

**STATE OF NEW HAMPSHIRE'S  
ANNUAL REPORT  
With respect to  
STATE OF NEW HAMPSHIRE  
TURNPIKE SYSTEM REVENUE BONDS  
February 23, 2006**

This Annual Report dated February 23, 2006 (the "Annual Report") of the State of New Hampshire (the "State") is prepared and submitted in accordance with the requirements of the Continuing Disclosure Certificates, dated February 11, 1999, January 3, 2002, August 7, 2003 and November 23, 2005 (collectively, the "Continuing Disclosure Certificates") executed by the State for the benefit of the owners of the \$96,770,000 State of New Hampshire Turnpike System Revenue Bonds, 1999 Series A and 1999 Refunding Series B, \$84,865,000 State of New Hampshire Turnpike System Revenue Bonds, 2002 Refunding Series, \$94,125,000 State of New Hampshire Turnpike System Revenue Bonds, 2003 Refunding Series, and \$39,425,000 State of New Hampshire Turnpike System Revenue Bonds, 2006 Refunding Series to be delivered in August, 2006 (collectively, the "Bonds"). Exhibit A hereto sets forth the State's unaudited financial statements pertaining to its Turnpike System for the fiscal year ended June 30, 2005, prepared in accordance with generally accepted accounting principles. The unaudited financial statements are still subject to change. The audited financial statements are not yet available, but the State expects to file the audited financial statements by the middle of March 2006.

Questions may be directed to Paul Anctil, Finance Manager at the State of New Hampshire Department of Transportation at (603) 271-1579.

**Annual Report**

This Annual Report is submitted pursuant to the Continuing Disclosure Certificates and updates certain information contained in the State's most recent Official Statement dated November 23, 2005 (the "Official Statement"), which contains certain information pertaining to the State's Turnpike System. This Annual Report does not constitute an offer to sell or the solicitation of an offer to buy the Bonds.

Pursuant to the Continuing Disclosure Certificates, the State hereby updates the information requested in Section 4 of the Continuing Disclosure Certificates as follows (the headings and page numbers refer to the applicable portions of the Official Statement):

- THE TURNPIKE SYSTEM – General Description, with respect to the first paragraph on page 25:

No changes.

- THE TURNPIKE SYSTEM – Maintenance of the Turnpike System, with respect to the first paragraph on page 27:

The resurfacing plan for the Turnpike System is to on average repave approximately 10% of the lane miles per year. During the two period covered by fiscal years 2005 and 2006, a total of approximately 7% of the lanes miles will be resurfaced.

- THE TURNPIKE SYSTEM – Maintenance of the Turnpike System, with respect to the table captioned “Renewal and Replacement Expenditures” on page 28:

Fiscal Year 2006 projected expenditures are \$4.8 million. The planned expenditures include: resurfacing (\$.9 million), roof repairs (\$1.3 million), HVAC improvements (\$1.0 million), bridge repair (\$.2 million), sign replacement (\$.5 million), and other improvements (\$.9 million).

- THE TURNPIKE SYSTEM – Toll Collection, Rates and Schedules, with respect to the table captioned “Current Toll Rate Schedule” on page 35:

No changes.

- THE TURNPIKE SYSTEM – Turnpike System – Historical Revenues and Expenditures, with respect to the table captioned “Statement of Revenues, Expenses and Changes in Retained Earnings” on page 36: (see the following page). This table has been updated from the table included in the Official Statement due to various proposed audit adjustments. At this time, fiscal year 2005 results are still unaudited.

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN FUND NET ASSETS  
New Hampshire Turnpike System  
(000's)**

	Fiscal Year Ending <u>June 30, 2004</u>	Fiscal Year Ending <u>June 30, 2005</u> (Unaudited)
Operating Revenues:		
Tolls	<u>\$65,293</u>	<u>\$66,626</u>
Operating Expenses:		
Depreciation	11,728	12,560
Personnel Services	9,749	9,873
Enforcement	3,918	4,067
Payroll Benefits	3,993	4,406
Renewal and Replacement	4,973	3,114
Repairs	1,506	1,621
Other	<u>5,594</u>	<u>8,083</u>
Total Operating Expenses	<u>41,460</u>	<u>43,724</u>
Operating Income	<u>23,833</u>	<u>22,902</u>
Non-operating Income (expenses)		
Investment Income	338	1,162
Interest expense	(15,141)	(14,628)
Gain (loss) on sale of land/equipment	(23)	(27)
Miscellaneous	84	105
Grant Contributions	7,338	6,373
Amortization of bond issuance costs	<u>(215)</u>	<u>(230)</u>
Total Non-operating expenses, net	<u>(7,620)</u>	<u>(7,245)</u>
Income (Loss) Before Operating Transfers	16,213	15,657
Net Assets - July 1	<u>263,758</u>	<u>279,971</u>
Net Assets - June 30	<u>\$279,971</u>	<u>\$295,628</u>

- THE TURNPIKE SYSTEM – Management Discussion of Historical Revenues and Expenditures (only with respect to the preceding fiscal year) on page 37:

*Fiscal Year 2005(Unaudited)*

Gross revenues available for operating expenses, debt service, reserves and improvement projects totaled \$67,892,971, a 3.3% increase from fiscal year 2004. Toll revenues in this period were \$66,626,343, an increase of 2.0% from 2004. Investment income also increased by \$824,364, which includes an increase of \$504,911 in fair market value of investments.

Operating expenses (excluding depreciation and funds for renewal and replacement) in fiscal year 2005 were \$28,051,228, an increase of 13.3% over the prior year. This was due to the initial E-ZPass Customer Service processing fees and the purchase of E-ZPass transponders. The increase was also due to an increase in the employee benefits rate, an increase in cost and usage of salt and sand, and an increase in the use of outside contractors for snow removal.

During fiscal year 2005, Capital Improvement Program expenditures totaled \$22,486,581 including \$6,372,891 from the State and Federal highway sources and \$9,508,528 from proceeds of the 2002 Series Bonds, and \$6,605,162 from Turnpike sources.

*July 1, 2005 to Present*

In order to maintain continued compliance with all the requirements of the General Bond Resolution, including, in particular, Section 4.1 pertaining to adequacy of tolls and charges, and specifically subsection 4.1 (c), the State intends to hire an independent engineer to forthwith undertake a study and to recommend, if appropriate, a change in the toll schedule. In addition, the independent engineer will be requested to conduct an infrastructure system condition assessment.

The services of the independent engineer will also satisfy the requirement under the General Bond Resolution of a revenue and traffic study for purposes of a future bond issue.

Restricted assets at estimated fair value are segregated into the following accounts as of June 30:

	2005 (unaudited)
Revenue Bond Debt Service Reserve Account	26,023,958

- TURNPIKE SYSTEM INDEBTEDNESS, with respect to the table captioned “Turnpike System Debt Service” on page 41:

No changes.

- CAPITAL IMPROVEMENT PROGRAM, with respect to the table captioned "Project Descriptions" on pages 44 and 45, inclusive:


No changes.

- CAPITAL IMPROVEMENT PROGRAM, with respect to the table captioned "Capital Improvement Program Expenditures" on page 46:

No changes.

This Annual Report has been executed and delivered on behalf of the State pursuant to the Continuing Disclosure Certificates.

STATE OF NEW HAMPSHIRE

By:   
Assistant Commissioner of  
Department of  
Transportation



STATE OF NEW HAMPSHIRE  
DEPARTMENT OF TRANSPORTATION  
TURNPIKE SYSTEM  
COMPREHENSIVE ANNUAL FINANCIAL REPORT-UNAUDITED  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

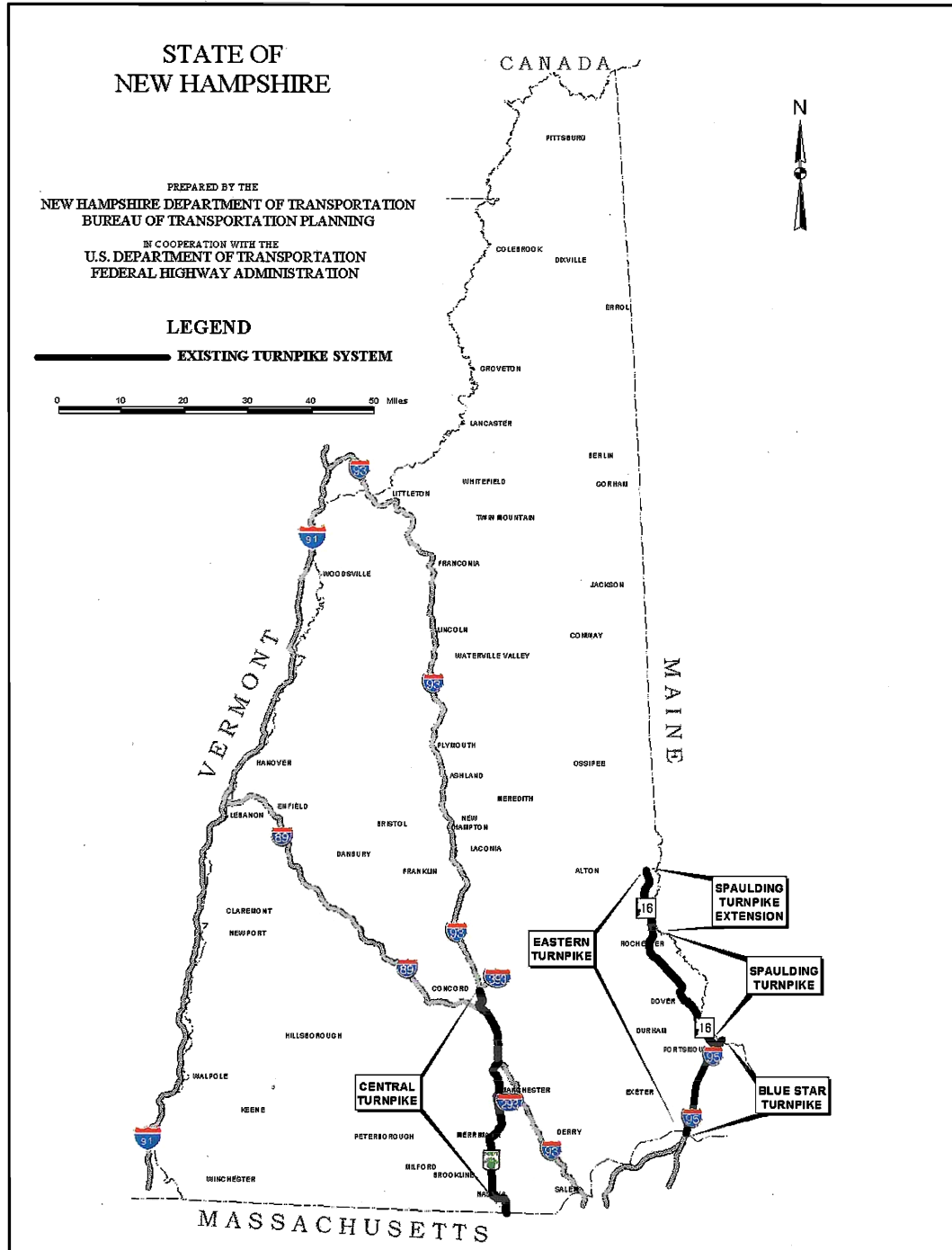
New Hampshire Turnpike System  
Comprehensive Annual Report  
For the Fiscal Year Ended June 30, 2005

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# INTRODUCTORY SECTION

This section includes a transmittal letter addressed to the citizens and the Governor of the State of New Hampshire, an overview of the Turnpike System, and an organizational listing of the principal officials.





February 1, 2006

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

We are pleased to submit the Comprehensive Annual Financial Report of the New Hampshire Department of Transportation Turnpike System as of and for the fiscal year ended June 30, 2005. The Department of Transportation, Bureau of Finance and Contracts, prepared this report. Responsibility for both the accuracy of the financial data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Department. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position, results in operations, and cash flows of the Turnpike System. All disclosures necessary to enable the reader to gain an understanding of the Turnpike's financial activities have been included.

This report is divided into three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter and our organizational chart. The financial section contains the independent auditor's report, management's discussion and analysis (MD&A), and financial statements with accompanying notes. The statistical section includes relevant financial statistical information.

GASB Statement 34 requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of MD&A. This letter of transmittal is intended to complement MD&A and should be read in conjunction with it. The MD&A can be found immediately following the independent auditors' report.

The Turnpike System is included within the State's Comprehensive Annual Financial Report. The report presents all activities of the Turnpike in a single enterprise fund and does not include data or information related to any other state agency or fund.

This annual report may also be viewed on the State of New Hampshire - Department of Transportation website located at <http://webster.state.nh.us/dot/media/publications.htm>.

# **THE TURNPIKE SYSTEM**

## ***General Description***

The Turnpike System, as shown on the map on the Introductory Section cover page, presently consists of 93 miles of limited access highway, 36 miles of which are part of the U.S. Interstate Highway System, comprising a total of approximately 631 total lane miles. Since beginning operations in 1950, the Turnpike System has contributed to the development of the New Hampshire economy. It has also been a major factor in the growth of the tourist industry in the State. The Turnpike System comprises three limited access highways: the Blue Star Turnpike (I-95) and the Spaulding Turnpike, which are collectively referred to as the Eastern Turnpike, and the Central Turnpike. The Turnpike System primarily serves the major cities located in the central and southern sections of New Hampshire.

No food, gas or vehicle service facilities are located on the Turnpike System, with the exception of vending machines at the Hooksett and Seabrook rest areas. Motorist services are located near most interchanges on the Turnpike System and are privately operated. State operated liquor stores are located at two rest areas on the Central Turnpike (I-93) and at two sites along the Blue Star Turnpike (I-95). The Bureau of Turnpikes does not receive any revenue from the liquor store operations, which are operated by the State's Liquor Commission, or from the vending machines, which are operated by the State's Department of Administrative Services.

## ***The Eastern Turnpike***

### **Blue Star Turnpike (I-95)**

The Blue Star Turnpike segment of the Turnpike System extends from the Massachusetts state line in Seabrook, New Hampshire to the Portsmouth Traffic Circle in Portsmouth, New Hampshire. It is 15.0 miles in length and constitutes a portion of U.S. Interstate Highway 95. The Blue Star Turnpike serves as the major connecting road between the states of Maine and Massachusetts. It also parallels the seacoast and, as such, is the major artery for tourist traffic to the New Hampshire coast from Massachusetts and Maine. The route also connects with several major highways in New Hampshire, including Route 101, Route 4 and the Spaulding Turnpike. Two toll plazas are located in Hampton, one for main line traffic and one for vehicles entering and leaving the Turnpike System.

Hampton also has both a maintenance and a park and ride facility to encourage car-pooling. The Seabrook welcome center provides additional parking for motorists and commercial vehicles. This facility provides a larger building than the former Seabrook rest area, allowing for increased convenience of the Turnpike System patrons.

### **Spaulding Turnpike**

The Spaulding Turnpike segment of the Turnpike System, including the 11.2-mile Spaulding Turnpike extension, extends from Portsmouth, New Hampshire to Exit 18 in Milton, New Hampshire. It is 33.2 miles in length and is the major north-south artery in the eastern corridor of the State. This segment of the Turnpike System connects the Blue Star Turnpike (I-95) to Route 16 (the major roadway to northern New Hampshire in the eastern portion of the State), and it connects the major cities of eastern New Hampshire (Portsmouth, Dover and Rochester) as well as several major highways (Routes 4, 16 and 125, and I-95). It has two toll plazas located at Dover and at Rochester, with a maintenance facility for the Spaulding Turnpike located at Dover. Maintenance on the Spaulding Turnpike extension is provided by the Department of Transportation's Bureau of Highway Maintenance and billed to the Bureau of Turnpikes. In addition, for the convenience of the Turnpike System patrons, a rest area with rest rooms and picnic facilities is provided at Hilton Park in Dover.

### ***The Central Turnpike (F.E. Everett)***

The Central Turnpike, commonly known as the F.E. Everett Turnpike, extends from the Massachusetts state line in Nashua, New Hampshire to Exit 14 in Concord, New Hampshire. Its' distance is 44.7 miles in length and constitutes a portion of U.S. Interstate Highways 93 and 293. The Central Turnpike connects three urban centers in New Hampshire (the cities of Concord, Manchester, and Nashua). The route also connects with the major East-West roads in New Hampshire (Route 101, Route 4 and I-89). Six toll plazas are located on the Central Turnpike: two at Hooksett (main line and ramp), a main line plaza in Bedford, and ramp plazas at Bedford Road, Exit 11 and Merrimack Industrial Interchange. There are maintenance facilities at Nashua, Merrimack and Hooksett. Park and ride facilities are provided in Hooksett and Nashua. In addition, two rest areas for information and rest room facilities are provided in Hooksett for the convenience of Turnpike System patrons. The Central Turnpike also has a new welcome center at Exit 6 in Nashua. The widening of the Central Turnpike in Nashua from the Massachusetts state line to the Exit 8 interchange has been completed. This section of reconstructed highway includes a highway interconnect from the new Exit 2 interchange in Nashua to Route 3A in Hudson.

# ORGANIZATIONAL LISTING

## STATE OF NEW HAMPSHIRE

### **Governor**

John H. Lynch

### **Executive Council**

Raymond S. Burton

Peter J. Spaulding

Ruth L. Griffin

Raymond J. Wieczorek

Debora B. Pignatelli

### **State Treasurer**

Michael A. Ablowich

### **Secretary of State**

William M. Gardner

### **Attorney General**

Kelly A. Ayotte

## NEW HAMPSHIRE DEPARTMENT OF TRANSPORTATION

### **Commissioner**

Carol A. Murray, P.E.

### **Assistant Commissioner**

David J. Brillhart, P.E.

### **Director of Operations**

Lyle Knowlton, P.E.

### **Turnpikes Administrator**

Harvey S. Goodwin, P.E.

### **Turnpikes Assistant Administrator**

Jonathan K. Hanson

### **Business Administrator**

Margaret S. Blacker

### **Maintenance Superintendent**

Dix E. Bailey

### **Turnpikes Project Manager**

Nassar Yari

### **Toll Operations Manager**

Albert R. Almasy



# *FINANCIAL SECTION*

This section includes the independent auditor's report, management's discussion and analysis, the financial statements as of and for the fiscal year ended June 30, 2005 and the accompanying notes to the financial statements.





**Independent Auditors' Report**

**(Forthcoming - will be two pages)**





**New Hampshire Turnpike System  
Management's Discussion and Analysis**

This discussion and analysis of the Turnpike's financial performance provides an overview of financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the transmittal letter at the front of this section and the Turnpike's financial statements, which follow this section.

**Financial Highlights**

- ❖ Operating revenues for the Turnpike System increased by \$1.33 million or 2.04% in fiscal year 2005.
- ❖ Operating expenses for the year increased approximately \$2.3 million or 5.46%. This increase in operating expenses is the result of initial E-ZPass processing fees, and changes in employee benefit rates as well as higher snow removal expenses.

**Using this Annual Report**

The Turnpike System is accounted for as an enterprise fund, reporting all of the System's financial activity, assets and liabilities using the accrual basis of accounting much like a private business entity. As such, this annual report consists of a series of financial statements, along with explanatory notes to the financial statements. The Statement of Net Assets on page 13 and the Statement of Revenues, Expenses and Changes in Fund Net Assets on page 14, report the Turnpike's net assets and changes in them. Lastly, the Statement of Cash Flows on page 15 outlines the cash inflows and outflows related to the activity of the Turnpike System.

		(Amounts in thousands)	
		2005	2004
<u>Assets:</u>			
Current Assets		\$ 51,083	\$ 49,202
Non-current Assets		27,126	37,552
Capital Assets		<u>534,657</u>	<u>524,299</u>
Total Assets		<u>612,866</u>	<u>611,053</u>
<u>Liabilities:</u>			
Current Liabilities		24,611	24,306
Non-current Liabilities		<u>292,627</u>	<u>306,776</u>
Total Liabilities		<u>317,238</u>	<u>331,082</u>
<u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt		224,787	190,171
Restricted for Debt Repayments		41,528	42,602
Restricted for Capital Assets from Unspent Bond Proceeds			9,509
Unrestricted Net Assets		<u>29,313</u>	<u>37,689</u>
Total Net Assets		<u>\$ 295,628</u>	<u>\$ 279,971</u>

## **Net Assets and Changes in Net Assets**

The Turnpike's total net assets at June 30, 2005 were approximately \$295.6 million, a 5.6% increase from June 30, 2004. Total assets increased slightly (.29%) to \$612.9 million. Total liabilities decreased 4.2% to \$317.2 million. The increase in net assets is attributable to continued capital improvements and decreased bond debt.

## **Liabilities**

The Turnpike's current liabilities consist primarily of bonds payable, accrued operating expenses, and deferred revenue. Long-term liabilities consist of compensated absences and workers compensation and bonds payable. Total liabilities decreased by \$13,843,728 or 4.18% in fiscal year 2005.

The increase in current liabilities of \$305,303 in fiscal year 2005 is largely due to an increase in deferred revenue and a decrease in both bonds payable and compensated absences and workers compensation.

The table below shows current liabilities as of June 30, 2005 and June 30, 2004:

	(Amounts in thousands)	
	<u>2005</u>	<u>2004</u>
Accounts Payable	\$ 2,054	\$ 1,887
Accrued Compensated Absences and Workers Compensation	1,371	1,700
Bonds Payable	14,582	14,906
Other Current Liabilities	<u>6,604</u>	<u>5,813</u>
Total Current Liabilities	<u>\$ 24,611</u>	<u>\$ 24,306</u>

## **Revenues and Expenses**

### **Operating Revenues**

The Turnpike's primary revenues are generated from toll collections, which include cash toll receipts, charge account payments, charge account interest, token sales, and miscellaneous income. The Central New Hampshire Turnpike generated gross revenue of \$28.7 million, the Blue Star Turnpike \$28.4 million and the Spaulding Turnpike finished the year with \$8.8 million in gross revenue.

An additional \$711,751 miscellaneous income was generated, including \$39,991 in toll evasion fines/fees.

### **Turnpike System Revenue and Traffic Trends**

As of June 30, 2005, toll revenue comprised five components: cash toll receipts, charge account payments, charge account interest, token sales revenue and miscellaneous income. Beginning in July 2005, the Department began the implementation of the E-ZPass electronic toll collection program, which replaced tokens and charge card programs. The Commercial charge program concluded on September 30, 2005. Tokens were accepted until December 31, 2005.

Rates of growth in toll revenues may differ from growth in toll transactions due primarily to (i) changes in toll rates, (ii) changes in amounts and utilization of the Turnpike System discount token and commercial charge programs and E-ZPass and (iii) a changing mix of vehicle classes. The last system-wide toll increase was instituted in October 1989.

During fiscal year 2005, passenger vehicles traveling the Turnpike System comprised 94% of the total traffic, with commercial vehicles at 6%. Passenger vehicles have been able to use Turnpike System tokens, which provide a 50% toll discount. Commercial vehicles participating in the Turnpike System commercial charge

program have received a 30% discount. The token and commercial charge discount programs were highly popular, with approximately 60% of passenger traffic using tokens and approximately 50% of commercial traffic using the commercial charge discount program during the twelve months ended June 30, 2005. These discount programs will be terminated and replaced by E-ZPass electronic toll collection program, which offers a 30% discount for individual accounts (passenger vehicles) and a 10% discount for business accounts.

Traffic and toll revenue growth began to flatten in fiscal year 2003, and the trend continued through fiscal year 2005. Many factors contributed to this slowdown in growth, including rising fuel costs, an economic slowdown in the Northeast, harsher winters, and fewer travel trips following the terrorist attacks on September 11, 2001. This slowdown affected truck traffic in particular and was also experienced by other turnpike systems elsewhere in the Northeast.

Revenue growth was higher than traffic growth in fiscal years 2004 and 2005, due primarily to one-way toll collection at the Hampton toll plaza during September and October 2003, and July through October 2004. During these periods, tolls at that facility were doubled, but tolls were only collected and traffic was only counted in the northbound lanes.

### **Operating Expenses**

Operating expenses for the year increased approximately \$2.4 million or 5.87%. This increase is the result of initial E-ZPass processing fees, and changes in employee benefit rates as well as higher snow removal expenses.

	(Amounts in thousands)	
	<u>2005</u>	<u>2004</u>
Operating Revenue	\$ 66,626	\$ 65,293
Operating Expenses	<u>43,724</u>	<u>41,460</u>
Operating Income	22,902	23,833
Non-Operating Revenues (Expenses)	<u>(13,618)</u>	<u>(14,958)</u>
Net Income Before Grant Contributions	9,284	8,875
Grant Contributions	<u>6,373</u>	<u>7,338</u>
Change in Net Assets	15,657	16,213
Net Assets – July 1	<u>279,971</u>	<u>263,758</u>
Net Assets - June 30	<u>\$ 295,628</u>	<u>\$ 279,971</u>

### **Maintenance of the Turnpike System**

The Turnpike System (other than the Spaulding Turnpike extension) is maintained and repaired by the Bureau of Turnpikes of the State Department of Transportation. All maintenance and repair costs have been funded from Turnpike operating revenues since the beginning of the Turnpike System in 1950. The Turnpike System funds Renewal and Replacement Costs from the General Reserve Account. In addition, the State's policy is to set aside \$2,000,000 of its General Reserve Account for unanticipated Renewal and Replacement Costs.

Since 1986, the Bureau of Turnpikes has resurfaced an average of approximately 10% of the total lane miles of the Turnpike System each year, with the exception of fiscal years 2005 and 2006 (during which no resurfacing was performed), repaired and planned for the rehabilitation of at least one bridge each year, provided needed updating and repairs of the heating systems and emergency generators at all facilities, and performed other repairs as needed. The Bureau expects to continue to resurface sufficient lane miles annually in order to complete a full re-pavement cycle of the entire Turnpike System every ten years.

### **Non-Operating Revenues (Expenses)**

Non-Operating Revenues increased by 8.95%. The increase is the result of an increase in Investment and Rental Incomes and a decrease in Interest Expense.

### ***Other Potentially Significant Factors***

The Turnpike System incurred a significant amount of expenses during the effort to target the impending E-ZPass implementation date of July 1, 2005. Customer service set-up and processing charges totaled \$680,000 and transponder purchases totaled \$2,097,000. The difference between the average cost and selling price of the inventory resulted in operating expense of \$1,673,000. In an effort to generate interest in the E-ZPass program, transponders costing an average \$24.74 were initially sold for \$5.00 each.

### ***Budgetary Highlights***

#### ***Budget and Appropriation Process***

The Legislature meets annually but adopts its budget on a biennial basis. Prior to the beginning of each biennium, all departments of the State, including the Department of Transportation, are required by law to transmit to the Commissioner of the Department of Administrative Services requests for capital expenditures, as well as estimates of their administration, operation and maintenance expenditure requirements for each fiscal year of the ensuing biennium.

As a bureau of the State of New Hampshire, Department of Transportation, the Turnpike is included in the State of New Hampshire's biennial operating budget. The Turnpike's official budget, as adopted by the Legislature, is prepared principally on a modified cash basis. The Turnpike's budget consists primarily of salaries and benefits, maintenance, expenses relative to snow removal, and debt service.

The Commissioner of the Department of Administrative Services, who submits the summary to the Governor, summarizes capital expenditure requests. After holding public hearings and requesting further evaluation of selected projects by the Commissioner of the Department of Transportation, the Governor prepares a capital budget for submission to the Legislature.

In conjunction with the receipt of operating budget estimates, the Commissioner of the Department of Administrative Services prepares an estimate of the total income of the State for each fiscal year of the ensuing biennium. Based upon the expenditure estimates the Commissioner has received and the revenue projections the Commissioner has made, the Commissioner prepares a tentative budget for the ensuing biennium, which is transmitted to the Governor. The Governor then holds public hearings on the tentative operating budget and prepares the final budget proposal, setting forth the Governor's financial program for the following two fiscal years.

Once the budget becomes law, it represents the authorization for spending levels of each State department during the next two fiscal years. If the Governor determines that additional appropriations are necessary, the Governor may submit supplemental estimates of such appropriations to the Legislature for its approval.

### ***Contacting the Turnpike's Financial Management***

This financial report is designed to provide New Hampshire citizens, the Legislature and the Executive Branch of government, as well as other interested parties, a general overview of the Turnpike's financial activity for fiscal year 2005 and to demonstrate the Turnpike's accountability for the money it received from toll collections. If you have any questions about this report or need additional information, contact the New Hampshire Department of Transportation, Bureau of Finance and Contracts, John O. Morton Building, Room 170, 7 Hazen Drive, Concord, NH 03302-0483.

**STATE OF NEW HAMPSHIRE – DEPARTMENT OF TRANSPORTATION  
TURNPIKE SYSTEM  
STATEMENT OF NET ASSETS-UNAUDITED  
JUNE 30, 2005  
(Expressed in Thousands)**

**ASSETS**

**Current Assets:**

Cash and Cash Equivalents	\$ 28,965
Cash and Cash Equivalents - Restricted	18,000
Receivables (Net of Allowances for Uncollectibles)	3,184
Inventories	934
Total Current Assets	<u>51,083</u>

**Non-current Assets**

Investments and Deposits-Restricted	23,528
Bond Issue Costs	3,598

**Capital Assets:**

Land	104,588
Buildings	4,828
Equipment	28,738
Construction in Progress	47,169
Infrastructure	536,021
Less: Allowance for Depreciation and Amortization	<u>(186,687)</u>
Net Capital Assets	<u>534,657</u>
Total Non-current Assets	<u>561,783</u>
Total Assets	<u>612,866</u>

**LIABILITIES**

**Current Liabilities:**

Accounts Payable	2,054
Accrued Payroll	649
Deferred Revenue	1,044
General Obligation Bonds Payable - Current	3,682
Revenue Bonds Payable - Restricted	10,900
Accrued Interest Payable - Restricted	4,302
Claims and Compensated Absences Payable	1,371
Other Liabilities	609
Total Current Liabilities	<u>24,611</u>

**Non-current Liabilities:**

General Obligation Bonds Payable	7,113
Revenue Bonds Payable (Net of Unamortized Discount)	283,874
Claims and Compensated Absences Payable	1,640
Total Non-current Liabilities	<u>292,627</u>
Total Liabilities	<u>317,238</u>

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	224,787
Restricted for Debt Repayments	41,528
Unrestricted Net Assets (Deficit)	29,313
Total Net Assets (Deficit)	<u>\$ 295,628</u>

STATE OF NEW HAMPSHIRE DEPARTMENT OF TRANSPORTATION  
 TURNPIKE SYSTEM  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS-  
 UNAUDITED  
 FOR FISCAL YEAR ENDED JUNE 30, 2005  
 (Expressed in Thousands)

**OPERATING REVENUES**

Toll Operating Revenue \$ 66,626

**OPERATING EXPENSES**

Personnel Services	9,873
Payroll Benefits	4,406
Enforcement	4,067
Renewal & Replacement	3,114
Other Administration	3,059
Repairs	1,621
Indirect Costs	1,511
Heat, Light and Power	1,108
Bank Fees	973
Rentals	752
E-ZPass Processing Fees	680
Depreciation	<u>12,560</u>
Total Operating Expenses	<u>43,724</u>
Operating Income (Loss)	<u>22,902</u>

**NON-OPERATING REVENUES (EXPENSES)**

Investment Income	1,162
Miscellaneous	78
Interest on Bonds	(14,628)
Amortization of Bond Issuance Costs	<u>(230)</u>
Total Non-operating Revenues (Expenses)	<u>(13,618)</u>
Income (Loss) Before Grant Contributions	<u>9,284</u>
Grant Contributions	<u>6,373</u>
Change in Net Assets	15,657
<b>Net Assets - July 1</b>	<u>279,971</u>
<b>Net Assets - June 30</b>	<u><u>\$ 295,628</u></u>

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

**STATE OF NEW HAMPSHIRE – DEPARTMENT OF TRANSPORTATION  
TURNPIKE SYSTEM  
STATEMENT OF CASH FLOWS-UNAUDITED  
FOR FISCAL YEAR ENDING JUNE 30, 2005  
(Expressed in Thousands)**

**Cash Flows from Operating Activities:**

Receipts from Customers	\$ 65,527
Payments to Employees	(14,477)
Payments to Suppliers	<u>(17,265)</u>
Net Cash Provided (Used) by Operating Activities	\$ 33,785

**Cash Flows from Capital and Related Financing Activities:**

Acquisition, Disposal and Construction of Capital Assets	(20,861)
Grant Contributions	6,373
Interest Paid on Revenue and General Obligation Bonds	(16,620)
Principal Paid on Bonds	<u>(14,906)</u>
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>(46,014)</u>

**Cash Flows from Investing Activities:**

Sale of Investments	9,529
Purchase of Investments	(5,051)
Proceeds from Maturities of Investments	5,000
Interest and Other Income	<u>1,975</u>
Net Cash Provided (Used) by Investing Activities	<u>11,453</u>

Net Increase (Decrease) in Cash and Cash Equivalents (776)

Cash and Cash Equivalents - July 1 47,741

Cash and Cash Equivalents - June 30 \$ 46,965

**Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:**

Operating Income	\$ 22,902
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	12,560
Change in Operating Assets and Liabilities:	
(Increase) Decrease in Receivables	(2,143)
(Increase) Decrease in Inventories	(546)
Increase (Decrease) in Accounts Payable and Other Accruals	(32)
Increase (Decrease) in Deferred Revenue	<u>1,044</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 33,785</u></u>

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



# NEW HAMPSHIRE TURNPIKE SYSTEM

Notes to the Financial Statements

For the Year Ended June 30, 2005

## (1) Summary of Significant Accounting Policies

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

### (a) *Financial Reporting Entity*

The New Hampshire Turnpike System (“the Turnpike System”) is a bureau within the Division of Operations of the State of New Hampshire Department of Transportation. The Turnpike System is reported in an enterprise fund of the State of New Hampshire (“the State”) and is included in the Comprehensive Annual Financial Report of the State. The Turnpike System itself has no component units included in its reporting entity. The Turnpike System constructs, maintains, and operates transaction toll facilities and issues revenue bonds, which are repaid from tolls and other revenues. Under the provisions of New Hampshire Revised Statutes Annotated (RSA) 237, as amended by Chapter 203, Laws of 1986, Chapter 306, Laws of 1998, and Chapter 262, Laws of 2004, the Legislature established a ten-year highway construction and reconstruction plan and authorized major expansion and improvement projects as part of a Capital Improvement Program. RSA’s 237 and 237-A authorized the issuance of \$586 million of revenue bonds to fund these projects.

### (b) *Measurement Focus and Basis of Accounting*

The accounting policies of the Turnpike System conform to generally accepted accounting principles as applicable to government enterprise funds and, as such, the activities of the Turnpike System are reported using the economic resources measurement focus and accrual basis of accounting. With respect to these activities, the Turnpike System has adopted applicable Governmental Accounting Standards Board (GASB) pronouncements. The Turnpike System has elected to apply all applicable GASB pronouncements, as well as Financial Accounting Standards Board (FASB) Statements and Interpretations and Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

### (c) *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.

### (d) *Restricted Assets*

The proceeds of the Turnpike System Revenue Bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the Statement of Net Assets because their use is limited by a bond resolution.

### (e) *Valuation of Investments*

Investments are reported at fair value. Investments consist of repurchase agreements and United States Government Obligations and Agency Obligations.

## NEW HAMPSHIRE TURNPIKE SYSTEM

Notes to the Financial Statements

For the Year Ended June 30, 2005

**(f) *Accounts Receivable***

Receivables primarily consist of amounts due from the Highway Fund and charge account customers.

**(g) *Cash Equivalents***

For the purpose of the Statements of Cash Flows, cash equivalents represent short-term investments with maturity dates within three months of the date acquired.

**(h) *Capital Assets***

Capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Depreciation is computed using the straight-line method over the estimated useful lives of the fixed assets which are as follows: infrastructure – 50 years; buildings – 20 years; toll equipment – 10 years; and other equipment – 5 years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Fixed assets purchased or constructed by other funding sources are recorded at cost.

**(i) *Revenue Bond Discounts/Premiums and Issuance Costs***

Revenue 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 costs.

**(j) *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 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.

**(k) *Revenues and /Expenses***

Revenues and expenses are classified as operating or non-operating. Operating revenues and expenses generally result from toll collections, administration, depreciation, and turnpike maintenance. All other revenues and expenses are reported as non-operating

**(l) *Inventory***

Inventories for materials and supplies were determined through physical count. With the implementation of the E-ZPass, the State purchased 90,000 transponders. The Turnpike System

## NEW HAMPSHIRE TURNPIKE SYSTEM

### Notes to the Financial Statements

For the Year Ended June 30, 2005

records the transponder purchase from the vendor as an operating expense. Transponders are entered into inventory at current sale price.

#### (2) Cash, Cash Equivalents, and Investments

##### (a) Cash and Cash Equivalents

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

**Primary Government** – The state pools cash and investments except for separate cash and investment accounts maintained in accordance with legal restrictions. The Turnpike System's share of the total pooled cash and investments and restricted assets is included on the 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.

The Governor and Executive Council must approve all depositories used by the state at least annually. All commercial paper must be from issuers having 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 in U.S. dollars, foreign currency risk is essentially nonexistent on State deposits.

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

**NEW HAMPSHIRE TURNPIKE SYSTEM**

Notes to the Financial Statements

For the Year Ended June 30, 2005

(Amounts in thousands)

	<b>Collateral &amp; Held In State's name</b>	<b>Un-collateralized</b>
Demand Deposits	\$1,064	
Money Market		\$35,970
CD's		5,000
<b>Total</b>	<b>\$1,064</b>	<b>\$40,970</b>

**(b) Investments**

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

Approved investments are defined in statute (RSA 6:8, 387:6-a, and 387:14). Additionally, investment guidelines exist for operating funds as well as trust and custodial funds. All investments are denominated in U.S. dollars. As of June 30, 2005, the Turnpike system had the following types of investments:

(Fair Value in thousands)

<b>Investment Type</b>	
Repurchase Agreements	\$7,984
US Treasury Notes	10,347
US Government Agencies	8,180
<b>Total</b>	<b>\$26,511</b>

# NEW HAMPSHIRE TURNPIKE SYSTEM

Notes to the Financial Statements

For the Year Ended June 30, 2005

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

(Amounts in thousands)

Reconciliation Between Financial Statements and Footnote				
Per Statement of Net Assets	Unrestricted	Restricted		Total
	Cash and Cash Equivalents	Cash and Cash Equivalents	Investments	
	\$28,965	18,000	23,528	
<b>Per Footnote</b>				
		Cash on Hand	\$	1,948
		Carrying Amount of Deposits		42,034
		Investments		26,511
		<b>Total per Footnote</b>	<b>\$</b>	<b>70,493</b>

**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 Turnpike'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 Turnpike's deposits may not be recovered.

As of June 30, 2005, the Turnpike's repurchase agreement bank balance was \$7,984,000.

**Debt Securities:** Turnpike's invests in several types of debt securities including securities issued by the U.S. Treasury and Government agencies.

**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. The Turnpike System manages and monitors 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.

The state's exposed risk at June 30, 2005 is noted below:

(Amounts in thousands)

Investment Type	Credit Risk	Interest Rate Risk
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**NEW HAMPSHIRE TURNPIKE SYSTEM**

Notes to the Financial Statements

For the Year Ended June 30, 2005

	<b>Grade</b>	<b>Unrated</b>	<b>WAM</b>
US Treasury	\$ 10,347		0.72
US Government Agencies	8,180		0.06

**(3) Restricted Assets**

Restricted assets at estimated fair value are segregated into the following accounts as of June 30:

(Amounts in thousands)	<u>2005</u>
Revenue Bond Interest Debt Service Account	\$ 4,229
Revenue Bond Principal Debt Service Account	6,275
Revenue Bond Debt Service Reserve Account	26,024
Revenue Bond Insurance Reserve Account	3,000
Revenue Bond General Reserve Account	<u>2,000</u>
Total restricted assets	<u>\$ 41,528</u>

The "Revenue Bond Interest Debt Service Account" and "Revenue Bond Principal Debt Service Account" are used to segregate resources accumulated for debt service payments on the given maturity dates. The "Revenue Bond Debt Service Reserve Account" is used to report resources set aside to make up potential future deficiencies in the revenue bond interest debt service account and revenue bond principal debt service account. The "Revenue Bond Insurance Reserve Account" is used to report the amount that is available to insure against risks that would otherwise be covered by policies of insurance. The "Revenue Bond General Reserve Account" is used to report resources set aside to meet deficiencies in revenues, to fund asset renewals and replacements, to pay Turnpike general obligation bonds, or for any other lawful purpose of the Turnpike System.

In addition to the above accounts, a "Revenue Bond Special Redemption Account" would be used to report any monies not otherwise required by the bond resolution to be, deposited or applied, including excess proceeds after the completion of a project. A "Revenue Bond Rebate Account" also would be used to report any excess of interest earned on nonpurpose investments (as defined in section 148 of the *Internal Revenue Code of 1986*, as amended).

**NEW HAMPSHIRE TURNPIKE SYSTEM**

Notes to the Financial Statements

For the Year Ended June 30, 2005

**(4) Capital Assets**

Capital Asset activity for the year ended June 30, 2005, was as follows:

	(Amounts in thousands)			
	<u>Beginning</u>			<u>Ending</u>
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
Capital Assets not being depreciated:				
Land and Land Improvements	\$ 99,934	\$ 4,656	\$ (2)	\$104,588
Construction in Progress	36,382	18,499	(7,712)	47,169
Work in Progress Computer Software	8,498		(8,498)	
Capital Assets not Being Depreciated:	<u>144,814</u>	<u>23,155</u>	<u>(16,212)</u>	<u>151,757</u>
Other Capital Assets:				
Equipment	15,235	15,740	(2,237)	28,738
Buildings	4,828			4,828
Infrastructure	533,611	2,410		536,021
Total Capital Assets	<u>698,488</u>	<u>41,305</u>	<u>(18,449)</u>	<u>721,344</u>
Less Accumulated Depreciation for:				
Equipment	(14,253)	(2,074)	441	(15,886)
Buildings	(2,527)	(74)		(2,601)
Infrastructure	(157,409)	(10,791)		(168,200)
Total Accumulated Depreciation	<u>(174,189)</u>	<u>(12,939)</u>	<u>441</u>	<u>(186,687)</u>
Capital Assets, Net	<u>\$ 524,299</u>	<u>\$ 28,366</u>	<u>\$ (18,008)</u>	<u>\$ 534,657</u>

At June 30, 2005, the Turnpike System had contractual commitments for various Turnpike System improvement projects of approximately \$12 million.

In accordance with FASB Statement No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*, interest is capitalized on fixed assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project, with interest earned on invested proceeds over the same period. In fiscal year 2005, interest cost capitalized amounted to \$1,620,893 (\$1,783,579 interest expense offset by \$162,686 interest income).

**(5) Long-Term Debt**

**(a) Bonds Authorized and Un-issued**

Bonds authorized and un-issued amounted to \$471,650,000 of revenue bonds at June 30, 2005. The Legislature has established a 10-year highway construction and reconstruction plan for the Turnpike System to be funded from Turnpike revenues. This legislation also authorized the Governor and Executive Council to issue up to \$1.01 billion of revenue bonds to support this project. The state has issued \$395 million of revenue bonds for this project.

# NEW HAMPSHIRE TURNPIKE SYSTEM

Notes to the Financial Statements

For the Year Ended June 30, 2005

**(b) Advance Refunding**

The following is a summary of revenue bonds advance refunded and considered defeased. 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 System's financial statements:

<u>Date of Advance Refunding</u>	<u>Amount Outstanding at June 30, 2005</u>
January 20, 1994	\$27,000,000

**(c) 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 during the fiscal year:

(Amounts in thousands)

<i>Turnpike System</i>	Beginning Balance	Increases	Decreases	Ending Balance	Current	Long- Term
General Obligation Bonds	\$ 14,362		\$ 3,567	\$ 10,795	\$ 3,682	\$ 7,113
Revenue Bonds	305,857		11,083	294,774	10,900	283,874
Claims & Compensated Absences Payable	3,163	927	1,079	3,011	1,371	1,640
<b>Total</b>	<b>\$ 323,382</b>	<b>\$ 927</b>	<b>\$ 15,729</b>	<b>\$ 308,580</b>	<b>\$ 15,953</b>	<b>\$ 292,627</b>

**(d) Debt Maturity**

With the exception of Turnpike revenue bonds, all bonds issued by the state are general obligation bonds. These are backed by the full faith and credit of the state. Interest rates on these issues range from 2.0% to 7.2%. The annual maturities are as follows:

(Amounts in thousands)

Payable June 30,	General Obligation	Revenue
2006	\$ 3,682	\$ 10,900
2007	2,644	11,835
2008	1,509	12,130
2009	1,474	13,010
2010	624	13,310
2011-2015	584	83,025
2016-2020		88,675
2021-2025		44,095
2026-2030		21,410
2031-2035		
Subtotal	10,517	298,390
Un-amortized Discount/Premium	278	6,473
Un-amortized Loss on Refunding		(10,089)
<b>Total</b>	<b>\$ 10,795</b>	<b>\$ 294,774</b>



## NEW HAMPSHIRE TURNPIKE SYSTEM

### Notes to the Financial Statements

For the Year Ended June 30, 2005

All revenue bonds are secured by a pledge of substantially all Turnpike System revenues and monies deposited into accounts created by the bond resolutions, subject only to the payment of operating expenses.

The bond resolutions require the Turnpike System to establish and collect tolls which are adequate at all times, with other available funds, to provide for the proper operation and maintenance of the Turnpike System and for the timely payment of the principal and interest on all bonds, notes or other evidences of indebtedness.

The resolutions further require the Turnpike System to collect sufficient tolls so that in each fiscal year net revenues will be at least equal to the greater of: (a) 120% of current year debt service on the revenue bonds, or (b) 100% of current year debt service on the revenue bonds and on all general obligation or other bonds, notes or other indebtedness, and the additional amount, if any, required to be paid from the revenue bond general reserve account to satisfy the renewal and replacement requirement for the fiscal year.

The Turnpike System is required to review the adequacy of its tolls after each fiscal year. If this review indicates that the tolls and charges are, or will be, insufficient to meet the requirements described above, then the Independent Engineer of the Turnpike System will make a study and recommend, within 90 days after the beginning of the current fiscal year, a schedule of tolls and charges which will provide revenues sufficient to comply with the requirements described above.

The resolutions require the Turnpike System to maintain certain accounts (see note 3). The Turnpike System deposits all revenues into a "Turnpike System revenue account," which are then applied first to the payment of operating expenses and then to fund accounts required by the resolutions.

The resolutions establish a renewal and replacement requirement with respect to each fiscal year. Renewal and replacement costs consist of rehabilitation, renewals, replacements, and extraordinary repairs necessary for the sound operation of the Turnpike System or to prevent loss of revenues, but not costs associated with new construction, additions or extensions.

In February 1995, the Turnpike System entered into a Debt Service Forward Supply Agreement ("the Agreement") with a financial institution. The agreement provides that the financial institution is responsible for investing all funds deposited on a monthly basis by the Turnpike System into the revenue bond interest and principal debt service accounts. The financial institution made a one-time payment to the Turnpike System of \$4,701,000, and is now responsible for ensuring that the required amount is available in the accounts to pay the interest and principal when due. However, all interest earnings on the monies are remitted to the financial institution.

#### **(6) Employee Benefit Plans**

##### **(a) Plan Description**

The Turnpike System participates in the New Hampshire Retirement System (the Plan). The plan is a cost-sharing, multiple-employer Public Employees 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.

## NEW HAMPSHIRE TURNPIKE SYSTEM

### Notes to the Financial Statements

For the Year Ended June 30, 2005

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.

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 credited service. Members in service with ten 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 age and service years number 70 or more, are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service.

Members 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 and/or service.

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

The New Hampshire Retirement System issues a publicly available financial report that may be obtained by writing to the New Hampshire Retirement System, 4 Chenell Drive, Concord, New Hampshire 03301-8509.

**(b) *Funding Policy***

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. In fiscal year 2005, by statute, Group I members contributed 5% of gross earnings. Employer contributions required to cover that amount of cost not met by the members' contributions are determined by a biennial actuarial valuation by the System's actuary using the open group aggregate funding method and are expressed as a percentage of gross payroll and paid by the employer. The Turnpike's share represents 100% of the employer cost for all Turnpike employees. The Turnpike System's contributions to the plan for the year ended June 30, 2005, 2004, and 2003 were \$371,373, \$377,128, and \$268,394, respectively, which equals the required contributions for each year.

**(c) *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 within the limits of the funds appropriated at each legislative session. These benefits include group hospitalization, hospital medical care, surgical care and pharmaceuticals. 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 1 employees hired on or after July 1, 2003 to have 20 years of state service in order to qualify for retiree health insurance benefits. These and similar benefits for active employees are authorized by RSA 21-I:30 and provided through the Employee Benefit Risk Management Fund, which is the state's self-insurance fund implemented in October 2003 for active state employees and retirees. The state recognizes the cost of providing benefits by paying the actuarially determined insurance

# NEW HAMPSHIRE TURNPIKE SYSTEM

## Notes to the Financial Statements

For the Year Ended June 30, 2005

contributions into the fund. The Turnpike contributions paid into the Employee Benefit Risk Management Fund totaled \$927,946 for approximately 187 retirees for fiscal year 2005. An additional source of funding for retiree benefits is from the New Hampshire Retirement System's medical premium subsidy program, which totaled \$225,972, for the Turnpike System retirees in fiscal year 2005.

**(7) Grant Contributions**

The Turnpike System recognized grant contributions totaling \$6,373,000 representing the transfer of federally funded capital assets from the Highway Fund to the Turnpike Fund.

**(8) Risk Management**

The Turnpike System is exposed to various risks of loss, related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The State primarily retains the risk for losses, 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. Settled claims, under the insurance program, have not exceeded insurance coverage in any of the last three fiscal years. There have not been any significant changes in 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 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 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, 2005:

(Amounts in thousands)						
	Beginning Balance	Increases	Decreases	Ending Balance	Current	Long-Term
Workers Compensation						
Claims Payable	\$ 2,305	\$ 534	\$ 485	\$ 2,354	\$ 1,195	\$ 1,159

**(9) Subsequent Events**

**(a) E-ZPass Customer Service Contract**

Beginning in July 2005, the Turnpike System began the operation of the E-ZPass electronic toll collection program, which replaces the token and charge card programs. Tokens are being accepted through December 31, 2005. Tokens were sold at 50% discount, while E-ZPass passenger vehicles receive a 30% discount and commercial vehicles a 10% discount.

## NEW HAMPSHIRE TURNPIKE SYSTEM

Notes to the Financial Statements

For the Year Ended June 30, 2005

### ***(b) Refunding Revenue Bond Issue***

In November 2005, the State issued \$39.4 million in Turnpike System Refunding Revenue Bonds with a delayed delivery date of November 2006. These bonds were used to refund \$39.4 million of defeased revenue refunding bonds. The refunding transaction will result in a net present value savings of \$3.2 million over the next 10 years.

### **(10) Commitments**

#### ***(a) E-ZPass Customer Service Contract***

The Bureau of Turnpikes entered into a 3-year contract, with Affiliated Computer Services (ACS) of Newark, NJ, to process E-ZPass transactions, effective September 24, 2004. The 3-year contract, which does include options to extend, is not to exceed \$16,600,000. Services include:

- Opening and closing of accounts
- Maintaining the account information database
- Distribution of transponders
- Dispute resolution
- Receiving and posting prepaid revenue to accounts
- Debiting accounts based upon toll revenue charged to account holders
- Processing toll lane violations, including administrative violations
- Marketing

## NEW HAMPSHIRE TURNPIKE SYSTEM

Notes to the Financial Statements

For the Year Ended June 30, 2005

### **(b) Capital Improvement Program**

The ten-year capital improvement program, adopted by the Legislature in 1986, includes specific components relating to the Turnpike System. This program is intended to improve the safety of the Turnpike System and increase its' capacity. It is updated every two years to address changing priorities.

The current estimated cost, including expenditures to date, is approximately \$656 million through fiscal year 2017, which the State has funded and intends to fund through bond proceeds, investment earnings, available toll revenues and federal funds. As of June 30, 2005, over \$456 million had been expended on the Capital Improvement Program, of which, approximately \$360 million had been funded with bond proceeds.

Projects that are currently underway and expected to be financed with Turnpike funds and anticipated bond proceeds include:

- Engineering, right-of-way acquisition and construction of Exits 11 through 16 on the Spaulding Turnpike with two additional lanes of travel added from Exit 12 to 16 (approximately 7 new lane miles)
- Landfill cleanup
- Engineering, right-of-way acquisition and construction of Exit 5, Granite St. interchange in Manchester
- Engineering and construction of an F.E. Everett Turnpike bridge over the Souhegan River in Merrimack
- Engineering, right-of-way acquisition and construction of US Rte. 3 bridge over the F.E. Everett Turnpike in Bedford
- Engineering, right-of-way acquisition and construction of the Turnpike ramp associated with NH16/US 4 widening including Little Bay Bridges
- Engineering and commencement of construction for the widening of the F.E. Everett Turnpike from Merrimack to Bedford
- Toll collection equipment including Electronic Toll System with associated signing
- Deployment of Intelligent Transportation System (ITS) on the blue Star and Spaulding Turnpikes

Future Projects:

- Continued construction of the F.E. Everett Turnpike Merrimack to Bedford widening

### **(c) Maintenance**

Due to costs associated with the introduction of the E-ZPass program, the Bureau of Turnpikes has delayed certain Renewal and Replacement expenditures during fiscal years 2005 and 2006.

For fiscal years 2007 through 2010, the Turnpike System's anticipated budget is \$6 million per year for Renewal and Replacement, with major expenditures for resurfacing, bridge rehabilitation, bridge painting, major sign rehabilitation, and toll plaza canopy repairs. The following projects are planned for fiscal years 2007 through 2010 Renewal and Replacement Program:

## **NEW HAMPSHIRE TURNPIKE SYSTEM**

Notes to the Financial Statements

For the Year Ended June 30, 2005

- Contracted overhead sign structure replacement and sign replacement program.
- Resurfacing on the Central and Eastern Turnpikes
- Rehabilitation of five bridges
- Paint ten bridges on the blue Star Turnpike
- Toll plaza canopy re-roofing and painting
- Toll plaza emergency generator replacements
- Guard rail upgrades and replacements
- Safety rumble strips on roadway shoulders

# STATISTICAL SECTION

This section includes relevant financial statistical information.

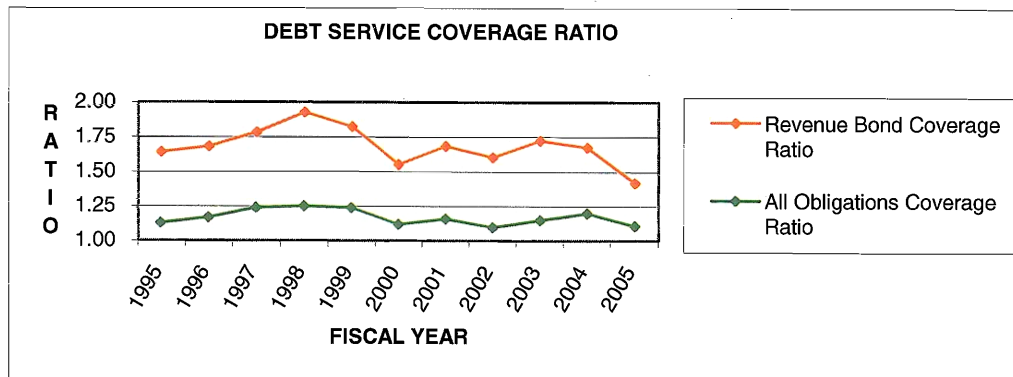
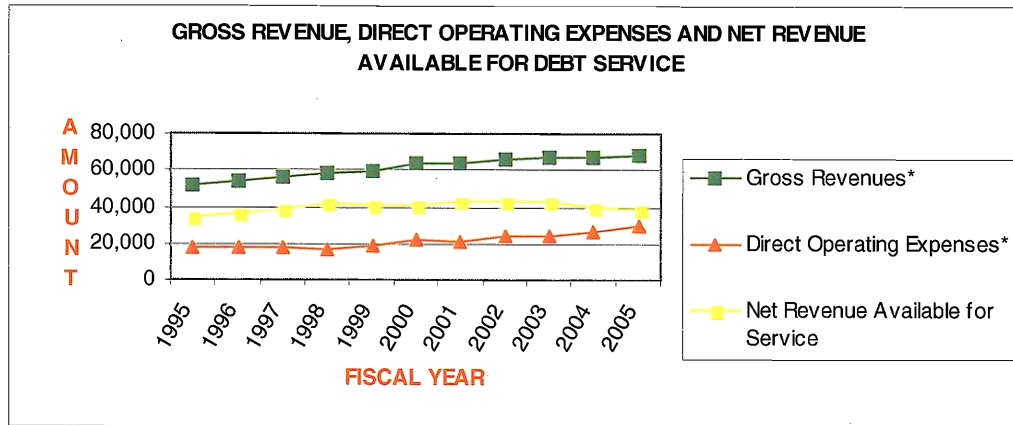


## SCHEDULE OF DEBT SERVICE COVERAGE RATIO

For the Fiscal Years 1995 - 2005

(Amounts in thousands)

Fiscal Year	Gross Revenues*	Direct Operating Expenses*	Net Revenue Available for Service	Revenue Bond Debt Service Requirements	Revenue Bond Coverage Ratio	G.O. Bond Debt Service Requirements	Renewal & Replacement	Total	All Obligations Coverage Ratio
1995	51,670	17,336	34,334	20,878	1.64	7,232	2,225	30,335	1.13
1996	53,231	17,024	36,207	21,595	1.68	6,975	2,388	30,958	1.17
1997	55,714	17,231	38,483	21,597	1.78	6,747	2,797	31,141	1.24
1998	58,033	16,352	41,681	21,678	1.92	6,519	3,982	32,179	1.25
1999	59,257	18,794	40,463	22,286	1.82	6,304	4,049	32,639	1.24
2000	63,034	22,064	40,970	26,452	1.55	5,973	4,112	36,537	1.12
2001	63,981	21,352	42,629	25,352	1.68	5,696	5,928	36,976	1.16
2002	66,218	23,877	42,341	26,452	1.60	5,415	5,724	37,591	1.10
2003	67,086	24,505	42,581	24,749	1.72	5,183	7,058	36,990	1.15
2004	66,463	26,568	39,895	23,865	1.67	4,842	4,973	33,680	1.20
2005	68,318	30,041	38,277	27,003	1.42	4,246	3,114	34,363	1.11





The table below shows annual toll transaction and revenue trends for the Turnpike System during the period beginning with fiscal year 2005 and ending with fiscal year 1995, with toll revenue presented on a cash basis.

**ANNUAL TRAFFIC AND TOLL REVENUE TRENDS**  
**New Hampshire Turnpike System**  
**For the Year Ending June 30,**

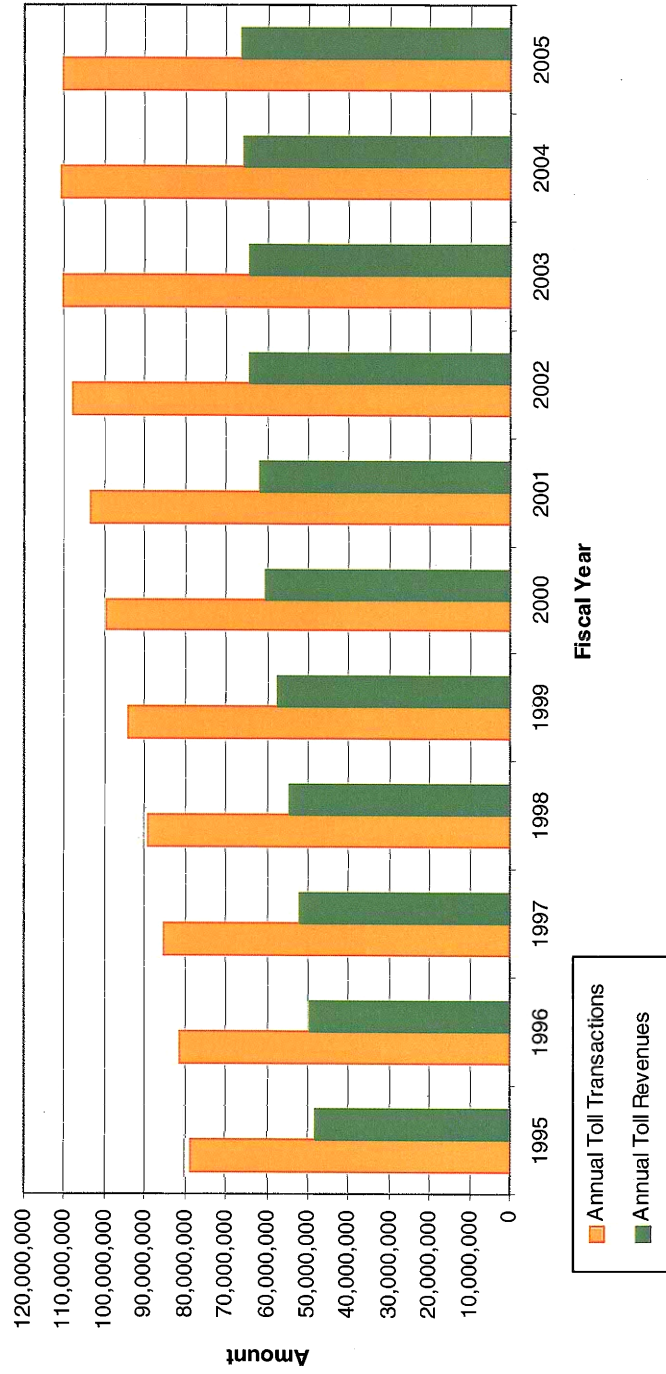
Fiscal Year	Annual Toll Transactions	Percent Change from Prior Year	Annual Toll Revenues*	Percent Change from Prior Year
2005	110,040,272	(0.48)%	\$ 65,956,309	0.27%
2004 #	110,573,506	0.54	65,780,607	2.20
2003 #	109,978,691	2.1	64,367,301	(0.01)
2002	107,729,932	4.0	64,371,208	4.6
2001	103,583,561	4.2	61,536,675	2.3
2000	99,363,028	5.7	60,166,815	5.4
1999	94,017,638	5.7	57,080,882	5.1
1998	88,987,246	4.7	54,298,452	4.1
1997	85,020,788	4.4	52,160,088	5.7
1996	81,406,469	3.7	49,332,875	2.6
1995	78,485,353	4.8	48,098,558	2.6

\* Excludes charge account interest and miscellaneous income.


# Hampton toll plaza: One-way tolls September-October 2003 and July-October 2004.

SOURCE: New Hampshire Department of Transportation

Annual Traffic and Toll Revenue Trends



**STATE OF NEW HAMPSHIRE DEPARTMENT OF TRANSPORTATION  
TURNPIKE SYSTEM TOLL RATE SCHEDULE  
EFFECTIVE JULY 11, 2005**

		Fare												
		Type/Class	1	2	3	4	5	6	7	8	9	10	11	12
<b>Plaza</b>	Cash Fare	\$ 0.75	\$ 1.00	\$ 1.25	\$ 1.50	\$ 1.50	\$ 1.50	\$ 2.00	\$ 2.50	\$ 3.00	\$ 3.50	\$ 4.00	\$ 4.50	\$ 5.00
	Token Fare	0.375												
<b>Hooksett Ramp</b>	Cash Fare	0.50	0.75	1.00	1.25	1.00	1.50	2.00	2.50	3.00	3.50	4.00	4.50	
	Token Fare	0.25												
<b>Bedford Main</b>	Cash Fare	0.75	1.00	1.25	1.50	1.50	2.00	2.50	3.00	3.50	4.00	4.50	5.00	
	Token Fare	0.375												
<b>Bedford Road</b>	Cash Fare	0.50	0.75	1.00	1.25	1.00	1.50	2.00	2.50	3.00	3.50	4.00	4.50	
	Token Fare	0.25												
<b>Exit 11</b>	Cash Fare	0.50	0.75	1.00	1.25	1.00	1.50	2.00	2.50	3.00	3.50	4.00	4.50	
	Token Fare	0.25												
<b>Merrimack Industrial</b>	Cash Fare	0.50	0.75	1.00	1.25	1.00	1.50	2.00	2.50	3.00	3.50	4.00	4.50	
	Token Fare	0.25												
<b>Hampton Main</b>	Cash Fare	1.00	1.25	1.50	1.75	2.00	2.50	3.00	3.50	4.00	4.50	5.00	5.50	
	Token Fare	0.50												
<b>Hampton Ramp</b>	Cash Fare	0.50	0.75	1.00	1.25	1.00	1.50	2.00	2.50	3.00	3.50	4.00	4.50	
	Token Fare	0.25												
<b>Dover Toll</b>	Cash Fare	0.50	0.75	1.00	1.25	1.00	1.50	2.00	2.50	3.00	3.50	4.00	4.50	
	Token Fare	0.25												
<b>Rochester Toll</b>	Cash Fare	0.50	0.75	1.00	1.25	1.00	1.50	2.00	2.50	3.00	3.50	4.00	4.50	
	Token Fare	0.25												