

**STATE OF NEW HAMPSHIRE
HIGHWAY FUND
(FUND 15)**

**AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2016**

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INTRODUCTORY SECTION

Unaudited

State of New Hampshire
Highway Fund
Introductory Section
For the Fiscal Year Ended June 30, 2016

Reporting Entity and Scope

The reporting entity and scope of these financial statements is the State's defined Highway Fund (Fund 15) as of and for the fiscal year ended June 30, 2016. The Highway Fund includes unrestricted road toll and motor vehicle fees, known collectively as highway funds, as well as Federal funds and Other sources of funds which include agency income and private local funds.

Organization

The Highway Fund was established pursuant to Part II, Article 6-a of the New Hampshire Constitution and is reported as a major governmental fund in the comprehensive annual financial report of the State of New Hampshire (the "State"). RSA 228:7 provides a description of this fund.

Responsibilities

The Highway Fund is used to account for the revenues and expenditures used exclusively in the construction, reconstruction, and maintenance of the public highways within this state, including the supervision of traffic thereon and for the payment of the interest and principal of bonds issued for highway purposes.

These Highway Fund financial statements have been compiled through a joint effort between the Department of Administrative Services, Division of Accounting, the Department of Transportation, Division of Finance, and the Department of Safety, Division of Administration. Responsibility for both the accuracy of the financial data and the completeness and fairness of the presentation in all material respects, including all disclosures, rests jointly with management of these three departments.

Funding

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

FINANCIAL SECTION



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Independent Auditor's Report

To The Fiscal Committee Of The General Court:

Report On The Financial Statements

We have audited the accompanying financial statements of the New Hampshire Highway Fund which comprise the Balance Sheet as of June 30, 2016, and the related Statement of Revenues, Expenditures, and Change in Fund Balance for the fiscal year then ended, and the related notes to the financial statements, which collectively comprise the New Hampshire Highway Fund's basic financial statements.

Management's Responsibility For The Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness

of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the New Hampshire Highway Fund as of June 30, 2016, and the changes in its financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis Of Matters

Reporting Entity

As discussed in Note 1, the financial statements present only the New Hampshire Highway Fund and do not purport to, and do not, present fairly the financial position of the State of New Hampshire, as of June 30, 2016, or the changes in its financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 8 through 12 and the Budget to Actual Schedule on page 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary And Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the New Hampshire Highway Fund's basic financial statements. The

Introductory Section and the supplemental schedule of Highway Fund Balance as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Introductory Section and the supplemental schedule of Highway Fund Balance have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required By *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2017 on our consideration of the New Hampshire Highway Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the New Hampshire Highway Fund's internal control over financial reporting and compliance.



Office Of Legislative Budget Assistant

January 27, 2017

State of New Hampshire
Highway Fund
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

The Management's Discussion and Analysis of the Highway Fund's financial performance provides an overview of financial activities for the fiscal year ended June 30, 2016. This section should be read in conjunction with the associated Highway Fund financial statements which follow this section.

Financial Highlights

- The reduction in revenues of \$33.4 million is primarily related to a reduction in Grants from Federal Government (FHWA Apportionment) of \$19.9 million and a decrease in Motor Vehicle Operator license renewals of \$5.2 million.
- Highway Fund expenditures for Administration of Justice and Public Protection decreased by \$28.8 million due to a change in the State's budgeting of Highway and General Funds between fiscal years 2015 and 2016.
- The State entered into the Transportation Infrastructure Finance and Innovation Act (TIFIA) financing agreement to advance the construction of the remaining I-93 projects. The loan, established with a very favorable 1.09% rural interest rate, will fund \$200 million in projects on the I-93 corridor from Salem to Manchester, New Hampshire. Approximately \$9.7 million was drawn on the loan as of June 30, 2016.
- The Highway Fund received the final principal and interest payment from the \$120 million sale of the I-95 Piscataqua River Bridge acquired by the Turnpike System in fiscal year 2010.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Highway Fund financial statements which include two components:

1. Basic financial statements: The Balance Sheet presents the Highway Fund's assets and liabilities, as well as any deferred outflows of resources or deferred inflows of resources, with the difference reported as fund balance. The Statement of Revenues, Expenditures, and Change in Fund Balance presents information showing how the fund balance of the Highway Fund changed during the most recent fiscal year.
2. Notes to the basic financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

This report also contains a budgetary comparison schedule with related notes and reconciliation schedule as required supplementary information, as well as a statement of fund balance as other supplementary information, in addition to the basic financial statements.

Using this Report

The Highway Fund is accounted for as a governmental fund. The State's governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Governmental fund information helps determine the financial resources that can be spent in the near future to finance the State's programs.

State of New Hampshire
Highway Fund
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

(I) **Comparative Balance Sheet as of June 30, 2016 and 2015**

(Amounts in Thousands)

		2016	2015	\$ Change	% Change
Assets:	Cash & Cash Equivalents	\$103,002	\$85,135	\$17,867	21.0%
	Cash & Cash Equivalents-Restricted	8,429	33,033	(24,604)	(74.5%)
	Accounts Receivable (Net of Allowances)	65,198	61,166	4,032	6.6%
	Inter-Fund Note Receivable	-	414	(414)	(100.0%)
	Due From Other Funds	227	345	(118)	(34.2%)
	Inventories	17,746	17,074	672	3.9%
	Total Assets	194,602	197,167	(2,565)	(1.3%)
Liabilities:	Accounts Payable	52,057	40,569	11,488	28.3%
	Accrued Payroll	7,889	6,601	1,288	19.5%
	Due to Other Funds	515	674	(159)	(23.6%)
	Unearned Revenue	3,005	4,920	(1,915)	(38.9%)
	Total Liabilities	63,466	52,764	10,702	20.3%
	Deferred Inflows of Resources:	1,345	1,662	(317)	(19.1%)
Fund Balances:	Non-spendable:				
	Inventories	17,746	17,074	672	3.9%
	Restricted	112,045	125,667	(13,622)	(10.8%)
	Total Fund Balances	129,791	142,741	(12,950)	(9.1%)
	Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$194,602	\$197,167	(\$2,565)	(1.3%)

Assets

- The increase in Cash & Cash Equivalents is due primarily to the impact of \$22.1 million in General Fund net appropriations which resulted in a reduction of Highway Fund appropriations as compared with prior years.
- The decrease in Cash & Cash Equivalents-Restricted is due primarily to the reduction of \$24.6 million in GARVEE bond proceeds used on the I-93 construction projects.
- The increase in Accounts Receivable (Net of Allowances) is due in part to \$3.4 million TIFIA reimbursement of the I-93 construction project.
- The final payment from the sale of the I-95 Piscataqua River Bridge was received by the Highway Fund resulting in a \$0 balance due on the Inter-Fund Note Receivable.

State of New Hampshire
Highway Fund
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

Liabilities

- The increase in Accounts Payable is due in part to the timing and progress of the construction of the Sarah Mildred Long bridge replacement in the amount of \$5.6 million and other municipal and state construction projects.

(II) Comparative Revenues and Expenditures for the fiscal years ended June 30, 2016 and 2015

(Amounts in Thousands)

		2016	2015	\$ Change	% Change
Revenues:	Business License Taxes	\$182,582	\$181,278	\$1,304	0.7%
	Non-Business License Taxes	83,544	87,234	(3,690)	(4.2%)
	Fees	24,171	23,294	877	3.8%
	Fines, Penalties and Interest	7,227	7,416	(189)	(2.5%)
	Grants from Federal Government	161,148	181,023	(19,875)	(11.0%)
	Grants from Private and Local Sources	2,940	3,983	(1,043)	(26.2%)
	Rents and Leases	149	149	-	-
	Sale of Commodities	7,716	10,876	(3,160)	(29.1%)
	Sale of Services	4,787	4,769	18	0.4%
	Grants from Other Agencies	7,580	11,648	(4,068)	(34.9%)
	Miscellaneous	2,552	6,148	(3,596)	(58.5%)
	Total Revenues	484,396	517,818	(33,422)	(6.5%)
Expenditures:	Administration of Justice and Public Protection	58,776	87,586	(28,810)	(32.9%)
	Resources and Economic Development	1,628	1,694	(66)	(3.9%)
	Transportation	230,549	260,864	(30,315)	(11.6%)
	Municipal Aid	67,400	72,091	(4,691)	(6.5%)
	Debt Service	31,830	31,916	(86)	(0.3%)
	Capital Outlay	115,679	113,417	2,262	2.0%
	Total Expenditures	505,862	567,568	(61,706)	(10.9%)
	Excess (Deficiency) of Revenues Over (Under) Expenditures	(\$21,466)	(\$49,750)	\$28,284	(56.9%)

State of New Hampshire
Highway Fund
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

Revenues

- The reduction of \$3.7 million in Non-Business License Taxes is due primarily to a \$5.2 million decrease in Motor Vehicle Operator license renewal revenues, which occurs once every five years due to the extension of driver license renewal frequency from four years to five years. This decrease was partially offset by a \$2.5 million increase in Motor Vehicle Registration revenue.
- The reduction of \$19.9 million in Grants from Federal Government is due in part to combined decreases in Consolidated Federal Aid, Municipal Federal Aid and Pavement Marking of \$23.8 million as a result of the cyclical nature of construction projects and the timing in advertisement of projects.
- The reduction of \$1.0 million in Grants from Private and Local Sources is due primarily to the reduction in match and force account work completed by municipalities and utilities.
- The reduction of \$3.2 million in the Sale of Commodities is primarily due to a \$3.9 million reduction in fuel sales, as a result of lower contracted costs and reduced fuel consumption and sales due to a mild winter.
- The decrease in Miscellaneous revenues is partly due to a decrease in Right of Way (ROW) property sales of \$1.2 million. The remaining variances in Miscellaneous Revenues and Grants from Other Agencies are primarily due to changes in the source and classification of certain revenues between fiscal years 2015 and 2016, as well as treatment of Highway Fund revenue relative to the cost of collections and administration.

Expenditures

- Highway Fund expenditures for Administration of Justice and Public Protection decreased by \$28.8 million due to a change in budgeted Highway and General Funds between fiscal years 2015 and 2016. In fiscal year 2016, a total of \$29.2 million of certain activities which, in fiscal year 2015 were budgeted in the Highway Fund, were budgeted in the State's General Fund in fiscal year 2016.
- The reduction in Transportation expenditures is primarily due to a mild winter and the timing of construction projects. The mild winter reduced the Department's costs by \$11.3 million as there was reduced need for fuel, contracted equipment, salt and sand supplies. Further reductions of \$19.2 million in construction materials and \$4.7 million in municipal aid resulted due to the cyclical nature of construction projects and the timing in advertising of projects. Conversely, costs associated with preliminary engineering for construction projects were up \$9.8 million over the prior year.

State of New Hampshire
Highway Fund
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

(III) **Other Financing Sources/(Uses) and Change in Fund Balances for the fiscal years ended June 30, 2016 and 2015**

(Amounts in Thousands)

Type	2016	2015	\$ Change	% Change
Transfers Out	(\$2,255)	(\$2,163)	(\$92)	4.3%
Note Issuance-TIFIA	9,685	-	9,685	100.0%
Installments on Sale of Assets (I-95 Transfer Payment)	414	13,765	(13,351)	(97.0%)
Total other Financing Sources (Uses)	7,844	11,602	(3,758)	(32.4%)
Net Change in Fund Balances	(13,622)	(38,148)	24,526	(64.3%)
Fund Balances, July 1	142,741	178,167	(35,426)	(19.9%)
Change in Inventory	672	2,722	(2,050)	(75.3%)
Fund Balances, June 30	\$129,791	\$142,741	(\$12,950)	(9.1%)

- Note Issuance-TIFIA increased \$9.7 million. On May 24, 2016 the State entered into the TIFIA financing agreement to advance the construction of the remaining I-93 projects. The loan, established with a very favorable 1.09% rural interest rate, will fund \$200 million in projects on the I-93 corridor from Salem to Manchester, New Hampshire. The debt service payments are funded by a portion of the revenue collected from the increase in the road toll that was effective July 1, 2014. The road toll increase pursuant to Chapter 17 of the Laws of 2014 will expire once all debt service payments for the I-93 project have been made and the financing is fully amortized (June 2034).
- Installments on Sale of Assets were reduced from the prior year as the Turnpike System made the final \$0.4 million principal and interest payment for the \$120 million acquisition of the I-95 Piscataqua River Bridge in fiscal year 2010.

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BASIC FINANCIAL STATEMENTS

**State of New Hampshire
Highway Fund
Balance Sheet
June 30, 2016
(Amounts in Thousands)**

ASSETS

Cash and Cash Equivalents	\$ 103,002
Cash and Cash Equivalents-Restricted	8,429
Accounts Receivable (Net of Allowances)	65,198
Due from Other Funds	227
Inventories	<u>17,746</u>
Total Assets	<u>194,602</u>

LIABILITIES

Accounts Payable	52,057
Accrued Payroll	7,889
Due to Other Funds	515
Unearned Revenue	<u>3,005</u>
Total Liabilities	<u>63,466</u>

DEFERRED INFLOWS OF RESOURCES

1,345

FUND BALANCES

Nonspendable:

Inventories	17,746
Restricted	<u>112,045</u>
Total Fund Balances	<u>129,791</u>

Total Liabilities, Deferred Inflows of Resources, and Fund Balances

\$ 194,602

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

State of New Hampshire
Highway Fund
Statement of Revenues, Expenditures, and Change in Fund Balance
For the Fiscal Year Ended June 30, 2016
(Amounts in Thousands)

REVENUES

Business License Taxes	\$ 182,582
Non-Business License Taxes	83,544
Fees	24,171
Fines, Penalties and Interest	7,227
Grants from Federal Government	161,148
Grants from Private and Local Sources	2,940
Rents and Leases	149
Sale of Commodities	7,716
Sale of Services	4,787
Grants from Other Agencies	7,580
Miscellaneous	<u>2,552</u>
Total Revenues	<u>484,396</u>

EXPENDITURES

Administration of Justice and Public Protection	58,776
Resources and Economic Development	1,628
Transportation	230,549
Municipal Aid	67,400
Debt Service	31,830
Capital Outlay	<u>115,679</u>
Total Expenditures	<u>505,862</u>

Excess (Deficiency) of Revenues Over (Under) Expenditures (21,466)

OTHER FINANCING SOURCES (USES)

Transfers Out	(2,255)
Note Issuance-TIFIA	9,685
Installments on Sale of Assets (I-95 Transfer Payment)	<u>414</u>
Total Other Financing Sources	<u>7,844</u>

Net Change in Fund Balance (13,622)

Fund Balance - July 1	142,741
Change In Inventory	<u>672</u>
Fund Balance - June 30	<u>\$ 129,791</u>

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

State of New Hampshire
Highway Fund
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Highway Fund have been prepared in accordance with U.S. Generally Accepted Accounting Principles (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 Entities

The Highway Fund, established pursuant to Part II, Article 6-a of the New Hampshire Constitution, is used to account for the revenues and expenditures used exclusively in the construction, reconstruction, and maintenance of the public highways within this state, including the supervision of traffic thereon and for the payment of the interest and principal of bonds/notes issued for highway purposes. Financial reporting of the Highway Fund is included in the Comprehensive Annual Financial Report (CAFR) of the State and is generated by the Department of Administrative Services, with financial reporting assistance from both the Department of Safety and the Department of Transportation.

(b) Measurement Focus and Basis of Accounting

The Highway Fund is a governmental fund 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 collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose the State generally considers revenues to be available if they are collected within 60 days after year end. Receivables not expected to be collected within 60 days are offset by deferred inflows of resources. An exception to this policy is federal grant revenue, which generally is considered to be available if collection is expected within 12 months after year end. Taxes, grants, licenses and fees associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period when available.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service and other long-term obligations are recorded only when the payment is due.

(c) 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 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.

(d) Adoption of New Accounting Pronouncements

During the fiscal year ended June 30, 2016, the Highway Fund adopted the following new accounting standards issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 72, *Fair Value Measurement and Application*, effective for June 30, 2016 year-ends, defines the terms investment and fair value and generally requires investments to be measured at fair value. This standard also changes the measurement guidance for donated capital assets and works of art,

State of New Hampshire
Highway Fund
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

historical treasures, and capital assets received in a service concession agreement. Additionally, it requires disclosures be made regarding fair value measurement, the level of fair value hierarchy and valuation techniques. Adoption of GASB Statement No. 72 required additional disclosures for the Highway Fund but did not require modification of the financial statements. See Note 2 Cash, Cash Equivalents and Investments for additional information.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB 67 and 68*, effective for June 30, 2016 year-ends, establishes accounting and financial reporting standards for defined benefit pensions and defined contribution pensions that are provided to employees of state and local government employers and are not within the scope of GASB Statement No. 68; and establishes requirements for governments that hold assets accumulated for purposes of providing pensions through defined benefit pension plans that are not administered as trusts. Adoption of GASB Statement No. 73 did not require modification of the financial statements.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for June 30, 2016 year-ends, sets forth what constitutes GAAP for all state and local governmental entities and establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a governmental entity should apply. Adoption of GASB Statement No. 76 did not require modification of the financial statements.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, effective for June 30, 2016 year-ends, establishes accounting and financial reporting standards for qualifying external investment pools who elect to measure all of their investments at amortized cost and state and local governments that participate in such qualifying external investment pools. Adoption of GASB Statement No. 79 did not require modification of the financial statements.

(e) Accounting Changes

There were no changes in accounting methods or application effective for the 2016 fiscal year.

(f) Accounts Receivable

Receivables in the governmental fund financial statements represent amounts owed to a fund 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.

(g) Cash Equivalents

Cash equivalents represent short-term investments with original maturity dates less than three months from the date acquired by the State and are stated at cost.

(h) Investments

GASB Statement No. 72 *Fair Value Measurement and Application* ("GASBS 72"), requires that investments are reported at fair value. The Highway Fund discloses the fair value of its investments in a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy is as follows:

Level 1 – Inputs that reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date. Holdings in money market mutual funds are examples of Level 1 investments.

State of New Hampshire
Highway Fund
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

Level 2 – Inputs other than quoted prices that are observable for assets or liabilities, either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 – Significant unobservable inputs for assets or liabilities.

All Highway Fund investments were categorized as Level 1 as of June 30, 2016. In determining fair value, the Highway Fund utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

(i) Inventory

Inventories for materials and supplies are recorded under the purchase method, valued at average cost and determined by physical count. Consumable inventory includes salt, sand, fuel, guardrail and a variety of other items required for highway operational and maintenance activities. Reported inventory balances are offset by a nonspendable fund balance designation that indicates they do not constitute available spendable resources.

(j) Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources are defined as a consumption of net assets by the government that is applicable to a future reporting period. Deferred inflows of resources are defined as an acquisition of net assets by the government that is applicable to a future reporting period. As of June 30, 2016, the balance recorded as deferred inflows of resources represents accounts receivable for court fines that were not received within 60 days after year-end. Deferred outflows of resources increase net fund balance position, similar to assets, and deferred inflows of resources decrease net fund balance, similar to liabilities.

(k) Fund Balances

Fund balances for governmental funds are classified as nonspendable, restricted, or unrestricted (committed, assigned, or unassigned). Restricted represents those portions of the fund balance where constraints placed on the resources are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents the amount that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislature, such as an appropriation or legislation. Assigned fund balance is constrained by the Legislature's, or other executive authority's intent to be used for specific purposes. The Highway Fund balance is restricted, as set forth in Article 6-a (Use of Certain Revenues Restricted to Highways) of the State's Constitution.

(l) Revenues and Expenditures

Revenues are classified as restricted or unrestricted. Unrestricted revenues are available to fund any activity accounted for in the fund and includes road toll, motor vehicle fees, fines, penalties and interest. Restricted revenues are, either by State law or by outside restriction (e.g. federal grants), available only for specified purposes. Restricted revenues include SB367 road toll, cost of collections for road toll and Department of Motor Vehicle fees, grants, rents and leases, sales of motor fuel, inventory, and sales of services. Highway Fund expenditures include associated operating costs incurred by the departments of Safety, Transportation, Justice, and Resources and Economic Development as well as debt service payments and capital outlays for equipment, infrastructure, land, and buildings.

Expenditures are categorized by functional category of government, municipal aid, debt service or capital outlay. Expenditures are sub classified by function and are for items such as salaries, grants, supplies, and

State of New Hampshire
Highway Fund
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2016

services. Municipal Aid is for monies provided to cities and towns via pass-through funds. Debt Service includes both interest and principal outlays related to bonds. Capital Outlay includes expenditures for equipment, real property or infrastructure including the Highway Fund capital outlays for the 10-year State capital highway construction program.

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

(m) Unearned Revenue

The Highway Fund reports unearned revenue in connection with resources that have been received but not yet earned.

(n) Use of Estimates

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

(o) 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.

(p) Transfers

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. Transfers are recorded when a fund receiving revenue provides it to a different governmental fund which expends the resources.

(q) 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 funds.

In addition to the enacted biennial operating budget, state departments may submit to the Legislature and Governor and Council, as required, supplemental budget requests necessary to meet expenditures during the current biennium. Appropriation transfers can be made within a department with the appropriate approvals; therefore, the legal level of budgetary control is generally 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

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integrated financial accounting system. The Legislative Branch, represented by the Fiscal Committee, the Joint Legislative Capital Budget Overview Committee, and the Office of Legislative Budget Assistant, monitors compliance with the budget and the effectiveness of budgeted programs.

Unexpended balances of appropriations at year end will generally lapse to assigned or unassigned 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 restricted, committed or assigned 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.

A Budget to Actual Schedule (Non-GAAP Budgetary Basis) is included as Required Supplementary Information.

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS

The State pools cash except for separate cash accounts maintained in accordance with legal restrictions. The Highway Fund’s equity share of the total pooled cash and restricted assets is included on the Balance Sheet under Cash and Cash Equivalents.

(a) Deposits

The following statutory requirements and State Treasury 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.

(b) Investments (GARVEE Bond Proceeds)

Approximately \$8.4 million of GARVEE bond proceeds at June 30, 2016 reside in two money market mutual fund accounts for use on capital construction projects and are considered restricted because their use is limited by a bond resolution. While these funds are classified as Cash and Cash Equivalents-Restricted on the Highway Fund balance sheet, under provisions of GASBS 72, they meet the definition of an investment and are categorized within the fair value hierarchy established by U.S. generally accepted accounting principles, as described in Note 1 to the financial statements.

The following table summarizes the Highway Fund’s investments measured at fair value, by type, as of June 30, 2016 (in thousands):

	Investments Classified in the Fair Value Hierarchy	
	Quoted Prices in Active Markets of Identical Assets	
	(Level 1)	Total
Money Market Mutual Funds	\$8,429	\$8,429
Total	\$8,429	\$8,429

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(c) Custodial Credit Risk

The custodial credit 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 State 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 deposits at FDIC-insured depository institutions (including noninterest bearing accounts) are insured by the FDIC up to the standard maximum amount of \$250,000 for each deposit insurance ownership category.

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, 2016, the Highway Fund bank balance exposed to custodial credit risk is as follows:

(Amounts in Thousands)

Type	Collateralized and Held in State's Name	Uncollateralized	Amount
Demand Deposits	\$103,002	\$ -	\$103,002
Total	\$103,002	\$ -	\$103,002

NOTE 3 – RECEIVABLES

The following is a breakdown of Accounts Receivable as of June 30, 2016:

(Amounts in Thousands)

Type	Amount
Road Toll	\$10,955
Federal Grants	42,162
Miscellaneous	12,511
Less: Allowances	(430)
Total Receivables (Net)	\$65,198

NOTE 4 – UNEARNED REVENUE

As of June 30, 2016, unearned revenue reported in the Highway Fund was \$3.0 million of matching funds paid by municipalities and utility companies for planned construction projects.

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NOTE 5 – LEASES

The Highway Fund reported no capital lease commitments on June 30, 2016. One operating lease commitment initiated in February 2014 for five years totaling \$3.3 million for loader backhoe equipment was reported at year-end.

NOTE 6 – CONTRACTUAL COMMITMENTS

The Highway Fund's total contractual obligations on construction contracts were estimated to be \$70.0 million at June 30, 2016. This represents total current and future obligations of \$259.5 million less \$189.3 million in estimated federal aid and \$0.2 million in local matching funds.

Transportation Infrastructure Finance and Innovation Act (TIFIA) Program

The State of New Hampshire acting by and through the New Hampshire State Treasurer and the New Hampshire Department of Transportation (NHDOT) is participating in the Transportation Infrastructure Finance and Innovation Act (TIFIA) program by receipt of a loan in the amount of \$200 million that was approved in May of 2016.

The TIFIA proceeds are being used on four Federal Highway Administration (FHWA) approved projects on the I-93 widening project, of which two were active in state fiscal year 2016. These projects are accounted for and reported in the Highway Fund. TIFIA eligible expenditures are for the construction contracts only within each project. There is no sub-recipient as the NHDOT is reimbursing the contract vendor directly. All construction contracts and invoice payments to the vendors follow NHDOT's federal procedures. Reimbursement to NHDOT through the loan is a manual process of preparing and submitting a requisition form with copies of the paid invoice(s) to the FHWA NH Division Office and the United States Department of Transportation on a monthly basis as directed in the TIFIA loan agreement. In fiscal year 2016, NHDOT submitted two invoices, one for May and one for June for reimbursement, for total proceeds of \$9.7 million. Indirect Costs are not applied to these construction contracts.

Reporting includes a monthly construction report and the annual I-93 Financial Plan. FHWA NH Division Office has full oversight over these projects and approves change orders, Plans, Specifications & Estimates (PS&E), Based on Bid estimates, the reports noted above, and invoicing for reimbursement through the TIFIA loan.

NOTE 7 - EMPLOYEE BENEFIT PLANS

New Hampshire Retirement System

The New Hampshire Retirement System is the administrator of a cost-sharing multiple-employer Public Employee Retirement System ("NHRS") 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. NHRS 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. NHRS 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 its members and beneficiaries.

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Group I members at age 60 (age 65 for members beginning service on or after July 1, 2011) 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 (1.667%) of average final compensation multiplied by years of creditable service (1/66 of AFC times creditable service for members beginning service on or after July 1, 2011). AFC is defined as the average of the three highest salary years for members vested prior to January 1, 2012 and five years for members not vested on January 1, 2012. At age 65, the yearly pension amount is recalculated at 1/66 (1.515%) 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 a minimum of 20 years of creditable service (age 50 with a minimum of 25 years of creditable service or age 60 for members beginning service on or after July 1, 2011) can receive a retirement allowance at a rate of 2.5% of AFC for each year of service not to exceed 40 years (2% of AFC times creditable service up to 42.5 years for members beginning service on or after July 1, 2011). A member who began service on or after July 1, 2011 shall not receive a service retirement allowance until attaining age 52.5, but may receive a reduced allowance after age 50 if the member has at least 25 years of creditable service. However, the allowance will be reduced by ¼ of one percent for each month prior to age 52.5 that the member receives the allowance.

Group II members hired prior to July 1, 2011, who have non-vested status as of January 1, 2012 are subject to graduated transition provisions for years of service required for regular service retirement, the minimum age for service retirement, and the multiplier used to calculate the retirement annuity, which shall be applicable on January 1, 2012.

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, RSA 100-A:52-a and RSA 100-A:52-b, NHRS also provides a postretirement medical premium subsidy for Group I employees and teachers and Group II police officers and firefighters.

Funding Policy: NHRS is financed by contributions from the members, the State and local employers, and investment earnings. By statute, Group I members contributed 7.0% of gross earnings. Group II firefighter members contributed 11.80% of gross earnings and Group II police officers contributed 11.55% 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 NHRS actuary using the entry age normal funding method and are expressed as a percentage of gross payroll. For the Highway Fund, the State contributed 12.50% and 26.38% of gross payroll for Group I members and Group II police officer members, respectively, which included 1.64% and 3.84% for other post-employment benefits, respectively, as discussed below. The annual contribution required to cover any normal cost beyond the employee contribution is determined every two years based on the Plan's actuary.

State of New Hampshire
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The State's required and actual contributions for the Highway Fund for the fiscal year ended June 30, 2016 were \$15.9 million, which included an amount for other post-employment benefits of \$2.2 million.

The New Hampshire Retirement System issues a publicly available financial report that may be obtained by writing to them at 54 Regional Drive, Concord, NH 03301-8507 or from their web site at <http://www.nhrs.org>.

Health Insurance For Retired Employees

In addition to providing pension benefits, RSA 21-I:30 specifies that the State provide certain health care benefits for retired employees and their spouses. These benefits include group hospitalization, hospital medical care, surgical care and other medical care. Substantially all of the State's employees who were hired on or before June 30, 2003 and have 10 years of service, 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 benefits. During fiscal year 2011, legislation was passed that requires Group II employees to have 20 years of State service to qualify for retiree health benefits. Additionally, during fiscal year 2012, legislation was passed requiring Group I employees hired after July 1, 2011 to have 25 years of state service and increased the normal retirement age for Group I and Group II employees hired after July 1, 2011. 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, a single-employer group health plan (Plan), which is the state's self-insurance internal service fund implemented in October 2003 for active state employees and retirees. The Plan funds the cost of medical and prescription drug claims by charging actuarially developed working rates to State agencies for participating employees, retirees and eligible spouses. 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.

During fiscal year 2016, the Highway Fund contributed \$12.2 million to the Plan for health insurance for its retired employees and eligible dependents.

NOTE 8 – LITIGATION

Rand v. Lavoie, et al. (Wendy Lawrence v. New Hampshire State Police)

The complaint, brought on behalf of the estate of Wendy Lawrence, arises from an officer-involved fatal shooting. The original complaint alleged 42 U.S.C. §1983 claims alleging violations of Ms. Lawrence's Fourth, Fifth, and Fourteenth Amendment rights under the U.S. Constitution, as well as a wrongful death claim. The State obtained judgment on the pleadings with regard to the Fifth and Fourteenth Amendment claims. The plaintiff amended the complaint to add the Department of Safety as a defendant and a claim that essentially alleges that the Department of Safety failed to train, supervise, and discipline the troopers to recognize symptoms of a disability under the Americans with Disabilities Act (ADA), offer reasonable accommodations to Ms. Lawrence, and discriminated against her. The plaintiff seeks enhanced compensatory and punitive damages. On September 12, 2016, the State filed a motion for summary judgment on all claims. Trial was scheduled for February 2017. The plaintiff has since voluntarily non-suited the ADA claim with prejudice. The state has filed a notice of its intent to ask for fees and costs on the basis that it was a frivolous claim that the plaintiff failed to prosecute. Given the pending summary judgment motion, certain deadlines have been extended until after the issuance of a summary judgment order and the February trial has been suspended pending the outcome of an order on summary judgment. It is not

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possible to predict the outcome of this case at this time.

NIMCO Real Estate Assoc., LLC v. Nadeau, et al – U.S. District Court

The Plaintiffs are NIMCO Real Estate Associates, LLC (owned by 1 Pine Street Extension prior to condemnation in 2003); Ultima Nashua Industrial Corporation (tenant of 1 Pine Street Extension, Nashua filed eviction action which resulted in writ of possession on July 20, 2016, but appeal is pending); and Dr. Anoosh Kiamanesh (aka “Dr. Kia”)(Manager of NIMCO, and sole Director/President of Ultima). The Defendants are Gregory Nadeau, Administrator of Federal Highway Administration; the City of Nashua; and the NH Department of Transportation (“NHDOT”).

The Plaintiffs have filed a nine count Complaint (Counts I-IX) against the defendants seeking \$25 million in damages and equitable relief. The State is named as a Defendant only in one count (Count II). Plaintiffs allege three separate causes of action within this count, alleging that the State violated: (1) RSA 124-A:1, et seq. (the State’s law which provides for payment of relocation costs for persons displaced by eminent domain takings), (2) the Uniform Relocation Assistance and Real Property Acquisition Act, (the “URA”) 42 USC §4601, et seq., and (3) Part I, Article 1 of the NH State Constitution. Plaintiffs indicate that they are seeking equitable relief only against the State in the sub-heading of the Complaint. The State filed a motion to dismiss on the basis of sovereign immunity, statute of limitations, failure to exhaust administrative remedies, eleventh amendment immunity, and that the URA does not create a private right of action. The Federal Highway Administrator filed a Motion to Dismiss alleging failure to exhaust administrative remedies and that the URA does not create a private right of action. The State joined in the motion.

The City of Nashua has filed a three count cross-claim against the State. Count I claims that NHDOT is negligent in two respects. First, it claims that the NHDOT was negligent acting as an agent for the City, when it failed to charge and collect fair market rent as is required by Federal regulations, 23 C.F.R. §710.403, from 2004 to 2010. Second, that NHDOT was negligent in failing to follow federal and state law by failing to provide relocation assistance. Count II alleges that NHDOT breached its “agreements” with the City by failing to collect fair market rent, although it does not spell out specifically what agreement or provision required NHDOT to do this. Count III only states “To the extent Plaintiffs recover any amount against the City, NHDOT is obligated to indemnify the City.” The Complaint does not cite anything (an agreement, federal or state law, etc.) to support its claim for indemnity. The State filed a motion to dismiss Nashua’s cross-claims against the State arguing that the cross-claims are barred by the statute of limitations, sovereign immunity, as well as other grounds. To date, no party has filed an objection to the State’s Motion to Dismiss the City’s cross-claims. In January 2017, after the City evicted Plaintiffs and retook possession of the premises, Plaintiffs filed a Motion for a Preliminary Injunction against the City seeking to prevent the City from dismantling or removing the machines located inside the premises, which it claims are worth \$12 million. The City has filed an objection. It is not possible to predict the outcome of this case at this time.

The Highway Fund, its agencies, officials and employees may be involved in other lawsuits, claims and grievances arising in the normal course of the State’s business. Although the State is unable to predict the ultimate outcomes of these suits, based on the information provided by the Attorney General's Office, it does not appear that such litigation resulting, either individually or in the aggregate, in final judgments against the State, would materially affect the Highway Fund’s financial position.

REQUIRED/OTHER SUPPLEMENTARY
INFORMATION
Unaudited

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Required Supplementary Information
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Budget To Actual Schedule (Unaudited)
(Non-GAAP Budgetary Basis)
(Amounts in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget- Positive (Negative)
<u>REVENUES</u>				
Business License Taxes	\$156,953	\$156,953	\$179,799	\$22,846
Non-Business License Taxes	58,404	58,404	67,020	8,616
Fees	53,175	52,301	18,356	(33,945)
Fines, Penalties and Interest	8,338	8,329	7,227	(1,102)
Grants from Federal Government	476,423	675,136	157,275	(517,861)
Grants from Private and Local Sources	12,983	12,983	2,940	(10,043)
Rents and Leases	214	214	149	(65)
Sale of Commodities	756	18,756	13,480	(5,276)
Sale of Services	5,474	5,304	4,955	(349)
Grants from Other Agencies	12,593	12,377	10,312	(2,065)
Miscellaneous	<u>68,509</u>	<u>70,655</u>	<u>26,974</u>	<u>(43,681)</u>
Total Revenues	<u>853,822</u>	<u>1,071,412</u>	<u>488,487</u>	<u>(582,925)</u>
<u>EXPENDITURES</u>				
Administration of Justice and Public Protection	95,258	97,588	56,927	40,661
Resources and Economic Development	1,727	1,737	1,631	106
Transportation	727,055	942,302	341,543	600,759
Municipal Aid	73,640	73,940	62,177	11,763
Debt Service	31,830	31,830	31,830	-
Capital Outlays	<u>11,121</u>	<u>11,121</u>	<u>11,121</u>	<u>-</u>
Total Expenditures	<u>940,631</u>	<u>1,158,518</u>	<u>505,229</u>	<u>653,289</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(86,809)	(87,106)	(16,742)	70,364
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers Out	-	(2,163)	(2,255)	(92)
TIFIA Loan Authorization	-	-	200,000	200,000
Miscellaneous	<u>-</u>	<u>-</u>	<u>671</u>	<u>671</u>
Total Other Financing Sources	<u>-</u>	<u>(2,163)</u>	<u>198,416</u>	<u>200,579</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(86,809)</u>	<u>(89,269)</u>	<u>181,674</u>	<u>270,943</u>
Fund Balances - July 1	<u>461,459</u>	<u>461,459</u>	<u>461,459</u>	<u>-</u>
Fund Balances - June 30	<u>\$374,650</u>	<u>\$372,190</u>	<u>\$643,133</u>	<u>\$270,943</u>

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

State of New Hampshire
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Required Supplementary Information
For the Fiscal Year Ended June 30, 2016

Note to the Required Supplementary Information – Budgetary Reporting (Unaudited)

Biennial budgets are prepared principally on a modified cash basis. The “actual” results column of the Budget to Actual Schedule is presented on a “budgetary basis” to provide a meaningful comparison to budget.

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

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

Budgetary vs GAAP basis

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

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

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

State of New Hampshire
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Required Supplementary Information
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The following schedule reconciles the Highway Fund for differences between budgetary accounting methods and the GAAP basis accounting principles for the fiscal year ended June 30, 2016.

Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses (Budgetary Basis):		\$ 181,674
Adjustment and Reclassifications:		
To record change in Accounts Payables and Accrued Payroll:	(632)	
To record change in Accounts Receivables:	(4,090)	
To record Other Financing Sources (Uses):	<u>(189,902)</u>	
Net Adjustments and Reclassifications:		<u>(194,624)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses (GAAP Basis):		<u>\$ (12,950)</u>

See accompanying Independent Auditor's Report

State of New Hampshire
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Other Supplementary Information
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Highway Fund Balance (Unaudited)

The undesignated fund balance for the total Highway Fund, at June 30, 2016 was as follows:

(Amounts in Thousands)	
Budgetary Balance July 1	\$338,578
<i>Additions:</i>	
Unrestricted Revenue	216,181
Notes Authorized and Unissued	190,315
Other	750
Total Additions	407,246
<i>Deductions:</i>	
Appropriations net of Estimated Revenues	220,963
Less: Lapses	(22,979)
Other	2,255
Total Deductions	200,239
Budgetary Balance, June 30, 2016	545,585
<i>GAAP Adjustments:</i>	
Receivables (Payables), net	(24,865)
Bonds and Notes Authorized and Unissued	(485,320)
GAAP Balance, June 30, 2016	\$35,400

See accompanying Independent Auditor's Report.