New Hampshire Municipal Bond Bank

Basic Financial Statements
and Management's Discussion and Analysis

Year Ended June 30, 2006
With Independent Auditors' Report

NEW HAMPSHIRE MUNICIPAL BOND BANK

BASIC FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2006

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INDEPENDENT AUDITORS' REPORT

Board of Directors
New Hampshire Municipal Bond Bank

We have audited the accompanying basic financial statements, consisting of the State Guaranteed Fund Group, Non-State Guaranteed Fund Group, Pinkerton Academy Fund Group and Coe-Brown Northwood Academy Fund Group, of New Hampshire Municipal Bond Bank as of and for the year ended June 30, 2006, as listed in the accompanying table of contents. These financial statements are the responsibility of the Bond Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of New Hampshire Municipal Bond Bank at June 30, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 – 5 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. The supplementary information is the responsibility of the Bond Bank's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Baker Newman & Noyes
Limited Liability Company

Manchester, New Hampshire
August 11, 2006

NEW HAMPSHIRE MUNICIPAL BOND BANK

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

As financial management of the New Hampshire Municipal Bond Bank (the "Bond Bank"), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Bond Bank for the fiscal year ended June 30, 2006. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Bond Bank and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole.

Financial Highlights

- Revenues for the Bond Bank were $41,603,880 for fiscal year 2006, a decrease of $2,315,713 or 5.27% below fiscal year 2005. This decrease was caused primarily by the "net decrease in the fair value of investments" between fiscal year 2005 and 2006. Investments are recorded at fair value to comply with GASB rules. The Bond Bank generally holds investments until maturity to pay reserve fund bonds as they become due, so fluctuations in the fair value of the investments have a minimal long-term effect.
- Fund equity of the Bond Bank decreased $3,387,018 in fiscal year 2006. At June 30, 2006, the Bond Bank had fund equity of $15,582,884, a decrease of 17.85% from the prior year.
- The Bond Bank's bonds outstanding at June 30, 2006 of $922,012,598 represent a net increase of $57,556,819 from the balance at June 30, 2005. This increase was primarily due to the net result of issuing three new series of bonds totaling $135,970,000, less the scheduled 2006 debt service principal payments of $79,419,109.
- The Bond Bank provided loans to local governmental units during fiscal year 2006 totaling $126,890,910 which was a 33.22% increase from the loans provided in fiscal year 2005.

Overview of the Bond Bank

The Bond Bank was created in 1977 by an Act of the New Hampshire Legislature, RSA:35-A, is a public body corporate and politic and is constituted as an instrumentality exercising public and essential governmental functions of the State. The Bond Bank was established to issue bonds for the purpose, among other things, of providing funds to enable it to lend money to counties, cities, towns, school districts or other districts (the "governmental units") within the State of New Hampshire. The provision of funds is accomplished by the direct purchase from such governmental units of their bonds, notes or evidence of debt payable from taxes, charges for services or assessments.

As the result of the Bond Bank issuing tax-exempt debt, it is required to prepare arbitrage rebate calculations for each series of bonds outstanding and remit payment to the Internal Revenue Service every five years. The Bond Bank's policy is to prepare and review the calculations annually for financial statement purposes. The Bond Bank has hired an outside firm to calculate arbitrage rebate liability and payments.

Since its inception, the Bond Bank issued bonds for its non guaranteed program pursuant to a General Resolution adopted on December 1, 1978, as amended from time to time (the "1978 Resolution"). Over the years, the 1978 Resolution had grown increasingly obsolete. On July 14, 2005, the Bond Bank adopted a new General Resolution (the "2005 Resolution"). While substantially similar to the 1978 Resolution, the 2005 Resolution contains a number of improvements, including a flexible reserve fund sizing requirement, wholesale changes in permitted investments, the ability to meet its reserve fund requirement with surety bond policies and other credit facilities, and a streamlined approach to calling bonds for early redemption. In management's view, the 2005 Resolution will enhance the Bond Bank's ability to market its bonds and streamline the administration of its program. Bonds issued under the 2005 Resolution are separately secured from all other bonds of the Bond Bank, including those issued under the 1978 Resolution. The adoption of the 2005 Resolution is not expected to result in any substantive change to the Bond Bank's overall program.

The Bond Bank has issued two series of bonds under the terms of the 2005 Resolution, $47,505,000 of 2005 Series D Bonds, delivered on July 21, 2005 and $53,630,000 of 2006 A Bonds, delivered July 20, 2006.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Bond Bank's financial statements, which is comprised of the basic financial statements and the notes to the financial statements. Since the Bond Bank operates under four separate bond resolutions, the financial statements reflect individual fund activity.

Basic Financial Statements

The basic financial statements are designed to provide readers with a broad overview of the Bond Bank's finances, in a manner similar to a private-sector business.

The financial statements present information on all of the Bond Bank's assets and liabilities, with the difference between the two reported as fund equity. Over time, increases or decreases in fund equity may serve as a useful indicator of whether the financial position of the Bond Bank is improving or deteriorating. Fund equity increases when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities, result in increased fund equity, which may indicate an improved financial position.

The statements of revenues, expenses, and changes in fund equity present information showing how the Bond Bank's fund equity changed during the fiscal year. Changes in fund equity are generally reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis

Fund equity may serve, over time, as a useful indicator of a government's financial position. In the case of the Bond Bank, assets exceeded liabilities by $15,582,884 at June 30, 2006. This represents a decrease of $3,387,018 or 17.85% from the previous fiscal year. Most of this decrease is attributable to the fluctuations in the market value of investments in 2006 as compared to 2005. By far, the largest portion of the Bond Bank's fund equity is its investment in loans to governmental units plus bond proceeds remaining in trust investments, less any related debt used to acquire those assets.

The Bond Bank's financial position and operations for the past two years are summarized below based on information included in the financial statements.

ASSETS	2006	2005	Percentage Change
Current assets:			
Cash	$ 55,178	$ 55,849	(1.20)%
Investments held by trustee, at market value	9,586,950	8,420,706	13.85
Loans receivable from governmental units	68,258,177	68,796,609	(0.78)
Due from other funds	–	79,253	(100.00)
Accrued investment income receivable	887,131	845,386	4.94
Accrued interest receivable from governmental units	15,172,112	13,578,626	11.74
Other current assets	798,850	792,041	0.86
Total current assets	94,758,398	92,568,470	2.37
Noncurrent assets:			
Investments held by trustee, at market value	124,834,119	128,571,580	(2.91)
Loans receivable from governmental units	730,921,547	673,592,814	8.51
Unamortized rebates to governmental units and bond issuance costs	5,969,851	6,263,971	(4.70)
Total noncurrent assets	861,725,517	808,428,365	6.59
Total assets	$ 956,483,915	$ 900,996,835	6.16%
LIABILITIES AND FUND EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	$ 45,148	$ 51,394	(12.15)%
Due from other funds	–	79,253	(100.00)
Accrued interest payable	16,194,093	14,522,689	11.51
Accrued interest rebate payable to U.S. Government	693,760	571,757	21.34
Bonds payable	77,567,430	82,162,241	(1.36)
Total current liabilities	94,500,431	97,387,334	0.61
Noncurrent liabilities:			
Accrued interest rebate payable to U.S. Government	1,955,432	2,346,061	(16.65)
Bonds payable	844,445,168	782,293,538	7.50
Total noncurrent liabilities	846,400,600	784,639,599	7.43
Total liabilities	940,901,031	882,026,933	6.67
Fund equity	15,582,884	18,969,902	(17.85)
Total liabilities and fund equity	$ 956,483,915	$ 900,996,835	6.16%

Total cash and investments held by trustee decreased $2,571,888, or 1.88% at June 30, 2006 compared to June 30, 2005. The Bond Bank's investment portfolio is comprised of cash and cash equivalents, U.S. Government obligations (including treasury bills, notes, and bonds), strips, agency notes and bank investment contracts. The Bond Bank's investments are carried at fair value. Unrealized gains and losses (primarily due to fluctuations in market values) are recognized in the statements of revenues, expenses and changes in fund equity.

The Bond Bank's loans receivable from governmental units increased $56,790,301 in fiscal year 2006. The Bond Bank's total new loan originations in 2006 of $126,890,910 were 33.22% higher than 2005 originations of $95,248,500. Bonds payable increased $57,556,819.

Fund equity decreased 17.85% in fiscal year 2006. The Bond Bank continued to maintain a positive spread of income from investments and loans to governmental units over bond interest and operating expenses.

	2006	2005	Percentage Change
Interest on loans receivable from governmental units	$ 40,534,724	$ 36,763,581	10.26%
Interest income from investments	6,008,694	5,667,832	6.01
Net increase (decrease) in the fair value of investments	(5,473,323)	966,414	(666.35)
Other income	533,785	521,766	2.30
Total operating revenues	41,603,880	43,919,593	(5.27)
Interest expense	44,328,051	41,141,848	7.74
Operating expenses	341,275	434,540	(21.46)
Other expense	321,572	238,979	34.56
Total operating expenses	44,990,898	41,815,367	7.59
Operating (loss) income	(3,387,018)	2,104,226	(260.96)
Fund equity, beginning of year	18,969,902	16,865,676	12.48
Fund equity, end of year	$ 15,582,884	$ 18,969,902	(17.85)%

Operating revenues are generated principally from interest earned on investments and from fees and interest received from governmental units. The Bond Bank's annual operating budget is approved by the Board of Directors.

Interest income on investments in 2006 increased 6.01% from 2005. This increase was the result of an increasing interest rate environment and larger amounts of reserve fund bonds outstanding.

Operating expenses in 2006 decreased $93,265 or 21.46% from 2005, which is mainly attributed to the change in the staffing of the Bond Bank from three people to two people.

The net decrease in the fair value of investments in 2006 of $5,473,323 was caused by movements in market interest rates during the year that had a negative impact on the fair value of investments held by the Bond Bank.

Requests for Information

This financial report is designed to provide a general overview of the Bond Bank's financial statements for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Executive Director, New Hampshire Municipal Bond Bank, 25 Triangle Park Drive, Suite 102, Concord, NH 03301.

NEW HAMPSHIRE MUNICIPAL BOND BANK

BALANCE SHEETS

June 30, 2006

	Municipal Division	
ASSETS	State Guaranteed Fund Group	Non-State Guaranteed Fund Group
Current assets:		
Cash (note 3)	$ –	$ 8,745
Investments held by trustee, at market value (note 3):		
Cash equivalents	3,234,233	6,352,717
Loans receivable from governmental units	6,778,667	59,494,510
Accrued investment income receivable	15,501	871,630
Accrued interest receivable from governmental units	1,034,453	14,047,881
Unamortized rebates to governmental units and bond issuance costs	121,375	677,475
Total current assets	11,184,229	81,452,958
Noncurrent assets:		
Reserve Fund investments held by trustee, at market value (note 3):		
Cash equivalents	1,716,628	4,005,294
U.S. Government obligations	9,347,118	109,765,079
Loans receivable from governmental units	29,357,147	682,439,400
Unamortized rebates to governmental units and bond issuance costs	600,991	5,368,860
Total noncurrent assets	41,021,884	801,578,633
Total assets	$ 52,206,113	$ 883,031,591
LIABILITIES AND FUND EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ –	$ 45,148
Accrued interest payable	857,613	15,246,702
Accrued interest rebate payable to U.S. Government	13,788	679,972
Bonds payable (note 4)	8,034,841	67,547,589
Total current liabilities	8,906,242	83,519,411
Noncurrent liabilities:		
Accrued interest rebate payable to U.S. Government	665,690	1,289,742
Bonds payable (note 4)	36,850,237	788,469,931
Total noncurrent liabilities	37,515,927	789,759,673
Total liabilities	46,422,169	873,279,084
Fund equity	5,783,944	9,752,507
Total liabilities and fund equity	$ 52,206,113	$ 883,031,591

See accompanying notes to the financial statements.

Educational Institutions Division		
Pinkerton Academy Fund Group	Coe-Brown Northwood Academy Fund Group	Total
$ 23,802	$ 22,631	$ 55,178
–	–	9,586,950
1,760,000	225,000	68,258,177
–	–	887,131
72,184	17,594	15,172,112
–	–	798,850
1,855,986	265,225	94,758,398
–	–	5,721,922
–	–	119,112,197
17,175,000	1,950,000	730,921,547
–	–	5,969,851
17,175,000	1,950,000	861,725,517
$ 19,030,986	$ 2,215,225	$ 956,483,915
$ –	$ –	$ 45,148
72,184	17,594	16,194,093
–	–	693,760
1,760,000	225,000	77,567,430
1,832,184	242,594	94,500,431
–	–	1,955,432
17,175,000	1,950,000	844,445,168
17,175,000	1,950,000	846,400,600
19,007,184	2,192,594	940,901,031
23,802	22,631	15,582,884
$ 19,030,986	$ 2,215,225	$ 956,483,915

NEW HAMPSHIRE MUNICIPAL BOND BANK

STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN FUND EQUITY

For the Year Ended June 30, 2006

	Municipal Division	
	State Guaranteed Fund Group	Non-State Guaranteed Fund Group
Operating revenues:		
Interest on loans receivable from governmental units	$2,428,172	$ 37,044,427
Interest income from investments	672,129	5,334,937
Net decrease in the fair value of investments	(752,375)	(4,720,948)
Other income	–	526,785
Total operating revenues	2,347,926	38,185,201
Operating expenses:		
Interest expense	2,589,303	40,676,623
Operating expenses	100,000	233,275
Other expense	–	321,572
Total operating expenses	2,689,303	41,231,470
Operating income (loss)	(341,377)	(3,046,269)
Fund equity, beginning of year	6,125,321	12,798,776
Fund equity, end of year	$5,783,944	$ 9,752,507

See accompanying notes to the financial statements.

Educational Institutions Division		
Pinkerton Academy Fund Group	Coe-Brown Northwood Academy Fund Group	Total
$ 946,204	$ 115,921	$ 40,534,724
1,465	163	6,008,694
–	–	(5,473,323)
6,000	1,000	533,785
953,669	117,084	41,603,880
946,204	115,921	44,328,051
7,200	800	341,275
–	–	321,572
953,404	116,721	44,990,898
265	363	(3,387,018)
23,537	22,268	18,969,902
$ 23,802	$ 22,631	$ 15,582,884

NEW HAMPSHIRE MUNICIPAL BOND BANK

STATEMENTS OF CASH FLOWS

For the Year Ended June 30, 2006

	Municipal Division	
	State Guaranteed Fund Group	Non-State Guaranteed Fund Group
Operating activities:		
Cash received from governmental units	$ 10,478,008	$ 95,201,354
Cash payments to governmental units	–	(126,490,910)
Cash received from other income	–	526,785
Cash payments for operating expenses	(100,000)	(239,521)
Cash payments for bond issuance costs	–	(321,572)
Cash received for other assets	147,014	140,297
Net cash provided (used) by operating activities	10,525,022	(31,183,567)
Investing activities:		
Purchases of investments	–	(12,515,634)
Proceeds from sale and maturities of investments	767,427	9,816,840
Interest received on investments	878,618	5,893,785
Interest rebate paid to U.S. Government	(110,000)	(965,708)
Net cash provided by investing activities	1,536,045	2,229,283
Noncapital financing activities:		
Proceeds from bonds payable	–	136,102,403
Principal paid on bonds payable	(9,099,109)	(68,425,000)
Interest paid on bonds payable	(2,369,635)	(38,346,001)
Net cash provided (used) by noncapital financing activities	(11,468,744)	29,331,402
Increase in cash and cash equivalents	592,323	377,118
Cash and cash equivalents, beginning of year	4,358,538	9,989,638
Cash and cash equivalents, end of year	$ 4,950,861	$ 10,366,756
Balance sheet classification:		
Cash	$ –	$ 8,745
Cash equivalents – investments held by trustee	3,234,233	6,352,717
Cash equivalents – reserve fund investments held by trustee	1,716,628	4,005,294
	$ 4,950,861	$ 10,366,756

Educational Institutions Division		
Pinkerton Academy Fund Group	Coe-Brown Northwood Academy Fund Group	Total
$ 2,624,886	$ 337,600	$ 108,641,848
–	–	(126,490,910)
6,000	1,000	533,785
(7,200)	(800)	(347,521)
–	–	(321,572)
–	–	287,311
2,623,686	337,800	(17,697,059)
–	–	(12,515,634)
–	–	10,584,267
1,465	163	6,774,031
–	–	(1,075,708)
1,465	163	3,766,956
–	–	136,102,403
(1,675,000)	(220,000)	(79,419,109)
(949,886)	(117,600)	(41,783,122)
(2,624,886)	(337,600)	14,900,172
265	363	970,069
23,537	22,268	14,393,981
$ 23,802	$ 22,631	$ 15,364,050
$ 23,802	$ 22,631	$ 55,178
–	–	9,586,950
–	–	5,721,922
$ 23,802	$ 22,631	$ 15,364,050

NEW HAMPSHIRE MUNICIPAL BOND BANK

STATEMENTS OF CASH FLOWS (CONTINUED)

For the Year Ended June 30, 2006

	Municipal Division	
	State Guaranteed Fund Group	Non-State Guaranteed Fund Group
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	$ (341,377)	$ (3,046,269)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Interest income from investments	(672,129)	(5,334,937)
Net decrease in the fair value of investments	752,375	4,720,948
Amortization of rebates to governmental units and bond issuance costs	147,015	644,965
Interest expense on bonds payable	2,589,303	40,676,623
Change in assets and liabilities:		
Loans receivable from governmental units	7,892,109	(66,577,410)
Accrued interest receivable from governmental units	236,979	(1,835,826)
Unamortized rebates to governmental units and bond issuance costs	–	(504,668)
Due (to) from other funds	(79,253)	79,253
Accounts payable and accrued liabilities	–	(6,246)
Net cash provided (used) by operating activities	$ 10,525,022	$(31,183,567)

See accompanying notes to the financial statements.

Educational Institutions Division		
Pinkerton Academy Fund Group	Coe-Brown Northwood Academy Fund Group	Total
$ 265	$ 363	$ (3,387,018)
(1,465)	(163)	(6,008,694)
–	–	5,473,323
–	–	791,980
946,204	115,921	44,328,051
1,675,000	220,000	(56,790,301)
3,682	1,679	(1,593,486)
–	–	(504,668)
–	–	–
–	–	(6,246)
$2,623,686	$337,800	$(17,697,059)

1. Organization

The New Hampshire Municipal Bond Bank (Bond Bank) was created in 1977 by Chapter 35-A (Act) of the State of New Hampshire (State) Revised Statutes Annotated. The Bond Bank is an instrumentality of the State, but is not a State agency and has no taxing authority. The Bond Bank has separate corporate and sovereign capacity and its board of directors is composed of the State Treasurer (who serves as director ex officio) and four directors appointed by the Governor and Executive Council. The Bond Bank has no oversight authority over any other entity.

Under the Act, the Bond Bank is empowered to issue its bonds to make funds available to governmental units having the power to levy taxes (county, city, town, school district, village district or other body corporate and politic), through the purchase by the Bond Bank of their municipal bonds. The governmental units enter into loan agreements with the Bond Bank pursuant to which they issue municipal bonds. Accordingly, the Bond Bank enables governmental units to issue debt at a lower cost of borrowing and on more favorable terms than would be possible by financing on their own. As discussed below, the Act was amended in 1982 to establish the Educational Institutions Division.

To achieve its purpose, the Bond Bank operates the following divisions and programs:

Municipal Division

State Guaranteed bonds issued are not a debt of the State of New Hampshire, and the State is not liable on such bonds. However, the municipal bonds purchased by the Bond Bank are guaranteed as to payment of principal and interest by a pledge of the full faith and credit of the State of New Hampshire.

Non-State Guaranteed bonds issued are not a debt of the State of New Hampshire, and the State is not liable on such bonds.

Since its inception, the Bond Bank has issued bonds for its Non-State Guaranteed program pursuant to a General Resolution adopted on December 1, 1978, as amended from time to time (the “1978 Resolution”). On July 14, 2005, the Bond Bank adopted a new General Resolution (the “2005 Resolution”). While substantially similar to the 1978 Resolution, the 2005 Resolution contains a number of improvements, including a flexible reserve fund sizing requirement, some changes in permitted investments, the ability to meet its reserve fund requirement with surety bond policies and other credit facilities, and a streamlined approach to calling bonds for early redemption. Bonds issued under the 2005 Resolution are separately secured from all other bonds of the Bond Bank, including those issued under the 1978 Resolution. The adoption of the 2005 Resolution has not resulted in any substantive change to the Bond Bank’s overall program. Total assets and liabilities of the 2005 Resolution, which are reported under the Non-State Guaranteed Fund Group, were approximately $48,000,000 at June 30, 2006, consisting entirely of loans to governmental units and bonds payable.

1. Organization (Continued)

Educational Institutions Division

Pinkerton Academy and Coe-Brown Northwood Academy Programs: Effective February 19, 1982 (and as modified July 11, 1998), the State Legislature enacted the "New Hampshire Municipal Bond Bank Educational Institutions Bond Financing Act", to assist certain elementary, secondary education institutions, or any other institution which provides a program of education within the state which is preparatory of secondary, postsecondary, or higher education, to finance the construction and improvement of their facilities.

No State appropriations are made to the Bond Bank. Fees and charges are authorized to be charged by the Bond Bank for the use of its services or facilities. These fees and charges, along with income from investments, provide for the annual operating costs of the Bond Bank.

2. Significant Accounting Policies

Proprietary Fund Accounting

The Bond Bank is accounted for as an Enterprise Fund. An Enterprise Fund is used to account for an operation where periodic determination, on an accrual basis, of revenues earned, expenses incurred and net income is appropriate. Accordingly, the Bond Bank recognizes revenues in the period earned and expenses in the period incurred.

The Bond Bank complies with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that Use Proprietary Fund Accounting*. Under the provisions of this statement, the Bond Bank applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements, Accounting Principals Board (APB) Opinions, and Accounting Research Bulletins (ARBs) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. As permitted by GASB No. 20, the Bond Bank has elected not to comply with the FASB Statements and Interpretations issued after November 30, 1989.

The financial statements are prepared in accordance with Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statement No. 21 and No. 34*, and No. 38, *Certain Financial Statement Note Disclosures* (the Statements).

Federal Income Taxes

It is the opinion of management that the Bond Bank is exempt from federal income taxes under Internal Revenue Code Section 115. However, the Bond Bank is subject to the arbitrage rebate requirements of Section 148 of the Internal Revenue Code. Section 148 requires that any arbitrage profit earned on the proceeds of tax-exempt bonds issued after 1985 must be rebated to the federal government at least once every five years, with the balance rebated no later than 60 days after the retirement of the bonds.

2. Significant Accounting Policies (Continued)

Arbitrage rebate expense, which is presented as a reduction in the amount of interest income from investments, for the year ended June 30, 2006 was $213,742 and $593,340 for the State Guaranteed and Non-State Guaranteed Fund Groups, respectively.

Cash and Cash Equivalents

The Bond Bank considers all checking and savings deposits and highly liquid investments with original maturities of three months or less to be cash equivalents.

Investments

Investments are carried at fair value. Changes in fair value are recorded as net increase or decrease in the fair value of investments on the statements of revenues, expenses and changes in fund equity.

Bond Discounts, Premiums and Issuance Costs

Costs associated with issuing debt, which are generally paid by means of fees collected from governmental units, are expensed in the year incurred. Bond issuance costs and original issue discounts or premiums associated with the Series 1993, 1996, 1998, 2002, 2003, 2004 and 2005 refunding bond issues were not offset by fees collected from governmental units, thus they were deferred and are being amortized to interest expense over the life of the refunding bond issues using the straight-line method. For each refunding, bond discounts (premiums) are presented as a reduction of (increase to) the face amount of bonds payable (note 4), whereas issuance costs are recorded as deferred charges included in other assets.

Advanced Refundings

All advanced refundings completed subsequent to July 1, 1993 within the Bond Bank's municipal division are accounted for in accordance with the provisions of GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*. Under GASB Statement No. 23, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense over the remaining life of the old debt, or the life of the new debt, whichever is shorter, using the straight-line method. The unamortized portion of the deferred amount is reported as a reduction of the face amount of the bonds payable (note 4). Amortization for the year ended June 30, 2006 was $536,436 and $2,078,606 for the State Guaranteed and Non-State Guaranteed Fund Groups, respectively.

The gains, losses and economic benefits of advance refundings completed within the Educational Institutions Division inure to the respective institution and not the Bond Bank.

2. Significant Accounting Policies (Continued)

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Bond Bank to make estimates and assumptions that affect the amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Total Columns

The "total" columns contain the totals of the similar accounts of the various funds. Since the assets of the funds are restricted, the combination of the accounts, including assets therein, is for convenience only and does not indicate that the combined assets are available in any manner other than that provided for in the separate funds.

3. Cash, Cash Equivalents and Investments

Cash includes funds held in interest bearing demand deposit and savings accounts, which are fully insured by the Federal Deposit Insurance Corporation, and amounts on deposit with the New Hampshire Public Deposit Investment Pool (established pursuant to Sections 383:22-24 of the New Hampshire Revised Statutes Annotated), of $55,178 as of June 30, 2006.

Investments held by trustee and Reserve Fund investments held by trustee consist primarily of U.S. Government and Government Agency obligations and shares of money market funds which invest in U.S. Government and Government Agency obligations. All investments are held by a trustee in the Bond Bank's name.

Reserve Fund investments held by trustee are restricted for payment of future debt service on the reserve fund portion of all outstanding bond issues. Pursuant to the Act and respective Bond Resolutions, the Municipal Division of the Bond Bank is required to maintain a debt service reserve fund which is equal to the maximum amount of bond principal and interest payable in any succeeding calendar year, to the extent that the funds are receivable from governmental units. Such reserves would be used to provide for payment of debt service in the event that one or more governmental units defaults in its payments.

As permitted by the bond resolution, any funds not required for loans to government units or deposit to reserve funds, may be held by the Bond Bank as unrestricted investments. These amounts are classified as investments held by trustee within the accompanying balance sheets.

Reserve Fund investments and investments held by trustee must be invested in any of the following obligations; (a) direct obligations of the United States of America or direct obligations of the State or obligations for which the faith and credit of the United States of America or the State is pledged to provide for the payment of the principal and interest, (b) any bond, debenture, note, participation or other similar obligation issued by the Federal National Mortgage Association, and (c) any other obligation of the United States of America or any Federal agencies which may then be purchased with funds belonging to the State or held in the State Treasury.

3. Cash, Cash Equivalents and Investments (Continued)

Investments of the Bond Bank consist of short-term money market funds and other investments which are 100% collateralized by government securities. At June 30, 2006, investments are categorized as follows:

	Fair Value	
	Cash Equivalents	U.S. Government Obligations
Investments held by trustee:		
State Guaranteed Fund Group	$ 3,234,233	$ –
Non-State Guaranteed Fund Group	6,352,717	–
	9,586,950	–
Reserve fund investments held by trustee:		
State Guaranteed Fund Group	1,716,628	9,347,118
Non-State Guaranteed Fund Group	4,005,294	109,765,079
	$ 15,308,872	$ 119,112,197

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Bond Bank's investment policy provides that investment maturities be closely matched with future bond principal and interest requirements, which are the primary use of invested assets. The Bond Bank's general practice has been to hold all debt securities to their maturity, at which point the funds are needed to make required bond principal and interest payments for the respective resolutions. The following table provides information on future maturities of the Bond Bank's investment in U.S. government obligations as of June 30, 2006:

Maturities	State Guaranteed Fund Group	% of Total	Non-State Guaranteed Fund Group	% of Total
Less than one year	$1,226,650	13.12%	$ 9,275,430	8.45%
One to five years	5,532,530	59.19	27,487,980	25.04
Six to ten years	2,369,867	25.36	40,134,342	36.57
More than ten years	218,071	2.33	32,867,327	29.94
	$9,347,118	100.00%	$ 109,765,079	100.00%

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Bond Bank will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Bond Bank's investments are held by Flagship Bank, a state-charted and publicly traded commercial bank which is a wholly owned subsidiary of Chittenden Corporation. Management of the Bond Bank is not aware of any issues with respect to custodial credit risk at Flagship Bank at June 30, 2006.

4. Bonds Payable

Bonds payable at June 30, 2006, by program, are as follows:

Municipal Division:	
State Guaranteed	$ 44,885,078
Non-State Guaranteed	856,017,520
Educational Institutions Division:	
Pinkerton Academy	18,935,000
Coe-Brown Northwood Academy	2,175,000
	$ 922,012,598

Following is a comprehensive summary of bonds payable by program at June 30, 2006:

Municipal Division – State Guaranteed

Bonds payable consist of the following at June 30, 2006:

Series 1992 D Bonds, maturing January 15, 1994 to January 15, 2007, with interest ranging from 5.25% to 5.8%	$ 105,000
Series 1994 D Bonds, maturing August 15, 1995 to August 15, 2014, with interest ranging from 4.25% to 6.45%	820,814
Series 1994 E Bonds, maturing August 15, 2001 to August 15, 2014, with interest ranging from 5.25% to 6.25%	275,000
Series 1996 B Refunding Bonds, maturing July 15, 1997 to July 15, 2006, with interest ranging from 4% to 5%	540,000
Series 1997 B Bonds, maturing August 15, 1998 to August 15, 2017, with interest ranging from 4.6% to 5.2%	6,385,000
Series 1997 D Bonds, maturing January 15, 1999 to January 15, 2013, with interest ranging from 4.15% to 4.9%	3,190,000
Series 1998 B Refunding Bonds, maturing February 15, 1999 to August 15, 2014, with interest ranging from 3.75% to 4.75%	2,990,000
Series 2003 B Refunding Bonds, maturing August 15, 2003 to February 15, 2012, with interest ranging from 2% to 5%	28,140,000
Series 2003 G Refunding Bonds, maturing February 15, 2004 to August 15, 2012, with interest ranging from 2% to 4%	3,455,000
	45,900,814
Net unamortized original issue premium on Series 1993 F, 1996 B, 1998 B, 2003 B and 2003 G Refunding Bonds	1,191,626
Unamortized deferred loss on Series 1993 F, 1996 B, 1998 B, 2003 B and 2003 G advance refundings	(2,207,362)
Bonds payable	44,885,078
Current portion	8,034,841
Noncurrent portion	$ 36,850,237

4. Bonds Payable (Continued)

The above bonds payable will mature as follows, with interest payable semiannually:

Fiscal year Ending June 30,	Principal	Interest	Total
2007	$ 8,199,667	$ 1,987,771	$ 10,187,438
2008	8,345,636	1,643,245	9,988,881
2009	6,881,195	1,330,531	8,211,726
2010	7,318,108	1,068,318	8,386,426
2011	4,436,165	773,288	5,209,453
2012 – 2016	9,710,043	1,690,800	11,400,843
2017 – 2018	1,010,000	61,100	1,071,100
	$ 45,900,814	$ 8,555,053	$ 54,455,867

Municipal Division – Non-State Guaranteed

Bonds payable consist of the following at June 30, 2006:

Series 1994 A Bonds, maturing November 1, 1994 to November 1, 2006, with interest ranging from 2.9% to 4.95%	$ 2,250,000
Series 1996 A Refunding Bonds, maturing August 15, 1996 to January 15, 2008, with interest ranging from 3.75% to 5.75%	5,155,000
Series 1996 C Bonds, maturing August 15,1997 to August 15, 2016, with interest ranging from 5.625% to 5.75%	13,330,000
Series 1996 D Bonds, maturing January 15, 1998 to January 15 2017, with interest ranging from 5.4% to 5.5%	1,085,000
Series 1997 A Bonds, maturing August 15, 1998 to August 15 2017, with interest ranging from 4.7% to 5.3%	1,565,000
Series 1997 C Bonds, maturing January 15, 1999 to January 15, 2013, with interest ranging from 4.3% to 4.95%	755,000
Series 1998 A Refunding Bonds, maturing February 15, 1999 to August 15, 2018, with interest ranging from 3.9% to 5%	14,930,000
Series 1999 A Bonds, maturing January 15, 2000 to January 15, 2029, with interest ranging from 4% to 4.9%	12,510,000
Series 1999 B Bonds, maturing August 15, 2000 to August 15 2019, with interest ranging from 4.5% to 5.25%	23,545,000
Series 1999 C Bonds, maturing January 15, 2001 to January 15, 2020, with interest ranging from 5.375% to 5.75%	8,030,000
Series 2000 A Bonds, maturing August 15, 2001 to August 15, 2020, with interest ranging from 5.125% to 5.5%	9,165,000
Series 2000 B Bonds, maturing January 15, 2002 to January 15, 2021, with interest ranging from 4.75% to 5.25%	3,120,000
Series 2001 A Bonds, maturing August 15, 2002 to August 15, 2021, with interest ranging from 4.125% to 5%	33,270,000

4. Bonds Payable (Continued)

Municipal Division – Non-State Guaranteed

Series 2002 A Bonds, maturing June 15, 2003 to June 15, 2022, with interest ranging from 3.5% to 4.75%	$ 4,425,000
Series 2002 B Bonds, maturing August 15, 2003 to August 15, 2022, with interest ranging from 3% to 5%	61,630,000
Series 2002 C Bonds, maturing August 15, 2003 to August 15, 2022, with interest ranging from 3% to 4.75%	20,040,000
Series 2002 D Refunding Bonds, maturing August 15, 2003 to August 15, 2016, with interest ranging from 2% to 5%	79,590,000
Series 2002 E Bonds, maturing January 15, 2004 to January 15, 2023, with interest ranging from 4.25% to 4.9%	11,215,000
Series 2002 F Refunding Bonds, maturing August 15, 2003 to August 15, 2008, with interest ranging from 2% to 3.2%	2,175,000
Series 2003 A Refunding Bonds, maturing August 15, 2003 to February 15, 2012, with interest ranging from 2% to 5%	25,260,000
Series 2003 C Bonds, maturing August 15, 2004 to August 15, 2023, with interest ranging from 3% to 6%	71,330,000
Series 2003 D Bonds, maturing August 15, 2004 to August 15, 2023, with interest ranging from 2% to 5%	12,600,000
Series 2003 E Bonds, maturing August 15, 2004 to August 15, 2023, with interest ranging from 3.5% to 5.25%	41,920,000
Series 2003 F Bonds, maturing January 15, 2005 to January 15, 2024, with interest ranging from 4% to 5%	48,880,000
Series 2004 A Refunding Bonds, maturing August 15, 2005 to February 15, 2020, with interest ranging from 2% to 5%	73,650,000
Series 2004 B Bonds, maturing August 15, 2005 to August 15, 2024 with interest ranging from 3% to 5%	99,740,000
Series 2004 C Bonds, maturing January 15, 2006 to January 15, 2025 with interest ranging from 3.75% to 5%	5,645,000
Series 2005 A Refunding Bonds, maturing August 15, 2009 to August 15, 2020 with interest ranging from 3% to 5%	34,035,000
Series 2005 B Bonds, maturing August 15, 2006 to August 15, 2025 with interest ranging from 4% to 5%	65,640,000
Series 2005 C Bonds, maturing March 15, 2006 to March 15, 2028 with interest ranging from 3% to 5%	22,425,000
Series 2005 D Bonds, maturing July 15, 2006 to July 15, 2025 with interest ranging from 3% to 5%	47,505,000
	856,415,000

4. Bonds Payable (Continued)

Net unamortized original issue premium on Series 1993 A and E, 1996 A, 1998 A, 2002 D, 2002 F, 2003 A, 2004 A and 2005 A Refunding Bonds	$ 16,245,697
Unamortized deferred loss on Series 1993 A and E, 1996 A, 1998 A, 2002 D and F, 2003 A, 2004 A and 2005 A advance refundings	(16,643,177)
Bonds payable	856,017,520
Current portion	67,547,589
Noncurrent portion	$ 788,469,931

The above bonds payable will mature as follows, with interest payable semiannually:

Fiscal year Ending June 30,	Principal	Interest	Total
2007	$ 67,685,000	$ 38,434,339	$ 106,119,339
2008	62,715,000	35,645,698	98,360,698
2009	61,390,000	32,890,628	94,280,628
2010	59,985,000	30,044,172	90,029,172
2011	54,505,000	27,341,758	81,846,758
2012 – 2016	244,190,000	100,698,132	344,888,132
2017 – 2021	172,295,000	51,989,530	224,284,530
2022 – 2026	117,635,000	16,313,777	133,948,777
2027 – 2029	16,015,000	1,602,970	17,617,970
	$ 856,415,000	$ 334,961,004	$ 1,191,376,004

Educational Institutions Division – Pinkerton Academy

Bonds payable at June 30, 2006 consist of the following:

1993 Pinkerton Academy Project Refunding Revenue Bonds, maturing June 1, 1993 to June 1, 2007, with interest ranging from 2.4% to 5.25%	$ 650,000
2001 A Pinkerton Academy Project Refunding Revenue Bonds, maturing June 1, 2003 to June 1, 2021, with interest ranging from 4% to 5%	16,595,000
2001 B Pinkerton Academy Project Refunding Revenue Bonds, maturing June 1, 2002 to June 1, 2011, with variable interest rate (4.1% at June 30, 2006)	1,690,000
Bonds payable	18,935,000
Current portion	1,760,000
Noncurrent portion	$ 17,175,000

4. Bonds Payable (Continued)

The above bonds payable will mature as follows, with interest payable semiannually:

Fiscal year Ending June 30,	Principal	Interest	Total
2007	$ 1,760,000	$ 895,553	$ 2,655,553
2008	1,155,000	814,725	1,969,725
2009	1,200,000	764,050	1,964,050
2010	1,250,000	713,553	1,963,553
2011	1,305,000	660,952	1,965,952
2012 – 2016	5,395,000	2,537,250	7,932,250
2017 – 2021	6,870,000	1,063,750	7,933,750
	$ 18,935,000	$7,449,833	$ 26,384,833

Educational Institutions Division – Coe-Brown Northwood Academy

Bonds payable at June 30, 2006 consist of the following:

1994 Coe-Brown Northwood Academy Revenue Bonds, maturing May 1, 1995 to May 1, 2009, with interest ranging from 7.25% to 7.38%, payable semiannually	$ 290,000
2003 Coe-Brown Northwood Academy Revenue Bonds, maturing May 1, 2004 to May 1, 2018, with interest ranging from 2% to 5%, payable semiannually	1,885,000
Bonds payable	2,175,000
Current portion	225,000
Noncurrent portion	$1,950,000

The above bonds payable are subject to mandatory redemptions as follows, with interest payable semiannually:

Fiscal year Ending June 30,	Principal	Interest	Total
2007	$ 225,000	$ 107,350	$ 332,350
2008	230,000	96,350	326,350
2009	220,000	84,550	304,550
2010	140,000	72,825	212,825
2011	145,000	66,525	211,525
2012 – 2016	825,000	224,500	1,049,500
2017 – 2018	390,000	29,500	419,500
	$2,175,000	$ 681,600	$2,856,600

4. Bonds Payable (Continued)

Some bonds contain provisions for prepayment at the Bond Bank's option. All bonds are secured by the payment stream of loans receivable from governmental units. The monies in the reserve funds shall be held and applied solely to the payment of the interest and principal of the reserve fund bonds as they become due and payable and for the retirement of the reserve fund bonds. In the event of a deficiency in an interest and/or principal payment from the governmental units, transfers can be made from the general reserve funds to cover the shortfall. If this transfer creates a deficiency in the required amount of the reserve funds, the State can annually appropriate and cover such deficiency. Reserve funds of one division (as defined in note 1) cannot be used to cover deficiencies of another division.

In periods of declining interest rates, the Bond Bank has refunded certain bond obligations by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the Bond Bank's financial statements. As of June 30, 2006, defeased bonds payable by irrevocable trusts were approximately $133,160,000.

The following summarizes bonds payable activity for the Bond Bank for the year ended June 30, 2006:

	State Guaranteed Fund Group	Non-State Guaranteed Fund Group	Pinkerton Academy Fund Group	Coe-Brown Northwood Academy Fund Group
Balance, beginning of year	$ 53,645,134	$ 787,805,645	$ 20,610,000	$2,395,000
Issuances	–	135,970,000	–	–
Redemptions	(9,099,109)	(68,425,000)	(1,675,000)	(220,000)
Capitalized premiums and deferred losses, net	–	132,403	–	–
Amortization of premiums and deferred losses, net	339,053	534,472	–	–
Balance, end of year	$ 44,885,078	$ 856,017,520	$ 18,935,000	$2,175,000

5. Subsequent Events

On July 1, 2006, the Bond Bank issued $53,630,000 in Non-State Guaranteed bonds. At June 30, 2006, the Bond Bank had committed all of the proceeds to governmental unit loans.