuclear power station, which generated approximately $6.2 million in real estate transfer tax payments in December, 2002. The uniform education property tax rate for fiscal year 2003 was reduced from $6.60 to $5.80 per $1,000 of total equalized value. With increasing property values, the uniform education property tax (both retained locally and not retained locally) generated a total of $485.7 million, which was $2.6 million above the prior year and equal to plan.

On May 28, 2003, President Bush signed into federal law the "The Jobs and Growth Reconciliation Act of 2003." The funding to the State would be comprised of temporary direct fiscal relief characterized as a flexible grant to the State in the amount of $50 million and increased Federal Medicaid Assistance Percentage (FMAP). The State received the flexible grant in two installments. As a result, $25 million was recognized as revenue in fiscal year 2003 and the remaining $25 million was recognized in fiscal year 2004. In addition, the State recognized $4.7 million of the FMAP funds in fiscal year 2003 and $19.2 million in fiscal year 2004. No additional funds will be recognized in fiscal year 2005.

Medicaid enhancement revenues (MER) totaled $117.0 million, which was a $23.0 million increase over plan and $18.8 million over prior year. Included in the MER is $15.3 million that was recorded under the proportionate share program (Proshare). This amount represents the resolution of prior year claims that were deferred by the Federal Government in fiscal year 2002. Due to the uncertainty with the delay associated with receiving federal approval for the Medicaid Plan amendment, the fiscal year 2003 Proshare billing estimated at $6.5 million and restricted revenue of $3.8 million has not been recorded as revenue. The other major MER activities include the 6% hospital tax, which totaled $84.6 million and disproportionate share revenues associated with New Hampshire Hospital which totaled $14.0 million and other recoveries of $3.1 million.

General and Education Fund net appropriations for fiscal year 2003 after lapses totaled $2,153.2 million which was a $63.6 million (3.0%) increase over prior year. In response to financial pressures brought on by the recession, the State made various budgetary adjustments in fiscal year 2003. The following three executive orders were issued to reduce spending:

- Executive Order 2002-05 issued on June 12, 2002, reduced appropriations by $8.9 million.
- Executive Order 2003-01, issued on January 15, 2003, reduced expenditures by freezing vacant positions, equipment, out of state travel, consultants and IT hardware.
- Executive Order 2003-05 issued on April 16, 2003, reduced appropriations by $18.8 million.

Year-end lapses totaled $16.0 million, which is less than lapse amounts from prior years and is due, in part, to the above-mentioned executive orders and lapses associated with benefits for state employees that did not materialize. Even though appropriations for benefits were increased by $4.4 million, the overall amounts were not sufficient to fund the increasing cost of health insurance coverage. In October, 2003, the State shifted to a self-insurance environment with stop-loss coverage to manage the growth of this cost.

In accordance with Chapter 158:43 of the Laws of 2001, the Department of Health and Human Services was authorized to expend revenue in excess of amounts budgeted. A total of $20.1 million of Medicaid enhancement revenues described above was appropriated to fund budgetary shortfalls in the Medicaid provider payments program.

The combined year end General and Education Fund balances (including reserve accounts) at June 30, 2003 was a total of $17.3 million. Fund balances have steadily declined from a peak of $188.3 million in fiscal year 1999. Prior to year-end transfers, the fiscal year 2003 operating deficit was a negative $33.9 million for the General and Education Funds combined. The original budget projected a fiscal year 2003 shortfall of $17.2 million. The cumulative deficit of $71.8 million (fiscal year 2003 deficit of $33.9 million and a carry forward deficit of $37.9 million) was eliminated by year-end transfers from the Health Care Fund (HCF) and Revenue Stabilization Account. In accordance with Chapter 319 of the Laws of 2003, the HCF balance of $33.9 million was closed out to the General Fund, and an additional $37.9 million was transferred from the Revenue Stabilization Account to eliminate the entire General Fund deficit. This transfer reduced the June 30, 2003 balance in the Revenue Stabilization Account from $55.2 million to $17.3 million.

Fiscal Year 2004. On September 4, 2003, the Governor signed into law the fiscal year 2004-2005 operating budget, Chapters 318 and 319 of the Laws of 2003. The Governor had vetoed in June, 2003 earlier versions of these bills on the basis that, in his view, the then proposed operating budget relied on one-time revenue sources with an unsustainable expenditure plan that resulted in an insufficient balance in the Revenue Stabilization Account. To maintain State services, a continuing resolution was adopted for a period of three months, at the proposed budget level. In the interim, a Joint Budget Advisory Group was formed to negotiate a compromised budget. The group comprised members from both House and Senate with participation from the Governor. After two months, a compromise agreement was reached.

The compromise budget for the 2004-2005 biennium included conservative revenue forecasts. Traditional revenue (revenue before Medicaid enhancement revenues and property tax) was projected to increase by less than 1% in fiscal years 2004 and 2005. The fiscal year 2004 slow growth rate was primarily attributable to the phase out of the legacy and succession tax and the estate tax, which was expected to result in a $40 million decrease in fiscal year 2004 revenue. The fiscal year 2005 slow growth rate was primarily attributable to the one-time federal flexible grant, which resulted in $25 million being recognized as revenue in each of fiscal years 2003 and 2004. (See "Results of Operations– Fiscal Year 2003.") Business taxes, which represent 28% of traditional revenue, were projected to increase less than 3% per year and the meals and rooms tax was projected to increase on average less than 5% per year.

The original budget, as initially approved by the Legislature, projected a surplus for fiscal year 2004 of $44.6 million (excluding the Revenue Stabilization Account). The unaudited combined General and Education Fund Balances at June 30, 2004 was $15.3 million, which, together with $17.3 million from the Revenue Stabilization Account, brought the total surplus to $32.6 million.

General and Education Fund unrestricted revenue for fiscal year 2004 was better than anticipated. Unrestricted revenue totaled $2,158.6 million, which was a $109.6 million (5.3%) increase over prior year and a $44.8 million (2.1%) increase over plan. (The plan represents the legislative estimates contained in the original budget that was adopted in September 2003.)

Strong revenue performance was seen in several tax categories, as noted below, which offset the weak performance from the Interest and Dividends Tax, which was down 9.7% over prior year due to interest rates remaining at historic lows.

- Business Taxes totaled $408.0 million, $4.2 million above plan and $15.2 million (3.9%) over prior year.
- Meals and Rooms totaled $185.4 million, $1.9 million above plan and $10.0 million (5.7%) over prior year.
- Insurance Tax totaled $86.2 million, $3.3 million above plan and $4.0 million (4.9%) over prior year.
- Tobacco Tax totaled $100.1 million, which experienced moderate increase over prior year (6.4%) due to the continued tax advantage over neighboring states.
- Real Estate Transfer Tax (RET) again performed strongly compared to plan and prior year. RET collections of $142.7 million were 20.2% over prior year resulting from: increased home prices, sales activity spurred by low interest rates, the repeal of the tax exemption from business property transfers, and targeted audit collections.
- Estate and Legacy Tax benefited from large one-time gains earlier in fiscal year 2004, which contributed to the $7.6 million increase over plan. Due to the phase out of the tax, collections were significantly less than in previous years.
- Uniform Property Tax rate was reduced to $4.92 per $1,000 (now $3.33 per $1,000) of total equalized value from $5.80 per thousand in fiscal year 2003. Despite rate reductions, increasing property values helped generate a total of $473.2 million from the tax, slightly behind prior year by 2.6%.
- Medicaid Enhancement Revenues (MER) and Recoveries totaled $170.2 million, which was a $16.0 million increase over plan and $53.2 million over prior year.
- Nursing Facility Assessment Fee. On July 1, 2004, the Legislature passed Chapter 260 of the Laws of 2004 which among several measures, amended RSA 84-C:2 to include a new assessment of 6 percent of net patient services revenues imposed on all nursing facilities on the basis of patient days in each nursing facility. The initial assessment period was retroactively applied to May 1, 2003. Since there is uncertainty as to when Federal approval or disallowance will be granted and as to how the new fee will impact the State's proportionate share program (proshare) revenue already claimed in fiscal year 2004, a conservative adjustment of $6 million was recorded to reduce the proshare for fiscal year 2004.

Net appropriations, including anticipated budget reductions, savings from budget initiatives, and lapses, were $71.9 million behind estimates. The largest shortfalls were from Information Technology, Self-Insurance, and DHHS program savings and one-time revenue adjustments that did not materialize to expected levels.

Although fiscal year 2004 revenues grew over fiscal year 2003, the State authorized 2 executive orders to reduce spending:

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

The State moved to a self-insurance environment during fiscal year 2004 with respect to health insurance coverage for active and retired State employees. In previous years, General Fund expenditures included premiums paid to the State's health insurance carrier. The long-term liability associated with insurance claims, commonly referred to as "incurred but not reported" or "IBNR", was not included on the State's financial statements since the liability and risk was transferred to the insurance carrier. As a result of the self-funding alternative, the State created a new fund, titled the Employee Benefit Risk Management Fund during fiscal year 2004 to manage the State's self-insurance program needs and to pool resources to pay for the costs associated with the new program. The new fund ended this transition year with a deficit of $12.1 million. The deficit was primarily the result of the State recognizing the IBNR for the first time. On a cash basis, the fund had a positive $3.2 million balance.

Fiscal Year 2005. General and Education Fund unrestricted revenue for fiscal year 2005 totaled $2,161.9 million, which was $160.4 million (8.0%) over plan and $3.2 million over the prior year. As noted below, more than half of the increase over plan was from strong revenue performance primarily in business taxes and the real estate transfer tax. When compared to prior year, the strong performance from these two taxes offset the shortfalls from the statewide property tax, which resulted from the rate change from $4.92 to $3.33/1000, and the one-time flexible grant ($25.0 million) received from the federal government in fiscal year 2004.

- Business Taxes totaled $492.0 million, $77.0 million above plan and $84.0 million over prior year. Included in the fiscal year 2005 revenue was approximately $33.5 million in one-time audit settlements.

- Real Estate Transfer Tax collections totaled $159.8 million, $36.3 million above plan and $17.1 million over prior year.

Net appropriations, including anticipated budget reductions and savings from budget initiatives, for the General Fund were $1,409.2 million, which was a minimal increase of $46.9 million (3.4%) from the prior year. As a comparison, the net appropriations from fiscal 2003 to 2004 increased 7.8%. In contrast, the net appropriations for the Education Fund were $793.0 million, a decrease of $102.0 million (11.4%) as a result of changes to the education funding laws.

Lapses for fiscal year 2005, for the General Fund, were $58.0 million as compared to $34.5 million for fiscal year 2004. Although lapses from salary and benefits were similar year to year, increases over fiscal year 2004 were seen in several program areas, including the Department of Health and Human Services ($6.9 million), the Liquor Commission ($1.8 million for the Nashua liquor store), and savings for retirees health insurance ($6.3 million) from effective cost containment measures.

The combined General and Education Fund Balance at June 30, 2005 was $82.2 million, which, together with $17.3 million from the Revenue Stabilization Account, brought the total surplus to $99.5 million. The favorable surplus 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 of the Laws of 2005, the biennial transfer of surplus from the General Fund to the Revenue Stabilization Account was temporarily suspended, in order to allow for any surplus from the fiscal years 2004-2005 biennium to finance the fiscal years 2006-2007 budget. During legislative deliberations on the Governor's proposed fiscal years 2006-2007 budget, it was estimated that $30.5 million would be needed to finance this biennium's budget. A budget was ultimately signed into law by the Governor that reflected this need, therefore, while the ending surplus figure for the fiscal years 2004-2005 biennium is approximately $82.2 million, $30.5 million was reserved for the fiscal years 2006-2007 biennial budget.

The State's self-insurance fund ended fiscal year 2005 with a surplus of $2.8 million and a cash balance of $17.3 million. The surplus is the result of managing rates with effective cost containment measures. The State currently has a contract with an outside consultant to help analyze the benefits of the new program and to review rates annually.

Fiscal Year 2006. Revenue collections for fiscal year 2006 came in higher than original estimates. Fiscal year 2006 unrestricted revenue for the General and Education Funds totaled $2,182.3 million, which exceeded the plan by $55.7 million (3%). This strong fiscal year performance over plan was seen primarily in Business Taxes. Highlights regarding revenues include the following:

- Business Taxes (Business Profits Tax and Business Enterprise Tax) totaled $546.2 million, which was $54.6 million ahead of plan and $54.2 million above the prior year. The growth in fiscal year 2006 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, 2006.

- The Tobacco Tax collected $150.8 million or $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 and Dividends Tax collections were $80.5 million or $10.2 million above plan and $12.6 million above prior year as a result of stronger economic growth.

- The Real Estate Transfer Tax performed below expectations with receipts totaling $158.7 million or $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 17% below plan in June, 2006.

- Although the Meals and Rooms Tax performed below expectations with receipts totaling $200.9 million or $5.4 million (2.6%) below plan, receipts exceeded the prior year by $7.3 million (3.8%).

- Transfers from Lottery totaled $82.0 million or $7.0 million above plan and $11.7 million above prior year. The growth was primarily the result of two large Powerball rollover jackpots ($365.0 million on February 18, 2006 and $340.0 million on October 19, 2005) and sales from the new twenty dollar instant scratch ticket.

When comparing fiscal year 2006 results to fiscal year 2005, total unrestricted revenue for the General and Education Funds was slightly ahead by .9% or $20.4 million. Offsetting the growth over the prior year from Business Taxes, Meals and Rooms Tax, Tobacco Tax, Interest and Dividends Tax, and Lottery were decreases in the following:

- Medicaid Enhancement Revenues totaled $73.6 million or 50% below prior year due to the implementation of MQIP (Medicaid Quality Incentive Program with the Counties) which reduced Proshare, the change in budgeting of the NH Hospital Disproportionate Share (DSH) from unrestricted to restricted revenue, and federal changes in the Medicaid Enhancement Revenue assessments from gross to net patient services

- Estate and Legacy Tax receipts declined to $3.2 million or $8.5 million below prior year due to the phase out of the tax,

- Statewide Property Tax receipts decreased by $7.9 million from prior year to $363.4 million as a result of rate changes, and

- Tobacco Settlement payments from companies who are challenging the Master Settlement Agreement decreased by $3.4 million to $39.0 million. See "LITIGATION."

In order to balance the fiscal years 2006-2007 biennial budget, the legislature anticipated a surplus of $30.5 million for fiscal year 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 year 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 Funds was temporarily 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 Fund. As a result, $51.7 million was transferred from the General Fund, bringing the balance in the Rainy Day Fund to $69.0 million at June 30, 2006.

After the Rainy Day Fund 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 in the Real Estate Transfer tax.

Net appropriations, including anticipated budget reductions, savings from budget initiatives, and lapses, for the General and Education Fund were $2,192.7 million, which was an increase of 1.4% 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 year 2006.

Lapses for fiscal year 2006 for the General Fund were $34.0 million as compared to $58.0 million for fiscal year 2005. Although lapses from salary and benefits were similar year to year, fiscal year 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.

The State's self-insurance fund ended fiscal year 2006 with a surplus of $4.7 million, net of the liability associated with pending insurance claims (commonly referred to as "incurred but not reported" or "IBNR") and reserves as required per RSA 21-I:30-b. The cash balance was $38 million prior to these requirements. The surplus is the result of managing rates with effective cost containment measures.

Fiscal Year 2007. The combined General and Education Fund balances, including the Revenue Stabilization Account (Rainy Day Fund) at June 30, 2007 was $150.7 million. Fund balances have been increasing since the last recession period low point of $17.3 million in fiscal year 2003. Prior to year-end transfers, the fiscal year 2007 operating surplus was $47.3 million for the General and Education Funds combined.

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

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

- Business Taxes (Business Profits Tax and Business Enterprise Tax) totaled $598.7 million for the year, which were $74.8 million ahead of plan and $52.5 million above the prior year. The growth in fiscal year 2007 was a combination of audit revenue collections during the year and increases in final returns and extensions filed in March and April.

- Interest & Dividends Tax collections were $108.1 million and were above plan by $34.8 million and $27.6 million above prior year. Stronger economic growth and higher interest and dividend activity resulted in many new taxpayers exceeding exemption thresholds.

- The "Other" category saw receipts of $191.8 million, which were $32.2 million above plan and $34.8 million above prior year due in large part to an escheatment processed by the Treasury Department which included unclaimed shares received by the State in fiscal year 2004 related to the demutualization of insurance companies. It should be noted, however, that in accordance with accounting standards, a substantial portion of this escheatment had been previously recognized as revenue and included in prior year surplus.

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

- The Real Estate Transfer Tax performed below expectations with receipts totaling $137.4 million, which were below the plan by $43.6 million and below prior year by $21.3 million. Due to the significant downturn in the housing market, the weak performance of the Real Estate Transfer Tax which began during the second half of fiscal year 2006 continued throughout fiscal year 2007, ending the year 24.1% and 13.4% below estimates and prior year, respectively.

- Although the Meals and Rooms Tax performed below expectations with receipts totaling $209.8 million, which were $7.8 million (3.6%) below plan, receipts exceeded the prior year by $8.9 million (4.4%).

- The Tobacco Tax collected $143.6 million for the year, $0.9 million below plan and $7.2 million (4.8%) below prior year due to a decrease in demand for tobacco products.

Total net appropriations, including lapses, anticipated budget reductions and savings from budget initiatives, for the General and Education Fund were $2,229.6 million, which was a minimal 2% increase over the prior year. Lapses for fiscal 2007 for the General and Education Funds were $46.1 million as compared to $29.4

million for fiscal year 2006. Although lapses from salaries and benefits decreased from the prior year, these were more than offset by significant lapses from certain program areas including retiree benefits, 2006 flood relief and property tax relief.

The State' self-insurance fund ended fiscal year 2007 with a surplus of $19.5 million, net of the liability associated with pending insurance claims (commonly referred to as "incurred but not reported" or "IBNR") and reserves as required per RSA 21-I:30-b. The cash balance was $54.8 million prior to these requirements. The surplus is the result of managing rates with effective cost containment measures.

The following tables present a comparison of General Fund and Education Fund unrestricted revenues and General Fund and Education Fund net appropriations for fiscal years 2003 through 2007. The information for fiscal years 2003 through 2007 is derived from the State's audited financial statements.

GENERAL FUND AND EDUCATION FUND UNRESTRICTED REVENUES
FISCAL YEARS 2003-2007
(GAAP Basis-In Millions)

	FY 2003			FY 2004			FY 2005			FY 2006			FY 2007		
Revenue Category	General	Education	Total	General	Education	Total	General	Education	Total	General	Education	Total	General	Education	Total
Business Profits Tax	$137.7	$ 37.1	$174.8	$131.6	$ 41.0	$172.6	$196.6	$ 50.7	$247.3	$264.0	$56.6	$320.6	$287.4	$57.8	$345.2
Business Enterprise Tax	96.6	121.4	218.0	118.5	116.9	235.4	114.1	130.6	244.7	75.2	150.4	225.6	79.3	174.2	253.5
Subtotal	234.3	158.5	392.8	250.1	157.9	408.0	310.7	181.3	492.0	339.2	207.0	546.2	366.7	232.0	598.7
Meals & Rooms Tax	168.7	6.7	175.4	178.5	6.9	185.4	186.5	7.1	193.6	193.8	7.1	200.9	202.6	7.2	209.8
Tobacco Tax	67.1	27.0	94.1	71.5	28.6	100.1	73.3	28.2	101.5	69.9	80.9	150.8	65.3	78.3	143.6
Liquor Sales and Distribution	99.0	-	99.0	106.7	-	106.7	112.6	-	112.6	120.6	-	120.6	124.7	-	124.7
Interest & Dividends Tax	55.1	-	55.1	55.6	-	55.6	67.9	-	67.9	80.5	-	80.5	108.1	-	108.1
Insurance Tax	82.2	-	82.2	86.2	-	86.2	88.7	-	88.7	90.5	-	90.5	97.9	-	97.9
Communications Tax	62.4	-	62.4	65.8	-	65.8	70.0	-	70.0	70.5	-	70.5	73.0	-	73.0
Real Estate Transfer Tax	78.8	39.4	118.2	95.2	47.5	142.7	107.8	52.0	159.8	106.2	52.5	158.7	91.7	45.7	137.4
Estate and Legacy Tax	59.1	-	59.1	27.0	-	27.0	11.7	-	11.7	3.2	-	3.2	0.6	-	0.6
Lottery Transfers	-	66.6	66.6	-	73.7	73.7	-	70.3	70.3	-	82.0	82.0	-	80.5	80.5
Tobacco Settlement	5.9	40.0	45.9	1.8	40.0	41.8	2.4	40.0	42.4	-	39.0	39.0	-	40.8	40.8
Utility Property Tax	-	18.8	18.8	-	20.2	20.2	-	20.1	20.1	-	20.9	20.9	-	21.8	21.8
State Property Tax[(1)]	-	485.7	485.7	-	473.2	473.2	-	371.3	371.3	-	363.4	363.4	-	363.3	363.3
Other	160.1	-	160.1	167.0	-	167.0	150.7	-	150.7	157.0	-	157.0	191.8	-	191.8
Subtotal	1,072.7	842.7	1,915.4	1,105.4	848.0	1,953.4	1,182.3	770.3	1,952.6	1,231.4	852.8	2,084.2	1,322.4	869.6	2,192.0
Net Medicaid Enhancement Revenues	117.0	-	117.0	149.8	-	149.8	147.2	-	147.2	73.6	-	73.6	83.3	-	83.3
Recoveries	-	-	-	20.4	-	20.4	23.0	-	23.0	24.5	-	24.5	15.9	-	15.9
Subtotal	1,189.7	842.7	2,032.4	1,275.6	848.0	2,123.6	1,352.5	770.3	2,122.8	1,329.5	852.8	2,182.3	1,421.6	869.6	2,291.2
Other Medicaid Enhancement Revenues to Fund Net Appropriations	16.6	-	16.6	35.1	-	35.1	39.1	-	39.1	-	-	-	-	-	-
Total	$1,206.3	$842.7	$2,049.0	$1,310.7	$848.0	$2,158.7	$1,391.6	$770.3	$2,161.9	$1,329.5	$852.8	$2,182.3	$1,421.6	$869.6	$2,291.2

____
(1) The amounts of the state property tax retained locally and not retained locally have been combined for fiscal years 2003 and 2004. The amount of state property tax not retained locally was $32.7 million and $29.8 million for fiscal years 2003 and 2004, respectively.

GENERAL FUND AND EDUCATION FUND NET APPROPRIATIONS
FISCAL YEARS 2003-2007
(GAAP Basis)
(In Millions)

	FY 2003			FY 2004			FY 2005			FY 2006			FY 2007		
Category of Government	General	Education	Total	General	Education	Total	General	Education	Total	General	Education	Total	General	Education	Total
General Government	$227.1	$5.0	$232.1	$237.2	$0.0	$237.2	$238.0	$0.0	$238.0	$263.3	$0.0	$263.3	$276.2	$0.0	$276.2
Justice and Public Protection	184.5	-	184.5	164.4	-	164.4	192.9	-	192.9	219.7	-	219.7	221.7	-	221.7
Resource Protection and Development	39.5	-	39.5	71.4	-	71.4	35.9	-	35.9	41.3	-	41.3	42.2	-	42.2
Transportation	2.7	-	2.7	2.4	-	2.4	2.4	-	2.4	6.0	-	6.0	2.6	-	2.6
Health and Social Services	531.6	-	531.6	605.6	-	605.6	626.0	-	626.0	604.8	-	604.8	626.4	-	626.4
Education	263.3	899.5	1,162.8	246.8	895.0	1,141.8	256.0	812.0	1,068.0	211.1	846.5	1,057.6	221.9	838.6	1,060.5
Net Appropriations	$1,248.70	$904.5	$2,153.2	$1,327.8	$895.0	$2,222.8	$1,351.2	$812.0	$2,163.2	$1,346.2	$846.5	$2,192.7	$1,391.0	$838.6	$2,229.6

The following table sets out the General Fund and Education Fund undesignated fund balances and the amounts reserved for the Revenue Stabilization Account and Health Care Fund for each of the fiscal years 2003 through 2007. The information for fiscal years 2003 through 2007 is derived from the State's audited financial statements.

GENERAL FUND AND EDUCATION FUND BALANCES
FISCAL YEARS 2003–2007
(GAAP Basis - In Millions)

	FY 2003			FY 2004			FY 2005			FY 2006			FY 2007		
	General	Education	Total	General	Education	Total	General	Education	Total	General	Education	Total	General	Education	Total
Undesignated Fund Balance, July 1	$(37.9)	$0.0	$ (37.9)	$0.0	$0.0	$0.0	$15.3	$0.0	$15.3	$82.2	$0.0	$82.2	$26.0	$8.4	$34.4
Additions:															
Unrestricted Revenue	1,206.3	842.7	2,049.0	1,310.7	848.0	2,158.7	1,391.6	770.3	2,161.9	1,329.5	852.8	2,182.3	1,421.6	869.6	2,291.2
Transfers from General Fund	-	83.4	83.4	-	62.6	62.6	-	61.4	61.4	-	-	-	-	-	-
Total Additions	1,206.3	926.1	2,132.4	1,310.7	910.6	2,221.3	1,391.6	831.7	2,223.3	1,329.5	852.8	2,182.3	1,421.6	869.6	2,291.2
Deductions:															
Appropriations Net of Estimated Revenues	(1,264.7)	(904.5)	(2,169.2)	(1,362.3)	(895.0)	(2,257.3)	(1,409.2)	(793.0)	(2,202.2)	(1,380.2)	(841.9)	(2,222.1)	(1,432.6)	(843.1)	(2,275.7)
Less: Lapses	16.0	-	16.0	34.5	-	34.5	58.0	(19.0)	39.0	34.0	(4.6)	29.4	41.6	4.5	46.1
Total Net Appropriations	(1,248.7)	(904.5)	(2,153.2)	(1,327.8)	(895.0)	(2,222.8)	(1,351.2)	(812.0)	(2,163.2)	(1,346.2)	(846.5)	(2,192.7)	(1,391.0)	(838.6)	(2,229.6)
GAAP and Other Adjustments	(17.8)	-	(17.8)	1.5	(7.7)	(6.2)	4.0	2.8	6.8	12.2	2.1	14.3	(15.5)	1.2	(14.3)
Other One-Time Revenue Adjustments:															
HHS Revenue Enhancements	4.7	-	4.7	19.2	-	19.2	-	-	-	-	-	-	-	-	-
Other Revenue Adjustments	-	-	-	3.8	-	3.8	-	-	-	-	-	-	-	-	-
Current Year Balance	(55.5)	21.6	(33.9)	7.4	7.9	15.3	44.4	22.5	66.9	(4.5)	8.4	3.9	15.1	32.2	47.3
Transfers (to)/from:															
Revenue Stabilization Account	37.9	-	37.9	-	-	-	-	-	-	(51.7)	-	(51.7)	(20.0)	-	(20.0)
Health Care Fund	33.9	-	33.9	-	-	-	-	-	-	-	-	-	-	-	-
Education Fund	21.6	(21.6)	-	7.9	(7.9)	-	22.5	(22.5)	-	-	-	-	40.6	(40.6)	-
Undesignated Fund Balance, June 30	$0.0	$0.0	$0.0	$15.3	$0.0	$15.3	$82.2	$0.0	$82.2	$26.0	$8.4	$34.4	$61.7	$0.0	$61.7
Reserved for Revenue Stabilization Account	$17.3	-	$17.3	$17.3	-	$17.3	$17.3	-	$17.3	$69.0	-	$69.0	$89.0	-	$89.0
Total Equity	$17.3	$0.0	$17.3	$32.6	$0.0	$32.6	$99.5	$0.0	$99.5	$95.0	$8.4	$103.4	$150.7	$0.0	$150.7

Fiscal Year 2008-2009 Budget

Operating Budget. Chapter 262 of the Laws of 2007, the operating budget for the fiscal years 2008-2009 biennium, which was enacted prior to the end of fiscal year 2007, forecasted a fiscal year 2007 General Fund surplus of $48 million. Twenty million of that surplus was legislated to be transferred into the Rainy Day Fund, increasing the balance in the Rainy Day Fund to $89 million. The remaining balance of $28 million was forecasted to be carried forward to begin fiscal year 2008. The Rainy Day Fund balance at the end of the 2008-2009 biennium was projected to be $95.6 million. The fiscal year 2007 surplus is $81.7 million, and after the $20 million transfer to the Rainy Day Fund, the remaining balance is $61.7 million, which is $33.7 million higher than anticipated. This balance will be transferred to begin fiscal year 2008. Legislation has been proposed in the 2008 session to transfer this amount to the Rainy Day Fund. The outcome of that legislation will not be known until late in fiscal year 2008. Chapter 263 of the Laws of 2007 transferred the balance in the Education Trust Fund to the General Fund in fiscal year 2007. This same law transfers the anticipated fiscal years 2008-2009 Education Trust Fund balance of $86.6 million to the General Fund.

A tobacco tax increase of $.28 per package of 20 cigarettes (increasing New Hampshire's per pack cigarette tax to $1.08) is projected to generate $86 million over the biennium. Revenue increases beyond normal growth were also projected to occur in Business Taxes due to increased auditing positions and backlogs in certain auditing areas. Liquor and Lottery receipts are forecasted to increase due to increased marketing and advertising efforts, increased positions to better meet demand and longer hours of operation, and increased rental rates to attract better real estate locations.

The operating budget increased total General Fund expenditures for the 2008-2009 biennium by $476.6 million or 14.3%, as compared to the 2006-2007 biennium. General Fund expenditures for fiscal year 2008 are $1.564 billion, an increase of $172.9 million or 12.4% over fiscal year 2007. General Fund expenditures for fiscal year 2009 are proposed to be $1.626 billion, an increase of $62 million or 4.0%, as compared to the proposed fiscal year 2008 expenditures. Examples of major General Fund cost increases include: contributions to cities and towns of $44 million, which is primarily retirement cost sharing for retired teachers, police and fire personnel, state retiree's health insurance of $27 million, negotiated pay raises of $24 million, funding for the developmental disabilities population of $22 million, rooms and meals distributions to cities and towns of $18 million, catastrophic aid, school building aid and tuition and transportation of $21 million, fuel costs of $16 million, debt service of $14 million, indigent defense legal counsel of $9 million and corrections medical and psychiatric costs of $7 million.

Other increases in the operating budget include $153 million to fund state employee salaries and benefits. The largest portion of this increase is for positions which were vacant in 2006-2007, however, a portion of the funding is to address 30% of the state workforce moving to the maximum step in their pay series. Additional increases include $48 million for healthcare providers, $18 million for the Community Technical College, $16 million for the University of New Hampshire, $8 million for funding increased enrollment targeted at bringing 10,000 children into the New Hampshire Healthy Kids program over the next three years, $7 million to the Veterans' Home, $4.5 million for the Land and Community Heritage Investment Program, and $5 million to replace reduced federal funding for AIDS and bioterrorism.

Capital Budget. The capital budget for fiscal years 2008-2009, Chapter 264 of the Laws of 2007, appropriates a total of $283 million, of which $94.7 million is supported by General Fund and $73.3 million is supported by Highway Fund bonding authorization and $85 million is supported by federal funds over the biennium. Capital projects include, but are not limited to, improvements to the Adjutant General's training institute, improvements to State owned buildings, $6 million for improvements to state parks, and environmental matching funds to capture federal dollars. An earlier appropriation of $35 million for the University System's "UNH-KEEP NH" program would continue in the next biennium. In addition, $60 million of bonding for certain highway projects is included in the Capital Budget. These projects had previously been funded on a pay-as-you go basis within the State transportation operating budget. The debt service on these projects will be supported by the Highway Fund over the short term by redirecting $.01 on the gas tax which nets approximately $7.5 million annually. In addition to increasing the State's Municipal Bridge Program by $13.6 million over the biennium, this short term solution will allow the State to more accurately assess its long term highway needs.

The following table presents a comparison of General Fund and Education Fund unrestricted revenues for fiscal years 2007 through 2009. The fiscal year 2007 information is derived from the State's audited financial statements. The fiscal years 2008 and 2009 information is based on the biennial operating budget.

GENERAL FUND AND EDUCATION FUND UNRESTRICTED REVENUES
ACTUAL AND BUDGET
FISCAL YEARS 2007-2009
(GAAP Basis-In Millions)

	Actual Fiscal Year 2007			Operating Budget Fiscal Year 2008			Operating Budget Fiscal Year 2009		
Revenue Category	General	Education	Total	General	Education	Total	General	Education	Total
Business Profits Tax	$287.4	$57.8	$345.2	$301.1	$64.5	$365.6	$320.0	$68.6	$388.6
Business Enterprise Tax	79.3	174.2	253.5	90.8	181.6	272.4	95.1	190.3	285.4
Subtotal	366.7	232.0	598.7	391.9	246.1	638.0	415.1	258.9	674.0
Meals & Rooms Tax	202.6	7.2	209.8	212.2	7.8	220.0	221.8	8.2	230.0
Tobacco Tax	65.3	78.3	143.6	62.8	120.6	183.4	60.3	115.6	175.9
Liquor Sales and Distribution	124.7	-	124.7	137.0	-	137.0	146.1	-	146.1
Interest & Dividends Tax	108.1	-	108.1	117.0	-	117.0	126.0	-	126.0
Insurance Tax	97.9	-	97.9	99.5	-	99.5	98.3	-	98.3
Communications Tax	73.0	-	73.0	79.9	-	79.9	82.9	-	82.9
Real Estate Transfer Tax	91.7	45.7	137.4	93.3	46.7	140.0	97.1	48.5	145.6
Estate and Legacy Tax	0.6	-	0.6	-	-	-	-	-	-
Transfers from Lottery	-	80.5	80.5	-	87.3	87.3	-	89.3	89.3
Tobacco Settlement	-	40.8	40.8	7.7	40.0	47.7	9.3	40.0	49.3
Utility Property Tax	-	21.8	21.8	-	22.9	22.9	-	23.6	23.6
State Property Tax	-	363.3	363.3	-	363.0	363.0	-	363.0	363.0
Other	191.8	-	191.8	174.0	-	174.0	180.9	-	180.9
Subtotal	1,322.4	869.6	2,192.0	1,375.3	934.4	2,309.7	1,437.8	947.1	2,384.9
Net Medicaid Enhancement Revenues	83.3	-	83.3	91.0	-	91.0	91.8	-	91.8
Recoveries	15.9	-	15.9	14.1	-	14.1	14.6	-	14.6
Subtotal	1,421.6	869.6	2,291.2	1,480.4	934.4	2,414.8	1,544.2	947.1	2,491.3
Other Medicaid Enhancement Revenues to Fund Net Appropriations	-	-	-	-	-	-	-	-	-
Total	$1,421.6	$869.6	$2,291.2	$1,480.4	$934.4	$2,414.8	$1,544.2	$947.1	$2,491.3

The following table compares on a cash basis, for the six months ended December 31, 2007, General Fund and Education Fund unrestricted revenues for the fiscal years 2007 and 2008 and a comparison to the revenue estimates for fiscal year 2008. The revenue estimates reflected in the plan are based on those revenues defined in Chapter 262, Laws of 2007, the State budget law for fiscal year 2008. Due to the combined filing of the business profits tax and business enterprise tax, it is not possible to measure accurately the individual effects of each of these taxes. They should be evaluated in their entirety. All information in this table is preliminary and unaudited.

GENERAL FUND AND EDUCATION FUND UNRESTRICTED REVENUES
FOR THE SIX MONTHS ENDED DECEMBER 31, 2007
(Cash Basis-In Millions)

Revenue Category	FY07 Actual	FY08 Actual	FY08 Plan	FY08 vs Plan Variance	FY08 vs Plan %Change	FY08 vs FY07 Variance	FY08 vs FY07 %Change
Business Profits Tax	$148.7	$175.3	$143.3	$ 32.0	22.3%	26.6	17.9%
Business Enterprise Tax	105.1	98.9	121.2	(22.3)	(18.4)	(6.2)	(5.9)
Subtotal	253.8	274.2	264.5	9.7	3.7	20.4	8.0
Meals & Rooms Tax	116.1	120.2	122.3	(2.1)	(1.7)	4.1	3.5
Tobacco Tax	73.3	89.3	97.0	(7.7)	(7.9)	16.0	21.8
Liquor Sales and Distribution	69.0	73.1	74.7	(1.6)	(2.1)	4.1	5.9
Interest & Dividends Tax	22.1	27.1	27.7	(0.6)	(2.2)	5.0	22.6
Insurance Tax	42.7	5.5	4.9	0.6	12.2	(37.2)	(87.1)
Communications Tax	36.2	38.7	39.7	(1.0)	(2.5)	2.5	6.9
Real Estate Transfer Tax	79.8	69.2	77.8	(8.6)	(11.1)	(10.6)	(13.3)
Estate and Legacy Tax	0.5	0.1	-	0.1	100.0	(0.4)	(80.0)
Transfers from Lottery	31.6	33.6	36.3	(2.7)	(7.4)	2.0	6.3
Tobacco Settlement	-	-	-	-	-	-	-
Utility Property Tax	10.7	12.2	11.4	0.8	7.0	1.5	14.0
State Property Tax	-	-	-	-	-	-	-
Other	61.1	73.5	64.9	8.6	13.3	12.4	20.3
Subtotal	796.9	816.7	821.2	(4.5)	(0.5)	19.8	2.5
Net Medicaid Enhancement Revenues	75.0	90.9	90.3	0.6	0.7	15.9	21.2
Recoveries	5.6	6.1	6.8	(0.7)	(10.3)	0.5	8.9
Total	$877.5	$913.7	$918.3	$ (4.6)	(10.2)%	$36.2	4.1%

Revenues for the first six months of fiscal year 2008 were $913.7 million, or $4.6 million below plan. Year-to-date revenue is ahead of fiscal year 2007 by $36.2 million, or 4.1%, which can be attributed mainly to increased collections from the business taxes, the Tobacco Tax, the Interest and Dividends Tax, and Net Medicaid Enhancement Revenue. Total business tax revenue exceeded the year-to-date plan by $9.7 million and was $20.4 million, or 8.0%, above fiscal year 2007. Tobacco Tax revenue collections were $16.0 million, or 21.8%, above fiscal year 2007, but below plan by $7.7 million, or 7.9%. Interest and Dividends Tax was $5.0 million, or 22.6%, above fiscal year 2007 and Net Medicaid Enhancement Revenue was $15.9 million, or 21.2%, above fiscal year 2007. Real Estate Transfer Tax revenue was $10.6 million, or 13.3%, below fiscal year 2007, and $8.6 million, or 11.1%, below plan.

The following table presents a comparison of General Fund and Education Fund net appropriations for fiscal years 2007, 2008 and 2009. The fiscal year 2007 information is derived from the State's audited financial statements. The fiscal years 2008 and 2009 information for the General Fund is based on the current biennial operating budget.

GENERAL FUND AND EDUCATION FUND NET APPROPRIATIONS
ACTUAL AND BUDGET
FISCAL YEARS 2007-2009 (GAAP Basis)
(In Millions)

	Actual FY 2007			Operating Budget FY 2008			Operating Budget FY 2009		
Category of Government	General	Education	Total	General	Education	Total	General	Education	Total
General Government	$276.2	$0.0	$276.2	$318.4	$0.0	$318.4	$326.3	$0.0	$326.3
Justice and Public Protection	221.7	-	221.7	244.9	-	244.9	258.9	-	258.9
Resource Protection and Development	42.2	-	42.2	46.1	-	46.1	46.8	-	46.8
Transportation	2.6	-	2.6	7.5	-	7.5	7.7	-	7.7
Health and Social Services	626.4	-	626.4	673.9	-	673.9	717.6	-	717.6
Education	221.9	838.6	1,060.5	236.4	897.1	1,133.5	248.2	897.7	1,145.9
Net Appropriations	$1,391.0	$838.6	$2,229.6	$1,527.2	$897.1	$2,424.3	$1,605.5	$897.7	$2,503.2

The following table sets out the General Fund and Education Fund undesignated fund balances and the amounts designated for the Revenue Stabilization Account and Health Care Fund for fiscal years 2007, 2008 and 2009. The fiscal year 2007 information is derived from the State's audited financial statements. The fiscal years 2008 and 2009 information for the General Fund is based on the current biennial operating budget.

GENERAL FUND AND EDUCATION FUND BALANCES
FISCAL YEARS 2007 – 2009
(GAAP Basis - In Millions)

	FY 2007			FY 2008			FY 2009		
	Actual			Operating Budget			Operating Budget		
	General	Education	Total	General	Education	Total	General	Education	Total
Undesignated Fund Balance, July 1	$26.0	$8.4	$34.4	$61.7	$0.0	$61.7	$52.2	$0.0	$52.2
Additions:									
Unrestricted Revenue	1,421.6	869.6	2,291.2	1,480.4	934.4	2,414.8	1,544.2	947.1	2,491.3
Transfers from General Fund	-	-	-	-	-	-	-	-	-
Total Additions	1,421.6	869.6	2,291.2	1,480.4	934.4	2,414.8	1,544.2	947.1	2,491.3
Deductions:									
Appropriations Net of Estimated Revenues	(1,432.6)	(843.1)	(2,275.7)	(1,565.2)	(897.1)	(2,462.3)	(1,644.8)	(897.7)	(2,542.5)
Less: Lapses	41.6	4.5	46.1	38.0	-	38.0	39.3	-	39.3
Total Net Appropriations	(1,391.0)	(838.6)	(2,229.6)	(1,527.2)	(897.1)	(2,424.3)	(1,605.5)	(897.7)	(2,503.2)
GAAP and Other Adjustments	(15.5)	1.2	(14.3)	-	-	-	-	-	-
Other One-Time Revenue	-	-	-	-	-	-	-	-	-
Enhancements:									
DHHS Enhancement Revenue	-	-	-	-	-	-	-	-	-
Other Revenue Adjustment	-	-	-	-	-	-	-	-	-
Current Year Balance	$15.1	$32.2	$47.3	$(46.8)	$37.3	$(9.5)	$(61.3)	$49.4	$(11.9)
Transfers (to)/from:									
Revenue Stabilization Account	(20.0)	-	(20.0)	-	-	-	-	-	-
Health Care Fund	-	-	-	-	-	-	-	-	-
Education Fund	40.6	(40.6)	-	37.3	(37.3)	-	49.4	(49.4)	-
Undesignated Fund Balance, June 30	$61.7	$0.0	$61.7	$52.2	$0.0	$52.2	$40.3	$0.0	$40.3
Reserved for Revenue Stabilization Account	$89.0	-	$89.0	$89.0	-	$89.0	$89.0	-	$89.0
Total Equity	$150.7	$0.0	$150.7	$141.2	$0.0	$141.2	$129.3	$0.0	$129.3

MEDICAID PROGRAM

Office of the Inspector General Report. Starting in April 2005, auditors from the Office of the Inspector General ("OIG") of the Federal Department of Health and Human Services ("DHHS") began a review of the State's Department of Health and Human Services. The primary focus of their review was to determine whether the Disproportionate Share Hospital ("DSH") payments that the State agency claimed for Federal Fiscal Year ("FFY") 2004 complied with the hospital-specific DSH limits imposed by Federal requirements and the State plan. See also "Medicaid General and Rehabilitative Disproportionate Share Hospital Program" below. The auditors provided the State with a draft report in February 2007. The State responded to the draft report in April 2007. The OIG issued their final report in July 2007. The State's response to the draft report was included in the final OIG report. The State subsequently submitted a letter to the federal Centers for Medicare and Medicaid Services' action official in August 2007 outlining areas where the State believes the OIG auditors' interpretation and application of applicable regulations is in error. No further action has occurred as of this date.

The OIG report contends the State claimed disproportionate share hospital payments for FFY 2004 that did not comply with the hospital-specific disproportionate share hospital limits using Medicare cost principles of reimbursement. The OIG auditors recommend that the State refund $35 million to the federal government, work with the federal Centers for Medicare and Medicaid Services to review payments claimed after the audit period, and establish policies and procedures to ensure future compliance with calculating hospital-specific limits.

The State believes the auditors made incorrect findings using procedures not formally adopted in law or administrative rule, misapplied Medicare principles to the Medicaid program, and ignored long standing federal Centers for Medicare and Medicaid Services guidance to the State on how the program should be administered and payments calculated.

The OIG report is a review with findings and recommendations. Remedial action, if any, is left to the federal Centers for Medicare and Medicaid Services through its action official to determine and implement in conjunction with the State. The State is planning to meet with CMS to discuss these issues.

In years subsequent to FFY 2004, the State made two significant unrelated changes to the program in response federal law and CMS guidance, both of which reduced the amount of federal DSH participation received by the State. The State General Fund currently receives approximately $90 million dollars per year as a result of this tax. It is unclear whether any portion of this unrestricted revenue would be in jeopardy or whether or if any financial impact on the State would be retroactive or prospective or both.

Medicaid General and Rehabilitative Disproportionate Share Hospital Program. On June 15, 2000, the Federal Centers for Medicare and Medicaid Services ("CMS") (formerly the Health Care Financing Administration) sent a letter to nine states, including New Hampshire, Massachusetts, New York and Florida, indicating that portions of their Medicaid programs may be funded with impermissible taxes on health care providers, jeopardizing federal reimbursements collected on any Medicaid program expenditures funded with such taxes. In the case of New Hampshire, the letter related to the portion of the State's Medicaid program funded by the uncompensated care pool. The Medicaid program is 50% funded by federal reimbursements. CMS promulgated regulations in 1992 and 1993 regarding the collection of taxes imposed on health care providers and establishing a process for waiver approval of state taxes subject to the regulations. DHHS, which administers the Medicaid program in the State, filed a waiver request in February 1993 relating to the permissibility of the State's assessment on general and rehabilitative hospitals to fund the uncompensated care pool in New Hampshire. DHHS has submitted additional information to CMS since the time of the original waiver request. DHHS believes that the original waiver request addressed the concerns that have been recently articulated by CMS and that this waiver was automatically approved in 1993 because of CMS's failure to take action within the federally required timeframes. Moreover, DHHS believes that the State's uncompensated care pool complies with federal law.

The June 15, 2000 HCFA letter requested the State to resubmit its original waiver request by June 30, 2000. (The State requested a 180 day extension of this deadline, but was only granted a 30-day extension.) The letter further stated that if CMS makes a final determination that the State has imposed an impermissible provider tax, CMS will undertake an audit of the State's uncompensated care pool program and seek retroactive repayment of federal Medicaid reimbursements. Under federal regulations, recoupment of federal Medicaid reimbursements is generally accomplished by withholding a portion of future Medicaid reimbursements to the state owing the repayment. States can appeal a request for repayment to an appeals panel within the U.S. Department of Health and

Human Services and then to a federal district court. Since 1991, prior to when the waiver request was submitted, the State has received an estimated $900 million in federal Medicaid reimbursements related to expenditures associated with the uncompensated care pool.

Officials from DHHS met with officials from CMS to review the State's program in an effort to show the State meets the automatic waiver provision for approval of the State's current uncompensated care pool. Clarification of the law surrounding permissible provider taxes is a national issue and resolution could take several years. In addition, and more fundamentally, the State believes its waiver was automatically approved in 1993 because of CMS's failure to take action within the federally required timeframes. Finally, the State believes its uncompensated care pool complies with applicable federal law.

On July 26, 2000, DHHS sought a time extension for submittal of the waiver due to the new data and information demands required by CMS. On July 28, 2000, CMS agreed to extend the waiver submittal deadline to August 31, 2000.

DHHS submitted the waiver to CMS on August 25, 2000, indicating the Inpatient Hospital formula and the Outpatient Hospital formula exceeded the standard contained in the federal regulations and warranted CMS approval. Since that time, CMS has requested and DHHS has supplied additional information to support its waiver request, culminating with updated information being provided to CMS on September 19, 2000. The formula ratios for both Inpatient and Outpatient remain unchanged using this new information. A CMS representative obtained copies of the 1992 hospital cost reports from the Department in October 2000. No further communication has been received from CMS on this matter as of the date of this Information Statement.

During late fiscal year 2003 and early to mid-fiscal year 2004, new questions arose about the general hospital tax as part of a CMS review of an unrelated Medicaid state plan amendment to increase the disproportionate share hospital payments for the single government owned and operated psychiatric hospital for the two year period from July 1, 2003 to June 30, 2005. The questions were unrelated to those detailed above. The new questions focused on the taxation basis of gross patient services revenue rather than net patient services revenue. The outcome of lengthy discussions between CMS and New Hampshire was that New Hampshire would change the tax basis to net patient services revenue effective July 1, 2005. The Medicaid state plan was revised accordingly and approved by CMS on February 20, 2004. State law was changed by Chapter 260 of the Laws of 2004 which became effective July 1, 2005.

The final agreement with CMS resulted in the retention of all prior year claimed expenditures with no retroactive settlements or adjustments. CMS did require that the State, as noted above, change the general hospital tax program prospectively by changing the basis of the Medicaid Enhancement Tax to net patient services revenue from gross patient services revenue. This issue has now been resolved.

Medicaid Proportionate Share Program. In July 2000, newspaper accounts reported CMS was concerned about states using a Medicaid regulation to increase payments from Medicaid, using the gain to benefit programs in each state, including medical programs. CMS indicated that at least fifteen states, including Pennsylvania, New York, Illinois, and Nebraska were being audited, with additional states possibly being reviewed in coming months. CMS's focus was on states which were using a process called intergovernmental transfers. New Hampshire's Proportionate Share Program utilizes such a process. Part of the CMS approved state plan is based on the federal requirement that payments to each group of health care facilities may not exceed the amount which can reasonably be estimated would have been paid had those services been provided using Medicare payment principles. The State's process is a comparison between actual Medicaid and comparable Medicare nursing home rates. The State makes payment to the county governments to reimburse their expenses at the Medicare level. The federal government then pays the State its 50% of the expense and these are apportioned to the State and county governments using a formula in State law. It is important to note that federal law explicitly permits county and local governments to contribute to the State's Medicaid match requirement. Under New Hampshire law, the counties pay fifty percent of the non-federal share of long-term nursing services, home and community-based care services for the elderly and chronically ill, mid-level services for the elderly, and long-term care-related medical provider payments. Since 1994, the State has realized a gain to State and county governments totaling $112 million from these intergovernmental transfers.

In October 2000, CMS indicated that new rules would be proposed that would curtail and possibly phase out intergovernmental transfers over a four year period beginning in State fiscal year 2003. The new proposed rules were published in the Federal Register of October 10, 2000. The new proposed rules indicated that facilities eligible for inclusion in the calculation of the Medicare/Medicaid differential would be limited to non-state government owned and operated public facilities, such as county government owned and operated nursing homes.

Congress passed and the President signed the Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 (Public Law 106-554) on December 21, 2000, directing CMS to implement their proposed rules, phasing out certain intergovernmental transfers in a three-tiered approach. CMS issued their final rules on January 12, 2001 in the Federal Register (Vol. 66, Number 9) to be effective March 13, 2001. The final rules established three transition schedules; one for Medicaid plans approved prior to October 1, 1992, a second for plans approved after October 1, 1992 and before October 1, 1999, and a third for plans approved or pending approval after October 1, 1999.

The State's plan was approved on October 7, 1994 and thus is subject to the second transition period. This transition period remains the same as that in the earlier proposed rules, specifically, a four-year period beginning in State Fiscal Year 2003.

Based on CMS interpretations as of October 18, 2001, DHHS estimated a cumulative lesser amount of previously anticipated revenue to the General Fund over the four year period for State fiscal years 2003 through 2006 of approximately $17 million. Thereafter, revenues were estimated to be approximately $3 million per year lower than would have been realized had Congress and CMS not implemented the new laws and regulations.

In June 2002, CMS notified the State that an evolving interpretation of how the transition period was being defined would enable the State to claim costs in full for non-state government owned and operated public facilities, such as county government owned and operated nursing homes. Costs for private facilities would still be limited to the amount paid in fiscal year 2000.

In March 2003, the State agreed with the federal government on a revised billing methodology for the Medicaid Proportionate Share Program with respect to fiscal years 2000, 2001 and 2002. For the quarter ended March 31, 2003, the State claimed the revised costs for such fiscal year and also received refunds from the counties. The gain from these prior year transactions totaled $47.2 million to the State, with $23.6 million accruing to the counties and $23.6 million to the State ($12.35 million to unrestricted revenue and $11.25 million to restricted revenue). This agreement on billing methodology resolved a number of outstanding issues with respect to the program.

The State submitted a Medicaid State Plan amendment to CMS in March, 2003. The amended plan changed the calculation method to acuity-based Resource Utilization Groups (from trend factor-based Prospective Payment System), made one payment each year in June (from an initial payment in March or April and a final payment in June), and affirmed the value of the private nursing home portion of the payment that will be phased out over the four year period beginning in state fiscal year 2003 per the above-mentioned law.

In June, 2003, CMS sent the State a letter, seeking additional clarifying information about the Medicaid state plan amendment. The State submitted a revised Medicaid state plan amendment with additional supporting information to the CMS on June 9, 2003. In July, 2003 and August, 2003, CMS sent the State letters seeking further clarifying information about the plan amendment. On September 5, 2003 the State responded to the CMS, supplementing the June 9, 2003 State letter and further responding to the CMS requests for additional information.

In September, 2003 CMS indicated that the State's September 5, 2003 letter was generally non-responsive to the CMS requests because the answers were not complete. CMS further indicated that a disapproval package was in the review process, and encouraged the State to withdraw their responses. The State then withdrew the June 9, 2003 and September 5, 2003 responses to CMS, essentially leaving CMS' June, 2003 request for additional information unanswered.

CMS then indicated that the Medicaid state plan amendment needed to be addressed because it could not be left open for an indefinite time. The state submitted a final Proportionate Share Payment plan amendment at CMS' direction that was approved by CMS on February 9, 2004. The plan amendment changes the payment computation method for supplemental payments to nursing homes in accordance with a federal law change, to be effective retroactive to fiscal year 2003. The retrospective payment system is being replaced with a prospective payment system. This method is based on the more detailed resource utilization groups, acuity-based method. In addition, the county nursing homes will retain the federal funds paid to them and no longer return some of the federal funds to the state effective July 1, 2005. These changes were further enacted by the State under Chapter 260 of the Laws of 2004. This issue has now been resolved.

Medicaid Enhancement Revenues. As part of changes made by Chapter 260 of the Laws of 2004 regarding the State's Medicaid program, beginning in fiscal year 2006, the Medicaid enhancement tax will be assessed against net patient service revenue as opposed to gross patient service revenue. This change resulted in the State receiving approximately $50 million less from this revenue source per year in future years as compared to the amount received in State fiscal year 2005.

Through an amendment to the State's Medicaid Plan, changes were made to the billing methodology for the State's single, government owned and operated psychiatric hospital so that the amount claimed for the two-year period of July 1, 2003 to June 30, 2005 could be made at 175% of cost in accordance with federal law. This was a special provision enacted by Congress so that the amount to be received through the disproportionate share hospital program could be increased for a temporary two-year period. The Medicaid State Plan was further amended effective July 1, 2005 to return to the prior 100% of cost rate. The impact of the change is a reduction of $12 million per year from the amounts received in State fiscal years 2004 and 2005.

Additionally, federally required changes were made to the Medicaid Proportionate Share Payment program to implement a prospective acuity-based reimbursement from a retrospective method effective February 17, 2003. A second federally required change effective July 1, 2005 will allow counties to keep all of the federal funds from the Proportionate Share Payment program and no longer return some of the federal funds to the State. The State's general fund revenue has been reduced by $12 million per year, as compared to the amount received in State fiscal year 2005. While this change will impact the State's general fund, it will also benefit county government by a like amount beginning July 1, 2005.

SCHOOL FUNDING

Litigation. In June, 1991, five school districts and taxpayers and students in those school districts commenced an action *(Claremont School District v. Governor)* against the State, challenging the constitutionality of the State's statutory system of financing the operation of elementary and secondary public schools. In December, 1997, the New Hampshire Supreme Court ruled that the State's system of financing elementary and secondary public education primarily through local property taxes was unconstitutional. In its decision, the State Supreme Court noted that several financing models could be fashioned to fund public education, but it was for the Legislature to select one that passed constitutional muster. The State Supreme Court did not remand the matter for consideration of remedies, but instead allowed the then existing funding mechanism to continue in effect through the property tax year ending March 31, 1999, and stayed all further proceedings to permit the Legislature to address the issues raised in the case. Since that time, the Legislature has considered various plans to establish a new educational funding system.

The first responsive plan was enacted on April 29, 1999, when the Legislature passed and the Governor signed Chapter 17 of the Laws of 1999 ("Chapter 17") that addressed the school funding issues. Chapter 17 contained the methods to be followed in determining the per pupil adequate education cost for each biennium and each municipality's adequate education grant for each fiscal year. In order to fund the adequate education cost, Chapter 17, as subsequently amended, established the Education Fund and earmarked funding from various State taxes including a portion from the newly instituted uniform education property tax.

In November, 1999, the Legislature approved and the Governor signed into law Chapter 338 of the Laws of 1999 ("Chapter 338"), which reenacted the uniform education property tax imposed under Chapter 17 at the rate of $6.60 per $1,000 of total equalized value to provide funding for an adequate public education. Chapter 338 did not contain a phase-in provision, but did provide education property tax hardship relief to qualifying low and moderate income taxpayers throughout the State.

In September, 2001, the plaintiffs in the original school funding matter *(Claremont School District v. Governor)* filed a Motion with the New Hampshire Supreme Court to have the then current school funding system declared unconstitutional. In December, 2001, the Supreme Court dismissed all of the plaintiffs' claims except one alleging that the State's definition of an adequate education was insufficient. In its order, the Supreme Court requested legal memoranda on the issue of whether the Supreme Court should invoke its continuing jurisdiction to determine if the State has met its obligation to define an adequate education. The State filed a legal memorandum arguing that the Court should not invoke its continuing jurisdiction and the plaintiffs filed one arguing that the Court should invoke its continuing jurisdiction. The Court subsequently decided to invoke its continuing jurisdiction, and in April, 2002, the Supreme Court declared that accountability is an essential component of the State's duty to provide an adequate education and that the then existing statutory scheme had deficiencies that were inconsistent with the State's duty. The Supreme Court's conclusion was that the State "needs to do more work" on creating a delivery system. There was no timeline imposed in the decision for the completion of the delivery system. The Court continues to hold jurisdiction in this matter.

During the 2004 legislative session, the Legislature enacted Chapter 200 of the Laws of 2004 ("Chapter 200"). Chapter 200 established the statewide education property tax rate at a rate necessary to generate revenue equal to the revenue generated in the previous year. As a result, the property tax rate was adjusted based on either an increase or a decrease in the statewide equalized valuation of property. The rate for fiscal year 2005 was $3.33 per $1,000 of equalized value. The per pupil adequacy cost was calculated using the 2004 fiscal year per pupil cost which was then to be adjusted every biennium through multiplying it by two times the average annual percentage rate of inflation for the immediately preceding four calendar years. Chapter 200 also had Targeted Aid which was directed to municipalities that had students receiving free or reduced-price meals and/or was directed to municipalities that were considered "property poor" because they had equalized tax valuation per pupil that was less than or equal to 90 percent of the statewide average equalized tax valuation per pupil. As a result, a municipality's total amount of adequate education grants included its per pupil adequacy cost multiplied by its average daily membership in residence, and the addition of either or both types of Targeted Aid.

There were two lawsuits challenging Chapter 200. The first was *Baines, et al. v. Eaton,* Merrimack County Superior Court, Docket No. 04-E-256, filed in July, 2004, which challenged the constitutionality of the enactment of Chapter 200 by alleging that the Legislature could not pass a money bill in a Senate Bill, that the Legislature did not follow its own internal rules in enacting this law, and that the enrolled bill amendment used to make technical corrections to the law was unlawful. The State defended against these claims and in August, 2004, the Court denied the petition. Petitioners appealed to the New Hampshire Supreme Court which upheld the Superior Court's decision in favor of the State on April 20, 2005.

The second lawsuit was *Hughes v. Chandler, et al.*, Merrimack County Superior Court, Docket No. 04-E-228. This case challenged Chapter 200 based on alleged violations of RSA 91-A, New Hampshire's Right-to-Know law. Petitioners alleged that the Legislature's Committee of Conference on SB 302 (Chapter 200) did not meet in public session while deciding final changes to the legislation thereby violating RSA 91-A. Petitioners argued that the appropriate remedy for this violation of RSA 91-A was the voiding of Chapter 200. The State was represented by counsel other than the Attorney General's Office as this was a defense of the Legislature's internal practices. The Superior Court found that the passage of Chapter 200 was unconstitutional finding that the Legislature violated RSA 91-A. The State appealed, and on April 20, 2005, the Supreme Court reversed and held that answering the question of whether the Legislature violated RSA 91-A would infringe on the Legislature's exclusive constitutional authority to adopt and enforce its own rules of procedure.

In the adequate education aid distribution for fiscal year 2004, one type of assistance was Targeted Education Grants with a total amount of $10 million to be distributed to municipalities with lower median family income and median home values. See 2003 New Hampshire Laws Chapter 241:8. When performing the calculations of the Targeted Education Grants, the Department of Education created a spreadsheet that had the column titled "median family income" but then mistakenly used "median household income" figures. The error caused some municipalities to be overpaid, in varying amounts, totaling $1.2 million; and some municipalities to be underpaid, in varying amounts, also totaling $1.2 million. In September, 2005, the State paid approximately $1.2 million to the municipalities that were underpaid.

The constitutionality of the statewide education property tax was challenged in abatement cases by 33 taxpayers alleging that because the State did not perform the assessing function for each community, the property tax was not levied on a proportional tax base for these taxpayers during the tax years of 2002 through 2004. The State was joined to these cases which were consolidated in January 2005 in the Rockingham County Superior Court under the lead case of *Gail C. Nadeau Trust v. City of Portsmouth*, Docket #03-E413. Discovery, including the disclosures of expert witnesses for all parties, occurred during the spring and summer. A four day trial occurred which started on August 29, 2005, with a decision in October finding the statewide property tax unconstitutional for the 2002 tax year. After motions for reconsideration were filed by all parties, including the State, the Court ruled, on November 29, 2005, that the tax was unconstitutional for the 2003 and 2004 tax years. The Court further ordered that any remedy only applies to the specific taxpayers in these cases. The State appealed these orders and on August 17, 2007, the Supreme Court reversed the Superior Court's order and found that the taxpayers had failed to meet their burden. No motion to reconsider was filed. As a result, this matter is now concluded.

The case of A.*P. Tibbetts Trust, Donald Stevens, Linda Stevens, J.P. Nadeau, James P. Nadeau, III, Split Rock Cover Limited Partnership v. Town of Rye* and its companion case of *J.P. Nadeau, et al. v. City of Portsmouth* again challenge the constitutionality of the statewide education property tax as assessed against them in 2006. Petitioners are all property taxpayers in Rye and Portsmouth. They allege that the assessing practices throughout the State are not uniform enough to ensure the constitutionally required proportionality necessary for allocating the statewide property tax between individual taxpayers in different communities. They also allege that the statewide property tax is unconstitutional as the State did not define an adequate education resulting in the formula used to distribute State funds and assess the statewide property tax being unconstitutional. The State is not currently a party to this suit. Petitioners' counsel informed the State that he intends to voluntarily non-suit these cases. On September 5, 2007, however, Rye moved to join the State as a necessary party. The Court has not yet ruled on this motion. The State, if joined, will move to dismiss this matter based on the Supreme Court's decision in *Nadeau, et al. v. Portsmouth, et al*. At this time, it is not possible to predict the outcome of this matter or the amount, if any, that the State will be required to pay in damages.

In 2005, the Legislature passed House Bill 616, now known as 2005 New Hampshire Laws Chapter 257, as the new education funding bill. Chapter 257 provides funding to schools based on four types of aid and revenue from the statewide enhanced education tax. Chapter 257 does not generally provide aid to municipalities on a per pupil basis. The four types of aid are: local tax capacity aid, targeted per pupil aid, statewide enhanced education tax capacity aid, and transition grants. Chapter 257 also includes the statewide enhanced education tax which is assessed at a uniform rate across the State at a rate necessary to raise $363.0 million. For fiscal year 2006, the total State education aid under Chapter 257 is more than $819.0 million.

Two lawsuits were filed challenging the constitutionality of Chapter 257. The first is *City of Nashua v. State*, Docket No. 05-E-257, and the second is *Londonderry School District, et al. v. State*, Docket No. 05-E-406. Both of these suits were filed in August, 2005 in the Supreme Court. Both were dismissed from the Supreme Court with direction to the Superior Court that they be tried on an expedited basis.

Nashua's Petition included four general claims: 1) a challenge to Chapter 257 for not providing for an adequate education by failing to "relate the taxes raised by it to the cost of an adequate education," 2) a claim that Chapter 257's transition grants create disproportional and unequal taxes, 3) a claim challenging Chapter 257's "reliance upon three-year old data to fund the cost of an adequate education today," and 4) a claim questioning whether Chapter 257 requires the use of data from April, 2003 for 'Equalized Valuation With Utilities' in order to correctly calculate the education grants under Chapter 257.

Londonderry's Petition includes the following four general claims: (1) an alleged facial challenge to HB 616 that "it fails to provide for an adequate education" because there is "nothing in the legislative record [that] would support a determination that the total funds to be distributed are 'lawfully and reasonably sufficient' to fulfill the State's constitutional obligation," (2) a claim that targeting aid to some municipalities has imposed on many of the remaining municipalities the burden of funding education through a local education tax, (3) a claim which asserts that HB 616 violates Part II, Article 5 because it results in property taxes that are not "proportional across the State" due to the transition grants, and (4) an equal protection claim.

The State moved to consolidate both cases but the Court allowed the cases to proceed on different tracks. The *Nashua* case was tried in mid-December 2005. The *Londonderry* case proceeded with a motion for summary judgment filed in January, 2006, with the State filing a timely response in February, 2006. On March 8, 2006, the Superior Court issued orders in both cases declaring Chapter 257 unconstitutional due to the State's failure to reasonably determine the cost of an adequate education. The Superior Court also found that the State has not defined an adequate education and has not enacted a constitutional accountability system.

The State filed, and the Court granted, an assented-to motion to stay the effect of the orders pending a final decision by the Supreme Court. The State filed timely appeals of these orders with the New Hampshire Supreme Court on April 7, 2006. The *Londonderry* Petitioners filed a timely cross-appeal in which they request that the

Supreme Court order a remedy requiring the current law stay in effect during the 2007 and 2008 fiscal years in order to ensure funding to school districts.

The Supreme Court scheduled the *Londonderry* case for expedited briefing and argument. The parties briefed the matter and argued it on June 22, 2006. The Supreme Court issued its decision on September 8, 2006, holding that the State failed to define an adequate education and staying all remaining issues. The Court noted in its decision that any definition of constitutional adequacy must allow for an "objective determination of costs" and that "[w]hatever the State identifies as constitutional adequacy it must pay for. None of that financial obligation can be shifted to local school districts, regardless of their relative wealth or need." The Court gave the Legislature until the end of fiscal year 2007 to enact a definition.

Petitioners also moved for attorneys' fees, without disclosing the requested amount, and the State objected. The Court denied this request at this time.

The *Nashua* case was stayed by an order of the Court based on a motion filed by the State requesting that it be stayed until the end of fiscal year 2007.

In January 2007, Governor Lynch organized a working group to draft the criteria and substantive programs for an adequate education. That draft definition was the basis for House Bill 927 ("HB 927"). HB 927 includes a detailed statement of purpose explaining its interaction with all of the State's education statutes and regulations. HB 927 defines nine essential opportunities for education from the State's school approval standards in: English/language arts, mathematics, science, social studies, art education, world languages, health education, physical education, technology education including information and communication technologies. HB 927 also adopts the State's curriculum frameworks in these essential opportunities as guides for teaching these subjects. A legislative oversight committee is also established in HB 927 to provide more direct input into modifications or additions to the State's school approval standards. A legislative costing committee is also established to determine the cost of an adequate education in accordance with HB 927's definition. HB 927 was the subject of at least seven public hearings across the State where legislators from both houses met and listened to comments from educators and the public. HB 927 passed both houses and was signed by Governor Lynch on June 29, 2007. See Chapter 270 of the Laws of 2007.

On July 20, 2007, the Supreme Court issued orders in both the *Londonderry* and *Nashua* cases requiring the parties to file a response as to whether the cases should be remanded based on the Legislature's actions. Londonderry filed a response offering to dismiss its case if the State agreed to cost and fund an adequate education and develop a new accountability system by June 30, 2008. The State declined this offer and asked that the matter either be dismissed or stayed until the end of the 2008 Legislative Session. Nashua responded that it wanted its appeal to proceed to argument and was requesting approximately $5 million in damages plus attorneys' fees. The State argued that Nashua was not entitled to either damages or attorneys' fees and that this matter should be dismissed as moot. On September 14, 2007, the Supreme Court issued an order in *Londonderry* staying the case until July 1, 2008, but allowing any party to move "for good cause shown to lift the stay." On September 20, 2007, the Supreme Court issued an order in *Nashua* remanding the case to the Hillsborough County Superior Court for the court to determine (1) if the prior law should have been reinstituted and damages awarded to Nashua for the additional monies it would have received under the prior law, and (2) if attorneys' fees should have been awarded. The *Nashua* case is scheduled for a structuring conference on January 14, 2008.

The legislative costing committee, established under HB 927, has been holding regular weekly meetings since August, 2007, and is taking public and expert testimony on a funding formula for an adequate education. The deadline for completion of the costing committee's work is February 1, 2008.

The State is unable to predict the outcome of these matters at this time.

LBA Audit. On January 19, 2005, the Legislative Budget Assistant ("LBA") publicly released an audit of the Department of Education ("DOE"), which, among other matters, determined that DOE incorrectly calculated adequate education grants for school districts in fiscal years 2004 and 2005. LBA questioned both the years and the specific consumer price index used in calculating the amounts payable to school districts. LBA states that because DOE used different years to calculate the average of the consumer price index, the adequate education grants were $1.8 million less in fiscal year 2004 than they should have been and $1.4 million less in fiscal year 2005. As of the date of this Information Statement, there are no pending or threatened claims against the State alleging that it is liable to school districts or students for additional monies to pay for the cost of an adequate education pursuant to this audit observation. The State is unable to predict the likelihood of success of any such claim that might be brought.

STATE INDEBTEDNESS

Debt Management Program

The State has a debt management program, one purpose of which is to avoid the issuance of short-term debt for operating purposes. (See "Temporary Loans" for information on recent short-term debt issuances.) Another purpose of the State's debt management program is to hold long-term tax-supported debt to relatively low levels in the future. An additional purpose is to coordinate the issuance of tax-exempt securities by the State, its agencies and public authorities.

Authorization and Classification of State Debt

The State has no constitutional limit on its power to issue obligations or incur indebtedness and there is no constitutional requirement that a referendum be held prior to the incurrence of any such debt. The authorization and issuance of State debt, including the purpose, amount and nature thereof, the method and manner of the incurrence of such debt, the maturity and manner of repayment thereof, and security therefore, are wholly statutory.

Pursuant to various general or special appropriation acts, the Legislature has from time to time authorized the State Treasurer, with the approval of the Governor and Council, to issue bonds or notes for a variety of specified projects or purposes. In general, except for the Turnpike System revenue bonds, such borrowing constitutes general obligation debt of the State for which its full faith and credit are pledged but for the payment of which no specific State revenues are segregated or pledged. There is general legislation, however, under which the Governor and Council may authorize the State Treasurer to issue revenue bonds for revenue-producing facilities and to pledge the revenue from such facilities for the payment of such bonds. On several occasions, moreover, the Legislature has authorized and the State has issued debt which, while a general obligation of the State, additionally bears a guarantee that the State shall maintain a certain level of specified State receipts. The Legislature has also authorized the guarantee of certain obligations issued by political subdivisions of the State and by various State agencies, which guarantee constitutes a pledge of the State's full faith and credit, and has authorized two State-wide agencies to incur debt for the financing of revenue producing projects and programs and authorized such agencies to create certain funds which may be maintained by State appropriation (see "Agencies, Authorities and Bonded or Guaranteed Indebtedness"). However, most of this indebtedness is supported by revenues produced by the project or entity for which the debt was issued. Consequently, such self-supported debt is not considered net General Fund debt of the State.

The Legislature has also authorized certain State agencies to issue revenue bonds for various projects, including industrial, health, educational and utility facilities. Except to the extent that State guarantees may be awarded for certain bonds of the New Hampshire Business Finance Authority and the Pease Development Authority, indebtedness of those agencies does not constitute a debt or liability of the State.

Debt Statement

The following table sets forth the debt of the State as of June 30, 2007.

Debt Statement as of June 30, 2007
(In Thousands)

General Obligation Bonds:		
General Improvement	$472,101	
Turnpike[(1)]	4,191	
Highway	46,898	
University System of New Hampshire	130,980	
Total Direct General Obligation Debt		$654,170
Revenue Bonds:		
Turnpike System[(2)]		272,490
Contingent (Guaranteed) Debt:		
Water Pollution Control Bonds issued by Political Subdivisions	21,076	
Business Finance Authority	54,200	
Local School District School Bonds	11,824	
Pease Development Authority Revenue Bonds	0	
Local Landfill Bonds	355	
Division of Water Resources Board	0	
Housing Finance Authority-Child Care Providers	0	
Total Contingent Debt		87,455
Total Debt		1,014,115
Less: Self-Supporting and Contingent Debt:		
General Fund Self-Supporting Debt[(3)]	27,873	
Turnpike System Revenue Bonds	272,490	
Turnpike System General Obligation Bonds	4,191	
Highway	46,898	
University System of New Hampshire[(4)]	1,643	
Water Pollution Control Bonds	21,076	
Business Finance Authority	54,200	
Local School District School Bonds	11,824	
Pease Development Authority General Obligation Bonds	16,157	
Pease Development Authority Revenue Bonds	0	
Local Landfill Bonds	355	
Other[(5)]	1,859	
Total Self-Supporting and Contingent Debt		458,566
Total Net General Fund Debt[(6)]		$555,549

(Columns may not add to totals due to rounding.)

---

(1) In accordance with the statutes authorizing the issuance of general obligation bonds for turnpike purposes, the State Treasurer has established accounts into which Turnpike tolls are deposited, after deduction for payments of all expenses of operation and maintenance of the Turnpike System, payments of debt service on Turnpike System revenue bonds, and the funding of reserves and other payments required by the General Bond Resolution securing the revenue bonds. The monies deposited in such accounts are reserved but not pledged by statute for the payment of the principal and interest on the bonds issued for the respective roadways. To the extent the balance in such funds is insufficient to pay such principal and interest, the Governor is authorized to withdraw funds from the Highway Fund, to the extent available, and then from the General Fund.

(2) Turnpike System revenue bonds are limited obligations of the State payable solely out of net revenues of the Turnpike System. Neither the full faith and credit nor the taxing power of the State is pledged for the payment of the Turnpike System revenue bonds.

(3) Includes bonds paid from General Fund restricted revenues (primarily user fees, criminal penalty assessments and lease revenues).

(4) In accordance with State statutes, the Board of Trustees of the University System maintains special funds and accounts for the deposit of dormitory rentals and income from housing facilities, dining halls, student unions, bookstores and other capital improvements constructed with the proceeds of such bonds. Revenues so deposited are used for the payment to the State Treasurer of amounts equal to the annual principal and interest requirements of the bonds issued by the State to construct such facilities. The Legislature has anticipated that such income will be sufficient to pay all debt service requirements on such bonds.

(5) Includes, among others, bonds paid from the Fish and Game Fund and other self supporting debt.

(6) Net General Fund debt is debt for which debt service payments are made directly by the State from its taxes and other unrestricted General Fund revenues. Also included is $4.5 million general obligation bonds paid by the State on behalf of the Pease Development Authority. If the Authority has sufficient funds, these bonds will be paid by the Authority.

In addition to the debt presented above, at June 30, 2007, the State had short and long-term capital leases outstanding of $1,684,000 and $4,141,000, respectively, 88% of which relate to building space.

The State's debt management program has resulted in the State maintaining relatively low debt levels in recent years. The table below sets out the State's debt ratios over the past five years.

Certain General Obligation Debt Statistics
(Dollars in Thousands)

	June 30,				
	2003	2004	2005	2006	2007
Direct General Obligation Debt	$606,585[3]	$626,099[3]	$633,743	$644,715	$654,170
Contingent (Guaranteed) Debt	127,538	116,467	101,526	97,401	87,455
Less: Self-Supporting Debt	(230,851)	(220,534)	(202,737)	(196,146)	(186,076)
Total Net General Fund Debt	$503,272	$522,032	$532,532	$545,970	$555,549
Per Capita Debt[1]:					
Direct General Obligation Bonds	$472	$482	$484	$490	$497
Net General Fund Debt	391	402	407	415	422
Ratio of Debt to Personal Income[1]:					
Direct General Obligation Bonds	1.4%	1.3%	1.3%	1.2%	1.3%
Net General Fund Debt	1.1	1.1	1.1	1.0	1.1
Ratio of Debt to Estimated Full Value:					
Direct General Obligation Bonds	0.5%	0.4%	0.4%	0.4%	0.4%
Net General Fund Debt	0.4	0.4	0.3	0.3	0.3
General Fund Unrestricted Revenues	$1,206,339	$1,310,711	$1,391,586	$1,329,489	$1,421,700
Debt Service Expenditures[2]	74,086	75,468	78,192	81,521	82,906
Debt Service as a Percent of General Fund Unrestricted Revenues	6.1%	5.8%	5.6%	6.1%	5.8%
Population (in thousands)	1,286	1,298	1,310	1,315	1,315
Total Personal Income (in millions)	$44,327	$47,170	$48,979	$52,142	$52,142
Estimated Full Value (in thousands)	$132,019,011	$148,376,404	$165,222,644	$176,176,615	$176,176,615

(1) Based on U.S. Department of Commerce and U.S. Bureau of the Census estimates for population and personal income.

(2) Debt service on Net General Fund Debt. Does not include interest paid on revenue anticipation notes.

(3) Includes $50 million outstanding commercial paper. See "Temporary Loans."

Rate of Debt Retirement[1]
as of June 30, 2007

	General Obligation Debt	Net General Fund Debt
5 years	46%	44%
10 years	73	72
15 years	93	92
20 years	100	100

(1) Does not include refunding of bond anticipation notes.

Recent Debt Issuances

In recent years, the State has issued bonds and bond anticipation notes for a variety of authorized purposes, including turnpike construction, highway construction and other capital construction. The following table compares the amount of issuances and retirements of direct State general obligation indebtedness for each of the past five fiscal years.

Issuances and Retirements of Direct General Obligation Debt
(In Thousands)

	Fiscal Year Ended June 30,				
	2003	2004	2005	2006	2007
Beginning Debt	$610,606	$606,585	$626,099	$633,743	$644,715
Bonds Issued	106,215	80,000	117,800	75,000	196,885
Bond Anticipation Notes Issued	50,000	50,000	0	0	0
Total Net Debt	766,821	736,585	743,899	708,743	841,600
Less: Bonds Paid	63,061	60,486	60,156	64,028	64,866
Defeasance	97,175	0	0	0	122,565
Bond Anticipation Notes Paid	0	50,000	50,000	0	0
Ending Debt	$606,585	$626,099	$633,743	$644,715	$654,169

Schedule of Debt Service Payments

The following table sets forth the projected principal and interest requirements of all general obligation bonds of the State at June 30, 2007.

Direct General Obligation Debt
as of June 30, 2007(1)
(In Thousands)

Fiscal Year Ending June 30,	Principal	Interest	Total
2008	$ 66,892	$ 35,538	$ 102,430
2009	64,347	33,857	98,204
2010	60,696	31,809	92,505
2011	57,136	29,012	86,148
2012	49,196	22,909	72,105
2013	44,724	17,575	62,299
2014	38,414	14,851	53,265
2015	34,231	18,141	52,372
2016	32,756	13,845	46,601
2017	31,679	10,430	42,109
2018	29,975	6,662	36,637
2019	28,455	5,437	33,892
2020	23,965	4,310	28,275
2021	23,905	3,369	27,274
2022	20,200	2,560	22,760
2023	16,200	1,839	18,039
2024	15,800	1,218	17,018
2025	12,600	603	13,203
2026	3,000	128	3,128
Total	$654,169	$254,094	$908,263

(1) Columns may not add to totals due to rounding.

Temporary Loans

To the extent monies in the General Fund, Highway Fund or Fish and Game Fund are at any time insufficient for the payment of obligations payable from such funds, the State Treasurer, under the direction of the Governor and Council, is authorized to issue notes to provide funds to pay such obligations. Outstanding revenue anticipation notes issued for the General Fund may not exceed $200 million; for the Highway Fund, $15 million; and for the Fish and Game Fund, $0.5 million. The State issued $75 million of revenue anticipation notes in March 2003 which matured and were paid in May 2003, and $75 million of revenue anticipation notes in December 2004 which matured and were paid June 1, 2005. Prior to these issues, the State had not issued revenue anticipation notes since fiscal year 1991.

In general, the State Treasurer, with the approval of the Governor and Council, is authorized to issue bond anticipation notes maturing within five years of their dates of issue. Refunding notes must be paid within five years of the dates of issue of the original notes.

The State Treasurer established a commercial paper program during fiscal year 1998 for the purpose of issuing bond anticipation notes. The maximum amount of commercial paper to be outstanding at any time is currently $50 million.

Authorized But Unissued Debt

As of July 1, 2007 the State had statutorily authorized but unissued direct general obligation debt in the total principal amount of $307.4 million, under various laws. This amount does not include the State's Turnpike System authorizations or statutorily authorized guarantees, nor its authority to issue bonds in lieu of all or a portion of the State's guarantee of bonds of the Pease Development Authority.

Chapter 58 of the Laws of 2005, the "Federal Highway Anticipation Bond Act," authorized the State to issue federal highway grant anticipation bonds ("Garvee Bonds") in an amount not to exceed $195 million with the approval of the governor and council. The Garvee Bonds are to be special obligations of the State secured by revenues consisting of federal aid for highways and other grants, loans and contributions from any governmental unit relating to projects to be financed under the statute. The Garvee Bonds may be issued for the purpose of financing project costs related to the widening of Interstate 93 from Manchester to the Massachusetts border and any other federally aided highway project which the legislature may subsequently authorize to be funded under the statute. As of the date hereof, the State has not issued any Garvee Bonds.

The State has various guarantee programs, which are described under the caption "Agencies, Authorities and Bonded or Guaranteed Indebtedness" below. The statutes authorizing the guarantee programs require approval by the Governor and Council of any award of a State guarantee. In addition, statutory limitations apply to all of the guarantee programs, but they vary in two major respects. First, the limit may be either on the total amount guaranteed or on the total amount guaranteed that remains outstanding at any time; the latter is a revolving limit, allowing additional guarantees to be awarded as guaranteed debt is retired. Second, the statutory dollar limit may represent either the total amount of principal and interest or only the total amount of principal that may be guaranteed; in the latter case interest on that principal amount may also be guaranteed but is not otherwise specifically limited. As of June 30, 2007, the remaining unused guarantee authorizations under the various statutory limitations were as follows:

Purpose	Guarantee Limit	Remaining Guarantee Capacity
Local Water Pollution Control Bonds	$175.0 million(1)(2)	$150.0 million
Local School Bonds	95.0 million(1)(2)	77.2 million
Local Superfund Site Bonds	50.0 million plus interest	50.0 million plus interest
Local Landfill and Waste Site Bonds	30.0 million(1)(2)	29.6 million
Business Finance Authority Bonds, Loans	95.0 million plus interest(1)	40.8 million
Pease Development Authority	85.0 million plus interest	36.4 million
Division of Water Resources Bonds	5.0 million plus interest	5.0 million plus interest
Housing Finance Authority Child Care Loans	0.3 million (principal only)	0.3 million

(1) Revolving limit.
(2) Limit applies to total principal and interest.

Capital Budget

The following table sets out the State's capital appropriations as amended for the 2008-2009 biennium.

Biennium Capital Budget

	Biennium Ending June 30, 2009
Adjutant General	$45,072,000
Administrative Services	19,093,340
Agriculture	190,000
Community-Technical College System	35,123,167
Corrections	8,039,400
Education	14,200,000
Environmental Services	9,552,423
Fish & Game	450,000
Health & Human Services	3,250,000
NH Housing Authority	800,000
Liquor Commission	520,000
Pease Development Authority	3,860,000
Resources & Economic Development	9,867,758
Safety	3,708,000
Transportation	123,345,277
Veteran's Home	6,215,000
University System of New Hampshire(1)	35,000,000
Gross Appropriations	318,286,365
Less-Federal, Local & Other Funds	103,308,552
Net Bonds Authorized	$214,977,813
Funding of Bonds	
Highway Funded	73,303,260
Other Funded	11,942,135
General Funded	129,732,418
Net Bonds Authorized	$214,977,813

(1) This appropriation was made in the capital budget adopted in 2005 for the 2006-2007 biennium.

In addition to the 2008-2009 capital budget, Section 2 of Chapter 259 of the Laws of 2005 appropriates a total of $109.5 million to the University System of New Hampshire over an eight-year period. This appropriation is non-lapsing and shall not exceed $35 million for the biennium ending June 30, 2009 (which is included in the table above), $35 million for the biennium ending June 30, 2011, and $35 million for the biennium ending June 30, 2013.

In the 2008-2009 capital budget, $60 million was appropriated and general obligation bonds authorized for various transportation infrastructure programs, including municipal bridge aid, state match on federally funded highway projects, state aid to local highway projects and the betterment program. Debt service payments on the bonds authorized will be paid from the highway fund.

Agencies, Authorities and Bonded or Guaranteed Indebtedness

Described below are the principal State agencies or programs for which the State (a) issues revenue bonds, (b) provides State guarantees of payments of indebtedness, or (c) issues general obligation bonds supported in whole or in part by restricted revenues, rather than taxes or unrestricted General Fund revenues. (A summary of the State guarantee programs is also provided under the caption "Authorized But Unissued Debt" above.) Also described briefly below are the other independent State authorities that issue revenue bonds and notes that do not constitute a debt or obligation of the State.

New Hampshire Turnpike System. Effective July 1, 1971, the New Hampshire Turnpike System was established to administer certain toll highways in the State. State statutes establishing the Turnpike System require the collection of tolls on such turnpikes and improvements or extensions thereof at levels sufficient to pay expenses of operations and maintenance and to pay debt service on general obligation bonds issued for Turnpike System purposes. Payment of debt service on such general obligation bonds from Turnpike System revenues is subordinate, however, to payments required with respect to Turnpike System revenue bonds.

Chapter 237-A of the New Hampshire Revised Statutes Annotated, as amended, provides for the issuance by the State Treasurer of revenue bonds of the State for the Turnpike System in such amounts as the Governor and the Council shall determine, from time to time, subject to the current statutory limit of $586.05 million (excluding bonds issued for refunding purposes). RSA 237-A expressly provides that the bond resolution authorizing Turnpike System revenue bonds may include provisions setting forth the duties of the State in relation to the fixing, revision and collection of tolls and further provides that the State has pledged to perform all such duties as set forth in such bond resolution. Turnpike System revenue bonds constitute limited obligations of the State, and the State has not pledged its full faith and credit for the payment of such bonds. Approximately $272.5 million of such bonds were outstanding as of June 30, 2007.

The University System of New Hampshire. The University System is a body politic and corporate created by State law under the control and supervision of a 25 member board of trustees. The board of trustees is entrusted with the management and control of all property comprising the University System and maintains the financial affairs of the University System separate and apart from the accounts of the State. Income received by the University System, except where specifically segregated, is retained by the University System for its general purposes. State statutes additionally provide for annual appropriations by the Legislature to be used for the general purposes of the University System. General obligation bonds issued by the State for the construction of capital improvements at the University System are supported in part by revenues from the University System. Approximately $130.9 million of such bonds were outstanding June 30, 2007, of which $1.6 million are self-supporting from dormitory rentals and other income. The University System has the power to borrow through the issuance of revenue bonds for dormitory or other housing facility purposes by the New Hampshire Higher Educational and Health Facilities Authority, without pledging the full faith and credit of the State or the University System for payment.

State Guaranteed Local Water Pollution Control Bonds. The State's programs for the protection of adequate water supplies and the control and elimination of water pollution are under the supervision of the Department of Environmental Services' Water Division. In order to assist municipalities in the financing of sewerage systems and sewage treatment and disposal plants for the control of water pollution, the Governor and Council are authorized to guarantee unconditionally as a general obligation of the State the payment of all or some portion of the principal of and interest on bonds or notes issued by any town, city, county or district for construction of such facilities. The outstanding State guaranteed amount of principal and interest of such bonds and notes may not exceed $175 million. As of June 30, 2007, $25 million of principal and interest was guaranteed under this program.

In addition, the Legislature has provided in RSA 486 that the State shall pay annually an amount equal to 20% of the yearly principal and interest expense on the original costs resulting from the acquisition and construction of sewage disposal facilities by counties, cities, towns or village districts in the State and, with respect to certain specified facilities, the State shall pay annually an amount, after completion thereof, equal to the yearly principal and interest expense on the remaining portion of the eligible costs (after application of available federal funds and the 5% local share). Such assistance payments are made to the municipalities, are not binding obligations of the State and require appropriation by the Legislature.

New Hampshire Department of Environmental Services-Water Division. The Department of Environmental Services' Division of Water Resources (formerly the New Hampshire Water Resources Board) is charged with authority to construct, maintain and operate reservoirs, dams and other waterworks systems (including hydro-energy production facilities) and to charge and collect fees and tolls for the use of water and other services supplied by the division. Projects constructed by the division are intended to be self-liquidating and self-supporting through user fees. The division is authorized to issue self-supporting revenue bonds from time to time for the acquisition and construction of projects and, except to the extent guaranteed by the State as described below, such bonds shall not constitute a debt of the State but are payable solely from the revenues of the projects.

The Governor and Council are authorized to guarantee the payment of the principal and interest of not more than $5 million principal amount of bonds issued by the division. The full faith and credit of the State are pledged for such guarantee. As of June 30, 2007, no debt is guaranteed under this program.

State Guaranteed Local School Bonds. The Governor with the advice and consent of the Council may agree to award an unconditional State guarantee for the payment of not more than $95 million of the principal and interest on bonds or notes issued by school districts for school projects of not less than $100,000 involving construction, enlargement or alteration of school buildings. The supervision of the guarantee program is the responsibility of the New Hampshire School Building Authority, consisting of the State Treasurer, the State Commissioner of Education and three members appointed by the Governor and Council. Guarantees may be awarded on either a split issue basis, where the payment of not in excess of 75% of the aggregate principal amount of bonds issued for a project and interest thereon may be guaranteed, or on a declining balance basis, where a specified percentage of the principal of and interest on each bond or note issued is guaranteed. The full faith and credit of the State are pledged to such guarantees. As of June 30, 2007, $17.8 million of principal and interest was guaranteed under this program.

State Guaranteed Local Superfund Site Bonds and Landfill and Waste Site Bonds. The Governor with the advice and consent of the Council may award an unconditional State guarantee for the payment of not more than $50 million in aggregate principal amount (plus the interest thereon) of bonds issued by municipalities in the State for costs of cleanup of "superfund" hazardous waste sites for which the municipalities are named potentially responsible parties (including bonds issued by a municipality on behalf of other potentially responsible parties at the same site). No bonds have been guaranteed under this program.

In addition, the Governor and Council may award an unconditional State guarantee for the payment of principal and interest on bonds issued by municipalities in the State for closing or cleanup of landfills, other solid waste facilities or hazardous waste sites. The outstanding State guaranteed amount of principal and interest on such bonds may not exceed $30 million at any one time. As of June 30, 2007, $0.4 million of principal and interest was guaranteed under this program.

New Hampshire Business Finance Authority. The Legislature created the Business Finance Authority of the State of New Hampshire (formerly the Industrial Development Authority) as a body politic and corporate as an agency of the State to provide financial assistance to businesses and local development organizations in the State. Legislation enacted in 1992 and 1993 significantly expanded the power of the Authority, with the concurrence of the Governor and Council, to issue State guaranteed bonds and to award State guarantees of other indebtedness for the purpose of promoting business development in the State.

In order to carry out its programs, the Authority was authorized to issue up to $25 million in principal amount of bonds as general obligations of the Authority, the principal of and interest on which is guaranteed by the State. The Authority issued $25 million State-guaranteed bonds in November, 1992. In April, 2002, the Authority issued an additional $10 million of State guaranteed bonds, half of which were used to refund then outstanding 1992 bonds. The Authority issued an additional $10 million of State guaranteed bonds in December 2002 to refund an equal amount of then outstanding 1992 bonds. The last $1.3 million of then outstanding 1992 bonds was redeemed on November 1, 2003, leaving the Authority with a total balance of $20 million of outstanding bonds as of June 30, 2007.

The Authority was authorized until June 30, 2002, to issue revenue bonds that are limited obligations of the Authority secured solely by specified revenues and assets. The principal of and interest on up to $15 million in principal amount of the Authority's revenue bonds could be guaranteed by the State with the approval of the Governor and Council; $5.2 million of such guaranteed revenue bonds are currently outstanding.

The Authority may also recommend that the Governor and Council award state guarantees of certain indebtedness of businesses, but the total principal amount of indebtedness guaranteed, when combined with the outstanding principal amount of State guaranteed bonds of the Authority, may not exceed $95 million at any time. As of June 30, 2007, $29 million of State-guaranteed loans were outstanding under those Authority programs. The Authority expects that over the next five years it will seek Governor and Council approval of State bond and loan guarantees at or near the current outstanding amount.

In addition to its loan and guarantee programs, the Authority is also authorized to issue notes or bonds for the construction of industrial facilities, and certain commercial, recreational, railroad, small scale power and other facilities, for lease or sale to specific private entities. Except for the guaranteed bonds described above, such bonds or notes are not a debt or obligation of the State and no State funds may be used for their payments.

Pease Development Authority. Pease Air Force Base in the Portsmouth area closed on April 1, 1991. Under State legislation, the Pease Development Authority was established in 1990 to prepare a comprehensive plan and to implement all aspects of the plan including taking title to the property, marketing, and developing the property. As of September, 2006, the Pease International Tradeport had 4 million square feet of new or renovated office/R&D/manufacturing space with over 200 companies employing over 6,400 people. The Authority is authorized to issue bonds, not exceeding in the aggregate $250 million, and the Governor and Council may award an unconditional State guarantee to secure up to $85 million in principal amount plus interest on those bonds. The currently remaining guarantee capacity is $36.4 million. In addition, the State is authorized to issue up to $10 million general obligation bonds, the proceeds of which may be loaned to provide matching funds to private grants for development of a research district at the Tradeport.

The State is authorized to issue up to $50 million general obligation bonds in lieu of a portion of the guarantee, with the maximum amount to be guaranteed then reduced by the amount of such bonds issued by the State. In April 1993 the State issued $30 million of general obligation bonds for a project at the Tradeport consisting of construction and acquisition of certain manufacturing facilities to be leased to Celltech Biologics, Inc. (Celltech was acquired in June, 1996 by a British subsidiary of Alusuisse-Lonza of Switzerland, and is now called Lonza Biologics, Inc.) The State has also issued $7.6 million of general obligation bonds in lieu of state guarantees to make loans to the Pease Development Authority with respect to its operations.

New Hampshire Housing Finance Authority. The New Hampshire Housing Finance Authority is a body politic and corporate having a distinct existence separate from the State and not constituting a department of State government. The Authority is generally authorized to provide direct construction and mortgage loans for residential housing and to make loans to and to purchase loans from lending institutions in order to expand available mortgage funds in the State. In order to carry out its corporate purposes, the Authority is authorized to issue its bonds or notes in an amount outstanding at any one time not to exceed $2 billion. Such bonds or notes are obligations of the Authority, but do not constitute a debt or obligation of the State. As additional security for any of its bonds, the Authority is authorized to establish one or more reserve funds and to maintain in each fund for a specific series of bonds a bond reserve fund requirement established by resolution of the Authority in an amount not to exceed one year's debt service on the bonds secured by such fund. The chairman of the Authority is directed to request an appropriation of the sum, if any, needed to maintain the bond reserve funds at their required levels. Amounts so requested are subject to appropriation by the Legislature and do not constitute a debt of the State.

Legislation enacted in 1989 authorizes the Authority to issue certificates of guarantee equal to 50% of the principal of loans made to eligible child care agencies or organizations, such principal guarantee not to exceed $10,000 per recipient. The full faith and credit of the State are pledged for such guarantees, provided that the total obligation of the State shall at no time exceed $300,000. As of June 30, 2007, no outstanding debt was guaranteed under this program.

New Hampshire Municipal Bond Bank. The New Hampshire Municipal Bond Bank was established by the State in 1977 for the purpose of aiding local governmental units in the financing of public improvements. The powers of the Bank are vested in a board of five directors, including the State Treasurer and four members appointed by the Governor and Council. The Bank is authorized to issue revenue bonds in unlimited principal amount and to make loans to political subdivisions of the State through the purchase by the Bank of general obligation bonds and notes of the political subdivisions. The obligations of the political subdivisions bear interest at a rate equal to the rate on the Bank's bonds plus administrative costs. Bonds of the Bank do not constitute a debt or obligation of the State. The Bank is authorized to establish one or more reserve funds to additionally secure its bonds and is directed to request such appropriations from the Legislature as are necessary to (1) maintain such reserve funds at required cash levels or (2) reimburse the payor of any sums paid by such payor under any insurance policy, letter or line of credit or other credit facility maintained by the Bank for the purpose of meeting the reserve fund requirements in lieu of the deposit of cash. Amounts so requested are subject to appropriation by the Legislature and do not constitute a debt of the State.

The Bank is also authorized to issue revenue bonds in unlimited principal amount for small scale power facilities and to make loans to public utilities and to certain elementary and secondary educational institutions through the purchase by the Bank of bonds of such public utilities and educational institutions. Such bonds are issued through a separate division of the Bank and are not a debt or obligation of the State and no State funds may be used for their payment.

New Hampshire Health and Education Facilities Authority. This authority, formerly known as the New Hampshire Higher Educational and Health Facilities Authority, was established to provide financing for the State's private colleges and hospitals; the Authority can now also provide financing for the University System. The State is not directly or indirectly responsible for any obligations of this Authority issued for private entities. Moreover, bonds issued for the University System by the Authority constitute limited obligations of the University System payable solely from designated revenues.

New Hampshire Rail Transit Authority. The New Hampshire Rail Transit Authority ("NHRTA") was established under RSA 238-A effective July 1, 2007 as a body corporate and politic in the State for the general purpose of developing and providing commuter rail or other similar forms of passenger rail service. The Authority is authorized to issue bonds to carry out its purposes. RSA 238-A provides that all obligations of the Authority shall be paid solely from funds provided to or obtained by the Authority and will not be deemed a debt of the State nor a pledge of the full faith and credit of the State. The NHRTA held its organizational meeting on September 30, 2007. The Authority is currently developing plans and operating agreements for proposed passenger rail service between Manchester, New Hampshire and Boston, Massachusetts. There are no plans for debt issuance within the next two calendar years.

STATE RETIREMENT SYSTEM

Prior to 1967 four separate retirement systems were operated by the State involving State and local employees, teachers, police officers and firefighters. Effective July 1, 1967, these four systems were combined under a common board of trustees in a new system known as the New Hampshire Retirement System ("NHRS" or the "System") to include all employees hired subsequent to such time and to also include all members of the prior systems who elected to transfer to the new system. At June 30, 2007, there were approximately 55,519 active and inactive members and 21,248 retired members of the System. The System provides service, disability, death and vested retirement benefits to its members and their beneficiaries. It also provides a postemployment benefit through a "medical subsidy" provided to qualified members and their beneficiaries.

The financing of the System as well as its predecessor programs is provided through both member contributions and employer contributions from the State and political subdivisions. The State's normal contribution rate is based on the actuarial valuation of the amount necessary to provide the State annuity for current service.

The Plan is divided into two membership groups. Group I consists of State and local employees and teachers. Group II consists of firefighters and police officers. The State funds 100% of the employer cost for all State employees and 35% of the employer cost for teachers, firefighters and police officers employed by political subdivisions. The total State contribution increased from $72.7 million in fiscal year 2006 to $78.1 million in fiscal year 2007. Total contributions by the State during fiscal year 2008 are estimated to be approximately $107.3 million. The State Constitution provides that the employer contribution certified as payable to the System to fund the System's liabilities, as determined by "sound actuarial valuation and practice," shall be appropriated each fiscal year in the amount so certified.

As of June 30, 2007, the net assets available to pay pension benefits, at actuarial value, were reported by the System to be $4,612.3 million. The total pension liability at June 30, 2007 was $ 7,277.8 million, resulting in an unfunded pension liability at June 30, 2007 of $ 2,665.5 million and a funding ratio of 63.4%. The calculation of the unfunded pension liability at June 30, 2007 is based upon services performed to date and compensation projected to be earned in the future.

Legislation was enacted during the 2007 legislative session to address the long term viability of the pension system. Effective June 30, 2007 the System's actuarial cost method changed from the open group aggregate cost method to the more widely used entry age normal cost method. The total liabilities as of June 30, 2007 were determined using the entry age normal actuarial cost method.

Actuarial valuations are performed biennially and the results of those valuations are used to determine contributions for the next succeeding biennium. For example, the most recent actuarial valuation is dated as of June 30, 2007 and its results will be used to determine the required contributions for fiscal years 2010 and 2011. As a result of the methodology change, the medical subsidy compliance review discussed below, and other factors, required contributions to the NHRS have the potential to increase significantly in fiscal year 2010. Although no final action has been taken by the NHRS, contribution rate increases could range from 10% to 50%, depending on the type of employee covered. During fiscal years 2008 and 2009, the State is expected to make contributions totaling $107.3 million and $112.1 million, respectively. These contributions cover the employer share for State employees as well as 35% of employer contributions for every teacher, police officer and fire fighter employed by political subdivisions. With no change in law or other unexpected circumstances, the estimated contributions from the State could grow to $172.2 million in fiscal year 2010 and $180.0 million in fiscal year 2011. The June 30, 2007 System actuarial valuation can be viewed in its entirety at www.nhrs.org.

Medical subsidy payments are made by the System from a 401(h) subtrust on behalf of a closed group of retirees. Medical subsidy payments are made directly to former employers (State and local governments), insurance companies, and third party health insurance administrators to offset the cost of health insurance for the retiree. The balance of the insurance premium is paid by either the retiree or the former employer, depending on the employer's policy.

As required for fiscal year 2007 implementation of GASB 43, the System conducted an actuarial valuation of its postemployment "medical subsidy" benefit. As of June 20, 2007, the net assets available to pay "medical subsidy" post employment benefits, at actuarial value, were reported by the System to be $157.0 million, with a corresponding liability of $979.2 million, resulting in an unfunded post employment benefit liability at June 30, 2007 of $822.2 million and an overall funding ratio of 16.0%. As part of implementing GASB 43, the System underwent a compliance review of its medical subsidy program. The compliance review made multiple recommendations that were unanimously adopted by the System's Board of Trustees in November 2007. These recommendations include: (1) seeking IRS approval to correct a series of transfers that occurred from fiscal years 1990 through 2000 by participating in the IRS voluntary correction program (if approved, a transfer of at least $26 million would be made from the 401(h) medical subtrust to the pension reserve), (2) seeking ratification by corrective state legislation of the 33-1/3% employer contributions that were made and prospectively abide by the 25% statutory limitation, and (3) eliminating the financial reporting of the $295 million Medical Special Account as part of the Postretirement Medical Plan and reporting the $295 million as pension assets. At the direction of the Board and as recommended by the compliance review, these assets were transferred to the pension trust as Special Account assets to be used to fund future COLAs. This change was made as part of the actuarial valuation results described above and is also expected to be reflected in the System's 2007 audited financial statements, when available.

Additionally, in order to comply with GASB 43, the System's outside legal counsel is currently reviewing the statutory construction of the medical subsidy plan[s] to determine whether the System administers one postretirement medical plan for all eligible retirees or multiple plans for each individual retiree membership group. The full impact on the financial statements, if any, of single or multiple plan determination is not known at this time.

The significant changes to the System's financial statements resulting from the medical subsidy compliance review has caused a delay in the issuance of the System's fiscal 2007 audited financial statements. It is expected that audited financial statements for the System will be available by March 31, 2008.

As described in more detail in the System CAFR, the board of trustees of the System annually reviews the funded ratios of the System. The following tables set forth the funding history of the System for the years shown based upon the System's funding objectives. The information in the tables was provided by the New Hampshire Retirement System.

NEW HAMPSHIRE RETIREMENT SYSTEM
TEN YEAR HISTORY OF PLAN FUNDING STATUS
FISCAL YEARS 1998-2007
(All Dollar Amounts in Thousands, FY 2007 Data is Unaudited)

	Fiscal Year Ended 6/30/2007	Fiscal Year Ended 6/30/2006	Fiscal Year Ended 6/30/2005	Fiscal Year Ended 6/30/2004	Fiscal Year Ended 6/30/2003	Fiscal Year Ended 6/30/2002	Fiscal Year Ended 6/30/2001	Fiscal Year Ended 6/30/2000	Fiscal Year Ended 6/30/1999	Fiscal Year Ended 6/30/1998
Long Range Pension Cost:										
Actuarial Accrued Liability	$7,277,775	$6,402,875	$5,991,026	$5,029,877	$4,669,192	$4,196,314	$3,842,602	$3,460,259	$3,229,193	$2,924,662
Actuarial Valuation Assets	4,612,256	3,928,270	3,610,800	3,575,641	3,500,037	3,443,395	3,264,901	3,109,734	2,886,526	2,607,941
Unfunded (Excess) Actuarial Accrued Liability	2,665,519	2,474,605	2,380,226	1,454,236	1,169,155	752,919	577,701	350,525	342,667	316,721
Pension Plan Funded Status	63.4%	61.4%	60.3%	71.1%	75.0%	82.1%	85.0%	89.9%	89.4%	89.2%
Long Range Post Employment Health Cost:										
Actuarial Accrued Liability	$979,220	$986,502	$930,675	$731,021	$701,408	$576,770	$429,773	$273,087	$261,620	$166,302
Actuarial Valuation Assets	156,976	445,860	445,918	441,936	415,046	437,478	336,078	311,538	290,221	168,890
Unfunded (Excess) Actuarial Accrued Liability	822,244	540,642	484,757	289,085	286,362	139,292	93,695	(38,451)	(28,601)	(2,588)
Post Employment Health Plan Funded Status	16.0%	45.2%	47.9%	60.5%	59.2%	75.8%	78.2%	114.1%	110.9%	101.6%
Long Range Cost-Combined Plans:										
Actuarial Accrued Liability	$8,256,995	$7,389,377	$6,921,701	$5,760,898	$5,370,600	$4,773,084	$4,272,375	$3,733,346	$3,490,813	$3,090,964
Actuarial Valuation Assets	4,769,232	4,374,130	4,056,718	4,017,577	3,915,083	3,880,873	3,600,979	3,421,272	3,176,747	2,776,831
Unfunded (Excess) Actuarial Accrued Liability	$3,487,763	$3,015,247	$2,864,983	$1,743,321	$1,455,517	$892,211	$671,396	$312,074	$314,066	$314,133
Combined Plans Funded Status	57.8%	59.2%	58.6%	69.7%	72.9%	81.3%	84.3%	91.6%	91.0%	89.8%

NOTE: Liabilities for fiscal year 2007 were determined under the entry age normal actuarial cost method. Liabilities for fiscal year 2006 and prior were determined under the projected unit credit actuarial cost method. Year to year comparisons between fiscal year 2007 and prior years may not be comparable.

The legislation enacted in 2007 session also established a commission to study the System and make recommendations related to benefit structure, governance, and investments. The commission's final report, which was released in December, 2007, includes the following priority recommendations:

- Establishment of an Investment Committee that includes non-board members who are investment professionals.
- Establishment of an Audit Committee that includes non-board members who are accounting professionals.
- Freeze the amount of the medical subsidy in 2010, subject to biennial review.
- Establish a new health care subsidy plan, separate from the pension plan, by July 1, 2009.
- Transfer $250 million that had been earmarked for health benefits from the Special Account into the corpus of the pension trust fund. (This amount is a portion of the $295 million transferred by the System in November 2007 from the medical subsidy special account to the pension trust as Special Account assets.)
- Establish an employee funded cost-of living-adjustment ("COLA") program.
- Allow non-vested members to leave money in the System, credited at a rate of 2% below the assumed rate of return.

Details of these and other recommendations are included in the commission's final report, which is available in its entirety at www.gencourt.state.nh.us. Implementation of these recommendations will require action by the Board of Trustees of the System and, in some cases, the Legislature. There can be no assurance that any of the recommendations will be adopted as presented in the report or adopted with modifications.

Additional information pertaining to the State's employee benefit plans may be found in Note 10 to the State's fiscal year 2007 financial statements.

HEALTH CARE COVERAGE FOR RETIRED EMPLOYEES

In addition to pensions, many state and local governmental employers provide other postemployment benefits ("OPEB") as part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes postemployment healthcare, as well as other forms of postemployment benefits (for example, life insurance) when provided separately from a pension plan. From an accrual accounting perspective, the cost of OPEB, like the cost of pension benefits, generally should be associated with the periods in which the exchange occurs (matching principle), rather than with the periods (often many years later) when benefits are paid or provided. However, in current practice, most OPEB plans are financed on a pay-as-you-go basis, and financial statements generally do not report the financial effects of OPEB until the promised benefits are paid.

The Governmental Accounting Standards Board ("GASB") recently promulgated its Statement Nos. 43 and 45 which address the reporting and disclosure requirements for OPEB. GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, is effective for fiscal year 2007. This Statement requires the System to change some of its financial reporting and enhance its disclosure of its medical subsidy program. GASB Statement No. 43 is not applicable to the financial reporting of the State. GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* is effective for fiscal year 2008. This Statement will require the State to account for and disclose information about the medical benefits provided to State retirees.

In addition to providing pension benefits, state law provides health care benefits for certain retired employees. Substantially all of the State's employees who were hired on or before June 30, 2004 may become eligible for these benefits if they reach normal retirement age while working for the State, have 10 years of State service 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 coverage benefits. These and similar benefits for active employees are authorized by RSA 21-I:30 and provided through the Employee and Retiree Benefit Risk Management Fund, which finances the State's self-funded employee and retiree health benefit program. The Fund, which was established in October 2003, is in turn financed through payments by the State of actuarially determined working rates. The State's General Fund contributed approximately $33.9 million to fund health care benefits on a pay-as-you-go basis for approximately 9,957 State retirees and covered dependents receiving a periodic pension benefit for the fiscal year ended June 30,

2007. An additional $16.2 million was received from self-supporting State agencies. A further significant source of funding for retiree benefits is from the New Hampshire Retirement System's "medical subsidy" program for Group I and Group II employees, which totaled approximately $14.9 million for the fiscal year ended June 30, 2007. The budget for the current fiscal years 2008 – 2009 biennium does not pre-fund any OPEB costs. However, it does, for the first time, establish an account for all resources accumulated for purposes of funding retiree health benefits.

In September 2006 the Department of Administrative Services renewed its contract with The Segal Company to assist, among other matters, in the determination and valuation of the State's OPEB liability under GASB Statement No. 45. Segal currently provides to the State benefits consulting, claims auditing and actuarial services for the purposes of setting rates for its self-funded health plan for both active and retired state employees. An OPEB liability actuarial valuation was completed in August, 2007, and the report can be accessed through the State's website at http://admin.state.nh.us. The State is currently in the process of reviewing these various alternatives, including methodology, discount rates, and other assumptions. The actuarial valuation reports that the State's OPEB liability ranges from $1,550.0 million to $2,858.7 million, depending upon whether the liability is prefunded. Based on this valuation, the annual required contribution ("ARC") for the State's OPEB liabilities will increase significantly, depending on the funding method and discount rate. The valuation sets forth four alternative ARC calculations, ranging from $138.3 million, if prefunded, to $234.7 million, if not prefunded. The State paid approximately $55.9 million in fiscal year 2007 for these liabilities net of the New Hampshire Retirement medical subsidy. To date, the State has made no decisions regarding the funding of the liability. See "STATE RETIREE HEALTH PLAN COMMISSION" below.

As described above under "STATE RETIREMENT SYSTEM," the NHRS currently provides medical subsidy payments on behalf of a closed group of retirees. These payments offset the cost of health benefit coverage for the eligible retirees. Current law provides for an 8% per year increase in the amount of the subsidy payments and also requires that 25% of employer contributions be applied to fund the subsidies. As further noted above, as of June 30, 2007, the overall funding ratio for this benefit was estimated to be 16%. The August, 2007 State OPEB valuation described in the preceding paragraph assumes that the medical subsidy runs out by 2011 for eligible Group I employees, by 2019 for police officers and by 2022 for firefighters. The commission to study the long term viability of the NHRS has also made a series of recommendations to address the medical subsidy program. See "STATE RETIREMENT SYSTEM" above. The State cannot now predict what changes, if any, may be made to the medical subsidy benefit or any corresponding impact on the State budget.

STATE RETIREE HEALTH PLAN COMMISSION

Effective July 1, 2007, the State Retiree Health Plan Commission was established pursuant to RSA 100-A:56 to determine the actuarial assumptions to be used in the valuation of liabilities relative to State employee health benefits. The Commission membership includes one representative appointed by the Speaker of the House, one Senator appointed by the Senate President, one member appointed by the Governor, the State Treasurer and the Commissioner of Administrative Services. The Commission meets monthly and is in the process of understanding actuarial assumptions used in the State's OPEB valuation, eligibility requirements, and benefit structure.

JUDICIAL RETIREMENT PLAN

The New Hampshire Judicial Retirement Plan was established on January 1, 2005 pursuant to RSA 100-C:2. The Plan is a defined benefit plan providing disability, death, and retirement protection for full-time Supreme Court, Superior Court, district court or probate court judges employed within the State.

The State engaged a consultant to prepare an actuarial valuation as of January 1, 2005, based on the finalized plan provisions and reflecting an initial funding payment of $42.8 million, which amount was provided from the proceeds of general obligation bonds of the State. The valuation determined the total accrued liability of the plan as of January 1, 2005 to be $43,669,534 and the value of the net assets of the plan to be $42,800,000, which amount was equal to the proceeds of such bonds. This valuation results in an unfunded liability as of January 1, 2005 equal to $869,534. Net assets of the plan reported in the January 1, 2006 actuarial valuation totaled $44,980,407. An unfunded liability of $2,173,046 was reported as of January 1, 2006 resulting in a plan funded ratio of 95%. The unfunded liability will be funded by future member and State employer contributions over a twenty year period as provided for in statute. The plan's next actuarial valuation will be performed as of January 1, 2008.

EMPLOYEE RELATIONS

The State Employees' Association of New Hampshire Inc.-SEIU Local 1984 (the "SEA") is the exclusive bargaining representative of the majority of classified (merit system) employees in the State, a group of approximately 10,000 employees. The sworn non-commissioned employees of the Division of State Police have been represented by the New Hampshire Troopers Association (the "NHTA") since 1997. In October, 2006 two additional law enforcement groups, the Highway Patrol Officers and Fish & Game Conservation Officers filed a certification petition and voted to be represented by a new union, the New England Police Benevolent Association (the "NEPBA"). In addition, one SEA bargaining unit of approximately 60 employees, the Public Utilities Commission, filed a decertification petition and voted to decertify from the SEA. The SEA appealed the PUC election results to the New Hampshire Supreme Court and in November, 2007, the Court remanded the case to the PELRB for a new election. A new election for the PUC bargaining unit is scheduled for January 9, 2008. In July, 2007, approximately 600 employees in the Department of Corrections filed two modification petitions requesting that they be allowed to vote to determine whether they should be represented by a new union, the NEPBA, or whether they would continue to be represented by their current union, the SEA. The PELRB granted these petitions and the Corrections bargaining unit elections are scheduled for January 15, 2008, and January 17, 2008. The employees of the University System and the NH Retirement System are not included in any of these bargaining units. The State has collective bargaining agreements with the SEA, the NHTA, and the NEPBA that were effective July 1, 2007 and will expire on June 30, 2009. The next round of negotiations with the State's three unions will begin in October 2008 for the 2009 – 2011 collective bargaining agreements.

LITIGATION

The State and certain of its agencies and employees are defendants in numerous other lawsuits which assert claims regarding social welfare program funding, breach of contract, negligence and 42 U.S.C. §1983. Although the Attorney General is unable to predict the ultimate outcome of the majority of these suits, which seek monetary awards that do not exceed $50 million in the aggregate, the State believes that the likelihood of such litigation resulting, either individually or in the aggregate, in final judgments against the State which would materially affect its financial position is remote. Accordingly, no provision for the ultimate liability, if any, has been made in the State's financial statements.

The following matters should be noted:

General Electric ("GE") appealed a decision by the Department of Revenue Administration ("DRA") claiming that the dividends received deduction allowed under RSA 77-A:4, IV should be invalidated because the statute discriminates against foreign commerce in violation of the commerce clause of the United States Constitution and results in unfair taxation out of proportion to GE's activities in New Hampshire in violation of the Due Process and Commerce Clauses of the United States Constitution.

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

On August 19, 2005, the Merrimack County Superior Court issued an order granting DRA's Motion to Dismiss and its Motion for Summary Judgment. GE appealed the case to the New Hampshire Supreme Court, and on December 5, 2006, the New Hampshire Supreme Court issued an order affirming in part and reversing in part the lower court's decision. The court reversed the lower court's order dismissing the case because the Supreme Court found that GE did have standing to challenge the statute. Nevertheless, the Supreme Court affirmed the lower court's grant of summary judgment in favor of the Department and concluded that RSA 77-A:4, IV is not facially unconstitutional, finding that the statute does not facially discriminate against a dividend-paying foreign subsidiary that does not conduct business in New Hampshire. In March, 2007, GE filed a Petition for a Writ of Certiorari with the United States Supreme Court seeking review of the New Hampshire Supreme Court's decision. The State filed a brief in opposition to GE's Petition. The Council on State Taxation filed an amicus curiae brief in support of GE. The United States Supreme Court invited the Solicitor General to file a brief expressing the views of the United States. The Solicitor General filed a brief in August supporting DRA's position. On October 29, 2007, the United States Supreme Court denied certiorari. GE made its $639,836 payment to DRA on November 2, 2007. This matter is now concluded.

Verizon NE v Public Utilities Commission is an action by Verizon challenging the Public Utilities Commission's ("PUC") orders requiring it to share its lines and make other unbundled network elements available to Verizon's competitors at rates that Verizon claims are confiscatory. Verizon claimed that the PUC's orders violated federal law and sought declaratory and injunctive relief as well as unspecified damages.

On August 22, 2006, the United States District Court for the District of New Hampshire granted summary judgment in favor of Verizon and enjoined the PUC from enforcing its orders to the extent that they require Verizon to offer unbundled network elements to their competitors. The Court's Order did not contain an award of damages to Verizon. Verizon has not appealed the decision, but the State did to the First Circuit Court of Appeals. Both parties filed briefs and oral argument was held on May 9, 2007. On September 6, 2007, the First Circuit issued a decision affirming the District Court's injunction. This matter is now concluded.

In *New Hampshire Association of Counties, et al. v. Commissioner of Department of Health and Human Services*, some of the State's ten Counties (the "Plaintiff Counties") challenged the Department of Health and Human Services' ("DHHS") decision holding them responsible for paying a share of the cost of Medicaid payments for clients receiving Old Age Assistance ("OAA") or Aid to the Permanently and Totally Disabled ("APTD"). Under RSA 167:18-b, the counties are liable for one-half of the State's expenditures for OAA and APTD recipients who are "in nursing homes." DHHS believed that RSA 167:18-b also allowed it to bill the Plaintiff Counties for nursing services that are provided to recipients who are in institutions, such as rehabilitation hospitals, that are not licensed as "nursing homes" but are certified under Medicaid as nursing facilities authorized to provide nursing level care. DHHS has been billing the Plaintiff Counties for these services since at least 2002.

The second issue raised by the Plaintiff Counties in their suit is whether DHHS exceeded the statutory cap on the total amount that the Plaintiff Counties can be billed under RSA 167:18-b in fiscal year 2004. RSA 167:18-b establishes a $60 million cap on the total liability for the Plaintiff Counties under this section of the statute. The legal dispute in this case involves whether that figure should be interpreted as a gross amount or a net amount. In 2004, the total amount of the bills sent to the Plaintiff Counties for their share of payments under RSA 167:18-b was approximately $62.1 million. However, DHHS gave the Plaintiff Counties approximately $2.1 million in statutory credits, thereby bringing the total owed to $60 million. The Plaintiff Counties refused to pay the total amount, claiming that the statute limits the total amount that can be "billed" to the Plaintiff Counties at $60 million, and therefore the credits should have been subtracted from the $60 million, thereby limiting their liability to $57.9 million.

The parties filed cross-motions for summary judgment and on October 27, 2006, the Merrimack County Superior Court granted summary judgment in favor of the Plaintiff Counties on both issues. DHHS filed a notice of appeal in November, 2006.

On August 17, 2007 the Supreme Court issued an order in which it vacated the majority of the lower court's decision, affirmed it in part, and remanded it back to the lower court for additional factual findings. Most significantly, the Supreme Court held that the term "nursing home" in RSA 167-18-b means any institution certified by the federal Medicaid program to provide nursing facility services. The result is that the vast majority of the bills which were submitted to the Plaintiff Counties were appropriate and legal, and therefore the Plaintiff Counties will not be entitled to any reimbursement from the State of those amounts paid. In addition, the State will be able to demand payment for certain bills which the Plaintiff Counties refused to pay.

The Supreme Court also ruled that the cap provisions should be understood as limiting the Counties overall liability at $58 million. The Supreme Court held that since there was insufficient evidence in the record as to how much the Plaintiff Counties have reimbursed the State during the relevant period, the matter would need to be sent back to the trial court for further proceedings. The matter was remanded to the Merrimack County Superior Court , and cross motions for summary judgment were filed in November, 2007. A hearing for these motions is scheduled for February, 2008.

It is not possible to calculate the likely fiscal impact to the State at this time. The most recent Supreme Court ruling means that the State will most likely not suffer any financial impact going forward (i.e. the State will not be required to expend any money to reimburse the State for monies previously collected) from the Plaintiff Counties. The question that remains unanswered is the extent to which the State will be allowed to recover approximately $5 million which was withheld by the Plaintiff Counties in prior fiscal years.

The Plaintiff Counties filed a second lawsuit in Merrimack County Superior Court, *New Hampshire Association of Counties, et al. v. Commissioner of Department of Health and Human Services ("NHAC II")*, challenging the manner in which the State assesses the Plaintiff Counties a portion of the cost for long-term care. In this lawsuit, the Plaintiff Counties claim that the most recent budget law, Chapter 262 of the Laws of 2007 violates Article 28-a of the New Hampshire Constitution in that it constitutes an "unfunded mandate."

Chapter 262 sets out a multi-year approach to this problem. In the first year, it continues the existing relationship with the Counties with regard to the sharing of the costs of long-term care. In the subsequent years, the new law changes the relationship between the Counties and the State, shifting certain costs onto the Counties, but taking other responsibilities away from the Counties.

The Plaintiff Counties filed a petition seeking a declaratory judgment and injunctive relief. They are seeking to be excused from having to contribute to the cost of long-term care for patients on Medicaid. The Plaintiff Counties currently pay approximately $70 million per year towards long-term care under Medicaid.

The parties filed cross-motions for summary judgment on November 7, 2007, and will have an argument on these motions. A final decision on the merits is expected within four to six months.

It is difficult to assess the likely fiscal impact to the State from this litigation. If the Plaintiff Counties were to prevail, it would result in a decrease in anticipated revenue for long-term care. This would result in the need to decrease the appropriation for long-term care, by reducing services, or increase revenue from some other source.

Two cases in the New Hampshire Supreme Court involved rates paid by the Division of Children, Youth and Families ("DCYF"). The first, *Appeals of: Chase Home for the Children, Child and Family Services; Hannah House, NFI North, Odyssey Home, Orion House, and Pine Haven Boys Center*, involves the fiscal year 2004-2005 rates paid to residential child care facilities. The Hearings Panel, established pursuant to RSA 170-G:4-a, ruled that DCYF should have set the rates in accord with certain administrative rules. The hearings officer ordered DCYF to pay the higher rates but determined that he had no authority to order DCYF to pay them retroactively. The facilities appealed the ruling regarding denial of the retroactive payments. The second case is *Petition of the Division of Children, Youth and Families*, in which DCYF is challenging a decision by the Hearing Panel ruling that DCYF is required to pay a 5% rate increase using the administrative rules rate as the base rate. And, the Hearings Panel ordered DCYF pay the higher rate retroactive to July 1, 2005. DCYF appealed so that the issues on appeal include whether the 5% rate increase should be calculated from the administrative rules rate as the base rate and whether the State may be required to pay retroactively. Both sides filed briefs and oral argument occurred in April, 2007.

In the first case, *Appeals of: Chase Home, et al*., the Supreme Court held, on June 8, 2007, that the hearings officer had the authority to establish residential rates and determine when the rates become effective, but did not have the authority to order DHHS to make retroactive payments at the recalculated rate levels. The Supreme Court declined to decide what further remedies are available to the facilities, such as whether the petitioners could obtain relief in a civil action in superior court. No payment by the State was ordered.

In the second case, *Petition of the Division of Children, Youth and Families*, the Supreme Court held, on June 15, 2007, that the hearing officer's decision to establish the rate at the 2005 calculated rate plus 5%, and to set the effective date of the rate at July 1, 2005, were proper, but that the hearing officer's order requiring DCYF to render payment was beyond the scope of its authority and vacated that part of the decision. The Supreme Court declined to decide what further remedies are available to the facilities, such as whether the petitioners could obtain relief in a civil action in superior court, and no payment by the State was ordered.

These cases are now concluded and no payment was ordered.

Holiday, et al v. Stephen Curry, Commissioner, NH DOC, et al. was filed as a class action in state court against the New Hampshire Department of Corrections ("DOC.") The plaintiffs' class, made up of all inmates of the New Hampshire State Prison, brought an equity petition to enforce various settlement agreements related to a comprehensive "conditions of confinement" suit dating back to 1976. The plaintiffs' class alleged, and the court found, that the DOC materially breached certain elements of the settlement agreements relating to the provision of mental health care to inmates. In brief, the plaintiffs asserted that the DOC lacked a number of mental health programs and the staff to implement those programs. The matter was tried and the court ruled against the DOC ordering it to develop an implementation plan and that the plan be executed. In particular, the court ordered the creation of a residential treatment unit to house and treat a sub-set of the class. Full implementation will require capital improvements, the hiring of correctional and mental health staff and operating expenses to sustain the program.

DOC has submitted its plan for the court to review. DOC also appealed parts, but not all, of the court's order asserting that the court exceeded its authority under the settlement agreements. The parties settled the matters on appeal and the appeal has been withdrawn. The trial court scheduled a status conference for the end of June, 2007 to discuss the progress of implementation. The DOC estimates that full implementation of the court's order will require approximately $9,000,000 over the next biennium.

Bel Air Associates v. Department of Health and Human Services was decided by the New Hampshire Supreme Court in September 2006 involving certain restrictions on the rates paid by the Department of Health and Human Services ("DHHS") to nursing home providers. The Supreme Court held that DHHS' capital costs cap and its budget neutrality factor should have been created by administrative rule. The Supreme Court further held that because they were not created as rules, they could not be applied against Bel Air Associates. The Supreme Court did not order any damages against DHHS as it did not allow a late attempt by Bel Air Associates to add a breach of contract claim. Bel Air Associates, however, filed a breach of contract claim in Merrimack County Superior Court in late November alleging approximately $600,000 in damages. The parties filed cross-motions for summary judgment in June, 2007 and the Court granted the State's motion for summary judgment in late December, 2007. This ruling is subject to reconsideration and appeal. In December, 2006, DHHS also issued an emergency rule authorizing the capital costs cap and the budget neutrality factor. Those rules were made permanent in May, 2007. Various nursing homes threatened to file injunctions preventing enforcement of the emergency rule, but other than Bel Air, none have filed. At this time, it is not possible to predict the outcome of these matters or the amount, if any, that DHHS will be required to pay.

In *The State of New Hampshire v. Phillip Morris USA, RJ Reynolds, Inc. and Lorillard Tobacco Company.* This is a petition for a declaratory order. The defendants are signatories to the Tobacco Master Settlement Agreement under which the defendants are required to make annual payments to all of the states, including the State of New Hampshire. The payment received in 2006 was approximately $5,000,000 below the required amount. On June 5, 2006 the Superior Court ordered the case to arbitration under the terms of the Master Settlement Agreement. A notice of appeal was filed to the New Hampshire Supreme Court on August 11, 2006. Briefs were filed and oral argument occurred in March, 2007. The Supreme Court affirmed the ruling of the trial court on June 22, 2007. No date has been set for the initiation of the arbitration procedure, which is expected to last a year or more. The State is unable to predict the outcome at this time.

In *New Hampshire Internet Service Providers ("NHISPA") and Destek v. Department of Revenue Administration ("DRA")*, Plaintiffs claim that Verizon's and other carriers' collection of the Communications Services Tax on T-1 and T-3 services/lines is illegal as it is pre-empted by Federal law. DRA believes that collection of the tax is legitimate because DRA's right to collect the tax is grandfathered under Federal law. This lawsuit was filed in Federal Court and appears to be subject to dismissal on the jurisdictional ground that the Federal Tax Injunction Act does not allow tax lawsuits against states in Federal court. However, this suit could be re-filed in State court. DRA estimates that the loss of revenue, if the tax were declared invalid or the grandfathering provision were repealed, would be between $1.0 million and $3.0 million in regards to the T-1 and T-3 services and other similar lines. If broadband and ISP access telephone were also included, the amount of lost revenue is estimated to be an additional $3.0 million to $5.5 million. It is possible that this suit may become moot depending on whether the federal Internet Tax Freedom Act is extended beyond November 2007, whether the grandfathering section is likewise continued, or if the federal law is allowed to lapse. The State cannot predict the likely outcome of this case at this time.

Carter, Celluci, and Durgin v. Department of Health and Human Services ("DHHS") is a class action lawsuit, filed in the Federal District Court under 42 U.S.C. sec. 1983, seeking injunctive relief against DHHS for failure to make determinations relating to individuals seeking Aid To the Permanently and Totally Disabled within the 90 day time limit set by Federal regulations. The lawsuit also alleges that DHHS fails to provide a required notification for appeal if the determination is not going to be made within 90 days. The lawsuit was filed on January 30, 2007. On April 9, 2007, DHHS filed a Motion for Entry of Judgment acknowledging that it was not meeting the 90 day determination period and requesting 45 days to file a plan with the Federal Court detailing how it will comply with the Federal regulations. The cost of implementation of the plan is estimated to be less than $300,000 annually. Plaintiffs have requested approximately $150,000 in attorneys' fees and the State has objected. It is not possible to predict the outcome of this matter at this time.

ACF Notice of Disallowance of FFP for Title IV-E Training Costs. On February 26, 2007, the New Hampshire Department of Health and Human Services ("DHHS") received a notice of disallowance of federal financial participation ("FFP") in the amount of $1,761,128 from the federal Administration for Children and Families (ACF). The disallowance was based on an audit report entitled Review of Title IV-E Training Costs in NH for the Period July 2000 through June 2003 issued by the Office of Inspector General ("OIG") on or about January 25, 2007. ACF determined that DHHS did not properly allocate training costs for foster care and adoption assistance between state and federal programs. DHHS strongly disputes the asserted grounds for the disallowance and on March 28, 2007 appealed the notice of disallowance to the federal Departmental Appeals Board ("DAB"). The DAB received the appeal and issued a briefing schedule, which DHHS received on April 16, 2007. DHHS' brief was filed and on October 1, 2007, the DAB revised the disallowance in full. This matter is now concluded.

See "SCHOOL FUNDING" for detailed information concerning litigation against the State challenging the constitutionality of the State's statutory system of financing the operation of elementary and secondary public schools.

For additional information relating to litigation involving the State, see also Note 13 to the State's fiscal year 2007 audited financial statements, which are available as described below.

FINANCIAL STATEMENTS

Fiscal Year 2005. In connection with its audit of the State's fiscal year 2005 financial statements, KPMG LLP ("KPMG") sent a letter dated October 10, 2005 to the Fiscal Committee of the General Court and certain other State officials stating, in part, that KPMG had "become aware of information indicating that illegal acts have or may have occurred relating to the following activities/entities at the State of New Hampshire:

- The federally funded Student Financial Aid Cluster administered by the NH Community Technical College System (College) and

- The New Hampshire Retirement System (NHRS)."

The letter further stated that under professional standards applicable to it, KPMG is required to determine whether it is likely that illegal acts have occurred and, if so, is required to inform the Fiscal Committee about the matters unless the matters are "clearly inconsequential." The letter stated that, "[KPMG] understand[s] investigations are currently being performed by individuals or teams of individuals from within the State as well as individuals or teams from external organizations and/or regulatory agencies." The letter also outlined KPMG's expectations for receiving adequate cooperation and information with respect to these matters and stated that the pending investigations will likely cause KPMG to reassess its audit procedures and that depending on the circumstances, its opinions on the State's financial statements may be delayed.

Audited comprehensive financial statements for the State for fiscal year 2005 were issued in March 2006. The accompanying opinion of KPMG LLP reported that the audit of the New Hampshire Retirement System was not complete at that time and that, therefore, the financial statements were not being presented as required by GAAP. Because of this circumstance, KPMG issued a qualified opinion regarding the State's comprehensive financial statements. For the full text of the opinion of KPMG LLP with respect to the State's financial statements for fiscal year 2005, see pages 14 and 15 of the State's fiscal year 2005 CAFR at the website of the State's Department of Administrative Services, Bureau of Financial Reporting at http://admin.state.nh.us/accounting/reports.htm.

The audited financial statements for fiscal year 2005 for the NHRS were released on May 23, 2006 and are available on the NHRS website at http://state.nh.us/retirement/annual.htm.

In connection with the fiscal year 2005 audit of the State's Turnpike System performed by the State's Office of Legislative Budget Assistant ("LBA"), the LBA issued a management letter finding material weaknesses within the Department of Transportation and, in particular, the Turnpike System. The entire management letter can be found at: http://www.gencourt.state.nh.us/lba/PDF/DOT_ML_2005.pdf.

The LBA management letter reported material weaknesses in several areas, including the need for the Department to improve: overall internal controls, finance and accounting staffing within the Department, highway fund reporting, cost accounting associated with federal billing and the Department's understanding of the requirements imposed on the Turnpike System by the State's General Bond Resolution pertaining to the Turnpike System. In addition, the LBA management letter reported other matters relating specifically to the Turnpike System, including the need to improve controls over toll revenue and to improve controls over the accounting of federal revenue for construction projects and equipment acquisitions. Several of the matters cited by the LBA are related to turnover among key employees within the Department's finance and accounting functions and the obsolescence of the Department's data processing systems, coupled with the strains on the Department associated with the implementation of E-ZPass, which was accompanied by a complete replacement of the toll collection system.

The Department responded to each of these findings and remains committed to the proper management of the fiscal affairs of the Department, including finances of the Turnpike System. The Department has added personnel in the finance and accounting functions and is replacing its outmoded data processing systems.

Fiscal Year 2006. For fiscal year 2006, the combination of the implementation of a new computerized accounting system (see "STATE FINANCES – Financial Controls" above), the ongoing budget process and staff turnover in a variety of State agencies made the work of the independent auditor more complex than in prior periods. Accordingly, the State's audited financial statements were not filed with each NRMSIR until April, 2007. The State's Fiscal Year 2006 CAFR is available on the State's website at http://admin.state.nh.us/accounting/reports.asp#PAFR.

On June 28, 2007, the State received a management letter from KPMG detailing concerns identified during the fiscal year 2006 audit. The management letter identified as material weaknesses breakdowns in the financial reporting process causing the delay in issuing the 2006 financial statements, risks in implementing the State's new accounting and budgeting system, statewide succession planning, and four weaknesses in the processes employed by the Department of Transportation in accounting for and reporting Highway Fund activity. The management letter can be viewed in its entirety at http://www.gencourt.state.nh.us/lba/PDF/NHML_2006.pdf. The State has taken steps to assure that appropriate resources have been dedicated to the completion of the financial statements for fiscal year 2007. The State is on target to complete and release the State's consolidated financial statements by December 31, 2007. See *"Fiscal Year 2007"* below.

To mitigate the risks associated with implementing a new statewide accounting and budget system, the State has provided additional funding for the fiscal years 2008-2009 biennium for a full time position with the responsibilities of developing policies and procedures, as well as a fulltime training specialist position, to assure that proper employee training will occur prior to the new system start up date.

To better position the State in addressing the lack of skilled financial resources in state government, a Workforce Program Specialist position has been created to identify the needs and provide planning for the succession requirements of critical professional fields that support state functions.

During fiscal year 2007, the Department of Transportation began an overhaul of its financial accounting methods and staffing to address the weaknesses identified by the auditors. Additional accounting resources were employed, outside finance expertise was sought and received from the Federal Highway Administration and an experienced interim commissioner was brought on in March 2007 to fill out the term of the previous commissioner. The State is completing the process of hiring a new Commissioner . The fiscal year 2007 audited financial statements of the Turnpike System were issued in December, 2007 as required by the bond resolution pertaining to the State's Turnpike System Revenue Bonds.

Fiscal Year 2007. The State's financial statements for the fiscal year ended June 30, 2007 and the report of the State's independent auditors with respect thereto are attached hereto as Exhibit A.

As noted in the report of the State's independent auditors, the financial statements of the NHRS, a Fiduciary Fund – Pension Trust Fund (see "STATE RETIREMENT SYSTEM") and the Pease Development Authority ("PDA") have not been presented in the State's fiscal year 2007 financial statements, as required by GAAP. Because of the omission of the NHRS financial statements, the independent auditor issued an adverse opinion with respect to the aggregate remaining fund information of the State and, due to the omission of the PDA financial statements, a qualified opinion with respect to the aggregate discretely presented component unit information.

The State's independent auditors did issue an unqualified opinion to the effect that the State's financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the State as of June 30, 2007 and the respective changes in financial position for the year ended June 30, 2007.

The management letter resulting from the 2007 audit is expected to be available by March 31, 2008. It is likely that the 2007 management letter will report material weaknesses continuing from 2006 caused by the lack of adequate financial reporting resources, accounting documentation, and succession planning.

KPMG LLP, the State's independent auditor, has not been engaged to perform and has not performed, since the date of its report referenced herein, any procedures on the financial statements addressed in that report. KPMG LLP has also not performed any procedures relating to this Information Statement.

ADDITIONAL INFORMATION

The references herein to the Constitution and Laws of the State of New Hampshire are brief summaries of certain provisions thereof. Such summaries do not purport to be complete and reference is made to the Constitution and such laws for full and complete statements of such provisions. Additional information concerning the State and certain of its departments and agencies, including periodic public reports relating to the financial position of the State and annual or biennial reports of such departments and agencies, may be obtained upon request from the office of the State Treasurer, Catherine A. Provencher, State House Annex, Concord, New Hampshire.

EXHIBIT A

STATE OF NEW HAMPSHIRE

AUDITED FINANCIAL STATEMENTS

FOR FISCAL YEAR 2007

(Attached Hereto as Exhibit A and Filed with Each Nationally Recognized Municipal Securities Information Repository)

KPMG LLP
99 High Street
Boston, MA 02110-2371

Telephone 617 988 1000
Fax 617 507 8321
Internet www.us.kpmg.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of New Hampshire as of and for the year ended June 30, 2007, which collectively comprise the State of New Hampshire's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of New Hampshire's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of any of the discretely presented component units: the University System of New Hampshire, the Business Finance Authority and the Community Development Finance Authority and we did not audit the financial statements of the Investment Trust Fund and Judicial Retirement Plan which represents 74.4% of the assets of the remaining aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to those amounts included for those entities, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State of New Hampshire's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

As discussed in note 1A, the financial statements of the New Hampshire Retirement System (System), a Fiduciary Fund – Pension Trust Fund and the Pease Development Authority (Authority), a discretely presented component unit, of the State of New Hampshire, have not been presented herein as required by U.S. generally accepted accounting principles.

In our opinion, because of the omission of the System discussed in the previous paragraph, the financial statements referred to above do not present fairly, in conformity with U.S. generally accepted accounting principles, the financial position of the aggregate remaining fund information of the State of New Hampshire as of June 30, 2007, or the changes in financial position thereof for the year then ended.

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

In addition, in our opinion, based on our audit and the reports of other auditors, except for the effects of not including the Authority as part of the aggregate discretely presented component units, as discussed in the second previous paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate discretely presented component units of the State of New Hampshire as of June 30, 2007, and the changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

Finally, in our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the State of New Hampshire as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2007, on our consideration of the State of New Hampshire's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 14 through 20, and the budget to actual - budgetary basis - schedules on pages 71 through 76 are not required parts of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of New Hampshire's basic financial statements. The introductory section, the other supplementary information and the statistical section as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the effects on the combining financial statements of the non-major component units of omitting the Authority, as explained in the third paragraph of this report, such information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections of this report have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

December 14, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the financial activities of the State of New Hampshire (the state) for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information included in our letter of transmittal, which can be found at the front of this report and with the state's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS –PRIMARY GOVERNMENT

Government-Wide Highlights:

Net Assets: The total assets of the state exceeded total liabilities at fiscal year ending June 30, 2007 by $3.0 billion. This amount is presented as "net assets" on the Statement of Net Assets for the Total Primary Government (condensed information can be seen in the MD&A section of this report). Of this amount, $499.5 million was reported as unrestricted net assets, $662.9 million was restricted net assets, and $1.8 billion was invested in capital assets. Unrestricted net assets represent the amount available to be used to meet the state's ongoing obligations to citizens and creditors.

Changes in Net Assets: The state's total net assets increased by $239.7 million, or 8.7%, in fiscal year 2007. Net assets of governmental activities increased by $228.2 million (10.6%), and net assets of the business-type activities showed an increase of $11.5 million (1.9%).

Long-Term Obligations: The state's total long-term obligations decreased by $11.3 million (1.1%) during the current fiscal year which represents the net difference between new issuances and payments of outstanding debt.

Fund Highlights:

Governmental Funds - Fund Balances: As of the close of fiscal year 2007, the state's governmental funds reported a combined ending fund balance of $420.0 million, a decrease of $8.8 million in comparison with the prior year. This change is inclusive of a $0.1 million inventory reserve increase. Included in the combined governmental fund balance is the activity of the state's General Fund. The General Fund ended the year with an unreserved, undesignated surplus of $61.7 million, and the Rainy Day balance was increased by $20.0 million per Chapter 263:110, Laws of 2007, bringing the balance up to $89.0 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Government-Wide Financial Statements

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

The **Statement of Net Assets**, beginning on page 22 presents all of the state's non-fiduciary assets and liabilities. The difference between assets and liabilities is reported as "net assets" instead of fund equity as shown on the Fund Statements. Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the state is improving or deteriorating.

The **Statement of Activities**, beginning on page 24, presents information showing how the state's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and licenses and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the state.

Both of the Government-Wide Financial Statements have separate sections for three different types of state activities. These three types of activities are:

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

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

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

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

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

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

Fund Financial Statements

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

Governmental Funds: Most of the basic services provided by the state are financed through governmental funds. Unlike the Government-Wide Financial Statements, the Governmental Fund Financial Statements report using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the state's programs. The basic Governmental Fund Financial Statements can be found on pages 28-31.

Because the focus of governmental funds is narrower than that of the Government-Wide Financial Statements, it is useful to compare the information presented here with similar information presented in the Government-Wide Financial Statements. Reconciliations are provided between the Governmental Fund Statements and the Government-Wide Statements, which can be found on pages 29 and 31.

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

Individual fund data for each of the state's non-major governmental funds (Fish and Game Fund, Capital Fund and Permanent Funds) are provided in the combining statements found on pages 82 and 83.

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

Like the Government-Wide Financial Statements, Proprietary Fund Financial Statements use the accrual basis of accounting. Therefore there is no reconciliation needed between the Government-Wide Financial Statements for business-type activities and the Proprietary Fund Financial Statements. The Internal Service Fund is reported within governmental activities on the Government-Wide Financial Statements. The basic proprietary funds financial statements can be found on pages 34-36.

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

The state's fiduciary funds on pages 41-42 include the:

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

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

Major Component Unit

The state has only one major discretely presented component unit - the University System of New Hampshire and 3 non-major discretely presented component units. This separation is determined by the relative size of the individual entities' assets, liabilities, revenues and expenses in relation to the combined total of all component units. The combining financial statements for the component units can be found on pages 38 and 39.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements begin on page 44.

Required Supplementary Information

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

Other Supplementary Information

Other supplementary information includes combining financial statements and schedules for governmental, internal service and fiduciary funds and non-major component units.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The state's combined net assets (government and business-type activities) totaled $3.0 billion at the end of 2007, compared to $2.8 billion at the end of the previous year.

Investment in Capital Assets: The largest portion of the state's net assets (61%) reflects its investment in capital assets such as land, buildings, equipment, and infrastructure (roads and bridges), less any related outstanding debt used to acquire those assets. The state's investment in capital assets increased $139.1 million from prior year. This increase was the result of a net increase in capital assets of $135.4 million during the year combined with a reduction in capital related debt of $3.7 million. Although the state's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves generally cannot be used to liquidate these liabilities.

Restricted Net Assets: An additional portion of the state's net assets (22%) represents resources that are subject to external restrictions on how they may be used. Restricted net assets increased $26.2 million from prior year due largely to an increase in revenue stabilization (Rainy Day) reserves during the year.

Unrestricted Net Assets: The state's unrestricted net assets, totaling $499.5 million, increased $74.5 million from the previous year, as a result of strong performance from business taxes and interest and dividends tax offset by transfers 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 primary government as a whole, as well as for its separate governmental and business-type activities.

State of New Hampshire's Net Assets as of June 30, 2007 and 2006

(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Current assets	$ 1,108,989	$972,661	$ 395,743	$ 401,463	$ 1,504,732	$1,374,124
Capital assets	2,221,866	2,090,654	568,897	564,806	2,790,763	2,655,460
Other assets	292,252	291,394	6,996	17,158	299,248	308,552
Total assets	3,623,107	$3,354,709	971,636	983,427	4,594,743	$4,338,136
Noncurrent liabilities	716,303	710,845	265,355	282,088	981,658	992,933
Current liabilities	525,264	490,530	79,328	85,890	604,592	576,420
Total liabilities	1,241,567	1,201,375	344,683	367,978	1,586,250	1,569,353
Net assets:						
Invested in capital assets, net of related debt	1,547,866	1,430,849	298,150	276,083	1,846,016	1,706,932
Restricted	355,883	311,460	307,056	325,307	662,939	636,767
Unrestricted	477,791	411,025	21,747	14,059	499,538	425,084
Total net assets	$ 2,381,540	2,153,334	$ 626,953	$ 615,449	$ 3,008,493	$2,768,783

Changes in Net Assets

The state's net assets increased by $239.7 million, or 8.7%, during the current fiscal year. Total revenues increased by $139.5 million (2.7%) as compared to increases in expenses of $88.3 million (1.8%).

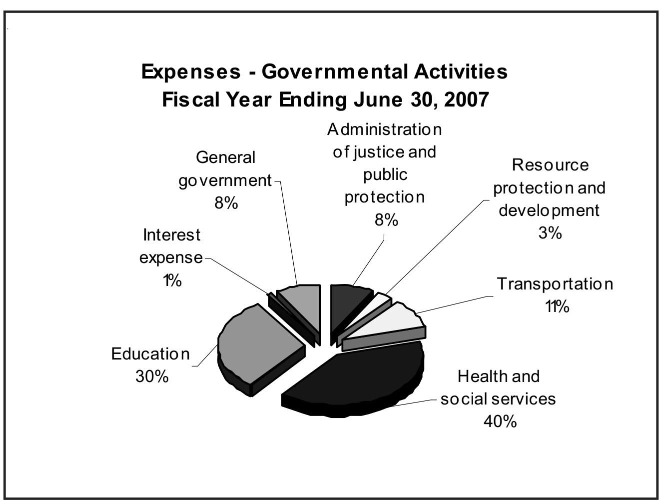
More than half of the state's revenue (59.2%) is from program revenue, consisting of charges for goods and services, and federal and local grants. Revenues not specifically targeted for a specific program are known as general revenues, which are primarily from taxes. The largest revenue increases were from a combination of growth in several taxes including business, interest and dividends and escheatments.

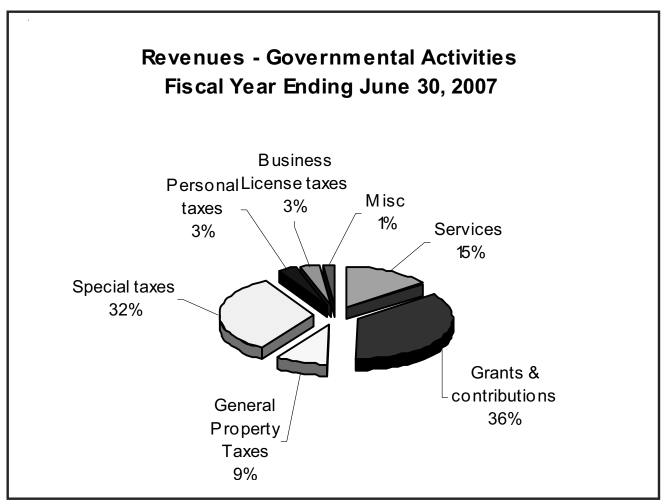
The state's expenses cover a range of services. The largest expenses were for Health and Social Services and Education, which accounted for 34.2% and 26.2% of total expenses, respectively. As compared to the prior year, Health and Social Services saw an increase of 2.0% due to additional federal Medicaid funding. Education expenses saw growth of 1.6% due to increased Education Grants.

In addition, Resource Protection and Development grew by 5.5% due to increases in water pollution control programs.

State of New Hampshire's Changes in Net Assets
For Fiscal Years Ending June 30, 2007 and 2006
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
Revenues						
Program revenues:						
Charges for services	$ 650,410	$ 664,957	$ 891,424	$ 870,461	$ 1,541,834	$ 1,535,418
Operating grants & contributions	1,367,207	1,340,495			1,367,207	1,340,495
Capital grants & contributions	184,409	195,142	10,422	16,757	194,831	211,899
General revenues:						
General Property Taxes	384,708	384,873			384,708	384,873
Special taxes	1,383,540	1,282,467			1,383,540	1,282,467
Personal taxes	143,610	150,756			143,610	150,756
Business License taxes	151,472	149,502			151,472	149,502
Interest	35,631	11,895			35,631	11,895
Miscellaneous	43,695	39,759			43,695	39,759
Total revenues	4,344,682	4,219,846	901,846	887,218	5,246,528	5,107,064
Expenses						
General government	358,060	353,814			358,060	353,814
Administration of justice and public protection	341,501	345,779			341,501	345,779
Resource protection and development	139,096	131,812			139,096	131,812
Transportation	411,475	416,518			411,475	416,518
Health and social services	1,714,445	1,681,182			1,714,445	1,681,182
Education	1,310,261	1,289,684			1,310,261	1,289,684
Interest Expense	28,180	27,991			28,180	27,991
Turnpike System			72,136	75,580	72,136	75,580
Liquor Commission			349,084	330,701	349,084	330,701
Lottery Commission			186,907	183,871	186,907	183,871
Unemployment Compensation			95,673	81,582	95,673	81,582
Total expenses	4,303,018	4,246,780	703,800	671,734	5,006,818	4,918,514
Increase (decrease) in net assets before transfers	41,664	(26,934)	198,046	215,484	239,710	188,550
Transfers & Other Items	186,542	185,429	(186,542)	(185,429)		
Increase(decrease) in net assets	228,206	158,495	11,504	30,055	239,710	188,550
Net assets, beginning of year	2,153,334	1,994,839	615,449	585,394	2,768,783	2,580,233
Net assets, end of year	$ 2,381,540	$ 2,153,334	$ 626,953	$ 615,449	$ 3,008,493	$ 2,768,783



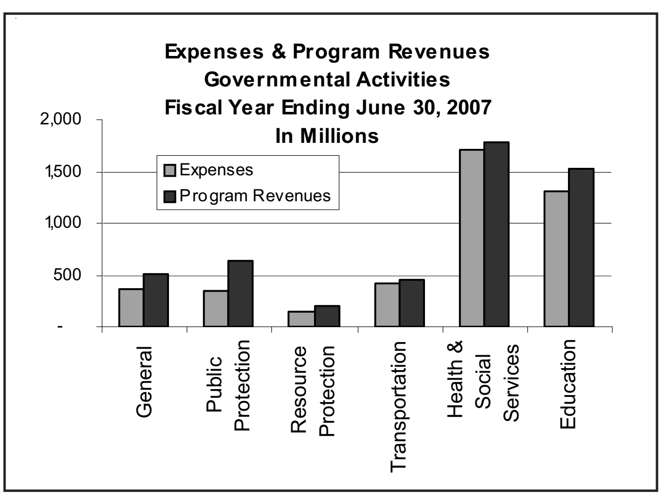


State of New Hampshire
Analysis of Changes in Revenues and Expenses
For Fiscal Year Ending June 30, 2007 Compared to 2006
($ In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	$Change	% Change	$Change	% Change	$Change	% Change
Revenues						
Program revenues:						
Charges for services	(14.6)	-2.2%	21.0	2.4%	6.4	0.4%
Operating grants & contributions	26.7	2.0%			26.7	2.0%
Capital grants & contributions	(10.7)	-5.5%	(6.4)	-38.4%	(17.1)	-8.1%
General revenues:						
General Property Taxes	(0.2)	0.0%			(0.2)	0.0%
Special taxes	101.1	7.9%			101.1	7.9%
Personal taxes	(7.1)	-4.7%			(7.1)	-4.7%
Business License taxes	2.0	1.3%			2.0	1.3%
Interest	23.7	199.5%			23.7	199.5%
Miscellaneous	3.9	9.9%			3.9	9.9%
Total revenues	124.8	3.0%	14.6	1.6%	139.4	2.7%
Expenses						
General government	4.2	1.2%			4.2	1.2%
Administration of justice and public protection	(4.3)	-1.2%			(4.3)	-1.2%
Resource protection and development	7.3	5.5%			7.3	5.5%
Transportation	(5.0)	-1.2%			(5.0)	-1.2%
Health and social services	33.3	2.0%			33.3	2.0%
Education	20.6	1.6%			20.6	1.6%
Interest Expense	0.2	0.7%			0.2	0.7%
Turnpike System			(3.4)	-4.6%	(3.4)	-4.6%
Liquor Commission			18.4	5.6%	18.4	5.6%
Lottery Commission			3.0	1.7%	3.0	1.7%
Unemployment Compensation			14.1	17.3%	14.1	17.3%
Total expenses	56.3	1.3%	32.1	4.8%	88.4	1.8%

Governmental Activities
Governmental activities increased the state's net assets by $41.7 million, before transfer activity. Revenues increased by $124.8 million or 3.0% from prior year to total $4.3 billion. The growth was sufficient to offset expenses which grew $56.2 million or 1.3%.

A comparison of the cost of services by function for the state's governmental activities with the related program revenues is shown in the chart below. Note that the largest expenses for the state, Health and Social Services and Education, also represent those activities that have the largest gap between expense and program revenues. Since these expenses are least recovered from program revenues, the differences are made up from general revenues, which primarily represent state's taxes, such as the statewide property taxes, business profits tax, business enterprise tax, real estate transfer, tobacco, meals and rooms, interest and dividends, etc. Health and Social Services increased by 2.0% from the previous year, while Education expenses grew approximately 1.6% due to higher education grant funding.



Business-Type Activities
Charges for goods and services for the state's combined business type activities were more than adequate to cover the operating expenses and resulted in net assets increasing by $198.0 million prior to transfers. Business-Type activities include the operations from the Liquor Commission, Lottery Commission, Unemployment Compensation Fund and Turnpike Fund.

Sales growth from the operations of the Liquor Commission resulted in net proceeds of $106.0 million, a 2.5% increase from prior year, that were transferred to the General Fund to fund the general operations of the state. Increased operating expenses and relatively flat sales during the year contributed to a 1.8% decrease in net proceeds of $80.5 million from the Lottery Commission which were transferred to the Education Fund.

Turnpike System net assets increased by $27.7 million or 8.6% as a result of growth in toll revenues primarily due to the implementation of the E-ZPass electronic toll collection system. The operations of Unemployment Compensation, resulted in a decrease in net assets of $15.9 million as a result of higher unemployment benefit payments this fiscal year.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

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

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

General Fund
The general fund is the chief operating fund of the state. The total fund equity was $355.9 million. The general fund ended the year with a unreserved, undesignated surplus of $61.7 million. The surplus was largely revenue driven due to growth in business and interest and dividends taxes and escheatments. The surplus was also net of $20.0 million which was transferred to the Rainy Day Account, bringing the balance in the account to $89.0 million.

Education Fund
Strength in business taxes contributed to a $18.3 million or 2.4% increase in revenues. With expenditures remaining relatively flat as compared to prior year, the Education fund ended the year with an unreserved, undesignated surplus of $40.6 million. In accordance with Chapter 263:111, Laws of 2007, this surplus was transferred to the general fund at June 30, 2007.

Proprietary Funds
The state's proprietary fund statements provide the same type of information found in the Government-Wide Financial Statements, but in more detail. Like the Government-Wide Financial Statements, Proprietary Fund Financial Statements use the accrual basis of accounting. Therefore there is no reconciliation needed between the Government-Wide Financial Statements for business-type activities and the Proprietary Fund Financial Statements.

BUDGETARY HIGHLIGHTS

During the fiscal year, the original budget was amended by various supplemental appropriations and appropriation revisions. Budget to Actual Schedules for the major governmental funds are in the Required Supplementary Information section beginning on page 71.

General Fund:
The increase from the original budget of $3,736 million to the final budget of $3,938 million is $202 million and represents additional appropriations issued after July 1, 2006 and are composed of the following (*in millions*):

• Dept. of Safety	
Disaster Relief Assistance	$ 49
Homeland Security Grants	5
Criminal Justice Grants	5
• HHS Medicaid Enhancement	30
• HHS Provider Payments	23
• HHS Children, Youth and Family Assistance	10
• HHS Emergency Preparedness	5
• Workforce Opportunity Council	13
• Office of Energy & Planning Fuel Assistance	13
• Dept. of Justice	7
• Education Grants	7
• Supplemental Appropriations for Energy Expense Shortfall	4
• Various	31
Total	$ 202

The largest negative variances from the final budget to actual amounts were for grant revenues. Grants from Federal, Private and Local Sources had a combined unfavorable variance of $422 million. The unfavorable variances in grant revenues are due to timing differences that extend beyond the state's fiscal year and therefore revenue is not drawn down until expenditures are incurred.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets
The state's investment in capital assets for its governmental and business-type activities as of June 30, 2007, amounted to $5.2 billion, with accumulated depreciation amounts of $2.4 billion, leaving a net book value of $2.8 billion, an increase of $146.3 million from prior year. The investment in capital assets includes equipment, real property, infrastructure, computer software, and construction in progress. Infrastructure assets are items that are normally immovable, of value only to the state and include only roads and bridges. The net book value of the state's infrastructure for its roads and bridges approximates $1.5 billion, which increased $63.3 million from the previous year as current year additions of $114.4 million exceeded depreciation of $51.1 million.

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

Debt Administration
The state may issue general obligation bonds, revenue bonds, and notes in anticipation of such bonds authorized by the Legislature and Governor and Council. The state may also directly guarantee certain authority or political subdivision obligations. At the end of the current fiscal year, the state had total bonded debt outstanding of $984.3 million. Of this amount, $715.3 million are general obligation bonds, which are backed by the full faith and credit of the state. The remainder of the state's bonded debt is Turnpike revenue bonds, which are secured by the specified revenue sources within the Turnpike System.

On November 23, 2005 the state issued $39.4 million of turnpike system revenue refunding bonds. The interest rate on these new bonds is 5%. The closing date for this bond issue was August 24, 2006.

On December 13, 2006, the state issued $75 million of general obligation capital improvement bonds. The interest rates on these serial bonds range from 3.5% to 5.0%, and the maturity dates range from 2008 through 2026.

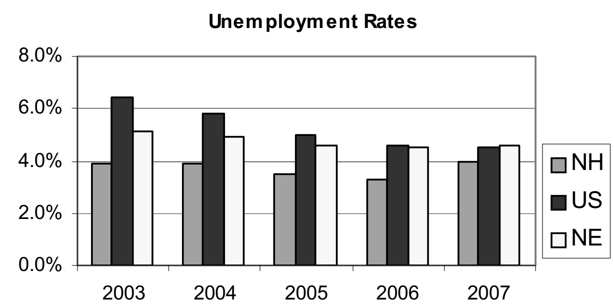
On December 15, 2006 the state issued $121.9 million of general obligation refunding bonds. The interest rate on these serial bonds range from 4.0% to 5.0%, and the maturity dates range from 2009 through 2020.

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

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

ECONOMIC CONDITIONS AND OUTLOOK

Favorable tax climate for both business and the individual coupled with high quality of life and standard of living has made New Hampshire a competitive state in a slow growing region. Although economic indicators reflect a slowing economy, the state is forecasted to lead the region in several areas including gross state product and employment. The state's unemployment rate of 4.0% continues to be below the New England and national averages of 4.6% and 4.5%, respectively.



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

New Hampshire's fiscal 2007 unrestricted revenue grew by 5.0% from the previous year as growth in business taxes (8.7%) and interest and dividends tax (34.3%) reflect the economic strength and improved investment environment during the year. However, these increases were offset by real estate transfer taxes and tobacco taxes, which declined 13.4% and 4.8%, respectively. In addition, meals and rooms taxes performed 3.6% below estimates. These decreases reflect the ongoing housing downturn and may be signaling that housing and higher energy costs are beginning to effect consumer discretionary spending.

Going forward, the state will be monitoring revenue collections closely looking for signs that the ongoing housing credit crisis and higher energy prices are beginning to affect other sectors in the overall state economy. The state will continue manage spending with budget reductions and program savings initiatives where needed. Fiscal 2007 net appropriations grew by only 1.7% form the previous year.

REQUESTS FOR INFORMATION

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

Basic Financial Statements

STATE OF NEW HAMPSHIRE
STATEMENT OF NET ASSETS
JUNE 30, 2007
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	**Business-Type Activities**	**Total**	**Component Units**
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 512,969	$ 297,006	$ 809,975	$ 206,681
Cash and Cash Equivalents-Restricted		40,376	40,376	
Receivables (Net of Allowances for Uncollectibles)	588,561	24,884	613,445	33,886
Internal Balances	(8,421)	8,421		
Due from Component Units	2,537		2,537	
Inventories	13,343	24,951	38,294	
Other Current Assets		105	105	5,344
Total Current Assets	1,108,989	395,743	1,504,732	245,911
Noncurrent Assets:				
Receivables (Net of Allowances for Uncollectibles)	235,417		235,417	31,518
Due from Component Units	26,679		26,679	
Investments	30,156		30,156	387,856
Bond Issue Costs		3,332	3,332	
Other Assets		3,664	3,664	2,976
Capital Assets:				
Land & Land Improvements	546,412	113,644	660,056	10,738
Buildings & Building Improvements	661,832	24,746	686,578	969,691
Equipment & Computer Software	219,033	42,880	261,913	122,082
Construction in Progress	234,094	58,984	293,078	163,527
Infrastructure	2,744,520	558,936	3,303,456	
Less: Allowance for Depreciation	(2,184,025)	(230,293)	(2,414,318)	(479,200)
Net Capital Assets	2,221,866	568,897	2,790,763	786,838
Total Noncurrent Assets	2,514,118	575,893	3,090,011	1,209,188
Total Assets	3,623,107	971,636	4,594,743	1,455,099
LIABILITIES				
Current Liabilities:				
Accounts Payable	274,955	41,057	316,012	50,455
Accrued Payroll	45,839	2,427	48,266	82
Due to Primary Government				447
Deferred Revenue	64,151	8,808	72,959	37,966
Unclaimed Property & Prizes	17,424	1,346	18,770	
General Obligation Bonds Payable	74,997	1,509	76,506	
Claims & Compensated Absences Payable	42,472	1,744	44,216	10,880
Other Liabilities	5,426	6,028	11,454	5,084
Other Liabilities-Restricted		3,954	3,954	335
Revenue Bonds Payable-Restricted		12,455	12,455	
Revenue Bonds Payable				6,717
Total Current Liabilities	525,264	79,328	604,592	111,966
Noncurrent Liabilities:				
General Obligation Bonds Payable, Net	635,878	2,868	638,746	
Revenue Bonds Payable, Net		256,629	256,629	410,954
Claims & Compensated Absences Payable	76,284	5,371	81,655	73,969
Due to Primary Government				926
Other Noncurrent Liabilities	4,141	487	4,628	45,869
Total Noncurrent Liabilities	716,303	265,355	981,658	531,718
Total Liabilities	$ 1,241,567	$ 344,683	$ 1,586,250	$ 643,684

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

STATE OF NEW HAMPSHIRE
STATEMENT OF NET ASSETS
JUNE 30, 2007
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
NET ASSETS				
Invested in Capital Assets, net of related debt	$ 1,547,866	$ 298,150	$ 1,846,016	$ 415,568
Restricted for Debt Repayments		40,376	40,376	
Restricted for Unemployment Benefits		263,016	263,016	
Restricted for Permanent Funds-Non-Expendable	15,839		15,839	
Restricted for Prize Awards - MUSL & Tri-State		3,664	3,664	
Restricted for Environmental Loans	250,998		250,998	
Restricted for Revenue Stabilization	89,046		89,046	
Restricted Component Unit Net Assets				283,851
Unrestricted Net Assets	477,791	21,747	499,538	111,996
Total Net Assets	$ 2,381,540	$ 626,953	$ 3,008,493	$ 811,415

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

STATE OF NEW HAMPSHIRE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Expressed in Thousands)

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
PRIMARY GOVERNMENT				
Governmental Activities:				
General Government	$ 358,060	$ 156,973	$ 39,253	
Administration of Justice & Public Protection	341,501	297,505	93,736	$ 127
Resource Protection and Development	139,096	64,304	43,017	73
Transportation	411,475	14,564	23,027	179,610
Health and Social Services	1,714,445	74,297	995,000	
Education	1,310,261	42,767	173,174	4,599
Interest Expense	28,180			
Total Governmental Activities	4,303,018	650,410	1,367,207	184,409
Business-type Activities:				
Turnpike System	72,136	89,408		10,422
Liquor Commission	349,084	454,917		
Lottery Commission	186,907	267,322		
Unemployment Compensation	95,673	79,777		
Total Business-type Activities	703,800	891,424		10,422
Total Primary Government	$ 5,006,818	$ 1,541,834	$ 1,367,207	$ 194,831
COMPONENT UNITS				
University System of New Hampshire	$ 614,558	$ 391,577	$ 174,862	$ 15,630
Non-Major Component Units	16,624	4,226	12,389	
Total Component Units	$ 631,182	$ 395,803	$ 187,251	$ 15,630

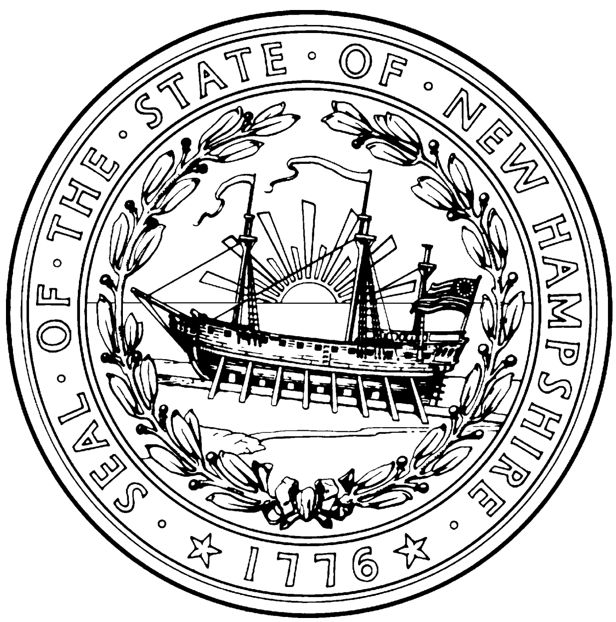
General Property Taxes
Special Taxes
Personal Taxes
Business License Taxes
Interest & Investment Income
Miscellaneous
Payments from State of New Hampshire
Transfers - Internal Activities
Total General Revenues and Transfers
Changes in Net Assets
Net Assets - Beginning
Net Assets - Ending

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

Net (Expenses) Revenues and Changes in Net Assets

Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
$ (161,834)		$ (161,834)	
49,867		49,867	
(31,702)		(31,702)	
(194,274)		(194,274)	
(645,148)		(645,148)	
(1,089,721)		(1,089,721)	
(28,180)		(28,180)	
(2,100,992)		(2,100,992)	
	$ 27,694	27,694	
	105,833	105,833	
	80,415	80,415	
	(15,896)	(15,896)	
	198,046	198,046	
$ (2,100,992)	$ 198,046	$ (1,902,946)	
			$ (32,489)
			(9)
			$ (32,498)
384,708		384,708	
1,383,540		1,383,540	
143,610		143,610	
151,472		151,472	
35,631		35,631	28,045
43,695		43,695	
			100,275
186,542	(186,542)		
2,329,198	(186,542)	2,142,656	128,320
228,206	11,504	239,710	95,822
2,153,334	615,449	2,768,783	715,593
$ 2,381,540	$ 626,953	$ 3,008,493	$ 811,415

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


SEAL OF THE STATE OF NEW HAMPSHIRE
1776

Fund Financial Statements

Governmental Funds

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

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

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

STATE OF NEW HAMPSHIRE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007
(Expressed in Thousands)

	General	Highway	Education	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	$ 369,203	$ 51,615	$ 22,007	$ 15,340	$ 458,165
Investments	20,439			9,717	30,156
Receivables (Net of Allowances for Uncollectibles)	499,407	36,799	32,070	1,903	570,179
Due from Other Funds	55,836	534	1,508		57,878
Due from Component Units	29,216				29,216
Inventories	5,680	7,011		652	13,343
Loans and Notes Receivables	252,585			30	252,615
Total Assets	$ 1,232,366	$ 95,959	$ 55,585	$ 27,642	$ 1,411,552
LIABILITIES					
Accounts Payable	$ 236,979	$ 26,053	$ 1,600	$ 10,207	$ 274,839
Accrued Payroll	40,201	4,813		824	45,838
Due to Other Funds	10,463		40,581	15,255	66,299
Deferred Revenue	571,326	4,088	11,400	323	587,137
Unclaimed Property and Prizes	17,424				17,424
Other Liabilities	61				61
Total Liabilities	876,454	34,954	53,581	26,609	991,598
FUND BALANCES					
Reserved for Encumbrances	140,665	48,062		58,904	247,631
Reserved for Inventories	5,680	7,011		652	13,343
Reserved for Unexpended Appropriations	58,808	23,813	2,004	65,979	150,604
Reserved for Revenue Stabilization	89,046				89,046
Reserved for Permanent Trust				15,839	15,839
Unreserved, Undesignated (Note 14)	61,713	(17,881)			43,832
Unreserved, Fish & Game Fund				2,496	2,496
Unreserved (Deficit), Capital Project Fund				(142,837)	(142,837)
Total Fund Balances	355,912	61,005	2,004	1,033	419,954
Total Liabilities and Fund Balances	$ 1,232,366	$ 95,959	$ 55,585	$ 27,642	$ 1,411,552

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

STATE OF NEW HAMPSHIRE
RECONCILIATION OF THE BALANCE SHEET-
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007
(Expressed in Thousands)

Total fund balances for governmental funds		$ 419,954
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		2,221,866
Certain tax revenues and loans are earned but not available and therefore are deferred in the funds:		
Business Taxes, I&D, Meals & Rooms, and Utility Property	189,238	
Medicaid Hospital Reimbursements	48,871	
Highway Fund Federal and Municipal Billings	1,681	
Indigent Representation Advances	2,982	
SRF Loans	250,998	
Component Unit Loans	29,216	522,986
Internal service funds are used by management to charge the costs of certain activities, such as risk management and health related fringe benefits, to individual funds. The assets and liabilities of the internal service fund is included in governmental activities in the Statement of Net Assets.		36,279
Certain long term liabilities are not payable by current available resources and therefore are not reported in the funds:		
Compensated Absences, Workers Compensation and Health Claims	(99,167)	
Capital Lease Obligations	(5,825)	
Bond Payables	(710,875)	
Interest Payable	(3,678)	(819,545)
Net Assets of Governmental Activities		$ 2,381,540

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

STATE OF NEW HAMPSHIRE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Expressed in Thousands)

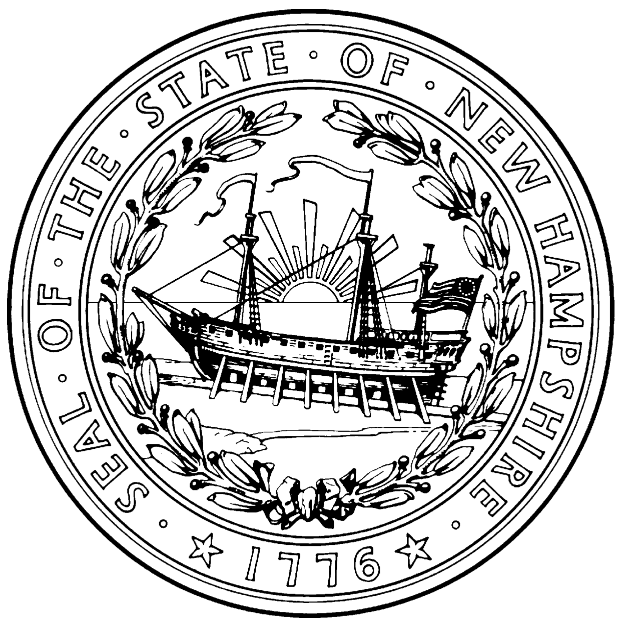
	General	Highway	Education	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
General Property Taxes	$ 126		$ 385,182		$ 385,308
Special Taxes	1,017,045		284,844		1,301,889
Personal Taxes	65,327		78,283		143,610
Business License Taxes	19,844	$ 151,472			171,316
Non-Business License Taxes	98,814	73,764		$ 8,593	181,171
Fees	122,229	19,653		1,659	143,541
Fines, Penalties and Interest	26,540	670		211	27,421
Grants from Federal Government	1,195,117	158,648		55,486	1,409,251
Grants from Private and Local Sources	116,193	13,684		420	130,297
Rents and Leases	1,339	57			1,396
Interest, Premiums and Discounts	41,955	3,022		1,309	46,286
Sale of Commodities	7,955	193		277	8,425
Sale of Service	89,466	3,585		3	93,054
Assessments	51,017				51,017
Grants from Other Agencies	4,589	2,020		4,278	10,887
Miscellaneous	73,867	8,344	40,781	1,710	124,702
Total Revenues	2,931,423	435,112	789,090	73,946	4,229,571
EXPENDITURES					
General Government	311,262		3,335		314,597
Administration of Justice and Public Protection	329,676	940			330,616
Resource Protection and Development	148,440			21,809	170,249
Transportation	3,102	286,991			290,093
Health and Social Services	1,713,372			232	1,713,604
Education	434,856		838,328		1,273,184
Debt Service	87,759	7,216		222	95,197
Capital Outlay	35,333	170,650		108,566	314,549
Total Expenditures	3,063,800	465,797	841,663	130,829	4,502,089
Excess (Deficiency) of Revenues Over (Under) Expenditures	(132,377)	(30,685)	(52,573)	(56,883)	(272,518)
OTHER FINANCING SOURCES (USES)					
Transfers In	42,519			854	43,373
Transfers in from Enterprise Funds	105,994		80,548		186,542
Transfers Out		(1,709)	(40,581)	(1,083)	(43,373)
Capital Lease Acquisition	533	277			810
Payments to Refunding Bond Escrow Agent				(127,787)	(127,787)
G.O. Bond Premiums				7,386	7,386
G.O. Bond Issuance				196,885	196,885
Total Other Financing Sources (Uses)	149,046	(1,432)	39,967	76,255	263,836
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	16,669	(32,117)	(12,606)	19,372	(8,682)
Fund Balances - July 1	339,308	93,059	14,610	(18,257)	428,720
Change in Reserve for Inventory	(65)	63		(82)	(84)
Fund Balances - June 30	$ 355,912	$ 61,005	$ 2,004	$ 1,033	$ 419,954

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

STATE OF NEW HAMPSHIRE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Expressed in Thousands)

Net change in fund balance - total governmental funds		$ (8,766)
Revenue recognized on the Statement of Activities that do not provide current financial resources on the fund statements resulted in a net decrease from prior year		56,131
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Land & Land Improvements	51,634	
Buildings & Building Improvements	54,866	
Equipment & Computer Software	32,150	
Construction in Progress	(28,458)	
Infrastructure	91,604	
Accumulated Depreciation, net of Disposals	(70,584)	131,212
Internal service funds are used by management to charge the costs of certain activities, such as risk management and health related fringe benefits, to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.		14,873
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which proceeds exceeded repayments.		
Bond Proceeds & Premiums Received	(199,049)	
Repayment of Bond Principal & Interest	194,747	
Accretion of Bonds Payable	(5,320)	
Accrued Interest & Amortization	1,003	(8,619)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. Elimination of the following expenses resulted in a net increase from prior year:		
Changes in Compensated Absences, Workers Compensation and Health Claims	1,523	
Change in Capital Lease Obligation	260	
SRF loan program	41,592	43,375
Change in net assets of governmental activities		$ 228,206

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


SEAL OF THE STATE OF NEW HAMPSHIRE
1776

Proprietary Fund Financial Statements

Enterprise Funds:

Turnpike System: *The state constructs, maintains, and operates transportation toll facilities. The Turnpike System, presently consists of 93 miles of limited access highway, 36 miles of which are part of the U.S. Interstate Highway System. The Turnpike System comprises a total of approximately 631 total lane miles. The Turnpike Sysytem primarily serves the major cities located in the central and eastern sections of southern New Hampshire. The Legislature has established a 10-year state highway construction and reconstruction plan and authorized major expansion and improvement projects as part of a Capital Improvement Program.*

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

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

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

Internal Service Fund:

The employee benefit risk management fund reports the health related fringe benefit services for the state. The fund was created to account for the state's self-insurance program and to pool all resources to pay for the cost associated with providing these benefits to active employees and retirees.

STATE OF NEW HAMPSHIRE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007
(Expressed in Thousands)

	Business-Type Activities - Enterprise Funds					Governmental Activities
	Turnpike System	Liquor Commission	Lottery Commission	Unemployment Compensation	Total	Internal Service Fund
ASSETS						
Current Assets:						
Cash and Cash Equivalents	$ 34,940	$ 1,413	$ 1,561	$ 259,092	$ 297,006	$ 54,802
Cash and Cash Equivalents-Restricted	40,376				40,376	
Receivables (Net of Allowances for Uncollectibles)	3,048	9,220	2,863	9,753	24,884	1,182
Due from Other Funds		10,463			10,463	
Inventories	1,727	22,288	936		24,951	
Other Current Assets			105		105	
Total Current Assets	80,091	43,384	5,465	268,845	397,785	55,984
Noncurrent Assets:						
Investments-Restricted						
Bond Issue Costs	3,332				3,332	
Capital Assets:						
Land & Land Improvements	110,412	3,232			113,644	
Buildings & Building Improvements	4,828	19,918			24,746	
Equipment & Computer Software	33,468	8,969	443		42,880	
Construction in Progress	58,984				58,984	
Infrastructure	558,936				558,936	
Less: Allowance for Depreciation & Amortization	(210,976)	(19,109)	(208)		(230,293)	
Net Capital Assets	555,652	13,010	235		568,897	
Other Assets			3,664		3,664	
Total Noncurrent Assets	558,984	13,010	3,899		575,893	
Total Assets	639,075	56,394	9,364	268,845	973,678	55,984
LIABILITIES						
Current Liabilities:						
Accounts Payable	3,128	36,638	1,291		41,057	116
Accrued Payroll	694	1,577	156		2,427	
Due to Other Funds	534		1,508		2,042	
Deferred Revenue	5,961	1,842	1,005		8,808	
Unclaimed Prizes			1,346		1,346	
General Obligation Bonds Payable	1,509				1,509	
Revenue Bonds Payable-Restricted	12,455				12,455	
Accrued Interest Payable-Restricted	3,954				3,954	
Claims & Compensated Absences Payable	708	932	104		1,744	19,589
Other Liabilities	68	131		5,829	6,028	
Total Current Liabilities	29,011	41,120	5,410	5,829	81,370	19,705
Noncurrent Liabilities:						
General Obligation Bonds Payable	2,868				2,868	
Revenue Bonds Payable	256,629				256,629	
Claims & Compensated Absences Payable	2,673	2,395	303		5,371	
Other Noncurrent Liabilities		487			487	
Total Noncurrent Liabilities	262,170	2,882	303		265,355	
Total Liabilities	291,181	44,002	5,713	5,829	346,725	19,705
NET ASSETS						
Invested in Capital Assets, net of related debt	285,523	12,392	235		298,150	
Restricted for Debt Repayments	40,376				40,376	
Restricted for Prize Awards - MUSL & Tri-State			3,664		3,664	
Restricted for Unemployment Benefits				263,016	263,016	
Unrestricted Net Assets (Deficit)	21,995		(248)		21,747	36,279
Total Net Assets	$ 347,894	$ 12,392	$ 3,651	$ 263,016	$ 626,953	$ 36,279

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

STATE OF NEW HAMPSHIRE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Expressed in Thousands)

	Business-Type Activities - Enterprise Funds					Governmental Activities
	Turnpike System	Liquor Commission	Lottery Commission	Unemployment Compensation	Total	Internal Service Fund
OPERATING REVENUES						
Charges for Sales and Services		$ 436,135	$ 266,007	$ 67,364	$ 769,506	$ 230,258
Toll Revenue Pledged for						
Repaying Revenue Bonds	$ 85,718				85,718	
Total Operating Revenue	85,718	436,135	266,007	67,364	855,224	230,258
OPERATING EXPENSES						
Cost of Sales and Services		316,888	23,086		339,974	
Lottery Prize Awards			156,041		156,041	
Unemployment Insurance Benefits				95,673	95,673	
Insurance Claims						206,928
Administration	44,710	31,299	7,735		83,744	8,457
Depreciation	13,719	897	45		14,661	
Total Operating Expenses	58,429	349,084	186,907	95,673	690,093	215,385
Operating Income (Loss)	27,289	87,051	79,100	(28,309)	165,131	14,873
NONOPERATING REVENUES (EXPENSES)						
Licenses		3,697			3,697	
Beer Taxes		12,520			12,520	
Investment Income	3,283		1,315	12,413	17,011	
Miscellaneous	407	2,565			2,972	
Interest on Bonds	(13,473)				(13,473)	
Amortization of Bond Issuance Costs	(234)				(234)	
Total Nonoperating Revenues (Expenses)	(10,017)	18,782	1,315	12,413	22,493	
Income Before Grant Contributions	17,272	105,833	80,415	(15,896)	187,624	14,873
Grant Contributions	10,422				10,422	
Income Before Operating Transfers	27,694	105,833	80,415	(15,896)	198,046	14,873
Transfers Out to Governmental Funds		(105,994)	(80,548)		(186,542)	
Change in Net Assets	27,694	(161)	(133)	(15,896)	11,504	14,873
Net Assets - July 1	320,200	12,553	3,784	278,912	615,449	21,406
Net Assets - June 30	$ 347,894	$ 12,392	$ 3,651	$ 263,016	$ 626,953	$ 36,279

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

STATE OF NEW HAMPSHIRE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Expressed in Thousands)

	Business-Type Activities - Enterprise Funds					Governmental Activities
	Turnpike System	Liquor Commission	Lottery Commission	Unemployment Compensation	Total	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from federal and local agencies				$ 2,606	$ 2,606	
Receipts from customers	$ 85,397	$ 434,350	$ 166,304	64,620	750,671	$ 21,933
Receipts from interfund charges						210,125
Payments to employees	(11,085)	(18,140)	(2,162)		(31,387)	
Payments to suppliers	(29,469)	(333,533)	(5,573)		(368,575)	(8,359)
Payments to prize winners			(78,661)		(78,661)	
Payments for Insurance Claims				(90,828)	(90,828)	(206,901)
Payments for Interfund Services	(3,685)	(3,866)	(991)		(8,542)	
Net Cash Provided by (Used In) Operating Activities	41,158	78,811	78,917	(23,602)	175,284	16,798
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers to Other Funds		(97,858)	(79,904)		(177,762)	
Proceeds from Collection of Licenses and Beer Tax		16,217			16,217	
Net Cash Used for Noncapital and Related Financing Activities		(81,641)	(79,904)		(161,545)	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Acquisition, Disposal and Construction of Capital Assets	(18,454)	(778)	(69)		(19,301)	
Grant Contributions	10,422				10,422	
Interest Paid on Revenue & General Obligation Bonds	(13,882)				(13,882)	
Principal Paid on Bonds	(17,995)				(17,995)	
Contributions from Other Funds	214	778			992	
Net Cash (Used) for Capital and Related Financing Activities	(39,695)		(69)		(39,764)	
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from Maturities of Investments	9,992				9,992	
Interest and Other Income	3,336	2,573	1,296	12,413	19,618	
Net Cash Provided by Investing Activities	13,328	2,573	1,296	12,413	29,610	
Net Increase (Decrease) in Cash & Cash Equivalents	14,791	(257)	240	(11,189)	3,585	16,798
Cash and Cash Equivalents - July 1	60,525	1,670	1,321	270,281	333,797	38,004
Cash and Cash Equivalents -June 30	$ 75,316	$ 1,413	$ 1,561	$ 259,092	$ 337,382	$ 54,802
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities:						
Operating Income (Loss)	$ 27,289	$ 87,051	$ 79,100	$ (28,309)	$ 165,131	$ 14,873
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Depreciation	13,719	897	45		14,661	
Change in Operating Assets and Liabilities:						
Change in Receivables	(714)	(1,567)	(991)	4,487	1,215	1,793
Change in Inventories	205	(2,167)	329		(1,633)	
Change in Other Current Assets			(102)		(102)	
Change in Restricted Deposits-MUSL			134		134	
Change in Accounts Payable and other Accruals	266	(5,185)	591	220	(4,108)	105
Change in Claims Payable			(75)		(75)	27
Change in Deferred Revenue	393	(218)	(114)		61	
Net Cash Provided by Operating Activities	$ 41,158	$ 78,811	$ 78,917	$ (23,602)	$ 175,284	$ 16,798

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

Component Units Financial Statements

STATE OF NEW HAMPSHIRE
COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Expressed in Thousands)

	University System of New Hampshire	Non-Major Component Unit	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	$ 194,346	$ 12,335	$ 206,681
Accounts Receivable	24,064	282	24,346
Notes Receivable - Current Portion	4,274	5,266	9,540
Prepaid Expenses & Other	5,300	44	5,344
Total Current Assets	227,984	17,927	245,911
Noncurrent Assets:			
Investments	375,362	12,494	387,856
Notes & Other Receivables	19,822	11,696	31,518
Other Assets	2,719	257	2,976
Capital Assets:			
Land & Land Improvements	10,709	29	10,738
Building & Building Improvements	961,740	7,951	969,691
Equipment	121,887	195	122,082
Construction in Progress	163,527	-	163,527
Less: Accumulated Depreciation	(476,058)	(3,142)	(479,200)
Net Capital Assets	781,805	5,033	786,838
Total Noncurrent Assets	397,903	24,447	422,350
Total Assets	1,407,692	47,407	1,455,099
LIABILITIES			
Current Liabilities:			
Accounts Payable	50,392	63	50,455
Accrued Salaries and Wages		82	82
Accrued Employee Benefits - Current	10,865	15	10,880
Other Payables & Accrued Expenses		5,084	5,084
Other Liabilities-Restriced		335	335
Deposits and Deferred Revenues	35,016	2,950	37,966
Due to Primary Government - Curent Portion	447	-	447
Long Term Debt-Current Portion	6,717	-	6,717
Total Current Liabilities	103,437	8,529	111,966
Noncurrent Liabilities:			
Revenue Bonds Payable	410,954		410,954
Accrued Employee Benefits	73,969		73,969
Due to Primary Government	926	-	926
Other Long Term Debt	19,531	26,338	45,869
Total Noncurrent Liabilities	505,380	26,338	531,718
Total Liabilitites	608,817	34,867	643,684
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	410,534	5,034	415,568
Restricted for Endowments	283,454		283,454
Restricted for Specific Purposes		397	397
Total Restricted Net Assets	693,988	5,431	699,419
Unrestricted Net Assets	104,887	7,109	111,996
Total Net Assets	$ 798,875	$ 12,540	$ 811,415

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

STATE OF NEW HAMPSHIRE
COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Expressed in Thousands)

	University System of New Hampshire	Total Non-Major	Total
Expenses	$ 614,558	$ 16,624	$ 631,182
Program Revenues:			
Charges for Services:			
Tuition & Fees	291,967		291,967
Scholarship Allowances	(75,153)		(75,153)
Sales, Services, & Other Revenue	174,763	4,226	178,989
Operating Grants & Contributions	174,862	12,389	187,251
Capital Grants & Contributions	15,630		15,630
Total Program Revenues	582,069	16,615	598,684
Net Revenues (Expenses)	(32,489)	(9)	(32,498)
Interest & Investment Income	27,575	470	28,045
Payments (to) from State of New Hampshire	100,334	(59)	100,275
Change in Net Assets	95,420	402	95,822
Net Assets - Beginning (Restated Community Development Finance Authority-Note 16)	703,455	12,138	715,593
Net Assets - Ending	$ 798,875	$ 12,540	$ 811,415

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

Fiduciary Funds Financial Statements

Pension Trust Fund: New Hampshire Judicial Retirement Plan
The New Hampshire Judicial Retirement Plan (the Plan) was established on January 1, 2005 and is a contributory pension plan and trust intended to meet the requirements of a qualified pension trust within the meaning of section 401(a) and to qualify as a governmental plan within the meaning of section 414(d) of the United States Internal Revenue Code. The Plan is a component of the state.

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

Investment Trust Fund: *The investment trust fund represents the external portion of the New Hampshire Public Deposit Investment Pool (NHPDIP). The NHPDIP has been established, in accordance with RSA 383:22-24, for the purpose of investing funds of the state of New Hampshire, funds under the custody of all governmental units, pooled risk management programs established pursuant to RSA 5-B, agencies, authorities, commissions, boards, political subdivisions, and all other public units within, or instrumentalities of the state of New Hampshire. In accordance with GAAP, the external portion of the NHPDIP is reported as an investment trust fund in the Fiduciary Funds using the economic resources measurement focus and accrual basis of accounting. The internal portion of the pool is reported in the general fund. NHPDIP financial statements can be obtained by contacting NHPDIP at 5 Country View Drive, Raymond, NH 03077.*

Agency Funds: *Assets received by the state as an agent for other governmental units, other organizations, or individuals are accounted for as agency funds. The Unified Court System Litigation accounts which are held pending judicial judgements and Child Support Funds are two of the larger agency funds of the state.*

STATE OF NEW HAMPSHIRE
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2007
(Expressed in Thousands)

	Judicial Retirement Plan	Private-purpose Trust Funds	Investment Trust Funds	Agency Funds
ASSETS				
Cash and Cash Equivalents	$ 77	$ 7,106		$ 11,694
Total Cash	77	7,106		11,694
Receivables:				
Due from Employers	70			
Due from Plan Members	37			
Other			891	
Total Receivables	107		891	
Investments	49,372	24,756	327,647	3,154
Total Assets	49,556	31,862	328,538	14,848
LIABILITIES				
Management Fees and Other Payables	157		180	
Custodial Funds Payable				14,848
Other Liabilities		184		
Total Liabilities	157	184	180	14,848
Net Assets Held in Trust for Benefits & Other Purposes	$ 49,399	$ 31,678	$ 328,358	

RECONCILIATION OF NET ASSETS HELD IN TRUST:

	Judicial Retirement Plan	Private-purpose Trust Funds	Investment Trust Funds
Employees' Pension Benefits	$ 49,399		
Net Assets for Pool Participants in External Investment Pool			$ 328,358
Other Purposes		$ 31,678	
Net Assets Held in Trust for Benefits & Other Purposes	$ 49,399	$ 31,678	$ 328,358

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

STATE OF NEW HAMPSHIRE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Expressed in Thousands)

	Judicial Retirement Plan	Private-purpose Trust Funds	Investment Trust Funds
ADDITIONS			
Contributions:			
Employer	$ 1,174		
Total Employer Contributions	1,174		
Plan Members	618		
From Participants		$ 16,329	$ 400,095
Total Contributions	1,792	16,329	400,095
Investment Income:			
From Investing Activities:			
Net (Depreciation) in Fair Value of Investments	4,078	13,707	
Interest Income	2,157	467	
Net Increase in Joint Value from Investment Income			15,630
Total Income from Investing Activities	6,235	14,174	15,630
Less: Investment Activity Expenses:			
Investment Management Fees	166		
Custodial Fees	65		
Investment Advisor Fees	45		
Total Investment Activity Expenses	276		
Total Net Income from Investing Activities	5,959	14,174	15,630
From Securities Lending Activities:			
Total Additions	7,751	30,503	415,725
DEDUCTIONS			
Benefits/Distributions to Participants	2,827	2,184	15,630
Administrative Expense	122		
Other		19,468	349,931
Total Deductions	2,949	21,652	365,561
Change in Net Assets	4,802	8,851	50,164
NET ASSETS HELD IN TRUST FOR BENEFITS & OTHER PURPOSES			
Beginning of the Year	44,597	22,827	278,194
End of the Year	$ 49,399	$ 31,678	$ 328,358

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

Notes to the Basic Financial Statements

INDEX TO NOTES

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

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

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

Discrete Component Units:

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

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

Major Component Unit

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

Non-major Component Units

Business Finance Authority of the State of New Hampshire - The Business Finance Authority (BFA) is a body corporate and politic with a governing board of fourteen members. The board consists of nine members appointed by the Governor with the consent of the Executive Council. The remaining members include two state Representatives, two Senators, and the Treasurer. The state currently guarantees outstanding loans and principal on bonds of the BFA as of June 30, 2007, which creates the potential for the BFA to impose a financial burden on the state. BFA's financials can be obtained by contacting, BFA at 14 Dixon Avenue, Suite 101, Concord NH 03301.

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

Pease Development Authority - The Pease Development Authority (PDA) is a body corporate and politic with a governing body of seven members. Four members are appointed by the Governor and state legislative leadership, and three members are appointed by the city of Portsmouth and the town of Newington. The state currently guarantees outstanding loans and principal on bonds of the PDA and has issued bonds on behalf of the PDA as of June 30, 2007, which creates the potential for the PDA to impose a financial burden on the state. In addition, the state has made several loans to the PDA. PDA's financials can be obtained by contacting PDA at, 360 Corporate Drive, Portsmouth NH 03801.

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

This component unit has not been presented in the non-major component units due to the ongoing audit of their fiscal 2007 financial statements. The release date of the Pease Development Authority audited financial statements is unknown as of the date of this report.

Fiduciary Component Units:

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

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

The System is administered by a 13 member board of Trustees on which the state does not represent a voting majority. The Board is fiduciarily responsible for the trust fund's assets and directs the investment of the pension assets, reviews actuarial assumptions and valuations from which the employer contribution rates are certified by the board, and generally supervises the operations of the System.

The System is deemed to be fiscally dependent on the state because the employee member contribution rates are set through state statute, and the state has budget approval authority over the administrative costs of the System.

This component unit has not been presented in the fiduciary funds due to the ongoing audit of their fiscal 2007 financial statements. The release date of the New Hampshire Retirement System audited financial statements is unknown as of the date of this report.

New Hampshire Judicial Retirement Plan – The New Hampshire Judicial Retirement Plan (the Plan) is a contributory pension plan and trust qualified as a tax exempt organization under Sections 401(a) and 414(d) of the Internal Revenue Code. It is a defined benefit plan providing disability, death, and retirement protection for full-time supreme court, superior court, district court or probate court judges employed within the state.

The Plan is administered by a seven member Board of Trustees that is appointed by the state. The Board is fiduciarily responsible for the trust fund's assets and oversees the investment of the Plan's assets, approving the actuarial valuation of the Plan including assumptions, interpreting statutory provisions and generally supervises the operations of the Plan.

The Plan is deemed to be fiscally dependent on the state because of the state's contributions toward the Plan's unfunded accrued liabilities and employee member contribution rates are set through state statute.

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

Related Organizations:

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

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

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

Measurement Focus and Basis of Accounting

The *government-wide financial statements* are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, except for federal grants, the state generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

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

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

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

Financial Statement Presentation

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

The state reports the following major governmental funds:

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

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

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

The state reports the following major enterprise funds:

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

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

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

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

Additionally, the state reports the following non-major funds:

Governmental Fund Types

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

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

Proprietary Fund Types

Internal Service Fund - provides services primarily to other agencies or funds of the state, rather than to the general public. These services include health related fringe benefits. In the government-wide financial statements, internal service funds are included with governmental activities.

Fiduciary Fund Types

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

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

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

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

Reporting Periods

The accompanying financial statements of the state are presented as of June 30, 2007, and for the year then ended, except for the New Hampshire Judicial Retirement Plan which is as of December 31, 2006.

D. CASH EQUIVALENTS

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

E. INVESTMENTS

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

F. RECEIVABLES

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

G. INVENTORIES

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

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

H. RESTRICTED ASSETS

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

I. CAPITAL ASSETS

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

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

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

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

J. DEFERRED REVENUE

In the government-wide financial statements and the proprietary fund financial statements, deferred revenue is recognized when cash, receivables or other assets are recorded prior to their being earned. In the governmental fund financial statements deferred revenue represents monies received or revenues accrued which have not been earned or do not meet the "available" criterion for revenue recognition under the modified accrual basis of accounting. The deferred revenue in the governmental fund types has primarily resulted as an offset to long-term loans receivable and federal funds received in advance of eligible expenditures.

K. COMPENSATED ABSENCES

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

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

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

L. ENCUMBRANCES

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

M. FUND BALANCES

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

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

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

In the event of a General Fund undesignated fund balance deficit at the close of a fiscal biennium, a transfer from the Reserve for Revenue Stabilization account may be made only if the General Fund's unrestricted revenues are less than budgeted. The amount of the transfer is limited to the smaller of the General Fund undesignated fund balance deficit or the unrestricted revenue shortfall.

Not withstanding the provisions of RSA 9:13-e, Chapter 263:110, Laws of 2007 directed that any surplus in excess of $20.0 million for the close of the fiscal biennium ending June 30, 2007, shall not be deposited in the revenue stabilization reserve account but shall remain in the general fund. Therefore, at the end of fiscal year 2007, $20.0 million was transferred to the revenue stabilization account bringing the balance up to $89.0 million at June 30, 2007.

N. CAPITAL OUTLAYS

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

O. BOND DISCOUNTS, PREMIUMS AND ISSUANCE COSTS

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

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

P. REVENUES AND EXPENDITURES/EXPENSES

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

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

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

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

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

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

Q. INTERFUND ACTIVITY AND BALANCES

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

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

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

R. CAPITAL PROJECTS

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

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

S. BUDGET CONTROL AND REPORTING

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

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

In addition to the enacted biennial operating budget, the Governor may submit to the Legislature supplemental budget requests necessary to meet expenditures during the current biennium. Appropriation transfers can be made within a department without the approval of the Legislature; therefore, the legal level of budgetary control is at the departmental level.

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

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

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

T. USE OF ESTIMATES

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

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

PRIMARY GOVERNMENT

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

DEPOSITS:

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

RSA 6:7 establishes the policy the state Treasurer must adhere to when depositing public monies. 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 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, 2007, the state's carrying value for deposits was $605.3 million. The table below details the state's bank balances at June 30, 2007 exposed to custodial credit risk (expressed in thousands):

Type	Governmental & Business Type			Fiduciary		
	Insured	Collateral & held in State's name	Uncollateralized	Insured	Collateral & held in State's name	Uncollateralized
Demand Deposits	$ 100	$ 867	$ 340	$ 565	$ 10,189	$ 1,206
Money Market	-	156,216	312,258	65	11	8,287
Savings Accounts	100	-	99	8	3,045	-
CDs	-	64,118	-	-	109	-
Total	$ 200	$ 221,201	$ 312,697	$ 638	$ 13,354	$ 9,493

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, 387:6-a, 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, 2007, the state had the following types of investments:

	(Fair values in thousands)	
Investment Type	**Governmental & Business Type**	**Fiduciary**
Stocks	$ 20,691	-
Corporate Bonds	1,475	-
US Treasury	698	-
US Government Agencies	7,663	-
Equity Open Ended Mutual Funds	2,301	$ 25,823
Fixed Income Open Ended Mutual Funds	979	822
Unemployment Compenation External Pool (special issue bonds guaranteed by US government)	259,092	-
NH Public Deposit Investment Pool (Investment held by NHH patient agency fund)	-	150
External Portion of NH Public Deposit Investment Pool	-	327,647
Totals	$ 292,899	$ 354,442

The table below reconciles the cash and investments in the financial statements to the footnote (expressed in thousands):

Reconciliation Between Financial Statements and Footnote

		Unrestricted		Restricted		
		Cash and Cash Equivalents	Investments	Cash and Cash Equivalents	Investments	Total
Per Statement of Net Assets	Primary Government	$ 809,975	$ 30,156	$ 40,376	$ -	$ 880,507
Per Statement of Fiduciary Net Assets	Private Purpose	7,106	24,756			31,862
	Investment Trust		327,647			327,647
	Agency Funds	11,694	3,154			14,848
	Total per Financial Statements	**$ 828,775**	**$ 385,713**	**$ 40,376**	**$ -**	**$ 1,254,864**

Per Footnote	
Cash On Hand	$ 2,242
Carrying Amount of Deposits	605,281
Investments	647,341
Total Per Footnote	**$ 1,254,864**

Repurchase Agreements:
Repurchase agreements must be executed through a New Hampshire or Massachusetts bank with assets in excess of $500 million and has either the strongest rating as measured by Veribanc, Inc. or has a long term debt rating of AA- or better as rated by Standard and Poor's and Fitch or Aa3 or better as rated by Moody's. Repurchase agreements may also be executed through any of the primary government security dealers as designated by the Federal Reserve.

Custodial Credit Risk: The state's repurchase agreements are all with banking institutions and therefore subject to custodial credit risk. The custodial credit risk is the risk that in the event of a bank failure, the state's deposits may not be recovered.

Interest Rate Risk: The Term Repurchase Agreements are also subject to interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the value of the state's investments. The state measures its interest rate risk using the weighted average maturity method (WAM). The state's WAM is dollar weighted in terms of years.

As of June 30, 2007, the states bank balances were exposed to custodial credit risk and interest rate risk as follows (expressed in thousands):

	Governmental & Business Type			
	Custodial Credit Risk			
Type	Insured	Collateralized	Uncollateralized	
Overnight Repurchase Agreements	$ 200	$ 80,258	$ 1,761	
Total	$ 200	$ 80,258	$ 1,761	

Stocks:
The state does not have a formal policy relative to operating funds and mitigation of concentration of credit risk. Although not issuer specific, individual investment guidelines for trust and custodial funds include overall asset allocation limits that are consistent with sound investment principles and practices.

Concentration Risk: The risk of loss attributed to the magnitude of the state's investment in a single issuer. The top 10 issuers as of June 30, 2007 are noted below (expressed in thousands):

	Governmental			
	General Fund			
Name / Issuer	Aband. Property	Permanent Funds	Total	% of Total
Metlife Inc (1)	$ 7,384	$ 45	$ 7,429	35.9%
A T & T Inc	1,591		1,591	7.7%
Vodafone Grp	629		629	3.0%
Manulife Finl Corp	393		393	1.9%
Capital One Finl Corp	386		386	1.9%
Toronto Dominion Bk Ont	380		380	1.8%
Exxon Mobil Corp	263	105	368	1.8%
Verizon Communications	316		316	1.5%
Canadian Natl Ry Co	315		315	1.5%
Chevron Corp	185	84	269	1.3%

(1) The state holds Metlife Inc. securities as a result of shares forwarded to the state related to abandoned property.

Custodial Risk: The custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction a government will not be able to recover the value of investments that are in the possession of an outside party. All the state's stocks are uninsured, registered in the state's name and held by the custodian. Custodial credit quality with respect to investments is mitigated primarily through selection criteria aimed at investing only with high quality institutions where default is extremely unlikely.

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

Credit Risk: The risk that the issuer or other counterparty will not fulfill its obligations. Neither the equity mutual fund or PDIP are rated.

Debt Securities: The state invests in several types of debt securities including corporate and municipal bonds, securities issued by the US Treasury and Government Agencies, mutual funds and investment pools.

Credit Risk: The risk that the issuer will not fulfill its obligations. The state invests in grade securities which are defined as those with a grade B or higher. Obligations of the US Government or obligations backed by the US 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 which 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 counterparty 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 and external pools 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 with high quality institutions where default is extremely unlikely.

The state's exposed risks at June 30, 2007 are noted below (expressed in thousands):

Type	Governmental & Business Type			Fiduciary		
	Credit Risk		Interest Rate Risk	Credit Risk		Interest Rate Risk
	Grade	Unrated	WAM in years	Grade	Unrated	WAM in years
Corporate Bonds	$ 1,475		2.80			
US Treasury	698		3.14			
US Government Agencies	7,663		0.58			
Fixed Income Open Ended Mutual Funds		$ 979	7.40		$ 822	5.50
Unemployment Compensation Fund Pool (special issue bonds guaranteed by US govt)		259,092	1.94			

Debt Securities (continued):

Concentration Risk:
The risk of loss attributed to the magnitude of the state's investment in a single issuer. This risk is applicable to the state's investments in corporate bonds. The state does not have a formal policy relative to operating funds and mitigation of concentration of credit risk. Although not issuer specific, individual investment guidelines for trust and custodial funds include overall asset allocation limits that are consistent with sound investment principles and practices.

The state's top ten issuers at June 30, 2007 are listed below (expressed in thousands):

	Governmental & Business Type	
Issuer	Fair Value	% of Total
Dow Chem Co	$ 251	17.0%
Lehman Bros Hldgs Inc	105	7.1%
Goldman Sachs Group Inc	104	7.1%
FPL Group Cap Inc	103	7.0%
National City Bank Cleve	102	6.9%
Boeing Cap Corp	102	6.9%
SBC Communications Inc	102	6.9%
Aflac Inc	102	6.9%
Donaldson Lufkin & Jenrette	101	6.8%
Target Corp	100	6.8%

MAJOR COMPONENT UNIT (University System of New Hampshire)

Cash and Cash Equivalents (expressed in thousands):
Highly liquid investments with a maturity of 90 days or less when purchased are recorded as cash and cash equivalents. Cash and cash equivalents at June 30 consisted of the following:

	2007
Cash & Repurchase agreements.................	$ 18,752
Money Market Funds....................................	70,248
Commercial Paper..	28,832
Total Cash & Cash Equivalents.................	$ 117,832

Included in the cash and repurchase agreements balances at June 30, 2007 were $12,640 in repurchase agreements, $9,180 in cash and a net cash overdraft of $3,068. Commercial paper held as cash equivalents is uninsured and uncollateralized against custodial credit risk. Commercial paper had a weighted average maturity of 17 days at June 30, 2007. Repurchase agreements were limited to overnight investments only.

Investments (expressed in thousands):
Investments include operating investments, debt proceeds held by others for construction purposes, and endowment and similar investments. Investments are maintained with established financial institutions whose credit is reviewed by management and the respective governing boards of USNH and it's affiliated entities. The carrying amount of these financial instruments approximates fair value.

MAJOR COMPONENT UNIT (University System of New Hampshire) - Continued

Operating Investments

Unlike the long-term operations investments discussed below, operating investments included in current assets, are amounts invested to meet regular operations of USNH and include obligations of the U.S. Government, commercial paper, and money market funds. Operating investments have an original maturity of more than 90 days, are highly liquid and are invested for purposes of satisfying current liabilities and generating investment income to support operating expenses. The components of operating investments at June 30 are summarized below (expressed in thousands):

	2007	
	Balance	Weighted Average Maturity
Obligations of the U.S. Government	$ 54,779	1 year
Corporate Bonds & Notes	5,952	4 Years
Money Market Funds	8,904	Not Applicable
Current portion of Debt proceeds held by others	6,811	Not Applicable
Other Accounts	68	Not Applicable
Total:	$ 76,514	

Operating investments in mutual funds are uninsured and uncollateralized against custodial credit risk.

Debt Proceeds Held By Others for Construction Purposes:

At June 30, 2007 total debt proceeds held by others included $52,279 of bond construction proceeds held by the bond trustee and $399 held in escrow for the acquisition of certain equipment financed with a capital lease.

Debt proceeds held by others for construction purposes consisted of the following investments at June 30, 2007 (expressed in thousands):

	2007	
	Balance	Weighted Average Maturity
Guaranteed investment contracts	$ 48,334	1 year
Money market funds	6,811	Not Applicable
Total Debt proceeds held by others	55,145	
Less: current portion	(6,811)	
Long-term portion	48,334	
Operating amounts invested alongside endowment pool	31,946	
Total:	$ 80,280	

MAJOR COMPONENT UNIT (University System of New Hampshire) - Continued

Long-term operating investments represent unrestricted amounts invested alongside the campuses endowment pool which are not expected to be liquidated in the next year, but which are available for operations if needed. The balance of long-term operating investments at June 30, 2007 was $31,946. These amounts consisted of ownership shares of the campuses endowment pool and, therefore, the components, credit risk, and all other investment characteristics are identical to those described below.

Endowment and Similar Investments:
Endowment and similar investments are amounts invested primarily for long-term appreciation and consisted of the following as of June 30 (expressed in thousands):

	2007
Money Market Funds	$ 15,050
Mutual Funds-Bonds	31,063
Mutual Funds-Stocks	60,001
Mutual Funds-Real Estate	5,540
Commercial Paper	15,587
U.S. Government Obligations	814
Corporate Bonds and Notes	604
Common/Preferred Stocks	110,129
Alternative Investments	65,981
Investments Held by Others	22,260
Operating amounts invested alongside endowment pool	(31,946)
Total endowment and similar investments	$ 295,083

The estimated fair value of investments is based on quoted market prices except for certain investments, primarily private equity partnerships, hedge funds and similar alternative investments, for which quoted market prices are not available. The estimated fair value of these investments is based on valuations provided by external investment managers within the past fiscal year, adjusted for cash receipts, cash disbursements and securities distributions through June 30. Because the alternative investments are not readily marketable, their estimated value may differ from the value that would have been used had a ready market for such investments existed.

Mutual funds, common stocks, and alternative investments are uninsured and uncollateralized against custodial credit risk. The endowment investment policies of the governing boards of USNH and its affiliated entities mitigate the risk associated with uninsured and uncollateralized investments collectively through diversification, target allocations and ongoing investment review.

3. RECEIVABLES

The following is a breakdown of receivables at June 30, 2007 (expressed in thousands):

	Governmental	Business-Type	Total	Major Component Unit
Short Term Receivables				
Taxes:				
Meals and Rooms	$ 23,583		$ 23,583	
Business Taxes	240,553		240,553	
Tobacco	16,495		16,495	
Estate and Legacy	8		8	
Real Estate Transfer	12,800		12,800	
Interest & Dividends	33,963		33,963	
Communications	6,202		6,202	
Utility Property Tax	11,400		11,400	
Gasoline Road Toll	11,338		11,338	
Beer		$ 1,321	1,321	
Subtotal	356,342	1,321	357,663	
Other Receivables:				
Turnpike System		3,048	3,048	
Liquor Commission		7,899	7,899	
Lottery Commission		2,863	2,863	
Unemployment Trust Fund		15,672	15,672	
Internal Service Fund	1,182		1,182	
Board and Care	1,437		1,437	
Federal Grants	192,464		192,464	$ 16,991
Local Grants	47,496		47,496	
Miscellaneous	70,302		70,302	10,495
Short Term Portion Of State Revolving Loan Fund	17,198		17,198	
Short Term Portion Of Note/Pledge Receivable				4,274
Subtotal	330,079	29,482	359,561	31,760
Total Current Receivables (Gross)	686,421	30,803	717,224	31,760
Long Term Receivables				
State Revolving Loan Fund	233,800		233,800	
Miscellaneous	1,617		1,617	
Note/Pledge Receivable				19,822
Total Long Term Receivables (Gross)	235,417		235,417	19,822
Allowance for Doubtful Accounts	(97,860)	(5,919)	(103,779)	(3,422)
Total Receivables (Net)	$ 823,978	$ 24,884	$ 848,862	$ 48,160

State Revolving Loan Fund:

Primary Government: As of June 30, 2007, total water pollution control loans outstanding of $251.0 million were recorded in the state's general fund. This amount was offset by a corresponding amount of deferred revenue. The state Water Pollution Control Revolving Loan Fund ("State Revolving Fund"), established by RSA 486:14, provides loans and other assistance to local communities for financing waste water treatment facilities. The State Revolving Fund was authorized through the Federal Clean Water Act of 1988 and was initially funded through a federal capitalization grant program to states which requires state matching funds equal to 20% of the capitalization grant funding. Principal and interest payments on the loans will occur over a period not to exceed 20 years and will be credited directly to the State Revolving Fund, enabling the fund balance to be available in perpetuity.

Major Component Unit: The component unit balance is University System of New Hampshire Perkins Loans, pledges and other college and university loans of $48.2 million.

Deferred Revenue:

Primary Government: Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. As of June 30, 2007, the various components of deferred revenue ($587.1 million) reported in the governmental funds were as follows:

	Unavailable	Unearned
Taxes & Fees receivable	$ 201,861	
Loans receivable	280,214	$ 30
Federal/Local receivables	40,911	
Receipts in advance of eligibility requirements		64,121
Total	$ 522,986	$ 64,151

4. CAPITAL ASSETS

Capital Asset activity for the year ended June 30, 2007, was as follows (expressed in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets not being depreciated:				
Land & Land Improvements	$ 398,286	$ 52,205	$ (693)	$ 449,798
Construction in Progress	262,552	125,564	(154,022)	234,094
Work in Progress Computer Software	1,415	22,567		23,982
Total Capital Assets not being depreciated	662,253	200,336	(154,715)	707,874
Other Capital Assets:				
Equipment & Computer Software	185,468	24,056	(14,473)	195,051
Buildings & Building Improvements	606,966	55,809	(943)	661,832
Land Improvements	96,492	122		96,614
Infrastructure	2,652,916	91,604		2,744,520
Total Other Assets	3,541,842	171,591	(15,416)	3,698,017
Less accumulated depreciation for:				
Equipment & Computer Software	(143,532)	(25,821)	14,677	(154,676)
Buildings & Building Improvements	(270,822)	(18,360)	993	(288,189)
Land Improvements	(78,584)	(2,019)		(80,603)
Infrastructure	(1,620,503)	(40,054)		(1,660,557)
Total Accumulated Depreciation	(2,113,441)	(86,254)	15,670	(2,184,025)
Other Capital Assets, Net	1,428,401	85,337	254	1,513,992
Governmental Activities Capital Assets, Net	$ 2,090,654	$ 285,673	$ (154,461)	$ 2,221,866
Business-Type Activities:				
Turnpike:				
Capital Assets not being depreciated:				
Land & Land Improvements	$ 106,957	$ 4,181	$ (726)	$ 110,412
Construction in Progress	71,414	13,502	(25,932)	58,984
Capital Assets not being depreciated	178,371	17,683	(26,658)	169,396
Other Capital Assets:				
Equipment	31,268	4,313	(2,113)	33,468
Buildings & Building Improvements	4,828			4,828
Infrastructure	536,114	22,822		558,936
Total Capital Assets	750,581	44,818	(28,771)	766,628
Less accumulated depreciation for:				
Equipment	(17,719)	(2,557)	2,114	(18,162)
Buildings & Building Improvements	(2,675)	(72)		(2,747)
Infrastructure	(178,977)	(11,090)		(190,067)
Total Accumulated Depreciation	(199,371)	(13,719)	2,114	(210,976)
Turnpike Capital Assets, Net	$ 551,210	$ 31,099	$ (26,657)	$ 555,652
Liquor:				
Capital Assets not being depreciated:				
Land & Land Improvements	$ 2,355			$ 2,355
Other Capital Assets:				
Equipment	9,007	$ 120	$ (158)	8,969
Buildings & Building Improvements	19,529	389		19,918
Land Improvements	877			877
Total Capital Assets	31,768	509	(158)	32,119
Less accumulated depreciation for:				
Equipment	(8,345)	(344)	151	(8,538)
Buildings & Building Improvements	(9,347)	(538)		(9,885)
Land Improvements	(671)	(15)		(686)
Total Accumulated Depreciation	(18,363)	(897)	151	(19,109)
Liquor Capital Assets, Net	$ 13,405	$ (388)	$ (7)	$ 13,010
Lottery Commission:				
Equipment	$ 501	$ 89	$ (147)	$ 443
Less Accumulated Depreciation for Equipment:	(310)	(45)	147	(208)
Lotterys Capital Assets, Net	$ 191	$ 44	$ -	$ 235

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

Governmental Activities:		
General Government	$	5,617
Administraton of Justice and Public Protection		15,093
Resource Protection and Development		4,654
Transportation		51,145
Health and Social Services		6,903
Education		2,841
Total Governmental Activities Depreciation Expense	$	86,254

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

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

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

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements..................	$ 10,518	$ 191		$ 10,709
Building and Building Improvements.........	827,397	136,052	$ (1,709)	961,740
Equipment..	117,291	10,293	(5,697)	121,887
Construction in Progress..........................	184,048	(20,521)		163,527
Subtotal..	$ 1,139,254	$ 126,015	$ (7,406)	$ 1,257,863
Less: Accumulated Depreciation..............	(445,579)	(36,593)	6,114	(476,058)
Total..	$ 693,675	$ 89,422	$ (1,292)	$ 781,805

5. LONG TERM-DEBT

PRIMARY GOVERNMENT

Bonds Authorized and Unissued: Bonds authorized and unissued amounted to $614.8 million at June 30, 2007. The proceeds of the bonds will be applied to the following funds when issued (expressed in thousands):

Capital Projects Fund	$	143,199
Turnpike System		471,650
Total	$	614,849

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

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

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

Date of Advance Refunding	Amount Outstanding at June 30, 2007
Governmental Fund Types (General Obligation Bonds):	
December, 2006..	108,965
Subtotal..	108,965

Bond Issues:

On November 23, 2005 the state issued $39.4 million of turnpike system revenue refunding bonds. The interest rate on these new bonds is 5%. The closing date for this bond issue was August 24, 2006. These bonds were used to refund $39.4 million of defeased revenue bonds. This refunding transaction will result in a cash flow savings of $4.1 million over the next 10 years and a long-term economic gain (or present value savings) of $3.2 million.

On December 13, 2006, the state issued $75 million of general obligation capital improvement bonds. The interest rates on these serial bonds range from 3.5% to 5.0%, and the maturity dates range from 2008 through 2026.

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

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

Governmental Activities	Beginning Balance	Accretion	Increases	Decreases	Ending Balance	Current	Long-Term
General Obligation Bonds Payable	$ 701,730	$ 5,320	$ 196,885	$ 193,060	$ 710,875	$ 74,997	$ 635,878
Compensated Absences	68,339		48,657	48,852	68,144	17,657	50,487
Claims Payable	51,914		209,333	210,635	50,612	24,815	25,797
Capital Lease	6,085		810	1,070	5,825	1,684	4,141
Total Governmental	$ 828,068	$ 5,320	$ 455,685	$ 453,617	$ 835,456	$ 119,153	$ 716,303
Business-Type Activities							
Turnpike System							
General Obligation Bonds	$ 7,067			$ 2,690	$ 4,377	$ 1,509	$ 2,868
Revenue Bonds	284,175		$ 39,425	54,516	269,084	12,455	256,629
Claims & Compensated Absences Payable	2,815		$ 1,440	874	3,381	708	2,673
Total	$ 294,057		$ 40,865	$ 58,080	$ 276,842	$ 14,672	$ 262,170
Liquor Commission							
Capital Lease	$ 852			$ 234	$ 618	$ 131	$ 487
Claims & Compensated Absences Payable	3,319		1,663	1,655	3,327	932	2,395
Total	$ 4,171		$ 1,663	$ 1,889	$ 3,945	$ 1,063	$ 2,882
Lottery Commission							
Claims & Compensated Absences Payable	$ 482		$ 275	$ 350	$ 407	$ 104	$ 303
Total	$ 482		$ 275	$ 350	$ 407	$ 104	$ 303
Total Business-Type	$ 298,710		$ 42,803	$ 60,319	$ 281,194	$ 15,839	$ 265,355

Bond Anticipation Notes: The state issues bond anticipation notes in advance of issuing general obligation bonds. The proceeds are deposited into the capital fund to fund various capital outlay projects. During the year ending June 30, 2007, the state had no bond anticipation notes outstanding.

Capital Appreciation Bonds: Six of the state's general obligation capital improvement bonds issued since November 1990 represent capital appreciation bonds (College Savings Bond Program) with interest being accrued and compounded semiannually. At June 30, 2007, the cumulative interest accretion since issuance for all six capital appreciation bonds is approximately $139.6 million. The interest is not paid until the bonds mature, at which time the expenditure will be recorded.

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

	SOURCE OF PRINCIPAL PAYMENTS						DEBT SERVICE		
	Governmental Activities				Business-Type Activities		TOTAL ALL FUNDS		
					Turnpike System				
Payable June 30,	General Fund	Highway Fund	Self Liquidating	Total	General Obligation	Revenue	Principal	Interest	Total
2008	$ 63,197	$ 5,832	$ 5,968	$ 74,997	$ 1,509	$ 12,455	$ 88,961	$ 39,345	$ 128,306
2009	61,621	5,840	5,991	73,452	1,474	13,270	88,196	36,147	124,343
2010	59,759	5,635	5,701	71,095	624	13,500	85,219	32,865	118,084
2011	56,343	5,488	5,338	67,169	584	14,710	82,463	29,793	112,256
2012	46,941	3,625	5,356	55,922		14,550	70,472	26,807	97,279
2013-2017	174,364	14,649	13,418	202,431		89,620	292,051	95,503	387,554
2018-2022	111,125	9,555	5,820	126,500		67,395	193,895	42,188	236,083
2023-2027	41,722	3,963	1,916	47,601		35,265	82,866	10,952	93,818
2028-2032						11,725	11,725	900	12,625
Subtotal	$ 615,072	$ 54,587	$ 49,508	$ 719,167	$ 4,191	$ 272,490	$ 995,848	$ 314,500	$ 1,310,348
Unamortized (Discount) / Premium	1,043	(1,439)	(998)	(1,394)	186	7,480	6,272		6,272
Unamortized Loss on Refunding	(6,898)			(6,898)		(10,886)	(17,784)		(17,784)
Total	$ 609,217	$ 53,148	$ 48,510	$ 710,875	$ 4,377	$ 269,084	$ 984,336	$ 314,500	$ 1,298,836

MAJOR COMPONENT UNIT

Changes in Long-Term Liabilities: The University System of New Hampshire's long term liabilities include: Revenue Bonds Payable of $396.1 million; capital lease obligations of $21.6 million; due to primary government of $1.4 million; accrued employee benefits and compensated absences of $84.8 million; and other liabilities of $19.5 million.

The following is a summary of the changes in the long-term liabilities as reported by the University of New Hampshire during the fiscal year : **(Expressed in Thousands)**

	Beginning Balance	Increases	Decreases	Ending Balance	Current	Long-Term
University System of NH...............................	$ 519,220	$ 24,046	$ 19,857	$ 523,409	$ 18,029	$ 505,380

	UNIVERSITY SYSTEM OF N.H.		
Payable June 30,	Principal	Interest	Total
2008....................................	$ 7,164	$ 17,036	$ 24,200
2009....................................	8,844	16,888	25,732
2010....................................	12,336	17,115	29,451
2011....................................	12,438	16,355	28,793
2012....................................	13,138	16,018	29,156
2013-2017...........................	71,418	70,546	141,964
2018-2022...........................	83,650	54,039	137,689
2023-2027...........................	74,752	37,214	111,966
2028-2032...........................	73,560	22,928	96,488
2033-2037...........................	65,610	7,471	73,081
Subtotal...........................	422,910	275,610	698,520
Unamortized Discount.....	(3,866)		(3,866)
Total................................	$ 419,044	$ 275,610	$ 694,654

Debt Maturity: The table on the left is a summary of the annual principal payments and total debt service relating to the debt of the University of New Hampshire and includes revenue bonds, capital leases and amounts due to primary government (expressed in thousands):

8. RISK MANAGEMENT AND INSURANCE

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

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

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

The following table presents the changes in claim liabilities during the fiscal year ending June 30, 2007 (In Thousands):

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance	Current	Long-Term
Workers Compensation Claims Payable.......	$ 32,352	$ 2,378	$ 3,707	$ 31,023	$ 5,226	$ 25,797
Health Claims Payable*................................	19,562	206,955	206,928	19,589	19,589	-
Total...	$ 51,914	$ 209,333	$ 210,635	$ 50,612	$ 24,815	$ 25,797
Business-Type Activities						
Turnpike System						
Workers Compensation Claims Payable.......	$ 2,093	$ 858	$ 357	$ 2,594	$ 504	$ 2,090
Total...	$ 2,093	$ 858	$ 357	$ 2,594	$ 504	$ 2,090
Liquor Commission						
Workers Compensation Claims Payable.......	$ 1,482	$ 448	$ 342	$ 1,588	$ 482	$ 1,106
Total...	$ 1,482	$ 448	$ 342	$ 1,588	$ 482	$ 1,106
Lottery Commission						
Workers Compensation Claims Payable.......	$ 61	$ -	$ 49	$ 12	$ 1	$ 11
Total...	$ 61	$ -	$ 49	$ 12	$ 1	$ 11
Total Business-Type.................................	$ 3,636	$ 1,306	$ 748	$ 4,194	$ 987	$ 3,207

* Health Claims Payable is recorded in the Internal Service Fund

7. INTERFUND RECEIVABLES AND PAYABLES

Due From or To Other Funds for the primary government on the fund financial statements represent amounts related to year end transfers of surplus or profits between intragovernmental entities or funds and consist of the following as of June 30, 2007 (expressed in thousands):

RECEIVABLES / DUE FROM	AMOUNT	PAYABLES / DUE TO	AMOUNT
General Fund.....................................	$ 15,255	Non Major Fund…………………..	$ 15,255
General Fund.....................................	40,581	Education Fund..............................	40,581
Highway Fund....................................	534	Turnpike Fund................................	534
Education Fund..................................	1,508	Lottery Commission........................	1,508
Liquor Commission...........................	10,463	General Fund..................................	10,463
Total..	$ 68,341	Total...	$ 68,341

The net due from or to other funds for the primary government has been reported as "internal balances" in the government-wide financial statements. The governmental payable of $8.4 million to business-type activities represents the "internal balances" amount on the statement of net assets. The $59.9 million between governmental funds has been eliminated on the government-wide financial statements .

Due from Component Units: As of June 30, 2007, the cumulative balance of outstanding loans plus accrued interest to the Pease Development Authority (PDA) amounted to $27.8 million. The balance has been offset by a corresponding amount of deferred revenue in the General Fund Financial Statements.

The state has issued general obligation bonds to finance certain capital projects for the University System of New Hampshire (University System). As of June 30, 2007, the outstanding balance of these bonds was $1.4 million. The state is reimbursed for the debt service payments from the University System as the payments are due. This receivable is classified as "Due from Component Units" and "Deferred Revenue" in the State's General Fund Financial Statements.

8. INTERFUND TRANSFERS

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

	Transferred To			
Transferred From	General Fund	Education Fund	Non-Major Funds	Total Governmental Fund
Governmental Funds				
Education Fund..	$ 40,581			$ 40,581
Highway Fund..	855		$ 854	1,709
Non-Major Funds...	1,083			1,083
Total Governmental Funds.............................	* 42,519	* -	* 854	* 43,373
Proprietary - Enterprise Funds				
Liquor Commission..	105,994			105,994
Lottery Commission...		80,548		80,548
Total Proprietary - Enterprise Funds.............	$ 105,994	$ 80,548		$ 186,542

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

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

- $40.6 million of education fund surplus transferred to general fund in accordance with the laws of 2007 Chapter 263:111.
- Transfer of Lottery Commission profits of $80.5 million to fund education
- Transfer of Liquor Commission profits of $106.0 million to general fund for government operations

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

9. UNDESIGNATED FUND BALANCE (DEFICIT) and CONTRACTUAL COMMITMENTS

Capital Projects Fund: The June 30, 2007, unreserved, undesignated deficit of the Capital Projects Fund was $142.8 million. The Capital Projects Fund accounts for multi-year capital projects which will be primarily financed by bond proceeds. The project costs are appropriated when the project is approved. Bonds are issued as the expenditures are expected to be incurred. As of June 30, 2007, bonds authorized and unissued for the Capital Projects Fund amounted to $143.2 million.

Contractual Commitments: The state has estimated its share of contractual obligations for construction contracts to be $78.9 million at June 30, 2007. This represents total obligations of $280.7 million less $201.8 million in estimated federal and local aid.

10. EMPLOYEE BENEFIT PLANS

NEW HAMPSHIRE RETIREMENT SYSTEM

Plan Description: The New Hampshire Retirement System is the administrator of a cost-sharing multiple-employer Public Employee Retirement System (The Plan) established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401 (a) and 501 (a) of the Internal Revenue Code. The Plan is a contributory defined-benefit plan providing service, disability, death, and vested retirement benefits to members and beneficiaries. The Plan covers substantially all full-time state employees, public school teachers and administrators, permanent firefighters, and police officers within the state of New Hampshire. Full-time employees of political subdivisions, including counties, municipalities, and school districts, are also eligible to participate as a group if the governing body of the political subdivision has elected participation. The Plan is divided into two membership groups. Group I consists of state and local employees and teachers. Group II consists of firefighters and police officers. All assets are in a single trust and are available to pay retirement benefits to all members.

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

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

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

Pursuant to RSA 100-A:52, the New Hampshire Retirement System also provides a postretirement medical premium subsidy for Group I employees and teachers and Group II police officers and firefighters.

A special account has been established by RSA 100-A:16, II(h) for additional benefits. Prior to fiscal year 2007 the account was credited with all of the earnings of the account assets in the account plus the earnings of the remaining assets of the plan in excess of the assumed rate of return plus 1/2 of 1 percent.

During fiscal year 2007, legislation was passed that permits the transfer of assets into the special account for earnings in excess of 10 1/2 percent as long as the actuary determines the funded ratio of the retirement system to be at least 85 percent. If the the funded ratio of the system is less than 85 percent, no assets will be transferred to the special account.

Prior to 2007, the New Hampshire Retirement System issued publicly available financial reports that could be obtained by writing to them at 54 Regional Drive, Concord, NH 03301-8509 or from their web site at http://www.nhrs.org. This component unit has not been presented in the fiduciary funds due to the ongoing audit of their fiscal 2007 financial statements. The release date of New Hampshire Retirement System audited financial statements is unknown as of the date of this report.

Funding Policy: The Plan is financed by contributions from the members, the state and local employers, and investment earnings. In fiscal year 2007, by statute, Group I members contributed 5.0% of gross earnings. Group II members contributed 9.3% of gross earnings. Employer contributions required to cover that amount of cost not met by the members' contributions are determined by a biennial actuarial valuation by the system's actuary using the entry age normal funding method and are expressed as a percentage of gross payroll. The state's share represents 100% of the employer cost for all state employees, and 35% of the employer cost for teachers, firefighters, and police officers employed by political subdivisions. The state does not participate in funding the employer cost of other political subdivision employees.

The state's contributions to the plan for the years ending June 30, 2007, 2006, and 2005 were $78.1 million, $72.7 million, and $59.7 million, respectively, which equals the required contributions for each year. The state's contributions for the fiscal year ended June 30, 2006 increased substantially over the amounts contributed for the fiscal year ended June 30, 2005 due to an increase in employer contribution rates.

HEALTH CARE INSURANCE FOR RETIRED EMPLOYEES

In addition to providing pension benefits, RSA 21-I:30 specifies that the state provide certain health care insurance benefits for retired employees. These benefits include group hospitalization, hospital medical care, and surgical care. Substantially all of the state's employees who were hired on or before June 30, 2003 may become eligible for these benefits if they reach normal retirement age while working for the state and receive their pensions on a periodic basis rather than a lump sum. During fiscal year 2004, legislation was passed that requires state Group I employees hired on or after July 1, 2003 to have 20 years of state service in order to qualify for health insurance benefits. These and similar benefits for active employees and retirees are authorized by RSA 21-I:30 and provided through the Employee and Retiree Benefit Risk Management 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 benefits by paying actuarially determined insurance contributions into the fund. The state paid approximately $50.1 million of insurance contributions for approximately 8,400 state retirees and covered dependents receiving a periodic pension benefit for the fiscal year ended June 30, 2007. An additional major source of funding for retiree benefits is from the New Hampshire Retirement System's medical premium subsidy program for Group I and Group II employees, which totaled approximately $15.1 million for the fiscal year ended June 30, 2007.

The Governmental Accounting Standards Board (GASB) issued Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* GASB Statement 45, which will be implemented by the state for the fiscal year beginning July 1, 2007, will require that the long-term cost of retirement health care and obligations for other postemployment benefits (OPEB) be determined on an actuarial basis and reported similar to pension plans. Presently, OPEB costs for retiree healthcare benefits are reported on a 'pay-as-you-go' basis. An actuarial valuation was completed to determine the actuarial accrued liability as of December 31, 2006. The valuation determined the unaudited liability if funded at transition of $1,550.0 million, or $2,858.7 million if not funded at transition. GASB Statement 45 does not mandate the pre-funding of postemployment benefit liabilities. However, any pre-funding of these benefits will help minimize or eliminate the postemployment benefit obligation that will be required to be reported on the financial statements. The unaudited annual required contribution (ARC), as determined by the valuation, would be $142.3 million if funded at transition or $234.7 million if not funded at transition. During the 2007 session, the Legislature established the *State Retiree Health Plan Commission* which will consider funding options for these postemployment benefit liabilites.

JUDICIAL RETIREMENT PLAN

Plan Description: The New Hampshire Judicial Retirement Plan (the Plan) was established on January 1, 2005 pursuant to RSA 100-C:2 and is intended for all time to meet the requirements of a qualified pension trust within the meaning of section 401(a) and to qualify as a governmental plan within the meaning of section 414(d) of the United States Internal Revenue Code. The Plan is a defined benefit plan providing disability, death, and retirement protection for full-time supreme court, superior court, district court or probate court judges employed within the state.

The Plan is administered by an appointed Board of Trustees (Board), separate from the New Hampshire Retirement System, but certain daily administrative functions of the plan have been delegated by the Board to the New Hampshire Retirement System such as retirement request processing, member record maintenance and serving as the Plan's information center. The Plan has no full or part time employees. All employer and member contributions are deposited into separate trust funds that are managed and controlled by the Board of the Plan. Any member of the Plan who has at least 15 years of creditable service and who is at least 60 years old is entitled to retirement benefits equal to 70% of the member's final year's salary.

Any member of the Plan who has at least 10 years of creditable service and who is at least 65 years old is entitled to retirement benefits equal to 75% of the member's final year's salary. Any member who has at least 7 years of creditable service and who is at least 70 years old is entitled to retirement benefits equal to 45% of the member's final year's salary. A member who is at least 70 years old shall be granted an additional 10% over the 45% level for each year of creditable service that a member has over 7 years. A member who is at least 60 years old with at least 15 years of service is entitled to 70% of the member's final year's salary, plus an additional 1% for each year of additional service in excess of 15 years.

However, under no circumstances shall any retirement benefit exceed 75% of the member's final year's salary. For purposes of determining the above benefit, the member's final salary is equal to compensation earned in the prior 12-month period in which the employee was a member of the plan.

Funding Policy: The Plan is financed by contributions from the members and the state. Pursuant to Chapter 311, Laws of 2003, on January 19, 2005, the state issued $42.8 million of general obligation bonds in order to fund the Plan's initial unfunded accrued liability. All eligible judges are required to contribute 10% of their salaries to the Plan until they become eligible for a service retirement equal to 75% of their final years salary. The state was required to contribute 17.18% of the member's salary during each of the years ended December 31, 2006 and 2005.

As of January 1, 2006, the net assets available to pay retirement benefits, at fair value, were reported by the Plan to be $45.0 million. The total benefit liability was $47.2 million, resulting in a funded ratio of 95% and projected liability in excess of assets of $2.2 million.

COMPONENT UNITS

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

11. CONTINGENT AND LIMITED LIABILITIES

PRIMARY GOVERNMENT

Contingent Liabilities: The state of New Hampshire is contingently liable, within statutory legal limits, for bonds sold by municipalities, school districts, and for first mortgages on industrial and recreational property that contain the guarantee of the state of New Hampshire. The following table shows the composition of the state's $107.1 million of contingent liabilities and the statutory limits as of June 30, 2007 (expressed in thousands):

				June 30, 2007			June 30, 2006
	RSA	Guarantee Limit	Remaining Capacity	PRINCIPAL	INTEREST	TOTAL	TOTAL
Water Pollution Bonds	485-A:7	$ 175,000	$ 150,017	$ 21,111	$ 3,872	$ 24,983	$ 31,663
Business Finance Authority (BFA) - General Obligation	162-A:17	25,000	**	20,000	9,383	29,383	30,078
Business Finance Authority (BFA) - Additional State Guarantee	162-I:9-b	50,000	**	34,241	249	34,490	36,334
Business Finance Authority (BFA) - Unified Contingent Credit Limit	162-A:22	95,000	* 40,759	54,241	9,632	63,873	66,412
School Construction Bonds	195-C:2	95,000	77,225	11,824	5,951	17,775	21,665
Solid Waste Bonds	149-M:31	30,000	29,571	355	74	429	514
Super Fund Site Cleanup Bonds	33:3-f	50,000	* 50,000				
Water Resources Council Bonds	481:19	5,000	5,000				
Housing Finance Authority Child Care Loans	204-C:79	300	300				
TOTALS		$ 450,300	$ 352,872	$ 87,531	$ 19,529	$ 107,060	$ 120,254

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

Limited Liabilities with the Pease Development Authority (PDA):

The state has statutory authority to guarantee bonds issued by the PDA, within certain limits, and advance money to the PDA, through both interest and non-interest bearing loans. In addition, RSA 12-G:17 authorizes the issuance of up to $250.0 million in bonds backed solely by the credit of the PDA. The table below highlights the legal limits of state guarantees and loans relative to the PDA as of June 30, 2007 (expressed in thousands):

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

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

PDA: The state loaned PDA the proceeds from bond issues V161 ($6.6 million) and V165 ($6.0 million). Currently, the state pays the debt service payments for the bond issues and when funds are available PDA will repay the state. As of June 30, 2007, $8.7 million has been paid by the PDA to the state against these bonds. Total principal and interest due at maturity owed by PDA, for these two bonds, is $12.5 million.

Semiannually, PDA makes payments to the state for the Lonza (Celltech) loans and the state pays the debt service payments. The amount outstanding as of June 30, 2007 relative to the Lonza (Celltech) loans is $19.1 million (representing principal $15.3 million and interest $3.8 million).

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

12. LEASE COMMITMENTS

OPERATING LEASES

The state has lease commitments for space requirements which are accounted for as operating leases. These leases, subject to continuing appropriation, extend forward a number of years and may contain rent escalation clauses and renewal options. Rent expenditures for fiscal year 2007 for governmental activities and business-type activities were approximately $8.6 million and $2.6 million, respectively. The following is a schedule of future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of June 30, 2007 (expressed in thousands):

Payable June 30,	Governmental Activities	Business-Type Activities
2008	$ 8,917	$ 2,541
2009	6,723	1,781
2010	4,743	1,633
2011	1,869	1,384
2012	1,040	1,041
2013-2017	778	2,395
Total	$ 24,070	$ 10,775

CAPITAL LEASES

The state has entered into lease agreements as lessee for financing the acquisition of buildings and equipment. These leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments. The future minimum lease payments and the net present value of those payments at June 30, 2007, are as follows (in thousands):

Payable June 30,	Governmental Activities	Business-Type Activities
2008	$ 1,684	$ 155
2009	1,034	141
2010	825	141
2011	607	141
2012	529	109
2013-2017	1,689	
2018-2022	779	
Total	7,147	687
Amount Representing Interest	(1,322)	(69)
Present Value of Minimum Lease Payments	$ 5,825	$ 618

The assets aquired through capital leases and included in capital assets at June 30, 2007 include the following (in thousands):

	Governmental Activities	Business-Type Activities
Equipment	$ 5,188	$ 563
Buildings & Building Improvements	9,862	1,129
Total	15,050	1,692
Less: Accumulated Depreciation	(11,243)	(853)
Net	$ 3,807	$ 839

13. LITIGATION

City of Nashua v. State; and Londonderry School District v. State

In 2005, the state enacted House Bill 616, now known as 2005 New Hampshire Laws Chapter 257, as the current education funding bill. Chapter 257 provides funding to schools based on four types of aid and revenue from the statewide enhanced education tax. Chapter 257 does not generally provide aid to municipalities on a per pupil basis. The four types of aid are: local tax capacity aid, targeted per pupil aid, statewide enhanced education tax capacity aid, and transition grants. Chapter 257 also includes the statewide enhanced education tax, which is assessed at a uniform rate across the state necessary to raise $363 million. For fiscal year 2006, the total state education aid under Chapter 257 is more than $819 million.

Two lawsuits were filed challenging the constitutionality of Chapter 257. The first is City of Nashua v. State, Docket No. 05-E-257, and the second is Londonderry School District, et al. v. State, Docket No. 05-E-406. Both of these suits were filed in August 2005 in the Supreme Court and both were dismissed from the Supreme Court. Both suits were refiled in Hillsborough County Superior Court, Southern District.

Nashua's Petition includes four general claims: 1) a challenge to Chapter 257 for not providing for an adequate education by failing to "relate the taxes raised by it to the cost of an adequate education," 2) a claim that Chapter 257's transition grants create disproportional and unequal taxes, 3) a claim challenging Chapter 257's "reliance upon three-year old data to fund the cost of an adequate education today," and 4) a claim questioning whether Chapter 257 requires the use of data from April 2003 for"'Equalized Valuation With Utilities" in order to correctly calculate the education grants under Chapter 257.

Londonderry's petition includes the following four general claims: (1) a claim that Chapter 257 fails to define an adequate education and establish an accountability system, (2) a claim that targeting aid to some municipalities has imposed on many of the remaining municipalities the burden of funding education through a local education tax, (3) a claim which asserts that Chapter 257 violates Part II, Article 5 because it results in property taxes that are not "proportional across the state" due to the transition grants, and (4) an equal protection claim.

The Nashua case was tried in mid-December 2005. The Londonderry case proceeded with a motion for summary judgement filed in January 2006, with the state filing a timely response in February 2006. On March 8, 2006, the Superior Court issued orders in both cases declaring Chapter 257 unconstitutional due to the state's failure to reasonably determine the cost of an adequate education. The Superior Court also found that the state has not defined an adequate education and has not enacted a constitutional accountability system.

The state filed timely appeals of these orders with the New Hampshire Supreme Court and, after an expedited appeal, on September 7, 2006, the Supreme Court found the state's definition of an adequate education unconstitutional. The Supreme Court gave the Legislature until June 30, 2007, to enact a constitutional definition of an adequate education. The Nashua case was stayed pending the outcome of the 2007 legislative session.

During the 2007 Legislative session, the Legislature debated many bills proposing to define an adequate education and held seven public meetings around the state to gather input. HB 927 was the main bill that defined an adequate education by including the specific criteria and programs. HB 927 passed both houses and was signed by Governor John Lynch on June 29, 2007. See 2007 NH Laws Chapter 270.

On July 20, 2007, the New Hampshire Supreme Court issued orders in both the Londonderry and Nashua cases requiring the parties to file a response as to whether the cases should be remanded based on the Legislature's actions. Londonderry filed a response offering to dismiss its case if the state agreed to cost and fund an adequate education and develop a new accountability system by June 30, 2008. The state declined this offer and asked that the matter either be dismissed or stayed until the end of the 2008 Legislative Session. Nashua responded that it wanted its appeal to proceed to argument and was requesting approximately $5 million in damages plus attorneys' fees. The state argued that Nashua was not entitled to either damages or attorneys' fees and that this matter should be dismissed as moot.

On September 14, 2007, the Supreme Court issued an order in *Londonderry* staying the case until July 1, 2008, but allowing any party to move "for good cause shown to lift the stay." On September 20, 2007, the Supreme Court issued an order in Nashua remanding the case to the Hillsborough County Superior Court for the court to determine (1) if the prior law should have been reinstituted and damages awarded to Nashua for the additional monies it would have received under the prior law, and (2) if attorneys' fees should have been awarded. The *Nashua* case is scheduled for a structuring conference on January 14, 2008.

The Legislative Costing Committee, established under HB 927 has been holding regular weekly meetings since August, 2007, and is taking public and expert testimony on a funding formula for an adequate education. The deadline for completion of the Costing Committee's work is February 1, 2008. The State cannot predict the outcome of these matters at this time.

A.P. Tibbetts Trust, Donald Stevens, Linda Stevens, J.P. Nadeau, James P. Nadeau, III, Split Rock Cover Limited Partnership v. Town of Rye

This case challenges the constitutionality of the statewide education property tax as assessed against them in 2006. Petitioners are all property taxpayers in Rye. They allege that the assessing practices throughout the state are not uniform enough to ensure the constitutionally-required proportionality necessary for allocating the statewide property tax between individual taxpayers in different communities. They also allege that the statewide property tax is unconstitutional as the state did not define an adequate education resulting in the formula used to distribute state funds and assess the statewide property tax being unconstitutional. The state is not currently a party to this suit. Petitioners' counsel informed the state that they intend to voluntarily non-suit this case. On September 5, 2007, however, Rye moved to join the state as a necessary party. The state, if joined, will move to dismiss this matter based on the Supreme Court's decision in Nadeau, et al. v. Portsmouth, et al. At this time, it is not possible to predict the outcome of this matter or the amount, if any, that the state will be required to pay in damages.

General Electric v. Department of Revenue Administration

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

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

On August 19, 2005, the Merrimack County Superior Court issued an order granting the DRA's Motion to Dismiss and the DRA's Motion for Summary Judgement. GE appealed to the New Hampshire Supreme Court, which affirmed in part and reversed in part the lower court's decision. The court reversed the lower court's order dismissing the case because the New Hampshire Supreme Court found that GE did have standing to challenge the statute. Nevertheless, the court affirmed the lower court's grant of summary judgment in favor of the DRA and concluded that RSA 77-A:4, IV is not facially unconstitutional, finding that the statute does not facially discriminate against a dividend-paying foreign subsidiary that does not conduct business in New Hampshire.

In March of 2007, GE filed a Petition for a Writ of Certiorari with the U.S. Supreme Court seeking review of the New Hampshire Supreme Court's decision. The state filed a brief in opposition to GE's Petition. The Council on State Taxation filed an amicus curiae brief in support of GE. The United States Supreme Court has invited the Solicitor General to file a brief expressing the views of the United States, and the Solicitor General filed an amicus brief in support of the State's position. On October 29, 2007, the Court denied GE's Petition. GE has paid the State $639,836 as it was obligated to do under the Settlement Agreements. As a result, this matter is now concluded.

State of New Hampshire v. Philip Morris USA, RJ Reynolds, Inc. and Lorillard Tobacco Company

This Petition for a Declaratory Order seeks payment of funds withheld by the defendents under the Tobacco Master Settlement Agreement ("MSA"). The defendents are signatories to the MSA under which the defendents are required to make annual payments to all of the states, including the state of New Hampshire. The payment received in 2006 was approximately $5 million below the required payment amount. On June 5, 2006 the Superior Court ordered the case to arbitration under the terms of the MSA. The New Hampshire Supreme Court affirmed the ruling of the trial court on June 22, 2007. No date has been set for the initiation of the arbitration procedure, which is expected to last a year or more. The state is unable to predict the outcome at this time.

New Hasmpshire Internet Service Providers ("NHISPA") and Destek v. Department of Revenue Administration ("DRA")

Plaintiffs claim that Verizon and other carriers' collection of the Communications Services Tax on T-1 and T-3 services/ lines is illegal as it is pre-empted by fedreral law. The DRA believes that collection of the tax is legitimate because the DRA's right to collect the tax is grandfathered under federal law. This has been an ongoing concern for some time as a meeting with the attorneys representing NHISPA was held in early October of 2005, and there were various legislative and rule-making activity in the last session which ultimately did not address the issue. While the original lawsuit filed in federal court has been dismissed, the suit has been re-filed in state court. In a report to the Legislature in 2003 the DRA stated that the estimate loss of revenue if the tax were declared invalid or the grandfathering provision were repealed would be between $1 million and $3 million in regards to T1-T3 services and other similar lines. If broadband and ISP Access telephone were also included the amount of lost revenue could be an additional $3-$5 million.

The federal Internet Tax Freedom Act has been extended beyond November 2007, but the grandfathering section has likewise been continued. It is not possible to predict the outcome of this matter at this time.

Holliday, et al v. Stephen Curry, Commissioner, NH DOC, et al

The above referenced matter was filed as a class action in state court against the New Hampshire Department of Corrections ("DOC.") The plaintiffs' class, made up of all inmates of the New Hampshire State Prison, brought an equity petition to enforce various settlement agreements related to a comprehensive "conditions of confinement" suit dating back to 1976. The plaintiffs' class alleged, and the court found, that the DOC materially breached certain elements of the settlement agreements relating to the provision of mental health care to inmates. In brief, the plaintiffs asserted that the DOC lacked a number of mental health programs and the staff to implement those programs. The matter was tried and the court ruled against the DOC ordering it to develop an implementation plan and that the plan be executed. In particular, the court ordered the creation of a residential treatment unit to house and treat a sub-set of the class. Full implementation will require capital improvements, the hiring of correctional and mental health staff and operating expenses to sustain the program.

The DOC submitted its implementation plan which was approved by the court. This office also appealed parts, but not all, of the court's order asserting that the court exceeded its authority under the settlement agreements. The parties settled the matters on appeal and the appeal has been withdrawn.

The court continues to schedule conferences and will continue to track the DOC's implementation.

State of New Hampshire v. Amerada Hess, et al.

The state filed this claim for damages, injunctive relief and civil penalties against major oil companies as a result of statewide contamination of drinking water with the gasoline additive Methyl tertiary-butyl ether ("MTBE"). The defendents attempted to remove the case to federal court. The state was successful in its argument that the case should be heard in the state court and the case will be remanded for adjudication in the Merrimack County Superior Court. The case is still at its early stages and extensive discovery will likely occur before the case is tried. Although the state has not identified a specific dollar amount in its damage claims, successful adjudication or settlement of the state's claims would likely exceed $2 million. At this time, it is not possible to predict the outcome of this matter or the amount, if any, that the state would recover through court judgment or settlement.

New Hampshire Association of Counties, et al. v. Commissioner of Department of Health and Human Services ("NHAC I")

All of the state's ten Counties (the Plaintiff Counties) challenged the Department of Health and Human Services' (DHHS) decision holding them responsible for paying a share of the cost of Medicaid payments for clients receiving Old Age Assistance (OAA) or Aid to the Permanently and Totally Disabled (APTD). Under RSA 167:18-b, the counties are liable for one-half of the state's expenditures for OAA and APTD recipients who are "in nursing homes." DHHS believed that RSA 167:18-b also allowed it to bill the Counties for nursing services that are provided to recipients who are in institutions, such as rehabilitation hospitals, that are not licensed as "nursing homes" but are certified under Medicaid as nursing facilities authorized to provide nursing level care. DHHS has been billing the Counties for these services since at least 2002.

The second issue raised by the Counties in their suit is whether DHHS exceeded the statutory cap on the total amount that the Counties can be billed under RSA 167:18-b in fiscal year 2004. RSA 167:18-b establishes a $60 million cap on the total liability for the Counties under this section of the statute. In addition the Plaintiff Counties receive a $2 million credit, reducing their total obligation to $58 million. The legal dispute in this case involves how to calculate the $58 million cap, and whether that figure should be interpreted as a gross amount or a net amount. In 2004, the total amount of the bills sent to the Plaintiff Counties for their share of payments under RSA 167:18-b was approximately $62 million. However, DHHS gave the Plaintiff Counties a number of credits, including drug rebates which reduced their overall liability. The Plaintiff Counties refused to pay the total amount, claiming that the statute limits the total amount that can be "billed" to the Counties at $58 million.

The parties filed cross-motions for summary judgement and on October 27, 2006, the Merrimack County Superior Court granted summary judgement in favor of the Plaintiff Counties on both issues.

The state appealed the lower court's decision to the N.H. Supreme Court. On August 17, 2007 the Supreme Court issued an order in which it vacate the majority of the lower courts decision, affirmed it in part and remanded it back to the lower court for additional factual findings.

Most significantly, the Supreme Court held that the term "nursing home" in RSA 167-18-b means any institution certified by the federal medicaid program to provide nursing facility services. The result is that the vast majority of bills which were submitted to the Plaintiff Counties were appropriate and legal, and therefore the Plaintiff Counties will not be entitled to any reimbursement from the state of those amounts paid. In addition, the state will be able to demand payment for certain bills which the Counties refuse to pay.

In addition, while the Supreme Court agreed that RSA 167:18-b, IV(a) reduced the Plaintiff Counties' aggregate 2004 reimbursement obligation from $60 million to $58 million, the Court held that there remains a legal issue as to whether the term "billings" applies to gross or net billings, and left it to the trial court to make a legal determination on remand.

It is not possible to calculate the likely fiscal impact to the state at this time. The most recent Supreme Court ruling means that the state will most likely not suffer any financial impact going forward (i.e. the state will not be required to expend any money to reimburse the Counties for moneys previously collected). The question that remains unanswered is the extent to which the state will be allowed to recover approximately $5 million which was withheld by the Plaintiff Counties in prior fiscal years. On November 21, 2007, both parties filed memorandums of law regarding the issues remaining after remand. To date the parties have not received a response from the Court.

New Hampshire Association of Counties, et al. v. Commissioner of Department of Health and Human Services ("NHAC II")

The Counties have filed a second lawsuit in Merrimack County Superior Court challenging the manner in which the state assesses the Counties a portion of the cost for long-term care. In this lawsuit, the Counties claim that the most recent law (HB 2, 2007) enacted violates Article 28-a of the New Hamphire Constitution in that it constitutes an "unfunded mandate."

HB 2 sets out the multi-year approach to this problem. In the first year, it continues the existing relationship with the Counties with regard to the sharing of costs of long-term care. In the subsequent years, the new law changes the relationship between the Counties and the state, shifting certain costs onto the Counties, but taking other responsibilities away from the Counties.

The Counties have filed a petition seeking a declaratory judgment and injunctive relief. They are seeking to be excused from having to contribute to the cost of long-term care for patients on Medicaid. The Counties currently pay approximately $70 million per year towards long-term care under Medicaid.

A motion for preliminary injunctive relief was denied by the Superior Court on September 20, 2007. Both parties submitted memorandums of law in November 2007. A hearing is scheduled for February 13, 2008.

It is difficult to assess the likely financial impact to the state from this litigation. If the Counties were to prevail, it would result in a decrease in anticipated revenue for long-term care. This would result in the need to decrease the appropriation for long-term care, by reducing services, or increase revenue from some other source.

Roger Serratore v. NH Division for Children, Youth, & Families

This case arises from a neglect proceeding. In the underlying neglect proceeding, Mr. Serratore was administered a paternity test and excluded as the father of the child at issue. Mr. Serratore was denied a second paternity test, and that decision was upheld by the court on appeal. In this case, Mr. Serratore, who is pro se, alleges that the Division of Children, Youth & Familes ("DCYF"), through an Attorney in the Attorney General's Office, used improper influence to obtain confidential information about the plaintiff's paternity test results while the appeal was pending before the New Hampshire Supreme Court. The State denies any allegation of improper influence. The plaintiff also alleges that DCYF either negligently or intentionally made inaccurate statements in a social study report that was submitted in the underlying neglect proceeding which the plaintiff contends prejudiced his guardianship and parental rights. In addition, the plaintiff appears to challenge the legal decision not to grant him another paternity test. The plaintiff is seeking approximately $7.5 million from DCYF plus costs and fees.

This case is still at its early stages. A structuring conference was held November 5, 2007. The State plans to contest the case vigorously. At this early stage, it appears the plaintiff's likelihood of success is remote.

Review of New Hampshire's Medicaid Disproportionate Share Hospital Payments

By letter dated July 9, 2007, the New Hampshire Department of Health and Human Services ("DHHS") received a final report from the Office of Inspector General ("OIG") regarding an audit of DHHS's disproportionate share hospital ("DSH") payments during federal fiscal year 2004. The report found that $35 million federal share for federal fiscal year 2004 was unallowable on grounds that the state's cost to charge ratio was inflated. The report recommended that the federal share be refunded and that the state work with the Centers for Medicare and Medicaid Services ("CMS") to review DHS payments claimed after the audit period and refund any overpayments.

Based on the state's response to a previously transmitted draft report, the OIG reduced the amount it recommended for repayment in the July 9, 2007 final report by approximately $9 million. The draft report had recommended repayment of $44 million.

DHHS responded to CMS regarding the report on August 8, 2007. At this time, it is impossible to predict whether or to what extent CMS will take action with regard to disallowance of any federal fiscal year 2004 federal financial participation. A similar situation may exist for federal fiscal years 2005 and 2006, although amounts, if any, have not been determined.

OTHER LITIGATION

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

14. HIGHWAY

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 gasoline road toll tax. The unaudited unreserved surplus (deficit) for the capital and operating accounts and the total highway fund, at June 30, 2007 were as follows (expressed in millions):

	Capital Account	Operating Account	Total Highway Fund
Unreserved Surplus/(Deficit)	$ (46.7)	$ 28.8	$ (17.9)

The unaudited deficit in the capital account at June 30, 2007 exists primarily because funds are appropriated from the current year fund balance for multi-year highway construction projects. Although the state will receive reimbursements from federal and local sources in future years, after the actual cash disbursements have occurred, the total project cost is a charge against the fund balance at the time the project is approved.

The unaudited surplus in the operating account at June 30, 2007 was $28.8 million. 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.

15. JOINT VENTURES-LOTTERY COMMISSION

The New Hampshire Lottery Commission is an active participant in two separate joint venture arrangements: the Tri-State Lotto Commission (Tri-State) and the Multi-State Lottery Association (MUSL).

In September 1985, Tri-State was established whereby the New Hampshire Lottery Commission (Lottery) entered into a joint venture with the lotteries of the states of Maine and Vermont to promulgate rules and regulations regarding the conduct of lottery games and the licensing of agents. In addition, each state contributes services towards the management and advisory functions. Each states share of revenues, expenses and interest income is based on their respective share of sales except for direct charges such as advertising, vendor fees and per-diem payments. Prizes awarded under Tri-State games are fully funded by deposit fund contracts and investments held by Tri-State. Accordingly, the Lottery does not record a liability for jackpot awards which are payable in installments from funds provided by Tri-State. For the year ended June 30, 2007, the Lottery recognized $10.0 million of net income from Tri-State. In addition, Tri-State has established a Designated Prize Reserve, which acts as a contingency to protect Tri-State against unforeseen liabilities. The Lottery's share of deposits held as Tri-State prize reserves was $1.5 million at June 30, 2007.

In November 1995, the Lottery became a member of MUSL, which is currently comprised of 32 member state lotteries and administers the Multi-State Lottery Powerball and Hot Lotto games. Each state lottery sells tickets, collects revenues and remits prize funds to MUSL net of lower tier prize awards. Each member also pays for a share of MUSL's operating expenses based upon the members proportionate share of game sales. Jackpot prizes that are payable in installments are satisfied through investments purchased by MUSL. Accordingly, the Lottery does not record a liability for jackpot awards which are payable in installments from funds provided by MUSL. For the year ended June 30, 2007, the Lottery recognized $20.7 million of net income from MUSL. In addition, MUSL has established a contingency reserve to protect MUSL and its members against unforeseen liabilities. The Lottery's share of deposits held as MUSL prize reserves was $2.2 million at June 30, 2007.

16. RESTATEMENT OF JUNE 30, 2006 COMMUNITY DEVELOPMENT FINANCE AUTHORITY NET ASSETS

The net assets of the Community Development Finance Authority (CDFA) at June 30, 2006 has been increased by $1.6 million to recognize revenue previously reported as deferred revenues. The restatement represents an error in the prior year resulting in the overstatement of deferred revenues.

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]