STATE OF NEW HAMPSHIRE
STATE TREASURY

FINANCIAL AUDIT REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2013

STATE OF NEW HAMPSHIRE
STATE TREASURY

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http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx

STATE OF NEW HAMPSHIRE
STATE TREASURY

Reporting Entity And Scope

The reporting entity of this audit and audit report is the New Hampshire State Treasury (State Treasury or Treasury) as of and for the fiscal year ended June 30, 2013, excluding the custody and escheat of unclaimed and abandoned property pursuant to RSA 471-C.

Organization

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. The Treasury also employed 16 classified employees, with one vacant authorized position, at June 30, 2013.

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. The 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's 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 (Council).

Investment Management

The 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 but not limited to:

- Obligations of the U.S. government;
- Legal investments for savings banks; 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, the 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, 2013.

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, the 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, 2013 was approximately $963 million.

Trust Funds

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

Funding

The financial activity of the Treasury is accounted for in the Governmental and Fiduciary Funds of the State. A summary of the Treasury's General Fund and Capital Projects Fund revenues and expenditures for the fiscal year ended June 30, 2013 is shown in the following schedule.

Summary Of Revenues And Expenditures
Fiscal Year Ended June 30, 2013

	General Fund	**Capital Projects Fund**	**Total Governmental Funds**
Revenues			
Unrestricted Revenue	$ 17,400,679	$ -0-	$ 17,400,679
Restricted Revenue	21,543,936	-0-	21,543,936
Total Revenues	38,944,615	-0-	38,944,615
Total Expenditures	181,768,922	646,510	182,415,432
Excess (Deficiency) Of Revenues Over (Under) Expenditures	$ (142,824,307)	$ (646,510)	$ (143,470,817)

Prior Audit

The most recent prior financial and compliance audit of the Treasury was for the fiscal year ended June 30, 2005. The appendix to this report on page 41 contains a summary of the current status of the observations contained in that report. The prior audit report can be accessed from the Office of Legislative Budget Assistant website at the following web address:
http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx.

Audit Objectives And Scope

The primary objective of our audit was to express an opinion on the fairness of the presentation of the financial statements of the Treasury for the fiscal year ended June 30, 2013. As part of obtaining reasonable assurance about whether the financial statements are free of 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 laws, rules, and contracts. Major accounts or areas subject to our examination included, but were not limited to, the following:

- Revenues,
- Expenditures,
- Fiduciary Funds

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

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

To The Fiscal Committee Of The General Court:

We have audited, 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, the financial statements of the New Hampshire State Treasury (Treasury) which comprise the Statement of Revenues and Expenditures - Governmental Funds, Statement of Assets and Liabilities - Agency Funds, and Combining Statement of Changes in Assets and Liabilities - Agency Funds as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the State Treasury's basic financial statements and have issued our report thereon dated March 11, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Treasury's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Treasury's internal control. Accordingly, we do not express an opinion on the effectiveness of the Treasury's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control that we consider to be significant deficiencies. We consider the deficiencies described in Observations No. 1 through No. 11 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Treasury's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, and contracts, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Observations No. 12 and No. 13.

Treasury's Responses To Findings

Treasury's responses to the findings identified in our audit are included with each reported finding. Treasury's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose Of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Office of Legislative Budget Assistant

Office Of Legislative Budget Assistant

March 11, 2014

Internal Control Comments
Significant Deficiencies

Observation No. 1: Improve Compliance With Federal Treasury-State Agreement

Observation:

Treasury has not effectively monitored the State's operation of the Federal Treasury-State Agreement (TSA) for drawing federal funds to ensure that State agencies are in compliance. The details of the agreement, which are subject to annual update, provide for the State's efficient drawing of federal funds.

The Cash Management Improvement Act of 1990 (CMIA) was passed to improve the transfer of federal funds between the Federal Government and the States. While all Federal funds transfers to the States are covered, only major assistance (large-dollar) programs are included in a written TSA, which specifies how and when the Federal funds transfers should take place.

The objectives of the CMIA are to:

- Minimize the time between the transfer of cash to the states and the states' payout for program purposes.
- Ensure that Federal funds are available when requested.
- Assess an interest liability to the Federal Government and/or the states to compensate for the time value of money.

The State's recent Single Audits of federal programs have identified a number of concerns with State agencies' drawing of Federal program funds. The resolution of some of these comments will require the participation of the Treasury in establishing agency practices that are in compliance with the TSA, modification of the TSA to fairly treat the State's interests, and cooperation with the Department of Administrative Services and other agencies to align the State accounting system's cash management routine with controlling provisions of the TSA.

A similar comment was included in the prior audit report.

Recommendation:

Treasury should work with the Department of Administrative Services (DAS) and other State agencies to provide a comprehensive and coordinated effort to reasonably bring State agencies into compliance with the TSA.

As part of that effort, the Treasury should understand specific agency needs so that revisions can be incorporated in the annual TSA updates that respond to those needs, where appropriate.

Treasury should ensure agencies are aware of relevant TSA provisions and are provided with the information necessary for compliance.

Treasury should work with DAS to revise the State accounting system's cash management routine, to align it with controlling provisions of the TSA.

Auditee Response:

Treasury concurs. This has been a perennial issue in the State for a number of years. More than two years ago, Treasury started having annual meetings with responsible agency staff to discuss CMIA requirements. Treasury has also worked very closely with Administrative Services to build a custom tool to assist with the compliance requirements. This has been slow and tedious work that periodically was set back by turnover, shifting priorities, etc. Treasury plans to seek a full time position in the next budget cycle for the 2016-2017 biennium that it believes can be charged to the federal government through the State's indirect cost allocation plan. A staff resource dedicated to Treasury-State Agreement, CMIA compliance, and timeliness of federal cash draws would eliminate this finding and likely add efficiency across State government where other agencies struggle with similar compliance issues. Treasury hopes to have this observation resolved by June 30, 2015.

Observation No. 2: Review And Improve Controls Over Information Technology Systems

Observation:

While Treasury has strengthened its information technology (IT) controls since the prior audit in fiscal year 2005, areas remain where controls could be improved to lessen risk and improve the security and reliability of Treasury's information systems.

1. During fiscal year 2013, some Treasury employees had access authorities to key information systems that appeared excessive considering the employees' job responsibilities. Unnecessary access to key information systems can result in increased risk to secure operations.

2. Treasury has not actively reviewed and maintained banking templates which are created to format electronic banking transactions. For example, templates may need to be altered or deleted when the State changes vendors or bank accounts. Inadvertent erroneous transactions could occur if an obsolete template was used for an electronic banking transaction, in spite of Treasury's requirement for dual approval of these transactions.

3. A Treasury-identified security concern reported prior to the NHFirst implementation in 2009 remains unresolved. This issue was communicated to the Departments of Administrative Services and Information Technology; however, the security concern remained unresolved as of June 30, 2013. Treasury reports it continues to believe there are relatively inexpensive solutions to the identified concern.

4. Treasury's backup and recovery controls were in need of improvement during fiscal year 2013. Backups were not maintained offsite and Treasury's disaster recovery and business continuity plans were not tested.

Recommendation:

Treasury should continue to review and improve its controls over its IT systems. As more of Treasury's activities are IT system based, the risk for errors, frauds, and data loss related to those IT systems becomes more critical to secure operations.

1. Treasury should monitor and limit employee access to that required for employees' current job responsibilities. Excessive authorities should be removed.

2. Treasury should monitor the status of banking templates to ensure templates remain current and accurate. Obsolete templates should be removed from the system timely.

3. Treasury should again approach its IT system partners to resolve the security concern identified in 2009.

4. Treasury should strengthen its IT system backup and recovery controls. Backups should be maintained offsite, and backups and disaster recovery and business continuity plans should be periodically tested. Test results should also be documented.

Auditee Response:

Treasury concurs and will make changes as recommended by the auditors within available resources. It is important, however, for the reader to put in context the weaknesses identified alongside the significant staff turnover the Treasury has experienced over the past 24 months, coupled with the limited number of positions and the many functions that are Treasury's responsibility. It is sometimes necessary for management to assume risk that it might not otherwise assume with a full experienced staff.

1. and 2. In the past three months, Treasury has filled all vacant positions and has begun the process of re-examining access and is revisiting the banking templates. Appropriate business functional units are developing plans with implementation targeted by June 30, 2014.

3. Treasury is in a customer service queue with all other State agencies requesting changes to systems. We will again contact the Department of Administrative Services and the Department of Information Technology regarding these changes related to weaknesses identified by Treasury. Estimated completion date is unknown.

4. As of 2/21/14 Treasury began the process to move data servers into the DoIT Virtual Server environment, all System Backups will be performed by DoIT going forward. Treasury is working with DoIT currently to define the schedule and frequency of these backups as well as a restore process. Full implementation should be completed within 30 - 45 days.

Observation No. 3: Ensure Policies And Procedures For Posting Inter-Agency Transactions Are Appropriate For Treasury's Purpose

Observation:

Treasury's error in posting two inter-agency transactions during fiscal year 2013 resulted in Treasury understating both revenues and expenditures by $2.1 million.

The audit identified that Treasury posted the receipt of reimbursements for two debt service payments as negative expenditures instead of revenues. These two posting errors resulted in expenditures and revenues both being understated. Treasury corrected the errors prior to the preparation of the June 30, 2013 financial statements.

Recommendation:

Treasury should review the circumstances that allowed the error in debt service postings to go undetected and uncorrected. Treasury should strengthen its internal controls accordingly and ensure that significant accounting postings are subject to an appropriate review and approval control.

Auditee Response:

Treasury concurs and has already corrected the weakness. The reimbursements of debt service payments referred to in this observation relate to payments made by the Community College System to the State subsequent to the Community College System becoming an entity separate from the State. This was a new process in fiscal year 2013 at the same time Treasury experienced staff turnover.

Observation No. 4: Maintain Accurate Information On All State-Guaranteed Debt

Observation:

Treasury does not have policies and procedures for maintaining accurate information on the State's contingent liabilities related to certain mortgage loans issued with State guarantees.

The State of New Hampshire guarantees, and is contingently liable for, certain bonds sold by municipalities, school districts, and for certain first mortgage loans on industrial and recreational property issued by the Business Finance Authority.

Contingent and guaranteed debt information reported by the Treasury to the Department of Administrative Services for inclusion in the State's fiscal year 2013 comprehensive annual financial report (CAFR) contained errors overstating the State's guaranteed debt by approximately $16.4 million.

While the Treasury tracks and maintains records of changes to guarantee limits and general obligation bonds issued by certain municipalities and school districts, the Treasury does not track and maintain records of loans backed by the full faith and credit of the State issued by one covered authority. For fiscal year 2013, the Treasury obtained year-end information needed for the State's CAFR from the issuer, without requiring corroboration of the reported amounts.

The information the issuer provided to the Treasury for fiscal year 2013 was incorrect. The error was not recognized until the auditors subsequently confirmed the amounts with the issuer.

A similar comment was included in the prior audit report.

Recommendation:

Treasury should implement policies and procedures for maintaining accurate information on all debt the State guarantees, or for which it is contingently liable.

Auditee Response:

Treasury concurs and will work more closely with the Business Finance Authority to ensure information provided at year end is accurate. This observation will be fully resolved during the fiscal year end 2014 closing process.

Observation No. 5: Finalize Capital Projects Lists Timely

Observation:

Treasury had not finalized the capital projects list supporting its November 2012 bond issue as of March 5, 2014. The capital projects list identifies the capital projects supported by the bond issue and is used in Treasury's allocation of bond proceeds, liabilities, and debt service charges. The incomplete nature of the capital projects list at June 30, 2013 may have contributed to the need for Treasury to make several corrections to draft debt disclosures prepared for the State's comprehensive annual financial report, subsequent to auditor inquiry about amounts presented. Documentation made available to the auditors did not fully support the responsibility for debt service allocated to certain State agencies responsible for paying a portion of debt service at June 30, 2013.

Recommendation:

Treasury should finalize capital projects lists timely to ensure that the allocation of bond proceeds, liabilities, and debt service is based on accurate information and is appropriately documented.

Auditee Response:

Treasury concurs in part. Project lists undergo many iterations before being finalized, as they are always part reimbursement of existing projects and part future projections of capital expenditures on bonds authorized but unissued. To be clear, bond project lists cannot be finalized until 100% of the proceeds have been spent, which is typically 12 to 18 months after the date of issue. During the timetable for deployment of these proceeds, projects that do not spend as much as anticipated have to be replaced in whole or in part with projects that spend more than expected.

This reallocation process is manual and thus very time consuming. For this reason, Treasury strives to include as much actual expenditure activity as possible on each bond issue before "finalizing" the list for budgeting purposes (i.e., determining individual debt service schedules based on funding sources that are then consolidated into the entire issue). It is not atypical for a project list to remain in flux until close to the first payment due date several months after the sale.

With that context in mind, this bond issue included two very large allocations that had to be removed from "self-supporting" funding sources ($3M for the Tobey School renovation and $8.5M for various Environmental Services capital authorizations). Those project dollars had to be reallocated amongst other projects accordingly.

The reallocation took more time than usual to review and verify that all was in order. During this timeframe, Treasury resources were also devoted to collaborating with Administrative Services in designing and building the Capital Project functionality in NHFirst, which was given a high priority. Considerable effort had been expended, and implementation was nearly complete when two vacancies occurred in Treasury.

Since becoming fully staffed in this functional area as of December 24, 2013, Treasury has resumed the project list finalization effort for this bond issue, a very high priority of the Treasury, and the NHFirst functionality is expected to be operational by the end of fiscal year 2014.

Observation No. 6: Notify Financial Institutions Timely Of Changes In Individuals Authorized To Initiate Transactions

Observation:

Treasury did not timely update its list of authorized signers at one financial institution with which it maintained 52 State investment accounts during, and subsequent to, fiscal year 2013.

The response to an audit inquiry dated January 7, 2014 identified two individuals who left Treasury employment in May and July 2013, respectively, as authorized signers on the Treasury investment accounts at that financial institution.

Untimely communication of changes in individuals authorized to initiate account transactions increases the risk that Treasury's intended control over account transactions will not be effective.

A similar comment was included in the prior audit report.

Recommendation:

Treasury should improve its controls to ensure it notifies financial institutions of changes in individuals authorized to initiate transactions affecting Treasury accounts in a timely manner.

Auditee Response:

Treasury concurs and takes this observation very seriously. Treasury believed it had all the institutions and accounts covered when two key positions were vacated during 2013. Since being notified of the weakness by the auditors, we have updated procedures, have completed an exhaustive inventory of all accounts and will perform follow-up confirmation with our banking and investment partners after we have submitted signatory changes to ensure such changes are implemented. Treasury believes this observation to be fully resolved.

Observation No. 7: Improve Segregation Of Duties For Trust And Agency Funds

Observation:

The financial accounting duties for Treasury's trust and agency funds were not fully segregated during most of the fiscal year ended June 30, 2013.

Pursuant to RSA 11:1, the State Treasurer is the custodian of certain trusts and escrow accounts left to and accepted by the State. RSA 6:12-c further provides these funds need to be kept separate from any other funds and administered in accordance with RSA 4:8 the terms and conditions of each account.

For most of fiscal year 2013, one Treasury employee was assigned significant trust and agency fund responsibilities including opening the mail, restrictively endorsing checks, performing record-keeping, preparing account statements to distribute to fund administrators, purchasing and redeeming investments of funds, as well as reconciling investment accounts to respective records. Although the work of this employee was reviewed and approved, certain incompatible duties performed by this employee should have been segregated in order to mitigate potential risks.

Treasury intended to improve its controls toward the end of the fiscal year; however, changes in personnel hampered that effort. A similar comment was included in the fiscal year 2005 audit.

Recommendation:

Treasury should continue to improve the segregation of duties over its trust and agency fund financial activity.

Auditee Response:

Treasury concurs. Within existing resources and personnel, Treasury will continue to improve the segregation of duties over trust and agency fund activity. Treasury identified this weakness in its internal fraud risk assessment. We implemented new controls in March 2013, but when key personnel left in May 2013, the controls again broke down. With vacant positions now filled, Treasury believes this observation to be fully resolved.

Observation No. 8: Improve Record-Keeping For Trust And Agency Accounts

Observation:

During fiscal year 2013, Treasury primarily used spreadsheets to account for the financial activity in the 49 trust and agency funds for which it is custodian. The use of multi-layer spreadsheets presents risks due to the mechanics of the spreadsheet, as well as clerical input error. Spreadsheets do not allow for more robust controls commonly embedded in general ledger accounting systems.

The financial activity of certain trust and agency funds is also budgeted and accounted for in the State's accounting system (NHFirst). Budgeting and accounting for these funds in NHFirst has been initiated over time to facilitate control over the administration of the funds. Accounting for funds with both spreadsheets and NHFirst presents a risk that the fund financial information will not be combined and condensed in the State's year-end financial reporting. Treasury reports that it has not routinely monitored the activity in the funds accounted for in NHFirst.

Treasury reported to the auditors that during its risk assessment, it identified some of these risks and has contemplated the use of NHFirst to account for these funds.

Recommendation:

Treasury should consider further steps to improve record-keeping for its trust and agency accounts. Treasury should revisit whether the NHFirst accounting system could be used to account for the activity in more or all of the accounts, and also provide an improved control framework.

Auditee Response:

Treasury concurs. Within existing resources in the Treasury and within other State agencies responsible for NHFirst, we will consider steps to improve recordkeeping. Treasury believes NHFirst can be used for Trust and Agency accounting and accordingly will continue to include that improved control on its list of potential system enhancements. Both the Treasury and the Department of Administrative Services have discussed this enhancement many times in the past four years.

Treasury is in a customer service queue with all other State agencies requesting changes to systems. We are in frequent contact with the Department of Administrative Services and the Department of Information Technology regarding these and many other changes. Estimated completion date is unknown.

Observation No. 9: Maintain Listing Of Authorized Initiators Of Trust And Agency Account Transactions

Observation:

Treasury's controls over the initiation of trust and agency account transactions do not include ensuring the individuals requesting the transactions have authority to direct the receipt or expenditure of funds within the accounts. Treasury does not maintain listings of State agency representatives authorized to initiate transactions from the accounts.

Treasury, as custodian, regularly receives directions from individuals representing trust and agency account administrators to initiate transactions from the accounts, including investment and other deposit and disbursement transactions. Upon receipt of the request, which typically is in the form of letters or emails with accompanying documentation from the administrator agency, Treasury initiates the transactions in accordance with the request. While Treasury does maintain a list of administrator representatives authorized to make changes to account investment objectives, it does not maintain a list of individuals authorized to direct the more routine deposit and disbursement transactions in the accounts.

Recommendation:

Treasury should request administrators of trust and agency accounts to provide names of individuals authorized to initiate account transactions. Treasury should maintain and use that information to ensure that it only initiates transactions upon the request of authorized representatives of the account administrators.

Auditee Response:

Treasury concurs. As the observation mentions, Treasury does maintain a list of administrator representatives, but will add a list of individuals authorized to direct routine transactions. Treasury believes this finding will be full resolved by June 30, 2014.

Observation No. 10: Determine The Ownership And Disposition Of Account Balances

Observation:

There are three trust and agency accounts maintained by the Treasurer that appear to require review to determine the purpose and ownership of certain balances in those accounts.

Department of Safety - Financial Responsibility
Treasury maintains custody of funds from the Department of Safety financial responsibility program. While individual balances in the fund are not credited with interest, the fund is maintained in an account that earns interest. At June 30, 2013, there was approximately $33,000 of interest that had accrued on the balances in the account. There is no apparent provision for determining ownership of the $33,000, or plan for the ultimate disbursement of interest earned on the account.

Two individual balances established in 1985 totaling approximately $2,900 and two individual balances established in 2008 totaling approximately $3,400 appear old and likely subject to return to the owner.

Department of Labor - Crown Paper Workers Compensation
Treasury maintains custody of approximately $15,000 related to a workers compensation case where the trustee's interests were reportedly abandoned.

Laconia State School Trust Funds
Treasury maintains custody of approximately $154,000 in funds bequeathed to the Laconia State School, which no longer exists.

Recommendation:

Treasury, in coordination with the trustees of the above mentioned funds and legal counsel, should determine the ownership and disposition of these balances.

Auditee Response:

Treasury concurs and will target September 30, 2014 as resolution date to determine proper ownership and disposition.

Observation No. 11: Review Trust And Agency Financial Information In State CAFR For Proper Presentation

Observation:

Treasury has not established policies and procedures to periodically review the trust and agency financial information included in the State's comprehensive annual financial report (CAFR) to ensure the trust and agency financial information of the accounts in the Treasury's custody is properly presented.

An auditor's review of trust and agency fund information identified 11 funds that were inaccurately reported in the State's draft financial statements for the fiscal year ended June 30, 2013, as the funds were not accurately identified as either a permanent fund (governmental type fund), private-purpose trust fund, or agency fund (fiduciary type funds). Fund balances at June 30, 2013 in these miss-categorized funds ranged from $15,263 to $2,661,769.
The categorizations of these funds were corrected in the State's fiscal year 2013 CAFR.

Although financial reporting is not the State Treasury's primary responsibility, it does provide trust and agency fund information necessary for the preparation of the State CAFR.

A similar comment was included in the prior audit report.

Recommendation:

Treasury should establish policies and procedures for reviewing the trust and agency financial information included in the State's CAFR to ensure the information for the accounts in Treasury's custody is properly identified and reported.

Auditee Response:

Treasury concurs. We will continue to improve the year end closing process in collaboration with the State Comptroller's office. Treasury and the Comptroller's office consistently strive to make, and have had success in recent years making, the year end closing process more efficient. It is a laborious manual process accumulating information from multiple sources. We will be cognizant of accuracy of the trust and agency fund categories at 2014 fiscal year end. This process will have added controls when Trust and Agency accounts are included in NHFirst as has been suggested by Treasury for many years and as has been recommended by the auditors in Observation No. 8.

State Compliance

Observation No. 12: File Report Of Information Required By Statute

Observation:

Treasury did not file certain statutorily-required reports during the fiscal year ended June 30, 2013.

1. Treasury did not file quarterly reports of the total amount of funds in the Treasury, the amount belonging to each separate fund, a summary of the funds on deposit and the investments held, and the interest income earned thereon. Such reports are required by RSA 6-B:2, VII.

2. Treasury did not file a report of the amount of each trust fund and the profits and income allocable to each trust with the Department of Justice, Director of Charitable Trusts. Such a report is required by RSA 11:5-b, II.

   Pursuant to RSA 11:1, the State Treasurer acts as the custodian of "…all trust funds left to and accepted by the state…." In addition, RSA 11:5-b, II states, "[t]he state treasurer shall keep appropriate bookkeeping records, showing on an annual basis the amount of each trust fund and the profits and income allocable to each trust. A copy of such records shall be approved annually by the governor and council and filed with the director of charitable trusts who serves under the supervision of the attorney general under RSA 7:20."

The State Treasury's 2013 annual report submitted to the governor and council cited compliance with RSA 11:5-b; however, Treasury did not recall ever filing these reports with the Division of Charitable Trust.

Recommendation:

Treasury should file reports of information required by RSA 6-B:2, VII and RSA 11:5-b, II.

The Treasurer should consider whether filing a copy of the Treasurer's Annual Report, which contains a schedule of *Trust and Escrow [agency] Accounts Held by the State Treasurer* would meet the requirements of RSA 11:5-b, II.

Auditee Response:

Treasury concurs.

1. Treasury will begin filing report quarterly reports required by RSA 6-B:2, VII for the quarter ended June 30, 2014.
2. Treasury has sent its 2013 annual report to the Charitable Trust Division and has confirmed with the Director that it complies with the provisions of RSA 11:5-b.

Observation No. 13: Create And Operate Accounts As Established And Described By Statute

Observation:

Treasury did not utilize certain statutorily-established accounts during fiscal year 2013.

1. RSA 261:97-b establishes "a conservation number plate trust fund under the administration of the state treasurer. The fund shall be used for the promotion, protection, and investment of the state's natural, cultural, and historic resources." The statute further directs the operations of the fund.

   Treasury reported that for the past five or more years, it has not directly administered and operated the fund as outlined in statute. During that period, to minimize administrative burden, proceeds from the sale of conservation plates were distributed by the Department of Safety directly to the intended recipient agencies.

2. RSA 227-M:7-a establishes the Land and Community Heritage Investment Program (LCHIP) administrative fund in the Treasury into which any revenue generated pursuant to RSA 261:97-b, I-a and interest income generated on appropriations made to the LCHIP investment program trust fund is to be credited.

   As of June 30, 2013, the Treasury had not established the LCHIP administrative fund within its office and has allowed the N.H. Land and Community Heritage Investment Authority to establish and operate the LCHIP administrative account outside the authority of the Treasury.

   Treasury reports it transfers the revenue and interest that otherwise would have been deposited to the administrative fund to an administrative checking account directly held by the N.H. Land and Community Heritage Investment Authority.

   A similar comment was also noted in our fiscal year 2005 audit report.

Recommendation:

Treasury should create and operate accounts as established and described by statute.

If Treasury determines the State would be better served if the accounts are not operated as intended by the statutes, Treasury should seek to have the statutes appropriately amended.

Auditee Response:

Treasury concurs and will seek statutory amendment in the 2015 legislative session.

Independent Auditor's Report

To The Fiscal Committee Of The General Court:

Report on the Financial Statements

We have audited the accompanying financial statements of the State Treasury which comprise the Statement of Revenues and Expenditures - Governmental Funds, Statement of Assets and Liabilities - Agency Funds, and Combining Statement of Changes in Assets and Liabilities - Agency Funds as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the State Treasury's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective revenues and expenditures of the State Treasury's portion of the State of New Hampshire's General and Capital Projects Funds for the fiscal year ended June 30, 2013 and the assets and liabilities of the State Treasury-held agency funds and the changes in those assets and liabilities as of June 30, 2013 and for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The financial statements were prepared for audit purposes. As discussed in Note 1, the financial statements referred to above do not purport to and do not constitute a complete financial presentation of the State Treasury in the General or Capital Projects Funds in conformity with accounting principles generally accepted in the United States of America. The financial statements were not intended to show the financial position of the State Treasury or the changes in its fund balances for the General and Capital Projects Funds. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State Treasury's financial statements. The accompanying Budget to

Actual Schedule is presented for purposes of additional analysis and is not a required part of the financial statements.

The Budget to Actual Schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budget to Actual Schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2014 on our consideration of the Treasury's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Treasury's internal control over financial reporting and compliance.

Office of Legislative Budget Assistant

Office Of Legislative Budget Assistant

March 11, 2014

STATE OF NEW HAMPSHIRE
STATE TREASURY
STATEMENT OF REVENUES AND EXPENDITURES-GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Revenues	General Fund	Capital Projects Fund	Total Governmental Funds
Unrestricted			
Abandoned Property Escheatment	$ 13,107,580	$ -0-	$ 13,107,580
Recording Surcharge (LCHIP)	4,444,476	-0-	4,444,476
Other Revenue	(151,377)	-0-	(151,377)
Total Unrestricted	**17,400,679**	**-0-**	**17,400,679**
Restricted			
School Building Aid Debt Repayment	14,424,456	-0-	14,424,456
Community College Debt Repayment	2,102,751	-0-	2,102,751
Bonds Interest Subsidy	2,083,412	-0-	2,083,412
Abandoned Property Reimbursement	1,509,438	-0-	1,509,438
Unique Plan Administrative Fees	1,226,989	-0-	1,226,989
Other	196,890	-0-	196,890
Total Restricted	**21,543,936**	**-0-**	**21,543,936**
Total Revenues	**38,944,615**	**-0-**	**38,944,615**
Expenditures			
Debt Service	114,492,398	-0-	114,492,398
Rooms And Meals Tax Distribution	58,805,057	-0-	58,805,057
Administration Costs	2,737,115	-0-	2,737,115
Escheat Of Property	2,728,514	-0-	2,728,514
Land Conservation Grants (LCHIP)	2,085,338	-0-	2,085,338
Unique Plan Scholarships	920,500	-0-	920,500
Cost Of Issuing Bonds	-0-	646,510	646,510
Total Expenditures	**181,768,922**	**646,510**	**182,415,432**
Excess (Deficiency) Of Revenues Over (Under) Expenditures	**(142,824,307)**	**(646,510)**	**(143,470,817)**
Other Financing Sources (Uses)			
Net Appropriations (Note 2)	160,224,986	-0-	160,224,986
Premium On Bonds	-0-	646,510	646,510
Total Other Financing Sources (Uses)	**160,224,986**	**646,510**	**160,871,496**
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	**$ 17,400,679**	**$ -0-**	**$ 17,400,679**

The accompanying notes are an integral part of this financial statement

STATE OF NEW HAMPSHIRE
STATE TREASURY

STATEMENT OF ASSETS AND LIABILITIES
AGENCY FUNDS
JUNE 30, 2013

	Agency Funds
Assets:	
Cash And Cash Equivalents	$ 10,781,725
Investments, At Fair Value	41,380,419
Total Assets	**$ 52,162,144**
Liabilities:	
Custodial Funds Payable	$ 52,162,144
Total Liabilities	**$ 52,162,144**

The accompanying notes are an integral part of this financial statement

STATE OF NEW HAMPSHIRE
STATE TREASURY
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Unclaimed and Abandoned Property				
Assets:				
Investments	$ 16,429,391	$ 11,005,868	$ 8,884,719	$ 18,550,540
Liabilities:				
Custodial Funds Payable	$ 16,429,391	$ 11,005,868	$ 8,884,719	$ 18,550,540
N.H. Hospital Trust Funds				
Assets:				
Investments	$ 5,783,007	$ 683,634	$ 293,146	$ 6,173,495
Liabilities:				
Custodial Funds Payable	$ 5,783,007	$ 683,634	$ 293,146	$ 6,173,495
Connecticut Lake Headquarters				
Assets:				
Investments	$ 3,970,228	$ 552,828	$ 102,709	$ 4,420,347
Liabilities:				
Custodial Funds Payable	$ 3,970,228	$ 552,828	$ 102,709	$ 4,420,347
College Savings Plan Trust				
Assets:				
Investments	$ 3,042,722	$ 11,252,064	$ 11,128,505	$ 3,166,281
Liabilities:				
Custodial Funds Payable	$ 3,042,722	$ 11,252,064	$ 11,128,505	$ 3,166,281
Land Conservation Endowment				
Assets:				
Investments	$ 2,905,191	$ 351,854	$ 92,390	$ 3,164,655
Liabilities:				
Custodial Funds Payable	$ 2,905,191	$ 351,854	$ 92,390	$ 3,164,655
Community Conservation Endowment				
Assets:				
Investments	$ 2,243,695	$ 475,739	$ 57,664	$ 2,661,770
Liabilities:				
Custodial Funds Payable	$ 2,243,695	$ 475,739	$ 57,664	$ 2,661,770

(Continued)

The accompanying notes are an integral part of this financial statement

STATE OF NEW HAMPSHIRE
STATE TREASURY
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

(Continued)

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Special Fund For Second Injuries				
Assets:				
Cash And Cash Equivalents	$ 2,628,166	$ 13,503,777	$ 13,660,770	$ 2,471,173
Liabilities:				
Custodial Funds Payable	$ 2,628,166	$ 13,503,777	$ 13,660,770	$ 2,471,173
Electric Assistance Program				
Assets:				
Cash And Cash Equivalents	$ 683,559	$ 2,393,656	$ 625,807	$ 2,451,408
Liabilities:				
Custodial Funds Payable	$ 683,559	$ 2,393,656	$ 625,807	$ 2,451,408
Ben Thompson Trust Fund				
Assets:				
Investments	$ 1,608,377	$ 216,119	$ 48,374	$ 1,776,122
Liabilities:				
Custodial Funds Payable	$ 1,608,377	$ 216,119	$ 48,374	$ 1,776,122
Fish And Game Lifetime License				
Assets:				
Cash And Cash Equivalents	$ 1,542,005	$ 192,939	$ 275,615	$ 1,459,329
Liabilities:				
Custodial Funds Payable	$ 1,542,005	$ 192,939	$ 275,615	$ 1,459,329
Miscellaneous Agency Funds				
Assets:				
Cash And Cash Equivalents	$ 7,248,274	$ 1,220,761	$ 4,069,220	$ 4,399,815
Investments	1,392,277	140,797	65,865	1,467,209
Total Assets	$ 8,640,551	$ 1,361,558	$ 4,135,085	$ 5,867,024
Liabilities:				
Custodial Funds Payable	$ 8,640,551	$ 1,361,558	$ 4,135,085	$ 5,867,024
Total - Agency Funds				
Assets:				
Cash And Cash Equivalents	$ 12,102,004	$ 17,311,133	$ 18,631,412	$ 10,781,725
Investments	37,374,888	24,678,903	20,673,372	41,380,419
Total Assets	$ 49,476,892	$ 41,990,036	$ 39,304,784	$ 52,162,144
Liabilities:				
Custodial Funds Payable	$ 49,476,892	$ 41,990,036	$ 39,304,784	$ 52,162,144

The accompanying notes are an integral part of this financial statement

STATE OF NEW HAMPSHIRE
STATE TREASURY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

The Treasury is an organization of the primary government of the State of New Hampshire. The accompanying financial statements report the financial activity of the Treasury.

The financial activity of the Treasury is accounted for and reported in the State's General and Capital Projects 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 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 Treasury cannot be determined. Accordingly, the accompanying financial statements are not intended to show the financial position or changes in fund balances of the Treasury in the General and Capital Projects Funds.

B. Financial Statement Presentation

The State of New Hampshire uses funds to report on its financial position and the results of its 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. Treasury reports its financial activity in the funds described below.

<u>Governmental Fund Types:</u>

General Fund: The General Fund is the State's primary operating fund and accounts for all financial transactions not specifically accounted for in any other fund. All revenues of governmental funds, 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.

<u>Fiduciary Fund Type:</u>

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

<u>Reporting Period</u>

The accompanying State Treasury financial statements are presented as of June 30, 2013, and for the fiscal year then ended.

C. Measurement Focus And Basis Of Accounting

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 revenues to be available if they are collected within 60 days of the end of the current fiscal period. An exception to this policy is federal grant revenue, which generally is considered to be available if collection is expected within 12 months after the fiscal year end. Taxes, grants, licenses, and fees associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service and other long-term obligations including compensated absences, other post-employment benefits, pollution remediation obligations, and claims and judgments are recorded only when payment is due.

Fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Additions are recorded when earned and deductions/deletions are recorded when a liability is incurred, regardless of the timing of related cash flows.

D. Revenues And Expenditures

In the governmental fund financial statements, revenues are reported by source. For budgetary control purposes, revenues are further classified as either “unrestricted” (general purpose) or “restricted.” Unrestricted revenues are credited directly to the appropriate fund balance upon recording in the State’s accounting system. Pursuant to the State’s operating budget, unrestricted or general purpose revenues collected by an agency are not used as a direct source of funding for agency operations but are available to fund any activity accounted for in the fund. The recording of unrestricted revenues has no effect on an agency's authorization to expend funds.

Restricted revenues are either by State law or by outside restriction (e.g. federal grants), available only for specified purposes and are credited to the agency's accounting unit to which the restricted revenue is budgeted upon recording in the State's accounting system. Restricted revenues recorded by an agency are direct sources of funding for budgeted agency operations (appropriations).

Unused restricted revenues at year end are either lapsed or generally recorded as a committed or assigned fund balance. When both unrestricted (general purpose) and restricted funds are available, it is the State's policy to use restricted revenues first.

Other Financing Sources – these additions to governmental resources in the fund financial statements result from financing provided by net appropriations and bond proceeds or premium on bonds in the Capital Projects Fund.

In the governmental fund financial statements, expenditures are reported by character.

E. Cash Equivalents And Investments

Cash equivalents represent short-term investments with original maturities less than three months from the date acquired by the Treasury. Investments are reported at fair value.

F. Receivables

In the governmental fund financial statements, receivables are primarily for accruals that are received by the Treasury within 60 days after year-end.

G. 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.

H. Bond Discounts, Premiums, And Issuance Costs

In the government fund financial statement, bond discounts, premiums, and issuance costs are recognized in the period the bond proceeds are received. The face amount of the debt issued is reported as other financing sources in the State comprehensive annual financial report. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as expenditures.

I. Budget Control And Reporting

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 a separate budget for each year of the biennium, consists of three parts: Part I is the Governor's program for meeting all expenditure needs and estimating revenues. There is no constitutional or statutory requirement that the Governor propose, or 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 for State agencies, including the Treasury, is prepared principally on a modified cash basis and adopted for the governmental funds with the exception of the Capital Projects Fund and certain proprietary funds. The Capital Projects Fund budget represents individual projects that extend over several fiscal years. Since the Capital Projects Fund comprises appropriations for multi-year projects, it is not included in the budget and actual comparison schedule. Fiduciary funds are not budgeted.

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

Both the Executive and Legislative Branches of government maintain additional fiscal control procedures. The Executive Branch, represented by the Commissioner of the Department of Administrative Services, is directed to continually monitor the State's financial operations, needs, and resources, and to maintain an integrated financial accounting system. The Legislative Branch, represented by the 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 generally lapse to assigned or unassigned fund balance and be available for future appropriations unless they have been encumbered or legally defined as non-lapsing, which means the balances are reported as restricted, committed, or assigned fund balance. The balance of unexpended encumbrances is brought forward into the next fiscal year. Capital Projects Fund unencumbered appropriations lapse in two years unless extended or designated as non-lapsing by law.

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 Treasury's General Fund had no unliquidated encumbrances at June 30, 2013.

A Budget To Actual Schedule - General Fund is included as required supplemental information.

NOTE 2 – NET APPROPRIATIONS

Net appropriations reflects appropriations for expenditures in excess of restricted revenue. Net appropriations are made from the fund balance of the General Fund.

NOTE 3 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

Deposits:

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

RSA 6:7 establishes the policy the State Treasurer must adhere to when depositing public monies. Operating funds are invested per investment policies that further define appropriate investment choices and constraints as they apply to those investment types.

*Custodial Credit Risk***:** The custodial risk for deposits is the risk that in the event of a bank failure, the State's deposits may not be recovered.

Custodial credit risk is managed in a variety of ways. Although State law does not require deposits to be collateralized, the Treasurer does utilize such arrangements where prudent and/or cost effective. All banks, where the State has deposits and/or active accounts, are monitored as to their financial health through the services of Veribanc, Inc., a bank rating firm. In addition, ongoing reviews with officials of depository institutions are used to allow for frequent monitoring of custodial credit risk.

Certificates of deposits must be with State or federally chartered banking institutions with a branch in New Hampshire. The institution must have the highest rating as measured by Veribanc, Inc.

Whereas all payments made to the State are to be in U.S. dollars, foreign currency risk is essentially nonexistent on State deposits.

As of June 30, 2013, the carrying balance of the Treasury's agency fund deposits was $11,383,393. The table below details Treasury's agency fund bank balances exposed to custodial credit risk at June 30, 2013:

Deposits Custodial Credit Risk
June 30, 2013

	Agency Funds		
Type	**Insured**	**Collateralized And Held In State's Name**	**Uncollateralized**
Demand Deposits	$ -0-	$ 2,473,742	$ -0-
Money Markets	-0-	-0-	8,894,388
Savings Accounts	-0-	15,263	-0-
Certificates Of Deposit	-0-	-0-	-0-
Totals	**$ -0-**	**$ 2,489,005**	**$ 8,894,388**

Investments:

The State Treasury has adopted policies to ensure reasonable rates of return on investments while minimizing risk factors. Approved investments are defined in statute (RSA 6:8, 387:6, 387:6-a, and 387:14). Additionally, investment guidelines exist for operating funds as well as trust and custodial funds. All investments will be denominated in U.S. dollars. As of June 30, 2013, the State Treasury had the following types of investments for its agency funds:

Fair Value Of Investments By Type
June 30, 2013

Investment Type	**Agency Funds**
Stocks (Abandoned Property)	19,643,772
Corporate Bonds	723,869
U.S. Treasury	366,641
U.S. Government Agencies	374,869
Municipal Bonds	83,088
Equity Open Ended Mutual Funds	11,648,447
Fixed Income Open Ended Mutual Funds	7,938,065
Total	**$ 40,778,751**

Stocks:

The State's policy relative to operating funds and mitigation of concentration of credit risk does not permit investing in stocks. Although not issuer specific, individual investment guidelines for trust and custodial funds include overall asset allocation limits that are consistent with sound investment principles and practices. There is no concentration, custodial or credit risk to the State for amounts held in the State's abandoned property program.

Concentration Risk: The risk of loss attributed to the magnitude of the State's investment in a single issuer. As of June 30, 2013, the State's total stock investment was $19,643,772. The top ten holdings of issuers are noted in the following table:

Top 10 Stock Investments
June 30, 2013

	Agency Funds			
Name / Issuer	**Abandoned Property**	**Ben Thompson Trust**	**Total**	**% of Total**
Metlife Inc	$ 5,637,540	$ -0-	$ 5,637,540	51.0%
AT&T Inc	1,084,785	74,924	1,159,709	10.5%
Warning Management Services Inc	1,000,000	-0-	1,000,000	9.0%
Prudential Financial Inc	807,274	-0-	807,274	7.3%
Verizon Communications Inc	464,384	47,068	511,452	4.6%
Manulife Financial Corp	481,769	-0-	481,769	4.4%
Comcast Corp	437,206	-0-	437,206	4.0%
Exxon Mobbil Corp	212,025	132,814	344,839	3.1%
Vodafone Group Plc Adr	338,444	-0-	338,444	3.1%
Loews Corp	333,000	-0-	333,000	3.0%

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

Equity Open Ended Mutual Funds
As of June 30, 2013 the State had $11,648,447 invested in equity open ended mutual funds.

Custodial Risk: The custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction a government will not be able to recover the value of investments that are in the possession of an outside party. Open ended mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Credit Risk: The risk that the issuer or other counterparty will not fulfill its obligations. The equity mutual fund is not rated.

Debt Securities: The State invests in several types of debt securities, including corporate and municipal bonds, securities issued by the U.S. Treasury and government agencies, mutual funds, and investment pools.

Credit Risk: The risk that an issuer will not fulfill its obligations. The State invests in grade securities which are defined as those with a grade B or higher. Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk.

Interest Rate Risk: The risk that changes in interest rates will adversely affect the fair value of the State's investments. Interest rate risk is primarily measured and monitored by defining or limiting the maturity of any investment or weighted average maturity of a group of investments. Fixed income mutual funds which consist of shares of funds that hold diversified portfolios of fixed income securities for operating purposes are limited to those with average maturity not to exceed five years. Trust and custodial funds manage and monitor interest rate risk primarily through a weighted average maturity approach (WAM). The State's WAM is dollar-weighted in terms of years. The specific target or limits of such maturity and percentage allocations are tailored to meet the investment objective(s) and defined in the investment guidelines associated with those funds.

Custodial Credit Risk: The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investments that are in the possession of an outside party. Fixed income open ended mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The State's selection criteria are aimed at investing only with high quality institutions where default is extremely unlikely.

The State's exposed risks at June 30, 2013 are noted below.

Exposed Investment Risk
June 30, 2013

	Agency Funds		
Investment Type	**Credit Risk**		**Interest Rate Risk**
	Investment Grade	Unrated	WAM in years
Corporate Bonds	$ 723,869	$ -0-	4.0
U.S. Treasury	366,641	-0-	2.8
U.S. Government Agencies	374,869	-0-	1.8
Municipal Bonds	83,088	-0-	5.7
Fixed Income Open Ended Mutual Funds	-0-	7,938,065	5.2

Concentration Risk: The risk of loss attributed to the magnitude of the State's investment in a single issuer. This risk is applicable to the State's investments in corporate bonds. The State does not have a formal policy relative to operating funds and mitigation of concentration of credit risk. Although not issuer specific, individual investment guidelines for trust and custodial funds include overall asset allocation limits that are consistent with sound investment principles and practices.

The State's top ten holdings of issuers at June 30, 2013 are as follows:

Concentration Risk
Top 10 Corporate Bond Investments
June 30, 2013

	Agency Funds	
Issuer	**Fair Value**	**% of Total**
General Elec Cap Corp	$ 141,738	19.6%
BB&T Corp	111,154	15.4%
Conocophillips	106,029	14.6%
National Rural Utils Coop FI	104,845	14.5%
Bank of America Corp	104,242	14.4%
E I Du Pont De Nemours	53,361	7.4%
Illinois Tool Works	51,663	7.1%
Bank New York Inc	50,837	7.0%

NOTE 4 - 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 Plan is a contributory defined-benefit plan providing service, disability, death, and vested retirement benefits to members and beneficiaries. The Plan covers substantially all full-time state employees, public school teachers and administrators, permanent firefighters, and police officers within the state of New Hampshire.

Full-time employees of political subdivisions, including counties, municipalities, and school districts, are also eligible to participate as a group if the governing body of the political subdivision has elected participation. The Plan is divided into two membership groups. Group I consists of State and local employees and teachers. Group II consists of firefighters and police officers. All assets are in a single trust and are available to pay retirement benefits to its members and beneficiaries.

Group I members at age 60 (age 65 for members beginning service on or after July 1, 2011) qualify for a normal service retirement allowance based on years of creditable service and average final compensation (AFC). The yearly pension amount is 1/60 (1.67%) of average final compensation multiplied by years of creditable service (1/66 of AFC times creditable service for members beginning service on or after July 1, 2011). AFC is defined as the average of the three highest salary years for members vested prior to January 1, 2012 and five years for members not vested on January 1, 2012. At age 65, the yearly pension amount is recalculated at 1/66 (1.5%) of AFC multiplied by years of creditable service.

Members in service with 10 or more years creditable service who are between age 50 and 60 or members in service with at least 20 or more years of service, whose combination of age and service is 70 or more, are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service.

Group II members who are age 60, or members who are at least age 45 with a minimum of 20 years of creditable service (age 50 with a minimum of 25 years of creditable service or age 60 for members beginning service on or after July 1, 2011) can receive a retirement allowance at a rate of 2.5% of AFC for each year of service not to exceed 40 years (2% of AFC times creditable service up to 42.5 years for members beginning service on or after July 1, 2011).

All covered State Treasury employees are members of Group I.

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

Pursuant to RSA 100-A:52, RSA 100-A:52-a and RSA 100-A:52-b, the New Hampshire Retirement System also provides a postretirement medical premium subsidy for Group I employees and teachers and Group II police officers and firefighters.

A special account was established by RSA 100-A:16, II(h) for additional benefits. Prior to fiscal year 2007 the account was credited with all of the earnings of the account assets in the account plus the earnings of the remaining assets of the plan in excess of the assumed rate of return plus 1/2 of 1 percent.

In 2007, legislation was passed that permits the transfer of assets into the special account for earnings in excess of 10 1/2 percent as long as the actuary determines the funded ratio of the consolidated retirement system to be at least 85 percent. If the funded ratio of the system is less than 85 percent, no assets will be transferred to the special account.

In fiscal year 2011, two pieces of legislation passed that impacted the special account. The first required an $89 million transfer from the special account to the state annuity accumulation fund effective May 11, 2011. The other, required the balance remaining in the special account, less funds set aside to comply with the temporary supplemental allowances required by RSA 100-A:41-d,III, to be transferred to the respective components of the State annuity accumulation fund, effective June 30, 2011. This resulted in an additional transfer from the special account to the State annuity accumulation fund totaling $167.3 million.

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

Funding Policy

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. In fiscal year 2013, by statute, Group I members contributed 7.0% of gross earnings. Employer contributions required to cover that amount of cost not met by the members' contributions are determined by a biennial actuarial valuation by the system's actuary using the entry age normal funding method and are expressed as a percentage of gross payroll. The State funds 100% of the employer cost for all of the Section's employees enrolled in the Plan.

Chapter 224, Laws of 2011 (House Bill 2) directed the Board of Trustees of the New Hampshire Retirement System to recalculate employer contribution rates for State fiscal years 2012 and 2013 to reflect the requirements of amendments to RSA 100-A in the 2011 legislative session, which resulted in the use of two different contribution rates paid by the State Treasury during the fiscal year ended June 30, 2013. The State Treasury's normal contribution rate was 8.48% of the covered payroll. The State Treasury's normal contributions for fiscal year 2013 was $91,909.

Other Postemployment Benefits

In addition to providing pension benefits, RSA 21-I:30 specifies that the State provide certain health care benefits for retired employees and their spouses. These benefits include group hospitalization, hospital medical care, and surgical care and other medical care. Substantially all of the State's employees who were hired on or before June 30, 2003 and have 10 years of service, may become eligible for these benefits if they reach normal retirement age while working for the State and receive their pensions on a periodic basis rather than a lump sum. During fiscal year 2004, legislation was passed that requires State Group I employees hired after July 1, 2003 to have 20 years of State service in order to qualify for health insurance benefits. These and similar benefits for active employees are authorized by RSA 21-I:30 and provided through the Employee and Retiree Benefit Risk Management Fund, a single-employer group health plan (Plan), which is the State's self-insurance fund implemented in October 2003 for active State employees and retirees. The Plan funds the cost of medical claims by charging actuarially determined working rates to State agencies for participating employees, retirees, and eligible spouses. An additional major source of funding for retiree benefits is from the New Hampshire Retirement System's medical premium subsidy program for Group I and Group II employees.

The State Treasury's Medical Subsidy normal contribution rate during fiscal year 2013 was 1.60% of the covered payroll for its Group I employees. The State Treasury's contributions for the Medical Subsidy for fiscal year 2013 were $17,341.

The State Legislature currently plans to only partially fund (on a pay-as-you-go basis) the annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of Governmental Accounting Standard Board (GASB) Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

STATE OF NEW HAMPSHIRE - STATE TREASURY

BUDGET TO ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Original Budget	Actual	Variance Favorable/ (Unfavorable)
Revenues			
Unrestricted			
Abandoned Property Escheatment	$ 6,500,000	$ 13,107,580	$ 6,607,580
Recording Surcharge (LCHIP)	4,880,000	4,444,476	$ (435,524)
Other Revenue	-0-	(151,377)	(151,377)
Total Unrestricted	11,380,000	17,400,679	6,020,679
Restricted			
School Building Aid Debt Repayment	14,424,456	14,424,456	-0-
Community College Debt Repayment	-0-	2,102,751	2,102,751
Bonds Interest Subsidy	2,119,556	2,083,412	(36,144)
Abandoned Property Reimbursement	1,784,634	1,509,438	(275,196)
Unique Plan Administrative Fees	825,000	1,226,989	401,989
Other	291,144	196,890	(94,254)
Total Restricted	19,444,790	21,543,936	2,099,146
Total Revenues	30,824,790	38,944,615	8,119,825
Expenditures			
Debt Service	113,496,780	114,492,398	(995,618)
Rooms And Meals Tax Distribution	58,805,057	58,805,057	-0-
Administration Costs	3,284,810	2,737,115	547,695
Escheat Of Property	-0-	2,728,514	(2,728,514)
Land Conservation Funds (LCHIP)	120,000	2,085,338	(1,965,338)
Unique Plan Scholarships	500,000	920,500	(420,500)
Total Expenditures	176,206,647	181,768,922	(5,562,275)
Other Financing Sources (Uses)			
Net Appropriations (Note 2)	156,761,857	160,224,986	(3,463,129)
Premium On Bonds	-0-	-0-	-0-
Total Other Financing Sources (Uses)	156,761,857	160,224,986	(3,463,129)
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	$ 11,380,000	$ 17,400,679	$ 6,020,679

The accompanying note is an integral part of this schedule

Notes To The Budget To Actual Schedule – General Fund
Fiscal Year Ended June 30, 2013

Note 1 – 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 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 General Fund and other governmental funds, with the exception of the Capital Projects Fund.

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.

The budget, as reported in the Budget To Actual Schedule, reports the initial operating budget for fiscal year 2013 as passed by the Legislature in Chapter 223, Laws of 2011.

Budgetary control is at the department level. In accordance with RSA 9:16-a, notwithstanding any other provision of law, every department is authorized to transfer funds within and among all program appropriation units within said department, provided any transfer of $75,000 or more shall require 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 fund balance and be available for future appropriations unless they have been encumbered or are legally defined as non-lapsing accounts.

Variances - Favorable/(Unfavorable)

The variance column on the Budget To Actual Schedule highlights differences between the original 12-month operating budget and the actual revenues and expenditures for the fiscal year ended June 30, 2013. Actual revenues exceeding budget or actual expenditures being less than budget generate a favorable variance. Actual revenues being less than budget or actual expenditures exceeding budget cause an unfavorable variance.

As previously noted, the unfavorable expenditure variances shown in the Budget To Actual Schedule represent the difference between actual expenditures incurred during fiscal year 2013 and the original budget in place at the beginning of fiscal year 2013. The State and Treasury use supplemental appropriations to add appropriations to original budget amounts to reflect changes in levels of operations not provided for in the original budget. The unfavorable expenditure variances on the Budget To Actual Schedule were supported by appropriations and are not an indication of spending in excess of authority.

Note 2 - Net Appropriations

Net appropriations reflects appropriations for expenditures in excess of restricted revenue. Net appropriations are made from the fund balance of the General Fund.

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CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary, as of [report date], of the current status of the observations and other issues and concerns contained in the audit report of the Treasury for the fiscal year ended June 30, 2005. That report can be accessed at, and printed from the Office of Legislative Budget Assistant website: http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx.

	Status		
Internal Control Comments			
Reportable Conditions			
1. Business Continuity Plan Should Be Established	●	●	○
2. Controls Over Information Technology Systems Should Be Improved *(See Current Observation No. 2)*	●	●	○
3. Investment Accounts Should Be Reconciled Monthly	●	●	○
4. Coordination With Bureau Of Financial Reporting Should Be Improved	●	●	○
5. Transactions Initiated By Service Providers Should Be Subject To Review	●	●	●
6. Contracts And Significant Service Provider Agreements Should Be Subject To Improved Controls	●	●	○
7. Segregation Of Duties Controls Should Be Implemented	●	●	●
8. Segregation Of Duties Over Certain Trust And Agency Funds Should Be Improved *(See Current Observation No. 7)*	○	○	○
9. Communications Related To Contingent Debt Should Be Improved (*See Current Observation No. 4)*	●	○	○
10. Coordination Of Responsibilities For Account Maintenance Should Be Improved *(See Current Observation No. 6)*	●	○	○
11. Accountability Controls Over Cash Drawers Should Be Improved	●	●	○
12. Abandoned Property Procedures Should Be Updated To Reflect Change In Statute And Process	●	●	○
13. Allocation Of Abandoned Property Costs Should Be Based On Cost Analysis	●	●	○
14. Formal Risk Assessment Policies And Procedures Should Be Established	●	●	●
15. Formal Fraud Risk Mitigation Efforts Should Be Developed And Implemented	●	●	●
16. Accounting And Reporting Treatment Of The Community Conservation Endowment Fund Should Be Reviewed *(See Current Observation No. 11)*	○	○	○
State Compliance Comment			
17. Land and Community Heritage Investment Program Administrative Fund Should Be Created *(See Current Observation No. 13)*	○	○	○
18. Clear Language Of Statute Should Be Applied	●	●	●

(Continued)

(Continued)

	Status		
Federal Compliance Comment			
19. Check-Payment Clearance Patterns Should Be Established *(See Current Observation No. 1)*	○	○	○
Management Issues Comments			
20. Bank Service Fees Could Be Reported Separately From Interest Income	○	○	○
21. Current Status Of Foreign Escheated Estates Account Should Be Reviewed	●	●	●

Status Key				**Count**
Fully Resolved	●	●	●	7
Substantially Resolved	●	●	○	7
Partially Resolved	●	○	○	2
Unresolved	○	○	○	5