STATE OF NEW HAMPSHIRE
STATE TREASURY

FINANCIAL AND COMPLIANCE
AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2002

STATE OF NEW HAMPSHIRE
STATE TREASURY

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STATE OF NEW HAMPSHIRE
STATE TREASURY

Reporting Entity and Scope

The reporting entity and scope of this audit and audit report is the New Hampshire State Treasury (Treasury), as of and for the year ended June 30, 2003, excluding the custody and escheat of unclaimed and abandoned property pursuant to RSA 471-C.

Organization

The New Hampshire State Treasury operates under the executive direction of the State Treasurer, a constitutional officer elected biennially by a joint ballot of the Senate and House of Representatives. Assisting, and appointed by the Treasurer, is a chief deputy treasurer, a deputy treasurer, and two assistant treasurers, all of whom are unclassified State employees. Treasury also employed 18 classified employees at June 30, 2002.

Responsibilities

Treasury's primary responsibility as provided in RSAs 6, 6-A, 6-B, 6-C, and 11, is the management of the State's cash, investments, debt, and trust funds, as detailed below. Treasury is also responsible for the abandoned property program as provided in RSA 471-C.

Cash Management

The Treasurer serves as custodian over the State's receipt of funds and is responsible for the payment of all State operating expenses. RSA 6:7 establishes the State policy for depositing public monies. Part 2, Article 56 of the New Hampshire State Constitution requires all payments made from the Treasury, except debt obligations, to be authorized by warrant under the hand of the Governor, with the advice and consent of the Executive Council.

Investment Management

Treasury is responsible for maximizing the return on State funds while considering cash flows and liquidity requirements. The Treasury invests funds, above those necessary to meet operating expenses, in instruments set forth in RSA 6:8, including:

- Obligations of the US government;
- All types of savings accounts;
- Participation units in the public deposit investment pool established pursuant to RSA 383:22; and
- Certificates of deposit of State or federally chartered banking institutions within New Hampshire.

Debt Management

Treasury is responsible for developing long-term debt plans, tracking the status of the State's debt, and making debt service payments on all State bonds and notes.

In accordance with RSA 6:13, Treasury is authorized to borrow on the State's credit, under the direction of the Governor and Council, such sums as may be necessary when it is anticipated that there will not be sufficient general funds to meet current obligations. The total of this temporary borrowing for the General Fund may not exceed $200 million. There were no temporary borrowings outstanding at June 30, 2002.

Bonds may be issued, when authorized by the Governor and Council, for specified projects or purposes. Bonds are not issued after every statutory authorization. Instead, Treasury monitors the status of capital projects and then issues bonds to cover several authorizations. Except for revenue bonds, such borrowing usually constitutes general obligation debt of the State. The total balance of general obligation bonds issued for governmental activities outstanding at June 30, 2002 was approximately $660.2 million.

Fiduciary Funds

In accordance with RSA 11:1, all trust funds left to and accepted by the State shall be in the custody of the State Treasurer. Treasury holds these funds as agency funds for other State government units and invests the funds as directed by those government units.

Funding

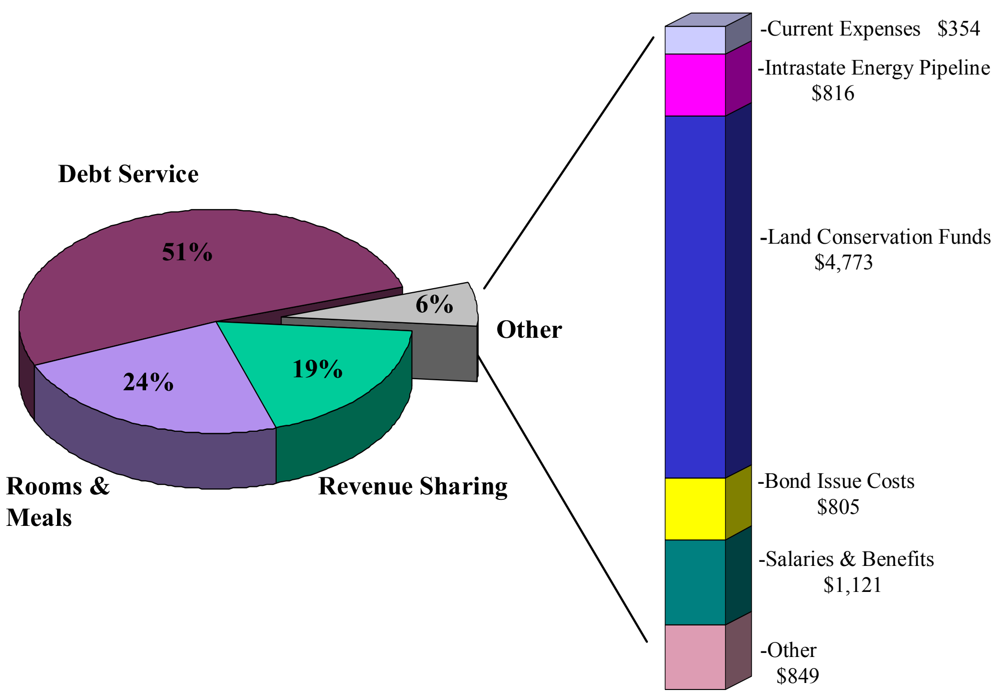
Treasury is funded primarily by appropriations in the General and Capital Projects Funds. The fiscal year 2002 appropriations combined with supplemental warrants, balances forward, and transfers resulted in spending authority of $137,984,422 in the General Fund and $1,622,749 in the Capital Projects Fund. Estimated revenue for fiscal year 2002 totalled $7,046,841 in the General Fund with actual revenue received equaling $3,173,787. Fiscal year 2002 expenditures are shown graphically on page 3.

Prior Audit

The most recent prior financial and compliance audit of the State Treasury was for the year ended June 30, 1999. The appendix to this report on page 51 contains a summary of the current status of the observations contained in that report. Copies of the prior report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, Concord, NH 03301-4906 or on-line at www.gencourt.state.nh.us/lba.

State Treasury
Fiscal Year 2002 - Combined Expenditures
General and Capital Projects Funds

(Amounts Expressed in Thousands)



Category	General Fund	Capital Fund	Total
Debt Service	$ 69,570	$ -0-	$ 69,570
Rooms & Meals	32,201	-0-	32,201
Revenue Sharing	25,216	-0-	25,216
Other	7,097	1,621	8,718
Total	$ 134,084	$ 1,621	$ 135,705

Audit Objectives And Scope

The primary objective of our audit is to express an opinion on the fairness of the presentation of the financial statements of the State Treasury for the year ended June 30, 2002. As part of obtaining reasonable assurance about whether the financial statements are free from material misstatement, we considered the effectiveness of the internal controls in place at the Treasury and tested the Treasury's compliance with certain provisions of applicable State and federal laws, regulations, contracts, and grants. Major accounts or areas subject to our examination included, but were not limited to, the following:

- Internal controls;
- Revenues and appropriations;
- Expenditures;
- Agency funds;
- Cash and investments;
- Long-term debt; and
- Contingent liabilities.

Our reports on compliance and on internal control over financial reporting, and on management issues, the related observations and recommendations, our independent auditor's report, and the financial statements of the State Treasury are contained in the report that follows.

Auditor's Report On Compliance And On Internal Control Over Financial Reporting

To The Fiscal Committee Of The General Court:

We have audited the accompanying financial statements of the New Hampshire State Treasury as of and for the year ended June 30, 2002 as listed in the table of contents, and have issued our report thereon dated March 7, 2003, which was qualified with respect to the lack of presentation of the financial position of the State Treasury in the government-wide and fund financial statements. 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.

Compliance

As part of obtaining reasonable assurance about whether Treasury's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, rules, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which are described in observations No. 8 and No. 9 of this report.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State Treasury's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State Treasury's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in observations No. 1 through No. 7 of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions noted above is a material weakness.

This auditor's report on compliance and on internal control over financial reporting is intended solely for the information and use of the management of the State Treasury and the Fiscal Committee of the General Court and is not intended to be and should not be used by anyone other than these specified parties.

Office Of Legislative Budget Assistant

Office Of Legislative Budget Assistant

March 7, 2003

Internal Control Comments
Reportable Conditions

Observation No. 1 - Revenue Sharing Payments Should Be Reviewed And Documented

Observation:

Treasury continues to experience processing errors and lacks sufficient documentation to support revenue sharing payments to cities and towns. We noted similar issues in our 1997 and 1999 audit reports of Treasury. Compounding the difficulty with revenue sharing payments is the April 1999 revision to RSA 31-A:4, which required the revenue sharing distribution be exclusive of education funds, allocating a portion of the $47.3 million distribution to the Education Trust Fund.

RSA 31-A:4 outlines the formula used by Treasury to calculate the State's revenue sharing distribution. The Department of Revenue Administration (DRA) and the Office of State Planning supply property valuation and census information used by Treasury to calculate an equalized factor for each municipality in order to allocate the $47.3 million distribution. Treasury provides that information to DRA to allocate a portion of the distribution to the Education Trust Fund based on the school district portion of the 1998 property tax calculation.

The 1999 revision to RSA 31-A:4 fixed the total revenue sharing disbursement to the cities and towns at the fiscal year 1998 amount less the Education Trust Fund allocation. Treasury mistakenly used the fiscal year 1999 distribution rather than the fiscal year 1998 amounts in the calculation. While the use of the wrong year had no impact on either total revenue sharing or the total amount allocated to the Education Trust Fund, it did impact the amount each municipality received by a range of $44,445 underpayment to $40,099 overpayment.

In addition to the errors resulting from the use of the wrong fiscal year, Treasury failed to maintain documentation to support the allocation of funds among certain sub-entities (i.e. 39 water, fire, lighting, beach, and village precincts and districts, and 8 school districts) within the cities and towns. This lack of documentation was noted in our fiscal years 1997 and 1999 audits of Treasury. Treasury's response to this issue in the past has indicated that legislative or legal direction regarding the interpretation of RSA 31-A would be welcome. Treasury has yet to obtain either legislative clarification or an Attorney General opinion on this issue.

Recommendation:

Treasury should have a full understanding of all aspects of the revenue sharing calculation, and should implement procedures to review and monitor the calculation and distribution. All procedures, assumptions, etc. should be fully documented.

As the calculation of the revenue sharing distribution is performed in part by DRA, Treasury and DRA should improve communication to ensure that the most appropriate and accurate information available is used in the calculation.

As recommended in our 1997 and 1999 audit reports, and prior to making changes to the revenue sharing calculation, Treasury should request an Attorney General's opinion as to whether it should continue allocating State revenue sharing payments among the various sub-entities within the cities and towns.

Auditee Response: Concur In Part

Treasury partially concurs with the auditors to the extent that further analysis of the issues raised in the Observation is warranted. Accordingly, Treasury will consult with the Department of Revenue Administration regarding the issues in question and will resolve any discrepancies that are determined to exist based on this analysis.

Observation No. 2 - Investment Transactions Should Be Subject To An Effective Review And Approval Procedure

Observation:

The duties related to Treasury's investment of State operating funds are not effectively segregated, as the same individual is responsible for making investment decisions, purchasing the investments, and preparing source documents for entry into the Treasury banking system and the State accounting system. Proper internal control procedures require the segregation of the following three groups of incompatible duties: 1) authorization, 2) custody of assets, and 3) recording or reporting of transactions.

Treasury's investment policy allows the Assistant Treasurer to purchase investments without an independent review or approval unless the dollar amount exceeds $20 million in one day. Treasury reported that the purchase confirmation notices received from the banks are initialed by an independent employee, however this does not appear to be an effective control procedure as the review and approval occurs after the investment is made.

The improper segregation of duties and/or the lack of documentation of prior approval of investment activities may result in investment decisions that do not maximize the State's resources. For example, poor investment decisions may result in the assessment of penalties if Treasury is required to sell the investments prior to maturity. Additionally, errors made related to the processing of investment transactions may go undetected or not be detected timely.

Similar comments were noted in our fiscal years 1997 and 1999 audit reports of Treasury.

Recommendation:

Treasury should segregate the duties of initiating, authorizing, and recording investments through the use of an effective and documented review and approval process. Treasury should implement additional procedures to adequately document the review and prior approval of daily investment decisions. In addition, Treasury's investment policy should be revised to accurately reflect the procedures implemented.

Auditee Response: Concur In Part

Treasury partially concurs with comments made. Appropriate authorization, review, and recording of investment transactions are important parts of the investment or cash management function. Treasury believes there are sufficient controls in place in the performance of these functions. In addition to the procedures outlined in the investment guidelines, the review of investments and cash balances is a daily process between the Assistant Treasurer, Deputy Treasurer and Treasurer.

Observation No. 3 - Debt Management System Should Have The Capacity To Provide Complete Debt Accounting

Observation:

There are several shortcomings in Treasury's long-term direct and contingent debt management system (DMS), resulting in inaccurate or unavailable debt information. Treasury's DMS was implemented in 1992. Treasury's current Strategic Information Technology Plan lists a number of problems with the existing application as well as several desired changes or enhancements, which are consistent with the problems observed during our audit.

During fiscal year 2002, Treasury's DMS tracked outstanding bond issuances and contingent debt, and generated the schedules from which debt service payments were made. While the system appears to adequately track the outstanding principal on bond issuances, DMS has several limitations, including:

- *Inability to maintain historical data.* The system was unable to maintain June 30, 2002 information when a new bond issuance in August of 2002 was entered into the system. As a result, Treasury was required to recreate the June 30, 2002 balances to be reported in the fiscal year 2002 financial statements.
- *No mechanism to record changes to the debt repayment schedules (Direct Debt Payment Report, or DDPR) produced by DMS.* Adjustments to the DDPR may be required for changes made to the appropriation accounts from which the payment is made, or as a result of a limitation on the amount of information that DMS will allow per field. These adjustments are made manually to the hard copy of the DDPR each time a payment is made in order to record the proper information in the State's integrated financial system. However, during fiscal year 2002, there was no documentation to support the necessity of the changes, and no evidence of review or approval of those manual changes, without which errors may go undetected or not be detected timely. A similar issue was also noted during the fiscal year 1999 audit of Treasury.
- *Limitation on tracking interest payments outside of normal increments.* DMS is only capable of tracking interest payments in 6-month increments, which is the schedule by which the

majority of the debt service payments are made. However, there are two Turnpike revenue bond issuances for which interest payments are made every 35 days, which DMS is not capable of tracking. Therefore, the payments recorded in the State accounting system do not agree with the payments outlined in the DDPR.

- *No function for maintaining information related to escrow accounts for the advance refunding of bond issuances.* Since the escrow account information is not maintained in DMS, Treasury records the information in a separate Excel spreadsheet, which had not been updated for at least two fiscal years, resulting in an overstatement of approximately $34 million in the fiscal year 2002 advance refunding amounts initially reported in the State Comprehensive Annual Financial Report (CAFR). It should be noted that the adjustment was made to the final version of the CAFR.
- *No function for maintaining information related to bond anticipation notes (BANs).* Since the information on the BANs is not maintained in DMS, and no spreadsheet is prepared for BANs, Treasury relies on the bank that manages the BANs to track the necessary information.
- *The Business Finance Authority (BFA) State guaranteed loan program was excluded from the contingent debt report.* As a result, $29.6 million of outstanding principal on loans for which the State is contingently liable was excluded from the original version of the fiscal year 2002 CAFR. Since Treasury does not maintain information on the BFA loan program in DMS, it relies on BFA for the amounts that are reported in the financial statements.

By relying on information outside DMS to track certain direct and contingent debt information, Treasury sacrifices a significant amount of control that could be provided by an adequate debt management system.

Recommendation:

Treasury should consider obtaining or developing a debt management system that has the capacity to accurately track and keep current all information related to long-term direct and contingent liabilities. The system should be sufficient to provide historical data and to accept changes as necessary. If obtaining a new system or updating the current system is not feasible, Treasury should, at least, improve the current procedures for tracking information outside of DMS to keep the information complete and current and to strengthen controls over the information. Additionally, Treasury should document the propriety of any changes made to information in the debt system, and review and approval of those changes should be evidenced.

Auditee Response: Concur

Treasury concurs in general with the recommendation. Treasury is currently reviewing its options to acquire a new debt management system that would possess more functionality and flexibility than our current system. Treasury recognizes the weaknesses and inadequacies of the current system while acknowledging there are limitations as to what any software program can provide. To every extent possible, Treasury is looking to procure a debt management system that provides the most comprehensive solution to our debt management needs, subject to the limitation of any appropriations provided for or eligible to fund this expenditure. We feel confidant that any new system will address those areas identified in this observation.

Observation No. 4 – Accounting For State-Guaranteed Debt Should Be Improved

Observation:

Treasury does not have sufficient records to support the amount of State-guaranteed principal and interest outstanding on various Business Finance Authority (BFA) loan and bond programs.

In accordance with RSA 162-A, the State unconditionally guarantees the principal and interest of certain types of debt issued by the BFA. While Treasury maintains accounting records for the BFA general obligation debt, Treasury does not have any records for the loan and bond programs subject to State guarantee.

Treasury relies upon the BFA to determine and annually report amounts of loan and bond principal subject to State guarantee. For fiscal year 2002, BFA was unable to provide Treasury with total outstanding interest for the guaranteed loans, and as a result Treasury was forced to estimate interest outstanding. At June 30, 2002, the State Comprehensive Annual Financial Report (CAFR) reported $53.3 million of principal and $23 million of interest outstanding related to the State-guaranteed BFA loan and bond programs. Of the $23 million in interest, $6.7 was the estimate calculated by Treasury for BFA outstanding loans.

The issue with the BFA not providing complete loan principal and interest information to Treasury has been an ongoing issue between the two entities. A similar comment was noted in the LBA audit report of Treasury for fiscal year 1999.

Recommendation:

Treasury should improve its accounting for State guarantees related to the BFA's loan and bond programs. Treasury should consider requiring that the BFA provide more periodic reporting of the State-guaranteed principal outstanding. Treasury should also require the BFA to improve its accounting and reporting systems so that State-guaranteed interest is also reported.

Auditee Response: Concur

Treasury concurs with this observation and subsequent recommendation. Along with other state guaranteed debt, BFA contingent debt will be included in the conversion to a new debt system the Treasury hopes to purchase and implement within the next six months. Additionally, a sufficiently detailed report of State-guaranteed principal outstanding is being prepared by the BFA and delivered to the Treasury on a quarterly basis.

Observation No. 5 - Risk Categorization Of Cash And Investments Should Be Reviewed

Observation:

Treasury does not review and analyze the risk categories of its cash and investments annually before including the information in the State's Comprehensive Annual Financial Report (CAFR).

Governmental Accounting Standards Board (GASB) Statement No. 3, as amended by GASB Statement No. 31, requires that the disclosure of reported cash and investment amounts as of the balance sheet date be classified into one of three categories of credit risk. Treasury is responsible for determining the appropriate credit risk classifications for the State's cash and investment accounts and transmitting this information to the Department of Administrative Services for inclusion in the State's CAFR. However, according to Treasury personnel, they did not review and analyze the accounts to determine the appropriate credit risk categories prior to transmittal.

During our review of the State's fiscal year 2002 CAFR, we noted that Treasury listed two accounts, a $2.7 million pooled demand deposit account and a $91,000 pooled money market account, in lower risk categories than was appropriate for the accounts. The improper risk categorization for the demand deposit was apparently due to Treasury carrying forward outdated risk category information, as the demand deposit was collateralized in the past, but no longer is. Treasury was unable to explain why the money market account was improperly categorized. It should be noted that the categorization error was corrected in the 2002 CAFR.

Recommendation:

Treasury should establish procedures for annually reviewing and analyzing the credit risk categorization of each of its cash and investment accounts for CAFR reporting purposes pursuant to GASB requirements.

Auditee Response: Concur

Treasury concurs and will work with Administrative Services to better understand this GASB requirement.

Observation No. 6 - Unique College Savings Plan Reimbursements Should Not Exceed Expenditures Incurred

Observation:

Reimbursements received by Treasury for administration fees incurred related to the Unique College Savings Plan exceeded expenditures for fiscal year 2002.

Treasury is the trustee of the Unique College Savings Plan and, as such, receives reimbursement for expenditures made on behalf of the Unique Plan. As trustee, Treasury has the ability to reimburse the State's account without the review and approval of the Plan administrators.

Treasury's fiscal year 2002 expenditures for the Unique Plan totaled $76,000. Treasury's reimbursement for the Unique Plan expenditures for the same period totaled $91,000, resulting in an over reimbursement of $15,000 for fiscal year 2002. According to Treasury, the reimbursement request of $91,000 included anticipated expenses to be incurred by fiscal year end. Excess revenues will be carried forward to the following fiscal year to be applied against future expenditures.

Recommendation:

Reimbursement received by Treasury for Unique Plan administration fees paid should be limited to actual expenditures incurred.

Auditee Response: Concur

We concur and have taken steps, even before the audit began, to correct what we determined to be a procedure that was not optimal.

Observation No. 7 - The Rooms And Meals Distribution Should Be Adequately Reviewed

Observation:

Treasury did not properly review its fiscal year 2002 calculation of the distribution of rooms and meals revenue to unincorporated towns, unorganized places, towns, and cities, resulting in errors going undetected. The calculation is outlined in RSA 78-A:26, which states that a portion of the tax revenue received from the meals and rooms tax shall be distributed to unincorporated towns, unorganized places, towns, and cities based on a formula, the denominator of which shall be the population of the State based on the latest population census furnished by the Office of State Planning (OSP).

As a result of Treasury's failure to review the fiscal year 2002 rooms and meals calculation, three unincorporated towns were excluded from the population figures used in the calculation. Treasury was unable to provide documentation to support the exclusion of the three unincorporated towns. Had Treasury performed an adequate review, the errors would have likely been detected and corrected. While the errors did not affect the total rooms and meals tax distribution of $32.2 million, it did affect the allocation among cities and towns, although the dollar impact on individual cities and towns was minimal.

Recommendation:

Treasury should implement procedures to ensure that the distribution of rooms and meals tax revenue to unincorporated towns, unorganized places, towns, and cities is accurately calculated, adequately reviewed, sufficiently documented, and in compliance with RSA 78-A:26.

Auditee Response: Treasury Concurs.

State Compliance Comment

Observation No. 8 - Abandoned Property Escheatment Proceeds Should Be Distributed Timely

Observation:

Treasury did not file its annual escheatment for calendar years 1998 and 1999 timely, thus delaying funds available to the State and counties.

RSA 471-C:30 requires the administrator of the State Treasury's Abandoned Property Division to pay or deliver to the counties all abandoned property, less the State deduction, within 36 months after the close of the calendar year in which the property was presumed abandoned. Therefore, an escheatment should be completed by December 31 of each year.

During our audit period, no escheatments were completed. According to statute, the calendar year 1998 escheatment should have been completed by December 31, 2001 and the calendar year 1999 escheatment should have been completed by December 31, 2002. The 1998 escheatment was completed in November 2002, approximately 11 months late. The 1999 escheatment is expected to be completed in 2003.

The liquidation of and accounting for securities, as well as understaffing, were cited by Treasury as contributing factors to the failure to complete the escheat process in a timely manner.

A similar comment was noted in our audit report of the State Treasury's Abandoned Property Division for fiscal year 1999.

Recommendation:

Treasury should comply with the statutory deadlines outlined in RSA 471-C:30 for the escheat of abandoned property.

Auditee Response: Concur

We concur. Treasury has processes in place to effectively comply with escheatment provisions of RSA 471-C in a timely manner. It is expected the Report year 1999 escheatment will be completed prior to June 30, 2003 and future escheatments will be completed well within the statutory time frame.

Federal Compliance Comment

Observation No. 9 - Treasury-CMIA Federal Agreement Should Be Updated Timely

Observation:

Treasury does not actively seek out federal programs for inclusion in its federal cash management draw system on the State accounting system (NHIFS) or for inclusion in its cash management agreement with the US Department of Treasury.

Title 31 Code of Federal Regulations Part 205, which implements the Cash Management Improvement Act of 1990 (CMIA), requires States to enter into a CMIA Agreement, which prescribes clearance patterns and specific funding techniques of federal funds for selected large programs that meet or exceed the State's threshold of $3,000,000 in federal expenditures, unless exclusion criteria is met.

The programs subject to CMIA are determined annually from the State's most recently completed Single Audit report prior to each anniversary date of the Agreement (31 CFR 205.4). Therefore, all programs that exceeded the established threshold in the Single Audit report for fiscal year 2001 should have been included in the CMIA Agreement as of June 30, 2002. However, the following programs were not included. Program numbers 1 through 4 are parts of two clusters and should have been included in the Agreement in prior years as part of the clusters.

	PROGRAM DESCRIPTION	CFDA
1.	School Breakfast Program	10.553
2.	Special Milk Program for Children	10.556
3.	Summer Food Service Program for Children	10.559
4.	Supplemental Security Income	96.006
5.	Workforce Investment Act	17.255

Treasury's policy for determining which federal programs will be subject to CMIA is to wait until the State's Single Audit report is issued, which is generally nine months after the end of the prior fiscal year.

Questioned Costs: None

Recommendation:

If Treasury determines its existing policy of relying on the Single Audit reports is adequate for CMIA purposes, it should ensure that all applicable programs are included in the Agreement timely and in accordance with federal requirements. Additionally, Treasury should encourage agencies to use CMIA for all federal grants, not just those required by the agreement.

Auditee Response: Concur

Treasury understands the importance of following solid cash management principles. In accordance with the unique requirements of the CMIA program, Treasury does make every effort to ensure that those programs that should be included in the Treasury-State Agreement (and thus covered under the rules governing CMIA) are included.

Auditor's Report On Management Issues

To The Fiscal Committee Of The General Court:

We have audited the accompanying financial statements of the New Hampshire State Treasury as of and for the year ended June 30, 2002 as listed in the table of contents and have issued our report thereon dated March 7, 2003, which was qualified with respect to the lack of presentation of the financial position of the Treasury in the government-wide and fund financial statements.

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

In planning and performing our audit of the financial statements of the New Hampshire State Treasury as of and for the year ended June 30, 2002, we noted certain issues related to the operation of the Treasury that merit management consideration but do not meet the definition of a reportable condition as defined by the American Institute of Certified Public Accountants, and were not issues of noncompliance with laws, rules, regulations, contracts, or grants.

Those issues that we believe are worthy of management consideration but do not meet the criteria of reportable conditions or of noncompliance are included in observations No. 10 and 11 of this report.

This auditor's report on management issues is intended solely for the information of the management of the New Hampshire State Treasury and the Fiscal Committee of the General Court and is not intended to be and should not be used by anyone other than these specified parties.

Office Of Legislative Budget Assistant
Office Of Legislative Budget Assistant

March 7, 2003

Management Issues Comments

Observation No. 10 - Current Status Of Foreign Escheated Estates Account Should Be Reviewed

Observation:

Per RSA 561:12-a (effective May 21, 1955), the probate courts could defer delivery of an estate to a legatee, etc., when there was a question whether a legatee who lived outside the United States would have the benefit, use, or control of property due them. The provision for the deferral of delivery of property was used when the legatee lived in a communist controlled country, generally behind the "iron curtain". The probate courts would order such property converted into available funds and paid to Treasury to be invested and held subject to further order of the probate court. Treasury maintains these funds in the Foreign Escheated Estates Trust Fund Account. Aside from agency name changes, this statute has not been revised since its adoption.

At June 30, 2002, the balance in the Account was $213,375. The account has had very limited activity for a number of years. There has only been one payment that has occurred since 1994, which was in 2000. Given the limited activity, the necessity for the continuation of this account is not clear.

This comment was also noted in our 1999 audit report of Treasury. Treasury's response to the prior audit comment indicated that it would propose changes to RSA 561:12-a in the next legislative session. Treasury subsequently decided not to pursue legislative change and took no further action to resolve the audit comment.

Recommendation:

Treasury should contact the probate court to determine if the court would allow transfer of the Foreign Escheated Estates Trust Fund monies to the abandoned property account.

Auditee Response: Concur In Part

Treasury agrees in part and disagrees in part. Treasury holds these funds as a custodian, by order of the Probate Court, for the eventual claim of a beneficiary, and is ready to turn over these funds upon order of the Probate Court that retains jurisdiction in the particular estate from which the funds originated. These funds are not unclaimed property and should not be treated as such, until such time as the Probate Court notifies the Treasurer that no beneficiary exists to claim the funds. This determination requires the application of the Laws of Wills and Trusts or the Laws of Intestate Succession. And the authority to make this determination rests exclusively with the Probate Court.

However, Treasury will contact the various Probate Courts that have ordered we hold the funds that are currently in our custody to clarify the status of those funds.

Observation No. 11 - Disaster Recovery And Business Continuity Plans Should Be Established

Observation:

Treasury has not formally developed or established a disaster recovery plan or business continuity plan to ensure continuity of operations should operations be interrupted due to an unforeseen future event or occurrence.

The purpose of a disaster recovery plan is to document plans and procedures in the event of a disaster, including disaster recovery strategies, essential resources, and procedures necessary to implement a recovery process. The lack of a plan could significantly lengthen Treasury's recovery time, increase recovery costs and increase the risk that vital information may never be recovered. It is important for Treasury to maintain and regularly test its plan in order to minimize recovery time in the event of a disaster or systems failure.

In addition to disaster recovery, information security is crucial to ensure the continuity of operations. Although Treasury has a comprehensive Information Technology (IT) plan, there is inadequate physical security over Treasury's critical information. While a card key is required to access Treasury outside of normal business hours, there is no physical security to prevent access to the Treasury or to the IT area within Treasury during business hours. During those hours, Treasury is open to the public with only a counter and a half door restricting the public's access at the front of the office, and only one additional door restricting access to the IT area. While there is a keypad lock to that door, the lock is not engaged during business hours. Therefore anyone who gains access at the front of the Treasury office may also gain access to the IT area within Treasury.

The purpose of a business continuity plan is to document plans and procedures in the event of a significant change in the way Treasury conducts its daily business, such as the closure of one of the banks with which a large sum of State funds are held and invested, or the failure of the check printing function performed by the Administrative Services Data Center, who prints the majority of the checks for the State. The processing of checks is one of the critical functions performed by Treasury, and as such, the lack of a business continuity plan to address that function may require Treasury to manually print checks, which would require a significant amount of additional work hours to complete.

Recommendation:

Treasury should develop and maintain a disaster recovery plan and business continuity plan for all of the important aspects of its operations. The disaster recovery plan should include a program of regular testing of key provisions of the plan. The testing program should include employee training in the operations of the plan and critique of the plan's effectiveness. Treasury should also implement appropriate physical security measures sufficient to protect information related to its critical functions.

Auditee Response: Concur

Treasury is in agreement that there needs to be a disaster recovery plan (DRC) and business continuity plan in place for all State agencies. We are in the beginning phases of creating both plans. However, these plans need to be well orchestrated with other agencies that Treasury depends on for financial and infrastructure systems. (i.e. Administrative Services). Developing a DRP without collaborating with all other dependant agencies will result in a faulty implementation of a DRP.

Treasury is in agreement that physical security is an issue for all of the Annex building. For the Treasury IT section we are evaluating our options for solutions and will apply a solution if and when the budget allows for it.

Independent Auditor's Report

To The Fiscal Committee Of The General Court:

We have audited the accompanying financial statements of the New Hampshire State Treasury as of and for the year ended June 30, 2002 as listed in the table of contents. These financial statements are the responsibility of the State Treasury's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As more fully discussed in Note 1, the financial statements of the New Hampshire State Treasury are intended to present certain financial activity of only that portion of the governmental activities of the State that is attributable to the transactions of the Treasury. They do not purport to, and do not, present fairly the financial position of the State of New Hampshire as of June 30, 2002, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the matters discussed in the previous paragraph, the financial statements referred to above present fairly, in all material respects, certain financial activity of the New Hampshire State Treasury as of and for the year ended June 30, 2002, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 24 through 28 and the Budget To Actual Schedule (Non-GAAP Budgetary Basis) – General Fund on page 48 are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 7, 2003, on our consideration of the New Hampshire State Treasury's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report and in considering the results of our audit.

Office Of Legislative Budget Assistant

Office Of Legislative Budget Assistant

March 7, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Treasury's financial performance provides an overview of financial activities for the year ended June 30, 2002. Please read it in conjunction with the Treasury's financial statements.

The Treasury is responsible for a variety of financial management activities including cash management, debt management, and the unclaimed and abandoned property program. The Treasurer is a member of many boards and commissions including the New Hampshire Retirement system, the New Hampshire Municipal Bond Bank, the New Hampshire Business Finance Authority, the Nuclear Decommissioning Finance Committee, and the College Tuition Savings Plan Advisory Commission. The Treasurer is also the trustee of many trusts, custodial and escrow funds including the UNIQUE College Investing Plan, the Fidelity Advisor 529 Plan and the Nuclear Decommissioning Trust for the Seabrook Station.

OVERVIEW OF FINANCIAL STATEMENTS

The Treasury is accounted for as a department of the State of New Hampshire's financial statements. As such, the portion of the total assets, liabilities, and fund balances attributable to Treasury cannot be determined. Accordingly, the financial statements that follow are not intended to show the financial position of Treasury or changes in the balances of the General or Capital Projects Funds, but are intended to show certain financial activity of each fund.

Government-wide Financial Statement

The government-wide financial statement provides a broad view of the State's finances. The statement is prepared using the accrual basis of accounting, which recognizes all revenues and expenses connected with the fiscal year even if cash has not been received or paid.

The Statement of Activities, found on page 29, reports all changes in net assets as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. The statement also presents a comparison between direct expenses and program revenues for each function of Treasury.

The activities of Treasury are categorized as Governmental Activities, which represent basic services that are generally supported by grants and intergovernmental revenues.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Treasury uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements report Treasury's operations in more detail than the government-wide statement. Treasury's funds are divided into two categories - governmental and fiduciary.

Governmental Funds

Most of the basic services provided by Treasury are financed through governmental funds. Unlike the government-wide financial statements, the governmental fund financial statements report using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. Treasury's governmental funds include the General Fund and the Capital Projects Fund.

The Statement of Revenues and Expenditures – Governmental Funds, as well as a reconciliation to the government-wide Statement of Activities, can be found on pages 30-31. Additionally, the General Fund activity is shown using the budgetary basis of accounting to provide a meaningful comparison to the budget. The Budget To Actual Schedule (Non-GAAP Budgetary Basis) – General Fund is shown on page 48.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside of Treasury. Fiduciary funds are not reflected in the government-wide financial statement because the resources of these funds are not available to support Treasury's own programs. Fiduciary funds are reported using the accrual basis of accounting.

Treasury reports fiduciary funds as Agency Funds, which account for the resources held in a pure custodial capacity. The Statement of Fiduciary Net Assets and the Combining Statement of Changes in Assets and Liabilities – Agency Funds, are shown on pages 32-34.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements begin on page 35.

FINANCIAL HIGHLIGHTS/ANALYSIS

REVENUES (Budgetary Basis)	**Fiscal Year 2002**	**Fiscal Year 2001**	**Increase/ (Decrease)**	**Percent Change**
Total General Fund	$ 3,173,787	$ 5,665,865	$ (2,492,078)	-44.0%
Total Capital Projects Fund	3,356,660	1,584,594	1,772,066	111.8%
Total	$ 6,530,447	$ 7,250,459	$ (720,012)	-9.9%
EXPENDITURES (Budgetary Basis)				
Total General Fund	$ 133,992,890	$ 122,608,865	$ 11,384,025	9.3%
Total Capital Projects Fund	1,638,312	664,028	974,284	146.7%
Total	$ 135,631,202	$ 123,272,893	$ 12,358,309	10.0%

Operating Revenues

The Treasury earned nearly $10 million in investment income on available cash balances for all operating funds. The attached financial statements only reflect that income which was credited to the General Fund. While cash balances remained relatively stable, investment earnings in the General Fund declined on a year-to-year basis. This is because throughout fiscal year 2002, interest rates declined sharply due to lower economic growth, which led the Federal Reserve Bank to lower short-term interest rates. The combination of a lower federal funds rate, the decline of the stock market, and uncertainty in the global security situation resulted in lower investment rates across the entire range of short-term investment options.

One other area where a significant drop in General Fund revenue occurred is in regard to the escheat of unclaimed property to the General Fund of the State. In fiscal year 2002 holders reported and remitted cash in the amount of $7.2 million and a total of 13,375 shares of stock and mutual funds. In 2002 no escheat was made to the General Fund as is reflected in the attached financial statements. In 2003 it is expected that there will be two escheats made to the General Fund for two reporting periods.

Periodically the State issues long-term debt to finance capital projects. In fiscal year 2002, the State issued $105 million of new long-term debt. As part of those debt issuances the State received a modest premium when the bonds were sold. That premium is reflected as Capital Projects Fund revenue and shows an increase over the prior year when the general level of interest rates led to a different pricing and as a result a different premium on the bonds.

Operating Expenditures

General Fund expenditures for the Treasury increased significantly in 2002 compared to 2001. The majority of this increase can be attributed to expenditures for principal and interest payments on the State's debt paid from the general fund, rooms and meals tax revenue sharing and the land and community heritage investment program (LCHIP). These expenditures increased by approximately $11.3 million in fiscal year 2002 versus 2001, which can be attributed to the following: LCHIP ($4.8 million), rooms and meals revenue sharing ($4.7 million) and debt service ($1.8 million). The LCHIP appropriations were new to Treasury's budget in fiscal year 2002. The expenditures against this appropriation are authorized by the Land and Community Heritage Investment Program Authority, the nonprofit agency responsible for managing this program. The expenditures for the rooms and meals revenue sharing program are driven by a formula that can result in a year-to-year increase of up to a maximum of $5 million. Debt service payments increased modestly at $1.8 million over last year.

The significant increase in Capital Projects Fund expenditures came from the Intrastate Energy Pipeline Facility Revolving Loan Fund. This disbursement is funded with the proceeds of bonds, which are issued when approved projects meet the criteria for this loan program, which is administered by the New Hampshire Business Finance Authority.

There were in fiscal year 2002 some significant differences between budgeted expenditures and actual amounts expended. With regard to the Budget To Actual Schedule (Non-GAAP

Budgetary Basis) – General Fund, the most significant differences occurred with interest income, abandoned property revenue and LCHIP expenditures. The interest income and abandoned property revenue (escheat) were discussed earlier in this document in the section entitled "Operating Revenue." The budgeted expenditures for LCHIP were lower than the final budgeted amount. This variance arises due to differences between the timing of when grants are awarded and disbursements actually occur. For example, a town may apply for a grant under this program, which the Land and Community Heritage Authority may award in one accounting period and disburse in a subsequent period. This timing difference between grant award and grant disbursement creates this variance between budgeted and actual expenditures.

DEBT MANAGEMENT

Under Chapter 6 and 6-A of the Revised Statutes Annotated (RSA), the New Hampshire Treasury is charged with issuing the State's bonds and notes. General obligation debt is paid from the State's taxes and other revenues, while turnpike revenue bonds are supported solely by tolls collected throughout the turnpike system. As of June 30, 2002, the outstanding general obligation debt was just over $682 million. The vast majority of this debt is repaid from the General Fund while the balance is paid from a variety of dedicated user fees and fines.

Under RSA 6-C, the State does have an "affordable debt limit". This statute is designed to limit the amount of new bond authorizations that may be authorized in a given legislative session. Each year the Treasury performs a calculation of this limit in accordance with the law to determine the maximum amount of new debt that may be authorized in a particular legislative session.

The State's outstanding general obligation debt has increased only slightly since the end of fiscal year 1998. This is because the State has paid down about as much debt as was issued during this period. During this same time period the ratio of net general fund debt service to unrestricted revenues has remained fairly level. This ratio has moved in a range of between 6.3% in fiscal year 1998 to 6.1% for fiscal year 2002. It was recently as high as 6.6% in fiscal year 2000. Other debt ratios remain modest both on a historical basis and relative to other states. In November 2001, the State issued $100 million in general obligation capital improvement bonds with a true interest cost of 4.126%. $50 million from this bond issue was used to retire short-term bond anticipation notes issued during the year. The other half simply went to finance other previously authorized capital projects. In December 2001, the State issued $5.13 million of taxable general obligation pension bonds. Pursuant to chapter 275, laws of 2001, the sole purpose of the bond authorization was to finance the payment of contributions owed to the New Hampshire Retirement System, which eliminated a small, unfunded pension liability. This unfunded liability was created when retirement system contributions were deferred in the early 1990s due to cash flow constraints. Principal on these bonds is payable annually and interest semi-annually over five years with final maturity on December 1, 2006. The State has the option to redeem all or part of the outstanding principal on these bonds at any time without penalty.

In addition to being responsible for paying general obligation debt, the State is contingently liable for certain water pollution control bonds, school building bonds, and landfill bonds issued by local government units up to statutorily prescribed limits as well as certain guarantees for the Pease

Development Authority and Business Finance Authority. Contingent debt for these purposes totaled approximately $140 million (principal amount) on June 30, 2002.

The State also has an exposure for debt issued by municipalities through the Municipal Bond Bank. If any municipality that has issued through the Bond Bank fails to make scheduled debt payments and escrowed funds are not sufficient to cover missed payments, then the Bond Bank may ask the legislature for unappropriated funds to cover any shortfall. While this exposure exists, the level of its risk is not easily quantifiable to evaluate the potential on the State's credit rating.

At the end of the fiscal year the State's credit rating remained at AA+ from Standard and Poors, AA+ from Fitch ICBA and Aa2 from Moody's Investor Service. The outlook from each was that our credit rating was stable, however given the current and projected performance of the 02/03 biennial budget it will come under continued pressure. During this recent economic slowdown many state's credit ratings have been closely scrutinized and some have received downgrades. On a relative basis our State's financial situation is much better than many other states.

STATE OF NEW HAMPSHIRE
STATE TREASURY

GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2002

		Program Revenues		
	Expenses	Charges For Services	Operating Grants And Contributions	Net (Expenses) Revenues And Change In Net Assets
Governmental Activities				
General Government	$ 66,102,704	$ 893,617	$ 257,045	$ (64,952,042)
Interest Debt Expense	26,521,799	-0-	-0-	(26,521,799)
Total Governmental Activities	**$ 92,624,503**	**$ 893,617**	**$ 257,045**	**(91,473,841)**
General Revenues:				
General Fund Appropriations - Net				95,134,322
Interest Income				1,249,406
Repayments From Pease				650,000
Judgments & Recoveries				100,000
Other				9,262
Total General Revenues				**97,142,990**
Change In Net Assets				**$ 5,669,149**

The accompanying notes are an integral part of these financial statements.

STATE OF NEW HAMPSHIRE
STATE TREASURY

STATEMENT OF REVENUES AND EXPENDITURES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2002

	General Fund	Capital Projects Fund	Total Governmental Funds
Revenues			
Interest Income	$ 1,249,406	$ -0-	$ 1,249,406
Abandoned Property	778,688	-0-	778,688
Pease Repayment	650,000	-0-	650,000
Nuclear Decommissioning Cmtee	239,850	-0-	239,850
Other	255,843	17,400	273,243
Total Revenues	**$ 3,173,787**	**$ 17,400**	**$ 3,191,187**
Expenditures			
Debt Service	$ 69,570,279	$ -0-	$ 69,570,279
Rooms & Meals Revenue Sharing	32,200,710	-0-	32,200,710
Revenue Sharing	25,216,057	-0-	25,216,057
Land Conservation Funds (LCHIP)	4,772,782	-0-	4,772,782
Intrastate Energy Pipeline Facility	-0-	815,563	815,563
Cost Of Issuing Bonds	-0-	804,922	804,922
Administration Costs	2,324,527	-0-	2,324,527
Total Expenditures	**$ 134,084,355**	**$ 1,620,485**	**$ 135,704,840**
Other Financing Sources (Uses)			
Net Appropriations	$ 136,561,890	$ (1,718,348)	$ 134,843,542
Bond Proceeds/Premium	5,130,000	103,339,260	108,469,260
Repayment Of BANs	-0-	(50,000,000)	(50,000,000)
Total Other Financing Sources (Uses)	**$ 141,691,890**	**$ 51,620,912**	**$ 193,312,802**
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	**$ 10,781,322**	**$ 50,017,827**	**$ 60,799,149**

The accompanying notes are an integral part of these financial statements.

STATE OF NEW HAMPSHIRE
STATE TREASURY

RECONCILIATION OF STATEMENT OF REVENUES AND EXPENDITURES – GOVERNMENTAL FUNDS TO GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2002

Net Excess of Revenues Over Expenditures per Statement of Revenues and Expenditures	$ 60,799,149
Elimination of Other Financing Sources recorded on the fund statement for bond proceeds and premiums	(58,469,260)
Elimination of Expenditures related to bond principal payments	43,048,480
Elimination of Net Appropriations related to bond activity not recognized on Statement of Activities	(39,709,220)
Net Excess of Revenues Over Expenditures per Statement of Activities	$ 5,669,149

The accompanying notes are an integral part of these financial statements.

STATE OF NEW HAMPSHIRE
STATE TREASURY

STATEMENT OF FIDUCIARY NET ASSETS
AS OF JUNE 30, 2002

	Agency Funds
Assets:	
Cash and Cash Equivalents	$ 30,834,575
Investments, at fair value	155,483,149
Total Assets	**$ 186,317,724**
Liabilities:	
Custodial Funds Payable	$ 186,169,312
Due to General Fund	147,394
Due to UNH	1,018
Total Liabilities	**$ 186,317,724**

The accompanying notes are an integral part of these financial statements.

STATE OF NEW HAMPSHIRE
STATE TREASURY

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2002

	Balance July 1, 2001	Additions	Deductions	Balance June 30, 2002
Seabrook Master Trust				
Assets				
Cash and Cash Equivalents	$ 824,007	$ 24,452,023	$ 1,667,134	$ 23,608,896
Investments	151,625,849	(724,310)	10,021,003	140,880,536
Total Assets	$ 152,449,856	$ 23,727,713	$ 11,688,137	$ 164,489,432
Liabilities				
Custodial Funds Payable	$ 152,449,856	$ 23,727,713	$ 11,688,137	$ 164,489,432
N.H. Hospital Trust Funds				
Assets				
Cash and Cash Equivalents	$ 43,399	$ 212,553	$ 180,329	$ 75,623
Investments	5,371,846	370,912	694,282	5,048,476
Total Assets	$ 5,415,245	$ 583,465	$ 874,611	$ 5,124,099
Liabilities				
Custodial Funds Payable	$ 5,415,245	$ 583,465	$ 874,611	$ 5,124,099
Maine-N.H. Interstate Bridge Authority				
Assets				
Cash and Cash Equivalents	$ 353,376	$ 206,452	$ 550,000	$ 9,828
Investments	4,340,684	14,330	311,729	4,043,285
Total Assets	$ 4,694,060	$ 220,782	$ 861,729	$ 4,053,113
Liabilities				
Custodial Funds Payable	$ 4,694,060	$ 220,782	$ 861,729	$ 4,053,113
Special Fund For Second Injuries				
Assets				
Cash and Cash Equivalents	$ 2,745,818	$ 5,613,410	$ 4,412,469	$ 3,946,759
Liabilities				
Custodial Funds Payable	$ 2,745,818	$ 5,613,410	$ 4,412,469	$ 3,946,759
Land Conservation Endowment Fund				
Assets				
Cash and Cash Equivalents	$ 147,227	$ 116,576	$ 2,625	$ 261,178
Investments	2,211,303	8,614	135,368	2,084,549
Total Assets	$ 2,358,530	$ 125,190	$ 137,993	$ 2,345,727
Liabilities				
Due to General Fund	$ 2,625	$ 109,278	$ 2,625	$ 109,278
Custodial Funds Payable	2,355,905	15,912	135,368	2,236,449
Total Liabilities	$ 2,358,530	$ 125,190	$ 137,993	$ 2,345,727
College Savings Plan Trust				
Assets				
Cash and Cash Equivalents	$ 6,008	$ 1,096,845	$ 90,000	$ 1,012,853
Investments	717,068	5,017	192,274	529,811
Total Assets	$ 723,076	$ 1,101,862	$ 282,274	$ 1,542,664
Liabilities				
Custodial Funds Payable	$ 723,076	$ 1,101,862	$ 282,274	$ 1,542,664

(continued)

The accompanying notes are an integral part of these financial statements.

STATE OF NEW HAMPSHIRE
STATE TREASURY

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2002

	Balance July 1, 2001	Additions	Deductions	Balance June 30, 2002
Benjamin Thompson Trust				
Assets				
Cash and Cash Equivalents	$ 60,949	$ 38,912	$ 34,807	$ 65,054
Investments	1,337,964	20,467	92,323	1,266,108
Total Assets	$ 1,398,913	$ 59,379	$ 127,130	$ 1,331,162
Liabilities				
Custodial Funds Payable	$ 1,398,913	$ 59,379	$ 127,130	$ 1,331,162
Fish & Game Lifetime License Fund				
Assets				
Cash and Cash Equivalents	$ 130,425	$ 1,086,359	$ 148,934	$ 1,067,850
Investments	292,325	1,618	93,459	200,484
Total Assets	$ 422,750	$ 1,087,977	$ 242,393	$ 1,268,334
Liabilities				
Custodial Funds Payable	$ 422,750	$ 1,087,977	$ 242,393	$ 1,268,334
N.H. Veterans' Home				
Assets				
Cash and Cash Equivalents	$ 308,868	$ 58,797	$ 3,216	$ 364,449
Investments	652,853	3,953	53,421	603,385
Total Assets	$ 961,721	$ 62,750	$ 56,637	$ 967,834
Liabilities				
Custodial Funds Payable	$ 961,721	$ 62,750	$ 56,637	$ 967,834
Deferred Compensation				
Assets				
Cash and Cash Equivalents	$ -0-	$ 10,747,881	$ 10,747,881	$ -0-
Liabilities				
Custodial Funds Payable	$ -0-	$ 10,747,881	$ 10,747,881	$ -0-
Miscellaneous Agency Funds				
Assets				
Cash and Cash Equivalents	$ 592,859	$ 764,935	$ 935,709	$ 422,085
Investments	916,532	14,433	104,450	826,515
Total Assets	$ 1,509,391	$ 779,368	$ 1,040,159	$ 1,248,600
Liabilities				
Due to UNH	$ -0-	$ 1,018	$ -0-	$ 1,018
Due to General Fund	-0-	38,116	-0-	38,116
Custodial Funds Payable	1,509,391	740,234	1,040,159	1,209,466
Total Liabilities	$ 1,509,391	$ 779,368	$ 1,040,159	$ 1,248,600
Total - Agency Funds				
Assets				
Cash and Cash Equivalents	$ 5,212,936	$ 44,394,743	$ 18,773,104	$ 30,834,575
Investments	167,466,424	(284,966)	11,698,309	155,483,149
Total Assets	$ 172,679,360	$ 44,109,777	$ 30,471,413	$ 186,317,724
Liabilities				
Custodial Funds Payable	$ 172,676,735	$ 43,961,365	$ 30,468,788	$ 186,169,312
Due to General Fund	2,625	147,394	2,625	147,394
Due to UNH	-0-	1,018	-0-	1,018
Total Liabilities	$ 172,679,360	$ 44,109,777	$ 30,471,413	$ 186,317,724

The accompanying notes are an integral part of these financial statements.

STATE OF NEW HAMPSHIRE
STATE TREASURY

<u>NOTES TO THE FINANCIAL STATEMENTS</u>
<u>FOR THE YEAR ENDED JUNE 30, 2002</u>

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the State Treasury have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Financial Reporting Entity

The State Treasury is a department of the primary government of the State of New Hampshire. The accompanying financial statements report certain financial activity of the State Treasury, excluding the custody and escheat of unclaimed and abandoned property pursuant to RSA 471-C. The financial activity of the State Treasury is accounted for in the General, Capital Projects, and Fiduciary Funds in the State of New Hampshire's Comprehensive Annual Financial Report (CAFR). Assets, liabilities, and fund balances are reported by fund for the State as a whole in the CAFR. The State Treasury, as a department of the primary government, accounts for only a small portion of the General and Capital Projects Funds and those assets, liabilities, and fund balances as reported in the CAFR that are attributable to the State Treasury cannot be determined. Accordingly, the accompanying financial statements are not intended to show the financial position of the State Treasury in the government-wide or fund financial statements and the changes in these fund balances are not reported on the accompanying financial statements.

B. Government-wide And Fund Financial Statements

Government-wide Financial Statements

The Statement of Activities reports information on all of the non-fiduciary activities of Treasury. As none of Treasury's activities are business-type, the activities reported in the Statement are all governmental. Business-type activities rely significantly on fees and charges for support. Governmental activities are normally supported through taxes and intergovernmental revenues.

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

Fund Financial Statements

Separate financial statements are provided for governmental funds and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. The general fund and capital projects fund are reported as separate columns in the fund financial statements.

C. Measurement Focus And Basis Of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay the liabilities of the current period. For this purpose, the State generally considers non-grant revenues to be available if they are collected within 60 days of the end of the current fiscal period. Grant revenues that the State earns by incurring obligations are recognized in the same period the obligations are recognized. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when payment is due.

Fiduciary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

D. Financial Statement Presentation

The State of New Hampshire and the State Treasury use funds to report on their financial position and the results of their operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The Treasury reports its financial activity in the three funds described below.

<u>Governmental Fund Types:</u>

General Fund: The General Fund accounts for all financial transactions not specifically accounted for in any other fund. By law, and with certain exceptions, all revenues of governmental funds are paid daily into the State Treasury. All such revenues, other than certain designated revenues, are credited to the General Fund. Annual expenditures that are not allocated by law to other funds are charged to the General Fund.

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

Fiduciary Fund Types

Agency Funds: Agency funds report assets and liabilities for deposits and investments entrusted to Treasury as an agent for others.

E. Interfund And Intrafund Activity

As a general rule, the effect of interfund and intrafund activity is eliminated from the government-wide statements, with the exception of activities between funds that are reported in different functional categories of governmental activities. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

F. Bond Discounts, Premiums, And Issuance Costs

In the government-wide financial statement, bond premiums are deferred and amortized over the term of the bonds using the straight-line method. Bond issue costs are reported as expenses of the current period, as they are immaterial to the statement as a whole and therefore not deferred.

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

G. Revenues And Expenditures/Expenses

In the government-wide Statement of Activities, revenues and expenses are listed by activity type. Additionally, revenues are classified between program and general revenues. Treasury's program revenues include 1) charges for services provided and 2) operating grants and contributions. Resources not dedicated to a program, as well as resources that are internally dedicated, are reported as general revenues rather than program revenues.

In the governmental fund financial statements, revenues are reported by source. For budgetary control purposes, revenues are further classified as either "general purpose" or "restricted". General-purpose revenues are available to fund any activity accounted for in the fund. Restricted revenues are, either by State law or by outside restriction, available for only specified purposes. When both general purpose and restricted funds are available for use, it is the State's policy to use restricted resources first.

Other Financing Sources (Uses): These additions to and reductions from governmental resources in fund financial statements include financing provided by bond proceeds and funds used to pay off notes that were issued in anticipation of the bond proceeds, as well as net appropriations received from the General Fund to cover current expenditures.

H. Changes In Reporting Standards

In fiscal year 2002, the State implemented the following Governmental Accounting Standards Board Statements:

- Statement No. 34 *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*;
- Statement No. 35 *Basic Financial Statements- and Management's Discussion and Analysis- for Public Colleges and Universities*;
- Statement No. 37 *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments: Omnibus*;
- Statement No. 38 *Certain Financial Statement Note Disclosures*; and
- Interpretations No. 6 *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.*

These reporting standards resulted in new financial statements as well as changes to existing financial statement formats. In addition, fund equity reporting has been affected, and certain financial statement footnotes have been added or expanded.

I. Budgetary Data

General Budget Policies

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

The operating budget is prepared principally on a modified cash basis and adopted for the governmental and proprietary fund types with the exception of the capital projects fund. The capital projects fund budget represents individual projects that extend over several fiscal years. Fiduciary fund types are not budgeted.

The New Hampshire biennial 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 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, balances brought forward, and transfers made throughout the fiscal year.

Budgetary control is at the department level. All departments are authorized to transfer appropriations within their departments with the prior approval of the Joint Legislative Fiscal Committee and the Governor and Council. Additional fiscal control procedures are maintained by both the Executive and Legislative Branches of government. The Executive Branch, represented by the Commissioner of the Department of Administrative Services, is directed to continually monitor the State's financial system. The Legislative Branch, represented by the Joint Legislative Fiscal Committee, the Joint Legislative Capital Budget Overview Committee, and the Office of Legislative Budget Assistant, monitors compliance with the budget and the effectiveness of budgeted programs.

Unexpended balances of appropriations at year-end will lapse to undesignated fund balance and be available for future appropriations unless they have been encumbered or legally defined as non-lapsing. Capital projects fund appropriations are scheduled to lapse two years from the date appropriated unless extended or designated as non-lapsing by law.

A Budget To Actual Schedule (Non-GAAP Budgetary Basis) - General Fund is included as required supplementary information.

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. The State Treasury's General Fund unliquidated encumbrance balance at June 30, 2002 was $26,194.

NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

The State pools cash and investments, except for separate cash and investment accounts that are maintained in accordance with legal restrictions.

Deposits

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

New Hampshire Revised Statutes Annotated (RSA) 6:7 establishes the policy to which the State Treasurer must adhere when depositing public monies. The statute restricts deposits to national banks, trust companies, and savings banks within the United States that have a branch in the State of New Hampshire. In addition, all depositories used by the State must be approved, at least annually, by Governor and Executive Council.

RSA 6-B:2 requires the Treasurer to submit quarterly financial reports detailing depository activity to the Governor and Executive Council, the Commissioner of Administrative Services and the Legislative Fiscal Committee. Treasury examines the financial condition of its depositories quarterly.

Deposits are classified as to credit risk by the three categories described below:

Category 1	Insured or collateralized with securities held by the State or its agent in the State's name.
Category 2	Collateralized with securities held by the pledging financial institution's trust department or agent in the State's name.
Category 3	Uncollateralized.

The State Treasurer is not required to collateralize bank deposits. However, Treasury routinely obtains collateral for the overnight investment of funds on deposit.

The following schedule shows the June 30, 2002 balance in Treasury's depository accounts summarized by deposit type and custody risk category. The total bank balance represents the total amounts on deposit as reported by the banks. The carrying amount represents the balances per the State's records. The principal difference in demand deposits is outstanding checks that have not cleared the bank as of June 30, 2002.

	Categories			Total Bank	Carrying
Description:	1	2	3	**Balance**	**Amount**
Pooled Deposits:					
Demand Deposits	$ 545,099	$3,770,000	$ 86,193,601	$ 90,508,700	$ 17,782,535
Money Mkt Accts	-0-	-0-	56,419,243	56,419,243	56,419,243
Savings Accts	107,422	-0-	199,013	306,435	306,435
CDs	-0-	-0-	20,633,000	20,633,000	20,633,000
Subtotal	652,521	3,770,000	163,444,857	167,867,378	95,141,213
Restricted Deposits:					
Demand Deposits	-0-	-0-	12,388,000	12,388,000	12,388,000
CDs	-0-	-0-	16,000,000	16,000,000	16,000,000
Subtotal	-0-	-0-	28,388,000	28,388,000	28,388,000
Total Deposits	**$ 652,521**	**$3,770,000**	**$191,832,857**	**$ 196,255,378**	**$123,529,213**

Investments

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

RSA 6:8 sets the policy the State Treasurer must adhere to when investing State funds. Subject to Governor and Council approval, the Treasurer must invest in certain types of investments. Those investments include obligations of the United States government or any county government, municipal government, or district or division thereof within New Hampshire, savings accounts and legal investments for savings banks and trust companies, participation units in the public deposit investment pool, and certificates of deposit of State or federally chartered banks within New Hampshire, or national banks in Massachusetts.

The financial condition of each bank in which investments are made is evaluated by Treasury on a quarterly basis. Banks through which repurchase agreements are written maintain their collateral in an investment book entry account with the Federal Reserve. That collateral is not separate from the banks' assets. However, securities used for collateral are segregated from the banks' investment account and are kept free of liens, charges, or claims of third parties. Repurchase agreements represent 10.6% of Treasury's investment portfolio at June 30, 2002. The State Treasurer is prohibited by statute from entering into reverse repurchase agreements.

Some United States government obligations are classified as Cash and Cash Equivalents because their original maturities are less than three months. For purposes of the notes to the financial statements, United States government obligations are categorized as investments in accordance with GAAP.

In accordance with GAAP, investments are classified as to credit risk by the three categories described below:

Category 1	Insured or registered in the State's name, or securities held by the State or its agent in the State's name.
Category 2	Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's name.
Category 3	Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the State's name.

The State's investments at June 30, 2002, summarized by type and credit risk category, are shown in the following schedule. Investments are reported at fair value.

	Categories			Fair
Description:	**1**	**2**	**3**	**Value**
Pooled Investments:				
Stocks and Bonds	$ -0-	$ -0-	$ 9,569,408	$ 9,569,408
Repurchase Agreements	-0-	-0-	6,000,000	6,000,000
US Govt Obligations	-0-	-0-	6,285,894	6,285,894
Subtotal	-0-	-0-	21,855,302	21,855,302
Restricted Investments:				
Commercial Paper	-0-	-0-	3,439,704	3,439,704
Repurchase Agreements	-0-	-0-	45,341,555	45,341,555
US Govt Obligations	31,586,976	-0-	15,035,145	46,622,121
Subtotal	$31,586,976	$ -0-	$63,816,404	95,403,380
Uncategorized:				
Open-ended Mutual Funds				366,609,143
Bond Anticipation Notes				1,200,000
Subtotal				367,809,143
Total Investments				**$ 485,067,825**

NOTE 3 - LONG-TERM DEBT

Bonds may be issued by the State Treasurer, when authorized by Governor and Council, for specified projects or purposes. Bonds are not issued after every statutory authorization. Instead, Treasury monitors spending then issues bonds that cover several authorizations. In general, except for revenue bonds issued for the Turnpike System, such borrowing constitutes general obligation debt of the State. The total balance outstanding for general obligation bonds as of June 30, 2002 was $682.4 million.

Bonds Authorized And Unissued

Bonds authorized and unissued amounted to $285.3 million at June 30, 2002. The proceeds of the bonds will be applied to the following funds when issued (expressed in thousands):

Capital Projects Fund	$ 149,644
Turnpike System	135,650
Total	$ 285,294

Turnpike System

The Legislature has established a 10-year highway construction and reconstruction plan for the turnpike system to be funded from turnpike revenues. This legislation also authorized the Governor and Executive Council to issue up to $586 million of revenue bonds to support this project. The State has issued $395 million of revenue bonds for this project.

Advance Refunding

The following is a summary of general obligation bonds and revenue bonds defeased by the State. The proceeds from each advance refunding issue were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the State's financial statements (expressed in thousands):

Date of Advance Refunding	Amount Outstanding at June 30, 2002
Governmental Fund Types (General Obligation Bonds):	
December 1, 1998	$ 61,450
December 19, 1996	16,000
Subtotal	**77,450**
Turnpike System (Revenue Bonds):	
January 20, 1994	27,000
December 19, 2001	85,255
Subtotal	**112,255**
Total	**$ 189,705**

Changes In Long-Term Liabilities

The following is a summary of the changes in the long-term liabilities for bonds, as reported by the State during fiscal year 2002 (expressed in thousands):

	Balance July 1, 2001	Accretion	Increases	Decreases	Balance June 30, 2002	Current	Long-Term
Governmental Activities							
General Obligation Bonds	$ 602,185	$ 9,527	$ 108,470	$ 59,978	$ 660,204	$ 68,300	$ 591,904
Bond Anticipation Notes	50,000	-0-	-0-	50,000	-0-	-0-	-0-
Total Governmental	**$ 652,185**	**$ 9,527**	**$ 108,470**	**$109,978**	**$ 660,204**	**$ 68,300**	**$ 591,904**
Business-Type Activities							
General Obligation Bonds	$ 26,221	$ -0-	$ -0-	$ 4,036	$ 22,185	$ 4,016	$ 18,169
Revenue Bonds	331,480	-0-	84,103	94,422	321,161	7,765	313,396
Total Business-Type	**$ 357,701**	**$ -0-**	**$ 84,103**	**$ 98,458**	**$ 343,346**	**$ 11,781**	**$ 331,565**

On November 6, 2001, the State issued $100 million of general obligation capital improvement bonds. The interest rates on these serial bonds range from 3.0% to 5.0% and the maturity dates range from 2002 through 2021. A portion of the proceeds from this issue was used to pay off $50 million of bond anticipation notes, which were outstanding at June 30, 2001.

On December 1, 2001, the State issued $5.13 million of taxable general obligation bonds to retire certain pension obligations as authorized pursuant to Chapter 275 Laws of 2001. These will mature by 2006.

On December 19, 2001, the State issued $84.9 million of Turnpike System Revenue Bonds. The interest rates on these serial bonds range from 3.0% to 5.25%. These bonds were used to refund $85.2 million of revenue bonds. The proceeds of the refundings were used to purchase U.S. Government Securities, which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments. The advance refunding will result in a cash savings of $8.9 million over the next twenty years and an economic gain of $5.5 million.

Bond Anticipation Notes

The State issues bond anticipation notes in advance of issuing general obligation bonds. The proceeds are deposited into the Capital Fund to fund various capital outlay projects. At June 30, 2002, the State did not have any notes outstanding.

Capital Appreciation Bonds

Six of the State's general obligation capital improvement bonds issued since November 1990 represent capital appreciation bonds (College Savings Bond Program) with interest being accrued and compounded semiannually. At June 30, 2002, the cumulative interest accretion since issuance for all six capital appreciation bonds is approximately $104.7 million. The interest is not paid until the bonds mature, at which time the expenditure will be recorded.

Debt Maturity

All bonds issued by the State, except for the $395 million in Turnpike revenue bonds, are general obligation bonds, which are backed by the full faith and credit of the State. Interest rates on these issues range from 3.0% to 7.2%. Debt service payments on "self-liquidating" debt are funded by reimbursements from component units for debt issued by the State on their behalf and through user fees and other revenues statutorily earmarked to fund debt service payments on specific projects. The anticipated source of repayment and annual maturities (expressed in thousands) are shown in the following schedule.

	Source Of Principal Payments						Debt Service		
	Governmental Activities				Business-Type Activities		Total All Funds		
					Turnpike System				
Payable June 30,	General Fund	Highway Fund	Self Liquidating	Total	General Obligation	Revenue	Principal	Interest	Total
2003	$ 56,332	$ 5,769	$ 6,199	$ 68,300	$ 4,016	$ 7,765	$ 80,081	$ 40,936	$ 121,017
2004	57,621	4,268	5,638	67,527	3,975	8,110	79,612	38,203	117,815
2005	54,582	4,217	5,350	64,149	3,709	11,145	79,003	35,800	114,803
2006	50,650	4,235	5,430	60,315	3,671	10,710	74,696	32,876	107,572
2007	47,268	4,233	5,402	56,903	2,637	11,690	71,230	30,523	101,753
2008-2012	204,058	17,004	24,989	246,051	4,177	67,400	317,628	112,996	430,624
2013-2017	91,015	5,830	9,721	106,566	-0-	93,755	200,321	61,053	261,374
2018-2022	35,477	2,656	2,267	40,400	-0-	68,055	108,455	24,701	133,156
2023-2027	-0-	-0-	-0-	-0-	-0-	35,860	35,860	7,136	42,996
2028-2032	-0-	-0-	-0-	-0-	-0-	11,725	11,725	900	12,625
Subtotal	$ 597,003	$ 48,212	$ 64,996	$ 710,211	$ 22,185	$ 326,215	$ 1,058,611	$ 385,124	$ 1,443,735
Unamortized Discount/ Premium	(42,309)	(4,719)	(2,979)	(50,007)	-0-	1,651	(48,356)	-0-	(48,356)
Unamortized Loss on Refunding	-0-	-0-	-0-	-0-	-0-	(6,705)	(6,705)	-0-	(6,705)
Total	**$ 554,694**	**$ 43,493**	**$ 62,017**	**$ 660,204**	**$ 22,185**	**$ 321,161**	**$ 1,003,550**	**$ 385,124**	**$ 1,388,674**

Turnpike System principal debt service includes general obligation principal debt service of $22.2 million, serial revenue bond principal debt service of $86.3 million and term revenue bond principal debt service of $239.9 million.

NOTE 4 - CONTINGENT AND LIMITED LIABILITIES

Bonds And First Mortgages

The State of New Hampshire is contingently liable, within statutory legal limits, for bonds sold by municipalities, school districts, and for first mortgages on industrial and recreational property that contain the guarantee of the State. The following table shows the composition of the State's

$192 million of contingent liabilities and the statutory limits as of June 30, 2002 (expressed in thousands):

	Principal	Interest	Total
Water Pollution and Waste Disposal, RSA 485-A:7			
(Legal Limit $175.0 million-principal and interest)	$ 52,916	$ 16,439	$ 69,355
Business Finance Authority, RSA 162-A:22			
(Legal Limit $95.0 million-principal only)	53,349	23,060	76,409
N.H. School Building Authority, RSA 195-C:2			
(Legal Limit $95.0 million-principal and interest)	33,083	12,514	45,597
Solid Waste Management, RSA 149-M:31			
(Legal Limit $30.0 million-principal and interest)	755	236	991
Total	**$ 140,103**	**$ 52,249**	**$ 192,352**

The State has limited liability for the New Hampshire Housing Finance Authority and the New Hampshire Municipal Bond Bank. Both entities are required to maintain a bond reserve fund. A request for an appropriation may be submitted to the Legislature for a sum required to maintain the bond reserve fund at the established bond reserve fund requirements. Amounts so requested are subject to appropriation by the Legislature and do not constitute a debt of the State and no such appropriations have ever been requested.

RSA 12-G:17 authorizes the Pease Development Authority (PDA) to issue bonds for the development of the Pease Air Force Base. RSA 12-G:31 states that the Governor and Executive Council may award an unconditional State guarantee for the principal, not to exceed $50 million, plus interest. As of June 30, 2002, the State has issued $37.6 million in general obligation bonds on behalf of PDA in lieu of a State guarantee, in accordance with RSA 12-G:31, III. The general obligation debt issued on behalf of PDA reduced the legal limit on debt guaranteed by the State to $12.4 million at June 30, 2002.

RSA 12-G:33 authorizes the PDA to issue up to $35.0 million in bonds for the development of the former Pease Air Force Base subject to the approval by the Legislative Fiscal Committee of the comprehensive development plan prepared by the PDA. The Governor and Executive Council may award an unconditional State guarantee for the principal, not to exceed $35.0 million plus interest. As of June 30, 2002, no bonds have been issued pursuant to this statute.

RSA 33:3-e authorizes State municipalities to issue Superfund Site Cleanup Bonds in order to pay all response costs associated with the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA). The Governor and Executive Council may award an unconditional State guarantee for the principal, not to exceed $50 million, and interest.

NOTE 5 - AGENCY FUNDS

The Treasury acts as custodian for trust and agency funds of other State government units, and as such the Treasury invests the funds as directed by the administrators of those funds. The government units who act as administrators of the funds report the results of operations, and the Treasury reports the funds on the accompanying financial statements as agency funds.

NOTE 6 - 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 (The Plan) established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The State Treasury, as an organization of the State government, participates in the Plan, which 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 employees of the Treasury. The Plan is divided into two membership groups. Group I consists of State and local employees and teachers. Group II consists of firefighters and police officers. All assets are in a single trust and are available to pay retirement benefits to all members.

Group I members at age 60 qualify for a normal service retirement allowance based on years of creditable service and average final compensation (AFC). The yearly pension amount is 1/60 (1.67%) of average final compensation (AFC), multiplied by years of creditable service. AFC is defined as the average of the three highest salary years. At age 65, the yearly pension amount is recalculated at 1/66 (1.5%) of AFC multiplied by years of creditable service. Members in service with 10 or more years of creditable service who are between ages 50 and 60 or members in service with at least 20 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. All covered State Treasury employees are members of Group I. The State Treasurer, as a Constitutional officer, is entitled to retirement benefits pursuant to RSA 14:27-c, and is not a participant in the New Hampshire Retirement System.

Group II members who are age 60, or who are at least age 45 with at least 20 years of creditable service can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years.

Members of both groups may qualify for vested deferred allowances, disability allowances, and death benefit allowances subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation, service, or both.

Pursuant to RSA 100-A:50, the New Hampshire Retirement System also provides a postretirement medical premium subsidy for Group I employees of political subdivisions and teachers and Group II police officers and firefighters. A special account has been established by RSA 100-A:16, II(h) for additional benefits. The account is credited with all of the earnings of the account assets in the account plus the earnings of the remaining assets of the plan in excess of the assumed rate of return plus ½ of 1 percent.

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. In fiscal year 2002, by statute, Group I and II members contributed 5% and 9.3%, respectively, of gross earnings. Employer contributions required to cover that amount of cost not met by the members' contributions are determined by a biennial actuarial valuation by the system's actuary using the open group aggregate funding method and are expressed as a percentage of gross payroll. The State's share represents 100% of the employer cost for all of Treasury's employees who are enrolled in the Plan.

Treasury's payments for normal contribution costs for the year ending June 30, 2002, amounted to 4.14% of the covered payroll for its Group I employees. The Treasury's normal contributions for the year ended June 30, 2002, were $32,576, which equals the required employer contribution for the year.

Health Care Insurance For Retired Employees

In addition to providing pension benefits, RSA 21-I:30 specifies that the State provide certain health care insurance benefits for retired employees. These benefits include group hospitalization, hospital medical care, and surgical care. Substantially all of the State's employees 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. These and similar benefits for active employees are authorized by RSA 21-I:30 and provided through an insurance company whose premiums are based on the benefits paid during the year. The State recognizes the cost of providing these benefits by paying the entire annual insurance premiums.

During fiscal year 2002, Treasury paid for the full cost of health insurance premiums for the retired employees and spouses on a pay-as-you-go basis. The cost of the health insurance for retired Treasury employees and spouses is a budgeted amount and is paid from an appropriation made to the administrative organization of the New Hampshire Retirement System. Treasury reimburses the New Hampshire Retirement System for its share of post-employment health care benefits. The amount reimbursed for fiscal year 2002 totaled $18,100.

NOTE 7 – SUBSEQUENT EVENT

In August 2002, the State issued $59.5 million of general obligation capital improvement and refunding bonds. The interest rates on these 20-year serial bonds range from 3.0% to 5.0%.

STATE OF NEW HAMPSHIRE
STATE TREASURY

BUDGET TO ACTUAL SCHEDULE
(NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2002

	Budgeted Amounts		Actual Amounts	Favorable/ (Unfavorable)
	Original	Final	(Budgetary Basis)	Variance- Final
Revenues				
Interest Income	$ 3,207,000	$ 3,207,000	$ 1,249,406	$ (1,957,594)
Abandoned Property	2,684,984	2,704,478	778,688	(1,925,790)
Pease Repayment	650,000	650,000	650,000	-0-
Nuclear Decommissioning Cmtee	16,405	16,405	239,850	223,445
Other	299,057	468,958	255,843	(213,115)
Total Revenues	**$ 6,857,446**	**$ 7,046,841**	**$ 3,173,787**	**$ (3,873,054)**
Expenditures				
Debt Service	$ 69,648,214	$ 69,648,214	$ 69,570,279	$ 77,935
Rooms & Meals Revenue Sharing	32,427,183	32,427,183	32,200,710	226,473
Revenue Sharing	25,216,057	25,216,057	25,216,057	-0-
Land Conservation Funds (LCHIP)	5,000,000	8,153,894	4,772,782	3,381,112
Administration Costs	2,079,831	2,539,074	2,233,062	306,012
Total Expenditures	**$ 134,371,285**	**$ 137,984,422**	**$ 133,992,890**	**$ 3,991,532**
Other Financing Sources/(Uses)				
General Fund Appropriations	$ 133,215,039	$ 136,638,780	$ 136,561,890	$ (76,890)
Bond Premium/Proceeds	-0-	5,130,000	5,130,000	-0-
Total Other Financing Sources/(Uses)	**$ 133,215,039**	**$ 141,768,780**	**$ 141,691,890**	**$ (76,890)**
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	**$ 5,701,200**	**$ 10,831,199**	**$ 10,872,787**	**$ 41,588**

The accompanying note is an integral part of this schedule.

Note To The Required Supplementary Information – Budgetary Reporting

Reconciliation Of Budgetary To GAAP

The Treasury's biennial budget is prepared on a basis other than GAAP. The "actual" results column of the Budget To Actual Schedule (Non-GAAP Budgetary Basis) - General Fund budgetary statement is presented on a "budgetary basis" to provide a meaningful comparison to budget.

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

1. Expenditures are recorded when cash is paid or committed (budgetary), rather than when the obligation is incurred (GAAP). In addition, revenue based on these accruals is adjusted on a GAAP basis only.
2. On a GAAP basis, major inter-agency and intra-agency transactions are eliminated in order to not double count revenues and expenditures.

The following schedule reconciles the General Fund for differences between budgetary accounting methods and the GAAP basis accounting principles for the year ended June 30, 2002.

RECONCILIATION OF BUDGETARY TO GAAP	
Excess (Deficiency) of revenues and other financing sources over (under) expenditures and other financing uses (Budgetary Basis)	$ 10,872,787
Adjustments and Reclassifications:	
To record Accounts Payable	(91,465)
Excess (Deficiency) of revenues and other financing sources over (under) expenditures and other financing uses (GAAP)	$ 10,781,322

Variances - Favorable/(Unfavorable)

The variance column on the Budget To Actual Schedule (Non-GAAP Budgetary Basis) - General Fund highlights differences between the final budget and the 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.

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APPENDIX

CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary, as of March 7, 2003, of the status of the observations contained in the audit report of the State Treasury for the year ended June 30, 1999. A copy of the prior report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House Room 102, Concord, NH 03301-4906.

		Status
Internal Control Comments		
	Reportable Conditions	
1.	Bank Account Reconciliations Should Be Subject To An Effective Review And Approval Procedure	● ● ●
2.	All Investment Transactions Should Be Subject To An Effective Review And Approval Procedure (*See Current Observation No. 2*)	● ○ ○
3.	Reconciliations Of The State's Checking Accounts Should Be Made Current	● ● ●
4.	Investment Of Trust Funds Should Be More Closely Monitored	● ● ●
5.	Controls Over State Revenue Sharing Payments Should Be Improved (*See Current Observation No. 1)*	○ ○ ○
6.	State Revenue Sharing Payments Should Be Better Documented *(See Current Observation No. 1)*	○ ○ ○
7.	Debt Management System Should Be Kept Current (*See Current Observation No. 3)*	○ ○ ○
8.	Complete Accounting Records Should Be Maintained To Support The State's Contingent Debt Amounts (*See Current Observation No. 4)*	○ ○ ○
State Compliance Comments		
9.	Outstanding Checks Should Be Cancelled After One Year	● ● ●
10.	Administrative Rules Should Be Adopted	● ● ●
Management Issues Comments		
11.	Compliance With The State's Investment Policy Should Be Better Documented	● ● ○
12.	Current Status Of Foreign Escheated Estates Account Should Be Reviewed *(See Current Observation No. 10)*	○ ○ ○

Status Key

Fully Resolved	● ● ●
Substantially Resolved	● ● ○
Partially Resolved	● ○ ○
Unresolved	○ ○ ○

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