

**STATE OF NEW HAMPSHIRE
STATE TREASURY**

**FINANCIAL AND COMPLIANCE
AUDIT REPORT
FOR THE YEAR ENDED
JUNE 30, 1999**

**STATE OF NEW HAMPSHIRE
STATE TREASURY**

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This report can be accessed in its entirety on-line at www.state.nh.us/lba

**STATE OF NEW HAMPSHIRE
STATE TREASURY**

Reporting Entity

The reporting entity of this audit and audit report is the New Hampshire State Treasury (Treasury), excluding the custody and escheat of unclaimed and abandoned property pursuant to RSA 471-C.

Organization

The 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, are the chief deputy treasurer, deputy treasurer, and two assistant treasurers, all of whom are unclassified State employees. The Office of Investment and Debt Management operates within the Treasury under the direction of a deputy treasurer. At June 30, 1999, the Treasury was also staffed with 24 classified employees, for a total of 29 employees.

Responsibilities

The Treasury's primary responsibility, as provided in New Hampshire Revised Statutes Annotated (RSAs) 6, 6-A, 6-B, 6-C, and 11, is the management of the State's cash, investments and debt, and trust funds.

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. To reduce the risk associated with deposits, the statute restricts deposits to certain types of banking institutions and limits the amounts that may be on deposit with a particular bank at any one time. 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

The Treasury, through its Office of Investment and Debt Management, 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 U.S. government or municipal governments within New Hampshire;

Responsibilities (Continued)

Investment Management (Continued)

- Obligations which are legal investments for savings banks and trust companies;
- All types of savings accounts;
- Participation units in the public deposit investment pool established pursuant to RSA 383:22;
- Certificates of deposit of state or federally chartered banking institutions within New Hampshire; and
- Certificates of deposit of national banks within the Commonwealth of Massachusetts.

Debt Management

The Treasury, through its Office of Investment and Debt Management, is also 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 in the Treasury to meet current obligations. The total of this temporary borrowing for the General Fund may not exceed \$125 million [Increased to \$200 million effective June 21, 1999, pursuant to Chapter 137:2, Laws 1999]. There were no temporary borrowings outstanding at June 30, 1999.

Bonds may be issued by the Treasury, when authorized by the Governor and Council, for specified projects or purposes. Bonds are not issued after every statutory authorization. Instead, Treasury waits until market conditions are favorable and then issues bonds that cover several authorizations. Except for revenue bonds, such borrowing usually constitutes general obligation debt of the State. The total balance of general obligation bonds outstanding at June 30, 1999, was \$645.9 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. 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 Treasury is funded by appropriations in the General and Capital Projects Funds. The fiscal year 1999 appropriations combined with supplemental warrants, balances forward, and transfers resulted in spending authority of \$137.5 million and \$870,305 in the General and Capital Projects Funds, respectively. Estimated restricted revenue combined with supplemental warrants and balances forward resulted in anticipated fiscal year 1999 restricted revenue of \$1,086,817 in the General Fund. Fiscal year 1999 estimated unrestricted revenue totaled \$1,887,648. The actual financial activity of the Treasury, as reported in the General and Capital Projects Funds for the year ended June 30, 1999, is summarized in the following table, and expenditures are shown graphically on page 4.

Summary Of Revenues, Other Financing Sources, And Expenditures Year Ended June 30, 1999

(expressed in thousands)

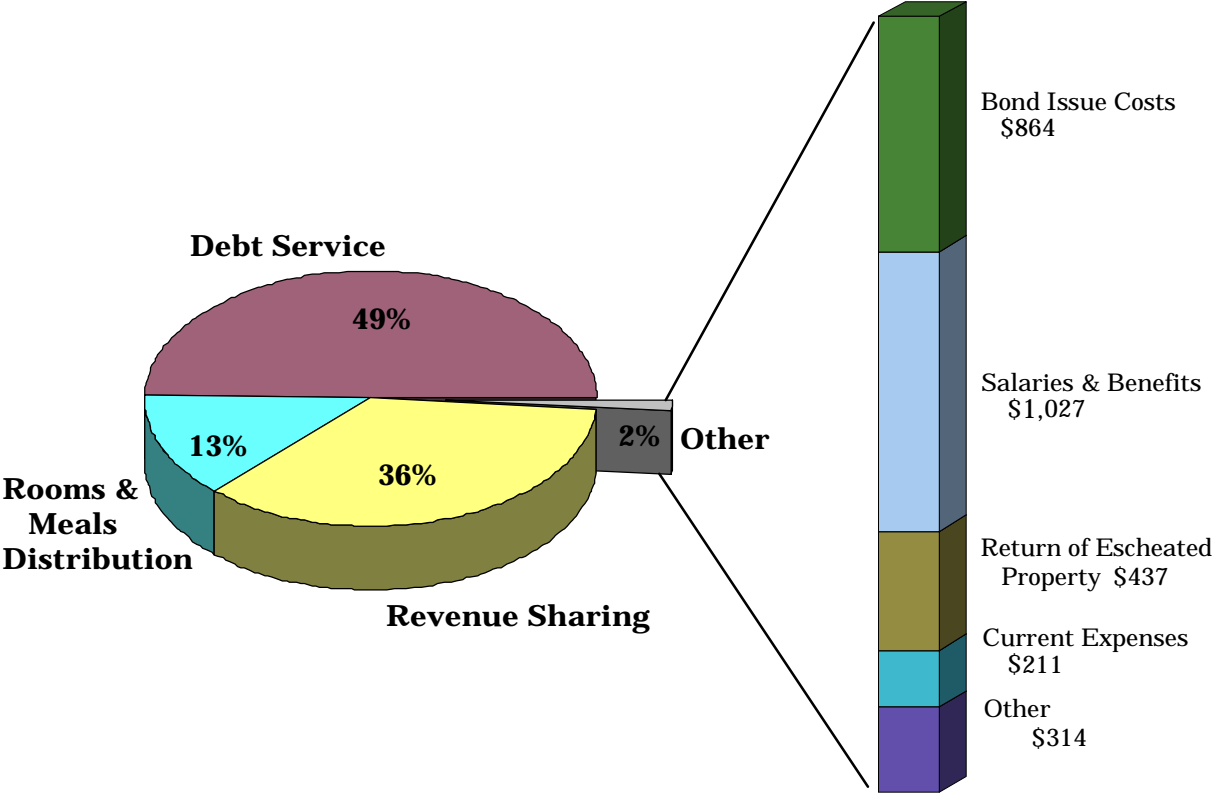
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Unrestricted Revenues	\$ 7,813	\$ -0-	\$ 7,813
Restricted Revenues	856	-0-	856
Other Financing Sources	<u>-0-</u>	<u>889</u>	<u>889</u>
Total Revenues And Other Financing Sources	<u>\$ 8,669</u>	<u>\$ 889</u>	<u>\$ 9,558</u>
Total Expenditures	<u>\$ 131,777</u>	<u>\$ 864</u>	<u>\$ 132,641</u>
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures	<u>\$ (123,108)</u>	<u>\$ 25</u>	<u>\$ (123,083)</u>

Prior Audit

The most recent prior financial and compliance audit of the State Treasury was for the year ended June 30, 1997. The appendix to this report on page 49, contains a summary of the current status of the observations contained in that prior report. Copies of the prior audit 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.

**State Treasury
General and Capital Projects Funds
Combined Expenditures
Fiscal Year 1999**

Expressed in Thousands



Category	General	Capital Projects	Total
	Fund	Fund	
Debt Service	\$65,061	\$0	\$65,061
Revenue Sharing	47,300	0	47,300
Rooms & Meals Distribution	17,427	0	17,427
Other	1,989	864	2,853
Total	\$131,777	\$864	\$132,641

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. 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 and encumbrances;
- Agency funds;
- Cash, cash equivalents, 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, 1999, and have issued our report thereon dated January 7, 2000, which was qualified with respect to the lack of presentation of the financial position of the State Treasury in the General and Capital Projects Funds. We conducted our audit in accordance with generally accepted auditing standards 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 the State Treasury's financial statements are free of material misstatement, we performed tests of its 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. 9 and No. 10 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. 8 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 statement 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

January 7, 2000

Internal Control Comments
Reportable Conditions

Observation No. 1 - Bank Account Reconciliations Should Be Subject To An Effective Review And Approval Procedure

Observation:

Treasury's June 30, 1999 Fleet Bank account reconciliation contained errors and amounts that could not be readily supported. The Fleet account is one of Treasury's two primary check-processing accounts.

Several issues were noted when we reviewed this reconciliation and the related account documentation.

1. The reconciliations and related documentation for this account were not filed in binders with the other reconciliations at Treasury. Essentially all documentation related to this account was maintained in the reconciliation preparer's office. Other Treasury reconciliation staff were not able to locate the Fleet bank statements and other related documents for the auditors in the preparer's absence.
2. There was an error noted on the June 30 reconciliation. The reconciliation listed a \$308,000 book item as not posted to the bank. The \$308,000 was not a proper reconciling item as the item was both on the books and in the bank. The amount that should have been a reconciling item was a \$337,000 deposit recorded in the books during the 13th month (fiscal year 1999) that was recorded in the bank on July 1 (fiscal year 2000).
3. When asked, the preparer of the reconciliation explained how the significant reconciling items were determined from the Fleet *Diagnostic Summary Report* and what the items represented. When asked to show how the amounts on the reconciliation were accumulated, the preparer couldn't recreate the amounts used in the reconciliation.
4. A \$377,000 item on the original June 30 reconciliation appears incorrect/unsupported.
5. The methods used to account for stop payments on this bank account are inefficient and may significantly contribute to the difficulty in reconciling the account accurately. In the *Diagnostic Summary Report* section of the reconciliation, Treasury accumulates and carries all of the stop payments, etc., issued on the account since the beginning of fiscal year 1998. This is a cumbersome process and may lead to errors.

Observation No. 1 - Bank Account Reconciliations Should Be Subject To An Effective Review And Approval Procedure (Continued)

Observation (Continued):

No other Treasury official reviews the Fleet account reconciliations. The Assistant Treasurer normally reviews and signs off on all reconciliations performed by Treasury's reconciliation section. However, as the preparer of the Fleet reconciliations, the Assistant Treasurer can not also effectively review these reconciliations. No one else at Treasury is normally in a position to see/review the reconciliations of the Fleet account. (See item 1, above.)

In part based on concerns expressed by the auditors, Treasury re-performed the June 30 Fleet account reconciliation in December 1999. The revised reconciliation contained significant changes from, and corrections to, the earlier reconciliation. This revised reconciliation included a \$500,000 unidentified reconciling difference.

Recommendation:

Treasury's senior management needs to review the reconciliation process for this account to ensure that the resources necessary to complete the reconciliation are available from both the Treasury and also from the bank. Where possible, Treasury should take steps to ensure that the reconciliation process for this account is made standard with Treasury's other accounts and the process remains current. Problems experienced with the bank requiring the inefficient method for accounting for stopped checks and the Assistant Treasurer's direct involvement in the reconciliation process should be resolved.

Auditee Response:

Treasury concurs. Treasury's senior management has always been involved in the reconciliation process, particularly when dealing with problem accounts. The account referenced in this observation has been problematic for some time. Senior management has met with the bank administering this account both before the commencement of the audit and after audit conclusion. We continue to work with this bank to refine the reconciliation process to improve efficiency and accuracy. Treasury has always and will continue to view the reconciliation process as a critical function in the performance of its fiduciary responsibility. When circumstances such as staff turnover or the introduction of significant change occur, coupled with ever increasing volume and complexity, additional resources do become necessary and are applied to the best of Treasury's ability. The Deputy Treasurer is in frequent contact with bank management where necessary and weekly meetings are held with reconciliation staff to assess ongoing status and concerns. With respect to concerns noted in item 1, documents associated with bank reconciliations are treated as working documents to the extent ongoing research is required to balance any account. Because of extensive ongoing research and review, it is simply easier and more efficient for the person who is working with them to have them on hand.

Observation No. 1 - Bank Account Reconciliations Should Be Subject To An Effective Review And Approval Procedure (Continued)

Auditee Response (Continued):

When a mistake is identified, as was the case as noted in item 2 of this observation, clearly a reperformance of the reconciliation period in question is in order. This was done in this case and a revised period ending reconciliation was the outcome. This error would have been picked up and corrected during the normal course of the next reconciliation period. The concerns noted in items 3 and 4 are believed to be related to the \$500,000 reconciling difference, which once identified, was immediately investigated, has been reduced, continues to be investigated, and will go to \$0 when all research has been completed. Again, this is standard practice and would occur regardless of the materiality of the variance. Treasury acknowledges the methodology used to record checks for "redeposit" is a cumbersome process. A decision was made in July to change our practice due to the Bank's inability to process our void requests. We have subsequently reverted to requesting voids as we normally would.

Treasury is confident that with increased experience, additional cross-training, efficiencies achieved through the use of more automated systems (the new statewide disbursement system as an example), and the cooperation of our business partners, account reconciliations will remain current.

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

Observation:

In a 1997 audit comment we noted that the duties related to Treasury's investment of State operating funds were not effectively segregated as a single employee initiates, authorizes, and records investment transactions.

Our comment noted that the lack of an independent review and approval of investment transactions performed by this employee increased the risk that an error or irregularity could occur and not be detected on a timely basis.

Treasury responded that it has sufficient controls in place including investment guidelines in its investment policy, daily meetings between this employee and the Chief Deputy Treasurer, preparation of a daily cash worksheet, and review of daily banking system reports. In addition, Treasury responded that its reconciliation process acts as a check against all investment activity.

KPMG, LLP, in its review of the 1998 status of this comment, indicated that the weakness noted in the 1997 audit comment was further mitigated by the Chief Deputy's review of investment confirmations directly received from the investment managers.

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

Observation (Continued):

During our 1999 audit fieldwork, we noted that this weakness in controls resulting from the lack of an independent review of investment transactions remained unchanged since the 1997 audit. In addition, the controls over the process noted in Treasury's response to the comment, and noted by KPMG, LLP in its follow-up, may not be effective.

As noted in observation No. 11, Treasury does not document well its compliance with its investment policy. Also, there is no documentation that the daily cash sheet is formally reviewed by anyone other than its preparer. As noted in observations No. 1 and No. 3, problems with Treasury's reconciliation process make its use as a control over investment activity problematic. Finally, the control provided by the review of investment confirmations considered by KPMG, LLP was not in place during fiscal year 1999.

Recommendation:

Treasury should improve its controls over all investment transactions through the use of an effective and documented review and approval process.

Auditee Response:

Treasury concurs in part. The State's investments that are already in place are reviewed daily via the cash report provided by the Assistant State Treasurer to the Deputy State Treasurer and the Treasurer. Any investments of more than 30 day duration are discussed with the Treasurer prior to purchase. Trust and Agency purchases and disbursements are approved on an individual basis by the Deputy State Treasurer. In the future, the Deputy State Treasurer will initial all investment advices and review related investment postings on the cash sheets.

Observation No. 3 - Reconciliations Of The State's Checking Accounts Should Be Made Current

Observation:

Treasury's bank account reconciliations were not current as of November 17, 1999, the last date of audit testing. The Fleet Bank account had not been completely reconciled since June 30, 1999. As noted in observation No. 1, the June 30 reconciliation prepared by the Treasury also contained errors and amounts that could not be readily supported.

Observation No. 3 - Reconciliations Of The State's Checking Accounts Should Be Made Current (Continued)

Observation (Continued):

One of the Citizens Bank accounts had not been reconciled since August 31, 1999. The reconciliations for this account for July 30, August 15, and August 31 were not complete, according to Treasury personnel, as Treasury was working to identify and resolve variances that remained between the Bank's and Treasury's records. A Treasury error on the June 30 reconciliation may be the cause of some of the unidentified variances on the reconciliations prepared by the Treasury subsequent to June 30.

Bank account reconciliations should be performed in a timely manner to ensure that Treasury and/or bank errors are promptly detected and corrected. In most instances, Treasury should be able to complete reconciliations prior to the receipt of the subsequent bank statement, either 15 or 30 days after the receipt of the current bank statement. Untimely reconciliations delay the detection and correction of errors or other problems with the accounts that may occur. Delaying the detection of the errors or problems usually increases the difficulty in resolving them with the banks.

Recommendation:

Treasury needs to increase its efforts to become and remain current in its reconciliation procedures. Treasury should determine and remedy the causes of the recent delays and errors noted in the account reconciliations. Treasury should establish procedures to ensure that difficulties encountered in account reconciliations are promptly brought to the attention of management. This will help ensure that adequate and timely resources are made available to assist in instances where problems in the reconciliations are encountered.

Auditee Response:

Treasury concurs with the audit recommendation. As of April 14, 2000, all account reconciliations are current. The delay referred to in the Audit Findings can be attributed to several factors which have been addressed and resolved. The current reconciliation staff is somewhat new to the process. There has been a complete turnover of staff assigned to reconciliation beginning in Fiscal Year 1998 and this process requires a fair amount of on-the-job training to become proficient at reconciliation. There has also been some staff turnover in other areas of Treasury that resulted in a vacancy and temporary reassignment of certain responsibilities to the reconciliation staff. In addition, the onset of the New Heights benefit payment system in August 1998 with literally a two week lead time/notice for reconciliation, drained resources throughout the fiscal year as Treasury struggled with the change in procedures and worked continually throughout the year with HHS [Health and Human Services], Office of Finance to get the information needed from HHS to do our job. This has also contributed to the backlog referred to by the Auditors.

Observation No. 3 - Reconciliations Of The State's Checking Accounts Should Be Made Current (Continued)

Auditee Response (Continued):

Currently, all positions are filled and non-reconciliation functions have been assigned to the appropriate staff. An additional intermediate staff person has been assigned to work in the reconciliation process on a daily basis and the Deputy Treasurer reviews all reconciliation statements and meets with staff on a weekly basis both to resolve problems and review staff performance.

As stated by the Auditors, there were unidentified variances on certain bank account statements. However, those variances are in the process of being investigated. This involves staff making an inquiry of the particular bank and waiting for the results of that inquiry. The State uses several banks for its many accounts. Treasury has had some difficulty with one of these banks and has not received timely responses to its request for information. At this time, the Deputy Treasurer has been in contact with bank management to discuss these difficulties and Treasury is actively working to resolve both the poor response time and in-turn the outstanding variances. In every case, every variance has been identified and is being investigated by Treasury.

Treasury is confident that with a full complement of staff, and better cooperation from certain banks, reconciliations will continue to be current.

Observation No. 4 - Investment Of Trust Funds Should Be More Closely Monitored

Observation:

Two State Department of Labor trust funds, for which Treasury has custodial responsibility, were not fully invested during fiscal year 1999. The lack of timely investing of these funds resulted in estimated lost interest earnings in excess of \$30,000.

The Special Fund for Second Injuries and the Special Fund for Active Cases were not fully invested by Treasury during fiscal year 1999. The Special Fund for Second Injuries was allowed to carry a large cash balance during the period February through May 1999 and the Special Fund for Active Cases was not invested at all during the periods August 24 through October 6, 1998 and December 7, 1998 through June 29, 1999. The Custodial Account Agency Agreements between Treasury and the funds' trustees indicated that a primary investment objective for both of these funds is to maximize current income.

According to Treasury, it was apparently an oversight on the part of the Treasury employee responsible for the investment of the custodial funds that resulted in these funds not being fully invested. Treasury management's review of the monthly custodial fund bank statements did not note the uninvested status of these funds.

Observation No. 4 - Investment Of Trust Funds Should Be More Closely Monitored (Continued)

Recommendation:

Treasury should review its control processes for the investment of custodial accounts. It should revise its procedures as appropriate to insure that it invests the State's trust and agency funds in an efficient and effective manner and continues to meet its fiduciary responsibility as custodian of State trust and agency funds.

Auditee Response:

Treasury partially concurs. Active Cases and Second Injury are both accounts held by Treasury. Treasury does have a custodial agreement on both accounts with the Labor Department. These accounts originally were established as conduit accounts only with no provisions for the investing of excess funds.

Treasury recognizes that there was a relatively brief period of time when funds in the above referenced accounts were not actively invested. As a result of this audit observation, Treasury has reviewed its policy on short-term investments and custodial accounts.

Observation No. 5 - Controls Over State Revenue Sharing Payments Should Be Improved

Observation:

Errors in Treasury's processing of State revenue sharing payments were not detected, resulting in three local governments being underpaid by as much as \$6,490 each and approximately 180 local governments being overpaid by as much as \$600 each.

RSA 31-A outlines the formula for the State's revenue sharing distribution. Components of the formula include assessed local property taxes, local equalized valuation, and local population. The Department of Revenue Administration and the Office of State Planning supply this information to the Treasury. The total amount distributed during fiscal year 1999 was \$47,300,000.

Keying errors plus the exclusion of certain information by Treasury resulted in the revenue sharing payments errors noted above. No one at Treasury effectively reviewed the results of the calculations prior to the distributions being made. Had the calculation results been reviewed, the errors would likely have been detected.

These payment errors were corrected by an adjustment to a subsequent payment.

Observation No. 5 - Controls Over State Revenue Sharing Payments Should Be Improved (Continued)

Recommendation:

Treasury should improve its controls over calculating and disbursing State revenue sharing payments. Treasury's review of the payment calculation should include agreeing appropriate amounts to source information. Treasury should confirm the relevance of unclear information with the source to ensure that all information is properly considered by the calculations.

Auditee Response:

Treasury concurs. In December 1999, Treasury implemented a verification process of data input to the Revenue Sharing process. Now, after the Management Information System person inputs all the data, a person from Treasury's Business Office will verify all the data inputs. After the reports are run, both these people will review the reports for accuracy.

Observation No. 6 - State Revenue Sharing Payments Should Be Better Documented

Observation:

Treasury does not have documentation to support its allocation of State revenue sharing payments among the various local government entities of some cities and towns.

RSA 31-A outlines the formula for the State's revenue sharing distribution. Components of the formula include assessed local property taxes, local equalized valuation, and local population. The total amount distributed during fiscal year 1999 was \$47,300,000.

Treasury allocates payments to certain cities and towns among several entities of the local government including the municipal government, its precincts, and prior to fiscal year 2000, its school district. Treasury does not have documentation to support its allocation of State revenue sharing payments among the entities of a local government. According to Treasury, the allocations are based on allocations of State payments that were made prior to the amendment of RSA 31-A in 1983.

This same observation was made in our 1997 audit report. At that time, Treasury responded that it would welcome clear indication of legislative intent of the revision to RSA 31-A. In its follow-up to the audit comment, the Department of Administrative Services recommended Treasury request an advisory opinion from the Attorney General. Treasury has not pursued clarification for its responsibilities to allocate State revenue sharing payments.

Observation No. 6 - State Revenue Sharing Payments Should Be Better Documented (Continued)

Recommendation:

Treasury should again request legislative or legal direction for its responsibility to continue to allocate State revenue sharing payments among the various local government entities of some cities and towns. Once clarified, Treasury should establish and maintain documentation supporting its allocation of payments.

Auditee Response:

Treasury generally concurs. On December 16, 1998 the Treasury Department forwarded to the Department of Justice a letter from Commissioner Donald Hill, dated December 4, 1998, recommending that Treasury seek guidance from the Attorney General's office regarding the basis for allocating annual revenue sharing between cities/towns and their associated school districts and precincts. Revenue sharing under RSA 31-A:4 has been distributed in this manner since passage of the block grant methodology in 1983. The prior incumbents in the Office of the Legislative Budget Assistant, the State Treasurer and the Commissioner of Revenue Administration had set the practice based on keeping whole all the entities who had previously participated in revenue sharing in keeping with their interpretation of RSA 31-A.

Treasury has not yet received a reply from the Department of Justice and has sent a followup letter requesting a written response to the recommendation. Certainly Treasury would welcome either legislative or legal direction.

Observation No. 7 - Debt Management System Should Be Kept Current

Observation:

Treasury did not keep its computerized Debt Management System current during fiscal year 1999.

Treasury posts payments on the State's debt to the State's accounting system (NHIFS) based on reports produced from the Treasury's Debt Management System. The *Direct Debt Payment Report* provides account distribution information such as the appropriation accounts that should be charged for the debt payment.

During fiscal year 1999, Treasury did not update its Debt Management System in a timely manner. Because the Debt Management System was not kept current, Treasury employees were required to make manual changes to the *Direct Debt Payment Reports* prior to posting the transactions in NHIFS. These manual changes were not consistently supported by appropriate documentation.

**Observation No. 7 - Debt Management System Should Be Kept Current
(Continued)**

Observation (Continued):

Payment amounts and fund and class codes charged were manually changed on the *Direct Debt Payment Report* without documentation to support the necessity and propriety of the change. In one instance tested, a different agency was charged. Treasury could not provide support for charging the different agency's appropriations. According to Treasury, changes to appropriation accounts charged may be made if appropriations are not sufficient to cover payments due.

While changes to accounts charged for bond payments may be appropriate, there was no documentation supporting the necessity of the changes noted during testing. Also, there was no indication that the changes in the appropriation accounts had been properly reviewed and approved prior to being made.

Recommendation:

Treasury should keep its Debt Management System current. When possible, required changes should be made to the system prior to recording bond payments. All changes to the system should be adequately supported and subject to appropriate review and approval.

Auditee Response:

Treasury concurs with this recommendation. The discrepancies noted by the LBA are the result of changes to appropriation codes made by the Department of Administrative Services. Treasury is not aware of changes until payments are actually made. Treasury makes the updates on the manual warrants whenever necessary to process debt service payments. In the future, if changes are made due to insufficient appropriations, documentation will be attached to the manual warrant. It is important to note that the updates referred to by the LBA occur on Treasury's in house system, and do not affect the integrated financial system.

All necessary updates to appropriation codes on Treasury's system have been accomplished to date; future changes to appropriation codes by DAS [Department of Administrative Services] will necessitate additional changes.

Observation No. 8 - Complete Accounting Records Should Be Maintained To Support The State's Contingent Debt Amounts

Observation:

Treasury does not have accounting records to support the amount of State-guaranteed principal and interest outstanding on various Business Finance Authority (BFA) loan programs. Pursuant to, and within the statutory limits of, RSA 162-A, the State unconditionally guarantees the principal and interest of debt issued by the BFA.

While Treasury maintains accounting records for the BFA general obligation debt, Treasury does not maintain accounting records for the BFA loan programs subject to State guarantee.

Treasury relies upon the BFA to determine and annually report amounts of loan principal subject to State guarantee. This BFA reported amount is included in the State's Comprehensive Annual Financial Report (CAFR). Neither the BFA nor Treasury has records to determine the amount of interest subject to the State's guarantee. Annually, the Treasury relies upon an estimate calculation prepared by the auditors to determine amounts reported in the CAFR.

At June 30, 1999, the CAFR reported there was \$6.2 million of principal and \$3.0 million of interest related to the BFA loan programs outstanding and subject to State guarantee.

Recommendation:

Treasury should improve its accounting for State guarantees related to the BFA's loan 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:

Treasury generally concurs with this recommendation. Treasury maintains all standard contingent debt records where the state's guarantee is awarded through the Governor and Council process. In addition to the contingent debt issued in this manner, the Business Finance Authority (BFA) has certain revolving guarantee authority for its own business loan programs. Treasury is completely dependent on the Business Finance Authority to provide information regarding both the principal and interest for which the state is obligated under these programs. Treasury has written to the Authority and asked the Authority on numerous occasions to provide the required information in detail and more frequently than simply yearend. The BFA has stated that it is unable to provide this information on a more frequent basis and further that it is completely unable to provide the amount of interest on the loans for which the state is liable, hence the imputed interest calculation. Treasury does not disagree that the information should be reported and should be both more complete and more frequent, but has exhausted its means for obtaining the information.

State Compliance Comments

Observation No. 9 - Outstanding Checks Should Be Canceled After One Year

Observation:

Treasury's procedures for clearing old checks off its outstanding lists do not ensure that old checks are canceled in a timely manner as required by statute. Treasury carries outstanding checks on its account reconciliations for more than one year and allows its banks to pay these old outstanding checks, contrary to statute.

RSA 6:10-a directs the State Treasurer to "cancel of record and refuse to honor all State checks, except those drawn on special funds created under RSA 282-A, which have not been presented for payment within one year from the date of issue." RSA 6:10-b states that funds on deposit for the payment of such checks "shall upon the cancellation of the record of the checks...be reported as unclaimed property" and held subject to the Treasury's abandoned property program.

In reviewing the June 30, 1999 list of outstanding checks, we noted a number of checks that were issued prior to June 30, 1998 and remained outstanding for more than one year. The oldest checks on the list were dated March 1997. When asked about its procedures for clearing old outstanding checks, Treasury responded that it had not established regular intervals to handle these checks. Treasury clears old checks periodically but not regularly. According to Treasury, allowing the banks to process old checks relieves Treasury of the need to process the additional stop payments and check reissues that would be necessary if it directed the banks not to honor old checks.

In addition to not being in compliance with statute, allowing old checks to be processed increases the risk that lost or misplaced checks will be cashed by the finders of the checks who may not be the rightful payees.

Recommendation:

Treasury should establish and implement policies and procedures to cancel old outstanding checks in compliance with State statute. The policies and procedures should include a determination of a reasonable time frame for a regular and periodic canceling of old outstanding checks.

Auditee Response:

Treasury concurs with this recommendation. Since the conclusion of the audit, our procedures have been revised to cancel outdated checks on a quarterly basis. The procedures, such as, due diligence performed, verifying the validity of an issue, researching a 90-day waiver request, verifying whether or not a replacement check was issued against an item, making the appropriate request to the bank(s) to void or place a stop payment on the item, and processing the appropriate accounting document(s) are all established procedures.

**Observation No. 9 - Outstanding Checks Should Be Canceled After One Year
(Continued)**

Auditee Response (Continued):

Clearly, with the change in law making Treasury a “holder” and transferring owner records after 1 year to Abandoned Property as opposed to the General Fund, required revision of the existing procedures for compiling the data necessary to support those records (identifying information associated with the payment). These revised procedures are now in place. Further, the legislation does not dictate *how* Treasury complies, but states that those items over 1 year old are to be canceled and transferred to Abandoned Property. Treasury continues to refine this process given the resources available.

Observation No. 10 - Administrative Rules Should Be Adopted

Observation:

Treasury has not adopted administrative rules required by RSA 541-A:16, I(a). This observation was also noted in our fiscal year 1995 and 1997 audits.

In addition to other rulemaking requirements imposed by law, RSA 541-A:16, I(a) requires each agency to “[a]dopt as a rule a description of its organization, stating the general course and methods of its operations and the methods by which the public may obtain information or make submissions or requests.” Per RSA 541-A:17, II, organizational rules proposed and adopted pursuant to RSA 541-A:16, I(a) do not expire.

Recommendation:

Treasury should adopt administrative rules, through the Joint Legislative Committee on Administrative Rules, as directed under RSA 541-A:16, I(a).

Auditee Response:

Treasury concurs. Treasury has been reviewing its operations in order to determine the extent to which rulemaking is required by RSA 541-A and RSA 6:3-a. In the course of this review, the Treasurer made a request of the Department of Justice for guidance in the rulemaking area. Justice has not, as of yet, replied to that request. The Treasurer will begin rulemaking on those rules required by RSA 541-A.

RSA 6:3-a is the statute that speaks to Treasury’s specific rulemaking requirements. This provision clearly states that “[t]he Treasurer *may* (emphasis added) adopt rules under RSA 541-A....” This statute is permissive rather than compulsory and will apply only to those specific areas enumerated and in which the agency’s operations rise to the level of a “rule” as defined in RSA 541-A:1.

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, 1999 and have issued our qualified report thereon dated January 7, 2000, which was qualified with respect to the lack of presentation of the financial position of the Treasury in the General and Capital Projects Funds.

We conducted our audit in accordance with generally accepted auditing standards 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, 1999, 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 noncompliance are included in observations No. 11 and No. 12 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

January 7, 2000

Management Issues Comments

Observation No. 11 - Compliance With The State's Investment Policy Should Be Better Documented

Observation:

Treasury does not consistently document its investment activities to evidence that it acted in compliance with the *Investment Policy for State of New Hampshire*.

Treasury has established an investment policy for the State. The stated purpose of the policy is to "outline general guidelines for the accomplishment of the stated objectives while ensuring compliance with state and federal law. This policy is also designed to outline internal controls over the safeguarding of state assets."

In reviewing Treasury's compliance with the policy, we noted several instances where Treasury had not documented its compliance with the policy or where Treasury had apparently invested contrary to the policy that was in place at the time. For example:

1. Treasury's investment policy requires the rationale for all non short-term investments be documented. Treasury could not provide support that this documented analysis had been performed prior to investing \$10 million in one open-ended mutual fund. Documentation related to this investment including the investment prospectus and fund investment policy, which is required to be obtained and reviewed prior to investing, the formal documents executing the investment, and the operating policies of the investment were also not on file at Treasury.
2. Treasury's investment policy in effect during fiscal year 1999 limited the term of certificates of deposits (CDs) to no greater than 120-days. Also, according to the policy, CDs must be fully collateralized with a third-party custodian. On March 1, 1999, Treasury purchased a \$4 million CD with a term of 180 days. The CD was not collateralized as required by the policy. The 120-day limit in the policy was extended to one year and the requirement for collateralization was dropped from the policy in a September 1999 revision to the policy. According to Treasury, the revisions were made in part to increase the rate of return on investments, however there was no documented analysis to support the rationale for the change in the policy.
3. Treasury's investment policy requires the Assistant Treasurer to report to the Treasurer at least quarterly [revised to monthly in the September 1999 policy revision] on the investment portfolio.

According to the policy, the report will include but not be limited to information necessary to ensure compliance with the policy including: composition of the portfolio, revaluation including current market and book values, and purchases and sales activity.

Observation No. 11 - Compliance With The State's Investment Policy Should Be Better Documented (Continued)

Observation (Continued)

The Assistant Treasurer does not provide a formal report to the Treasurer. Information on the investments is included in the daily banking system reports provided to the Treasurer. The Treasurer is also provided with copies of the periodic investment manager reports. It is unclear whether this informal reporting meets the requirements of the investment policy.

Recommendation:

The establishment of and adherence to a formal investment policy is an important control to ensure and demonstrate that an organization's investment objectives are met and assets are safeguarded. Treasury should better document its compliance with its established investment policy. Treasury should also take steps to ensure that the policy remains current and is adhered to.

Auditee Response:

Treasury partially concurs with this recommendation. Treasury wrote the Investment Policy to be used as a guide only, to "outline general guidelines for the accomplishment of the stated objectives while ensuring compliance with state and federal law." It was not intended to be directive in nature, but to establish avenues within the boundaries of the statutes which enumerate permitted investments. Treasury is in full compliance with existing statutes. The investment policy as promulgated was not intended to create requirements for additional extensive record keeping.

The Investment Policy has been and will be revised to clarify the department's intent and fiduciary responsibilities on an ongoing basis. The latest revision is currently under review.

Prospectus are reviewed and examined as received and discarded when dated and no longer useful. Prospectus are also available "online," providing instant access to these documents. The formal document executing the investment noted in item 1 is now on file in Treasury.

Observation No. 12 - Current Status Of Foreign Escheated Estates Account Should Be Reviewed

Observation:

Changing world governmental conditions have made the continued need for the Foreign Escheated Estates Account questionable.

Per RSA 561:12-a, 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 him. The provision for the deferral of delivery of property was often used when the legatee, etc., lived in a communist controlled country, generally behind the "iron curtain".

The probate courts could order such property converted into available funds and paid to the Treasury to be invested and held subject to further order of the probate court. Treasury maintains these funds in the Foreign Escheated Estates Account.

At June 30, 1999, the balance in the Foreign Escheated Estates Account was \$203,081. The account has been essentially inactive for a number of years with the only activity in the account being the periodic posting of interest.

The necessity for the continuation of this account is not clear.

Recommendation:

Treasury should consider proposing changes to statute to allow amounts held in the Foreign Escheated Estates Account to be returned to the proper owners. If the proper owners can not be located, then with appropriate changes to statute, the amounts could be processed through the State's abandoned property program.

Auditee Response:

Treasury concurs. Treasury has no objection to proposing changes to RSA 561:12-a, and will ask to have legislation introduced in the next legislative session.

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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, 1999. 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 generally accepted auditing standards 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 referred to above are not intended to present the financial position of the New Hampshire State Treasury in the General and Capital Projects Funds.

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, 1999, in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph. The accompanying Schedules of Budgetary Components on pages 47 and 48 are presented for the purpose of additional analysis and are not required parts of the financial statements of the New Hampshire State Treasury. Such information has been subjected to the auditing procedures applied in our audit of the financial statements referred to in the first paragraph and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 7, 2000 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.

Office of Legislative Budget Assistant

Office Of Legislative Budget Assistant

January 7, 2000

**STATE OF NEW HAMPSHIRE
STATE TREASURY
COMBINED STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL AND CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED JUNE 30, 1999**

	<u>General Fund</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Favorable/ (Unfavorable) Variance</u>
<u>Revenues</u>			
<u>Unrestricted Revenues</u>			
Interest On Surplus Funds	\$ 250,000	\$ 5,977,549	\$ 5,727,549
Judgments And Recoveries	86,348	100,000	13,652
Other	1,551,300	1,734,985	183,685
Total Unrestricted Revenues	<u>1,887,648</u>	<u>7,812,534</u>	<u>5,924,886</u>
<u>Restricted Revenues</u>			
Abandoned Property	958,987	745,624	(213,363)
Other	127,830	110,400	(17,430)
Total Restricted Revenues	<u>1,086,817</u>	<u>856,024</u>	<u>(230,793)</u>
Total Revenues	<u>\$ 2,974,465</u>	<u>\$ 8,668,558</u>	<u>\$ 5,694,093</u>
<u>Expenditures</u>			
Debt Service	\$ 62,135,590	\$ 57,844,626	\$ 4,290,964
State Revenue Sharing	47,300,000	47,300,000	-0-
Rooms And Meals Tax Distribution	17,427,183	17,427,183	-0-
Debt Service - Other Agencies	8,410,550	7,216,702	1,193,848
Salaries And Benefits	1,090,004	1,026,780	63,224
Cost Of Issuing Bonds	-0-	-0-	-0-
Current Expenses	360,715	210,844	149,871
Return Of Escheated Property	437,126	437,126	-0-
Other	349,400	313,569	35,831
Total Expenditures	<u>\$ 137,510,568</u>	<u>\$ 131,776,830</u>	<u>\$ 5,733,738</u>
<u>Other Financing Sources</u>			
Bond Issue Proceeds-Premium	\$ -0-	\$ -0-	\$ -0-
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures	<u>\$ (134,536,103)</u>	<u>\$ (123,108,272)</u>	<u>\$ 11,427,831</u>

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

<u>Capital Projects Fund</u>			<u>Combined Totals (Memo Only)</u>		
<u>Budget</u>	<u>Actual</u>	<u>Favorable/ (Unfavorable) Variance</u>	<u>Budget</u>	<u>Actual</u>	<u>Favorable/ (Unfavorable) Variance</u>
\$ -0-	\$ -0-	\$ -0-	\$ 250,000	\$ 5,977,549	\$ 5,727,549
-0-	-0-	-0-	86,348	100,000	13,652
-0-	-0-	-0-	1,551,300	1,734,985	183,685
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>1,887,648</u>	<u>7,812,534</u>	<u>5,924,886</u>
-0-	-0-	-0-	958,987	745,624	(213,363)
-0-	-0-	-0-	127,830	110,400	(17,430)
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>1,086,817</u>	<u>856,024</u>	<u>(230,793)</u>
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 2,974,465</u>	<u>\$ 8,668,558</u>	<u>\$ 5,694,093</u>
\$ -0-	\$ -0-	\$ -0-	\$ 62,135,590	\$ 57,844,626	\$ 4,290,964
-0-	-0-	-0-	47,300,000	47,300,000	-0-
-0-	-0-	-0-	17,427,183	17,427,183	-0-
-0-	-0-	-0-	8,410,550	7,216,702	1,193,848
-0-	-0-	-0-	1,090,004	1,026,780	63,224
870,305	864,305	6,000	870,305	864,305	6,000
-0-	-0-	-0-	360,715	210,844	149,871
-0-	-0-	-0-	437,126	437,126	-0-
-0-	-0-	-0-	349,400	313,569	35,831
<u>\$ 870,305</u>	<u>\$ 864,305</u>	<u>\$ 6,000</u>	<u>\$ 138,380,873</u>	<u>\$ 132,641,135</u>	<u>\$ 5,739,738</u>
\$ -0-	\$ 889,300	\$ 889,300	\$ -0-	\$ 889,300	\$ 889,300
<u>\$ (870,305)</u>	<u>\$ 24,995</u>	<u>\$ 895,300</u>	<u>\$ (135,406,408)</u>	<u>\$ (123,083,277)</u>	<u>\$ 12,323,131</u>

**STATE OF NEW HAMPSHIRE
STATE TREASURY
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 1999**

	<u>Balance</u> <u>July 1, 1998</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 1999</u>
Seabrook Master Trust				
<u>Assets</u>				
Investments	\$ 82,630,000	\$ 22,357,268	\$ 2,510,347	\$ 102,476,921
<u>Liabilities</u>				
Custodial Funds Payable	\$ 82,630,000	\$ 22,357,268	\$ 2,510,347	\$ 102,476,921
Maine-N.H. Interstate Bridge Authority				
<u>Assets</u>				
Cash and Cash Equivalents	\$ 388,000	\$ -0-	\$ 151,629	\$ 236,371
Investments	5,137,000	490,224	416,371	5,210,853
Total Assets	\$ 5,525,000	\$ 490,224	\$ 568,000	\$ 5,447,224
<u>Liabilities</u>				
Custodial Funds Payable	\$ 5,525,000	\$ 490,224	\$ 568,000	\$ 5,447,224
N.H. Hospital Trust Funds				
<u>Assets</u>				
Investments	\$ 5,143,745	\$ 659,114	\$ 62,957	\$ 5,739,902
<u>Liabilities</u>				
Custodial Funds Payable	\$ 5,143,745	\$ 659,114	\$ 62,957	\$ 5,739,902
Special Fund For Second Injuries				
<u>Assets</u>				
Investments	\$ 3,720,120	\$ 4,548,390	\$ 4,474,296	\$ 3,794,214
<u>Liabilities</u>				
Custodial Funds Payable	\$ 3,720,120	\$ 4,548,390	\$ 4,474,296	\$ 3,794,214
Water Resources Council				
<u>Assets</u>				
Cash and Cash Equivalents	\$ 2,387,973	\$ 124,828	\$ 33,000	\$ 2,479,801
<u>Liabilities</u>				
Custodial Funds Payable	\$ 2,387,973	\$ 124,828	\$ 33,000	\$ 2,479,801
Land Conservation Endowment Fund				
<u>Assets</u>				
Investments	\$ 2,256,384	\$ 231,393	\$ 62,425	\$ 2,425,352
<u>Liabilities</u>				
Due to General Fund	\$ 62,425	\$ 72,180	\$ 62,425	\$ 72,180
Custodial Funds Payable	2,193,959	159,213	\$ -0-	2,353,172
Total Liabilities	\$ 2,256,384	\$ 231,393	\$ 62,425	\$ 2,425,352
N.H. Veterans' Home				
<u>Assets</u>				
Investments	\$ 894,542	\$ 230,316	\$ 145,835	\$ 979,023
<u>Liabilities</u>				
Custodial Funds Payable	\$ 894,542	\$ 230,316	\$ 145,835	\$ 979,023

(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, 1999 (Continued)**

	<u>Balance</u> <u>July 1, 1998</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 1999</u>
Benjamin Thompson Trust				
<u>Assets</u>				
Investments	\$ 1,202,843	\$ 256,210	\$ 33,317	\$ 1,425,736
<u>Liabilities</u>				
Custodial Funds Payable	\$ 1,202,843	\$ 256,210	\$ 33,317	\$ 1,425,736
Pease Development Authority				
<u>Assets</u>				
Investments	\$ 604,220	\$ 29,563	\$ 310,857	\$ 322,926
<u>Liabilities</u>				
Custodial Funds Payable	\$ 604,220	\$ 29,563	\$ 310,857	\$ 322,926
Employees U.S. Savings Bonds				
<u>Assets</u>				
Cash and Cash Equivalents	\$ 28,528	\$ 592,660	\$ 595,650	\$ 25,538
<u>Liabilities</u>				
Custodial Funds Payable	\$ 28,528	\$ 592,660	\$ 595,650	\$ 25,538
Deferred Compensation				
<u>Assets</u>				
Cash and Cash Equivalents	\$ 1,504	\$ 9,263,489	\$ 9,262,847	\$ 2,146
<u>Liabilities</u>				
Custodial Funds Payable	\$ 1,504	\$ 9,263,489	\$ 9,262,847	\$ 2,146
Miscellaneous Agency Funds				
<u>Assets</u>				
Cash and Cash Equivalents	\$ 1,347,940	\$ 236,546	\$ 1,200,209	\$ 384,277
Investments	1,287,867	169,624	120,503	1,336,988
Total Assets	<u>\$ 2,635,807</u>	<u>\$ 406,170</u>	<u>\$ 1,320,712</u>	<u>\$ 1,721,265</u>
<u>Liabilities</u>				
Due to General Fund	\$ -0-	\$ 5,222	\$ -0-	\$ 5,222
Due to UNH	-0-	1,427	-0-	1,427
Custodial Funds Payable	2,635,807	399,521	1,320,712	1,714,616
Total Liabilities	<u>\$ 2,635,807</u>	<u>\$ 406,170</u>	<u>\$ 1,320,712</u>	<u>\$ 1,721,265</u>
Total - Agency Funds				
<u>Assets</u>				
Cash and Cash Equivalents	\$ 4,153,945	\$ 10,217,523	\$ 11,243,335	\$ 3,128,133
Investments	102,876,721	28,972,102	8,136,908	123,711,915
Total Assets	<u>\$ 107,030,666</u>	<u>\$ 39,189,625</u>	<u>\$ 19,380,243</u>	<u>\$ 126,840,048</u>
<u>Liabilities</u>				
Due to General Fund	\$ 62,425	\$ 77,402	\$ 62,425	\$ 77,402
Due to UNH	-0-	1,427	-0-	1,427
Custodial Funds Payable	106,968,241	39,110,796	19,317,818	126,761,219
Total Liabilities	<u>\$ 107,030,666</u>	<u>\$ 39,189,625</u>	<u>\$ 19,380,243</u>	<u>\$ 126,840,048</u>

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

**STATE OF NEW HAMPSHIRE
STATE TREASURY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1999**

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 an organization 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 an organization 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 General and Capital Projects Funds and the changes in these fund balances are not reported on the accompanying financial statements.

B. Basis Of Presentation - Fund Accounting

The State of New Hampshire and the State Treasury use funds and account groups 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. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis Of Presentation - Fund Accounting (Continued)

Governmental Fund Types

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 are used to account for fiduciary relationships involving only custodial or modest management responsibilities. They report assets received for, and disbursed to, other governmental units or private sector organizations, groups, or individuals.

Account Groups

General Fixed Assets

General fixed assets acquired for use by the State Treasury for the performance of its operations are reflected in the General Fixed Assets Account Group at the time of acquisition. As of June 30, 1999, the State Treasury had recorded in the General Fixed Assets Account Group the cost of general fixed assets based on available historical cost records. Donated fixed assets are recorded at fair market value at the time donated.

General Long-Term Debt

Activities related to governmental funds' unmatured long-term general obligation bonds payable are reflected in the General Long-Term Debt Account Group.

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus And Basis Of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the flow of current financial resources measurement focus and reported on a modified accrual basis of accounting. Accordingly, the State of New Hampshire accounts for its financial transactions relating to the General and Capital Projects Funds on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when measurable and available to finance operations of the fiscal period. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recognized in the period in which obligations are incurred as a result of the receipt of goods or services, except that interest on long-term debt is recognized as an expenditure when it becomes payable. Agency funds are accounted for using the modified accrual basis of accounting and do not report a fund equity balance or measure results of operations. Agency fund activity is shown in a statement of changes in assets and liabilities.

D. 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 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 appropriations for individual projects, which extend over several fiscal years. Fiduciary-type funds 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. As shown on the Schedule of Budgetary Components - General Fund on page 47, and Capital Projects Fund on page 48, the final budgeted amount includes the initial operating budget plus supplemental appropriation warrants, balances brought forward, and transfers.

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Data (Continued)

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 are legally defined as non-lapsing accounts. Capital Projects Fund appropriations are scheduled to lapse two years from the date appropriated unless extended or designated as non-lapsing by law.

A Combined Statement Of Revenues And Expenditures - Budget And Actual - General And Capital Projects Funds is presented as part of the State Treasury's financial statements. The State Treasury has no activity recorded in the Special Revenue or Proprietary Funds.

Variances - Favorable/(Unfavorable)

The variance column on the Statement Of Revenues And Expenditures - Budget And Actual - General And Capital Projects Funds highlights differences between budget and actual revenue and expenditures. For revenue, these variances are caused by actual revenue exceeding budget generating a favorable variance or actual being less than budget generating an unfavorable variance. For expenditures, a favorable variance results from actual expenditures being less than the amount budgeted for the fiscal year. The favorable expenditure variances represent a combination of ending available balances and unliquidated encumbrances. Unfavorable expenditure variances represent actual expenditures for the reporting period exceeding the amounts budgeted for the fiscal year.

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 and Capital Projects Funds unliquidated encumbrance balances at June 30, 1999 were \$112,188 and \$6,000, respectively.

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Fixed Assets – General

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition costs are reflected as expenditures in governmental funds, and the related assets are reported in the General Fixed Assets Account Group. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Interest costs incurred during construction are not capitalized. Assets in the General Fixed Assets Account Group are not depreciated.

F. Interfund And Intrafund Transactions

The State accounts for interfund and intrafund transactions as described below:

Reimbursements - Various departments charge user fees for such services as centralized data processing, accounting and auditing, purchasing, personnel, and maintenance. In addition, the Department of Administrative Services charges rent to those departments that are housed in State-owned buildings. These fees and rent are not considered material and are recorded as revenue by the servicing department and as expenditures by the user department.

G. Interpretation Of Combined Totals (Memo Only) Columns

Total columns have been included in the Combined Statement of Revenues and Expenditures - Budget and Actual - General and Capital Projects Funds. The total columns include interfund activity and are presented only to facilitate financial analysis. Data in these columns do not present financial activity in conformity with generally accepted accounting principles. Intra-agency eliminations have not been made in the aggregation of this data.

NOTE 2 -- CASH, CASH EQUIVALENTS, AND INVESTMENTS

The State pools cash and investments, except for separate cash and investment accounts which 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 New Hampshire branch. In addition, all depositories used by the State must be approved, at least annually, by Governor and Executive Council.

NOTE 2 -- CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Deposits (Continued)

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 Joint Legislative Fiscal Committee.

The Treasury Department examines the financial condition of its depositories quarterly. The State Treasurer is not required to collateralize bank deposits. However, during fiscal year 1999, Treasury collateralized deposits at two of its major depositories.

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

- Category 1 Fully 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 following schedule shows the June 30, 1999 balance in the State'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 which have not cleared the bank as of June 30, 1999.

(expressed in thousands)	Categories			Total Bank Balance	Carrying Amount
	1	2	3		
Pooled Deposits					
Demand Deposits (Interest Bearing)	\$ 500	\$ 3,887	\$ 118,440	\$ 122,827	\$ 73,491
Money Market Accounts	-0-	-0-	92,692	92,692	92,692
Savings Accounts	-0-	-0-	-0-	-0-	-0-
Certificates Of Deposit	-0-	-0-	23,928	23,928	24,290
Subtotal	<u>500</u>	<u>3,887</u>	<u>235,060</u>	<u>239,447</u>	<u>190,473</u>
Restricted Deposits					
Money Market Accounts	-0-	-0-	2,887	2,887	2,887
Total Deposits	<u>\$ 500</u>	<u>\$ 3,887</u>	<u>\$ 237,947</u>	<u>\$ 242,334</u>	<u>\$ 193,360</u>

NOTE 2 -- CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

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 municipal governments 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 the 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 16.5% of the Treasury's investment portfolio at June 30, 1999. 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.

Categories of Investment Risk are defined as:

- 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, 1999, summarized by type and custody risk category, are shown in the following schedule. Investments are reported at fair value.

NOTE 2 -- CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

(expressed in thousands):

	Categories			Fair Value
	1	2	3	
Pooled Investments:				
Stocks And Bonds	\$ 2,000	\$ -0-	\$ 9,685	\$ 11,685
Municipal Debt Securities	16,610	-0-	-0-	16,610
U.S. Government Obligations	15,374	-0-	8,081	23,455
N.H. Public Deposit Investment Pool	<u>-0-</u>	<u>-0-</u>	<u>22,763</u>	<u>22,763</u>
Subtotal	<u>33,984</u>	<u>-0-</u>	<u>40,529</u>	<u>74,513</u>
Restricted Investments:				
Repurchase Agreements	5,000	-0-	68,311	73,311
U.S. Government Obligations	59,429	-0-	-0-	59,429
N.H. Public Deposit Investment Pool	<u>-0-</u>	<u>-0-</u>	<u>16,721</u>	<u>16,721</u>
Subtotal	<u>64,429</u>	<u>-0-</u>	<u>85,032</u>	<u>149,461</u>
Uncategorized:				
Open-ended Mutual Funds				<u>219,361</u>
Subtotal				<u>219,361</u>
Total Investments	<u>\$ 98,413</u>	<u>\$ -0-</u>	<u>\$125,561</u>	<u>\$ 443,335</u>

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 waits until market conditions are favorable then issues bonds that cover several authorizations. In general, except for revenue bonds, such borrowing constitutes general obligation debt of the State. The total balance outstanding for general obligation bonds as of June 30, 1999 was \$645.9 million.

NOTE 3 -- LONG-TERM DEBT (Continued)

Bonds Authorized And Unissued

Bonds authorized and unissued amounted to \$262.9 million at June 30, 1999. The proceeds of the bonds will be applied to the following funds when issued (expressed in thousands):

	Bonds Authorized And Unissued <u>June 30, 1999</u>
Highway Fund	\$ 13,309
Capital Projects Fund	112,442
Turnpike System	<u>137,150</u>
Total	<u>\$ 262,901</u>

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. As of June 30, 1999, 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):

<u>Date Of Advance Refunding</u>	Amount Outstanding June 30, 1999
Government Fund Types (General Obligation Bonds)	
December 1, 1998	\$ 67,355
December 19, 1996	36,375
April 15, 1993	<u>38,650</u>
Subtotal	<u>142,380</u>
Turnpike System (Revenue Bonds)	
February 1, 1999	6,495
January 20, 1994	27,000
August 1, 1992	<u>79,065</u>
Subtotal	<u>112,560</u>
Total	<u>\$ 254,940</u>

NOTE 3 -- LONG-TERM DEBT (Continued)

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 1999 (expressed in thousands):

	<u>Balance</u> <u>July 1, 1998</u>	<u>Accretion</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 1999</u>
General Long-Term Debt Account Group					
General Obligation Bonds	\$ <u>578,277</u>	\$ <u>11,368</u>	\$ <u>176,073</u>	\$ <u>154,397</u>	\$ <u>611,321</u>
Enterprise Fund					
General Obligation Bonds	\$ 39,248	\$ -0-	\$ 4,177	\$ 8,839	\$ 34,586
Revenue Bonds	<u>261,953</u>	<u>-0-</u>	<u>96,770</u>	<u>14,147</u>	<u>344,576</u>
Total Enterprise Fund	\$ <u>301,201</u>	\$ <u>-0-</u>	\$ <u>100,947</u>	\$ <u>22,986</u>	\$ <u>379,162</u>

On December 1, 1998, the State issued \$75 million of general obligation capital improvement bonds. The interest rates on these serial bonds range from 4% to 5.25% and the maturity dates range from 1999 through 2018. A portion of the proceeds from this issue was used to pay off \$30 million of short-term notes which were outstanding at June 30, 1998.

On December 1, 1998, the State issued \$105.25 million of general obligation refunding bonds. These bonds comprise two series – Series A (\$83.25 million) and Series B (\$22.0 million). The interest rates on these serial bonds range from 4.00% to 5.25%, and maturity dates range from 1999 to 2012. The Series B bonds are federally taxable, while the Series A bonds are exempt from federal taxes. These bonds were used to refund \$100.5 million of general obligation bonds. The proceeds of the refunding were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments from 2000 through 2012 for Series A and 1999 through 2001 for Series B. The applicable portion of the liability for those bonds has been removed from the General Long-Term Debt Account Group. The advance refunding of the \$100.5 million of general obligation bonds will result in a cash savings of \$4.0 million over the next twenty years and a long-term economic gain of \$3.5 million.

On February 1, 1999, the State issued \$96.8 million Turnpike System Revenue Bonds consisting of \$90 million of capital improvement bonds and \$6.8 million of refunding bonds. The interest rate on these serial bonds range from 4.00% to 5.125% and the maturity dates range from 2000 through 2029. The \$6.8 million of refunding bonds were used to refund \$6.5 million of revenue bonds. A portion of the proceeds from the refunding bonds was deposited into a trust account to purchase U.S. Government securities. Those securities

NOTE 3 -- LONG-TERM DEBT (Continued)

Changes In Long-Term Liabilities (Continued)

were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments from 1999 forward and the applicable portion of the liability has been removed from the General Long-Term Debt Account Group. The advance refunding of \$6.5 million of Turnpike System Revenue Bonds will result in cash savings of \$0.5 million over the next four years and a long-term economic gain of \$0.3 million.

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 in the General Long-Term Debt Account Group. At June 30, 1999, the cumulative interest accretion since issuance for all six capital appreciation bonds is approximately \$74.2 million. The interest is not paid until the bonds mature at which time the expenditure will be reflected in the State's financial statements.

Debt Maturity

All bonds issued by the State, except for the \$395 million in Turnpike revenue bond issues discussed earlier in this note, are general obligation bonds which are backed by the full faith and credit of the State. Interest rates on these bond issues range from 2.7% to 8.5%. 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 are as follows (expressed in thousands):

Payable June 30	Source Of Principal Payments						Debt Service		
	Governmental Funds				Enterprise Fund		Total All Funds		
	General Fund	Highway Fund	Self Liquidating	Sub Total	Turnpike System		Principal	Interest	Total
				General Obligation	Revenue				
2000	\$ 51,035	\$ 3,136	\$ 6,258	\$ 60,429	\$ 4,173	\$ 6,645	\$ 71,247	\$ 41,815	\$ 113,062
2001	49,520	3,082	7,093	59,695	4,192	6,785	70,672	38,017	108,689
2002	45,061	2,970	6,547	54,578	4,036	9,335	67,949	35,721	103,670
2003	46,291	3,179	6,405	55,875	4,016	7,765	67,656	33,202	100,858
2004	46,260	2,963	5,880	55,103	7,194	6,455	68,752	30,980	99,732
Thereafter	<u>332,720</u>	<u>24,083</u>	<u>52,701</u>	<u>409,504</u>	<u>10,975</u>	<u>312,465</u>	<u>732,944</u>	<u>251,422</u>	<u>984,366</u>
Subtotal	<u>570,887</u>	<u>39,413</u>	<u>84,884</u>	<u>695,184</u>	<u>34,586</u>	<u>349,450</u>	<u>1,079,220</u>	<u>431,157</u>	<u>1,510,377</u>
Unamortized Discount	<u>(71,803)</u>	<u>(7,729)</u>	<u>(4,331)</u>	<u>(83,863)</u>	<u>-0-</u>	<u>(4,874)</u>	<u>(88,737)</u>	<u>-0-</u>	<u>(88,737)</u>
Total	<u>\$ 499,084</u>	<u>\$ 31,684</u>	<u>\$ 80,553</u>	<u>\$ 611,321</u>	<u>\$ 34,586</u>	<u>\$ 344,576</u>	<u>\$ 990,483</u>	<u>\$ 431,157</u>	<u>\$ 1,421,640</u>

NOTE 3 -- LONG-TERM DEBT (Continued)

Debt Maturity (Continued)

Turnpike System principal debt service includes general obligation principal debt service of \$34.6 million, serial revenue bond principal debt service of \$109.6 million and term revenue bond principal debt service of \$239.9 million. Actual principal paid to bond holders by the registrar is different from the above debt service schedule the State Treasurer is required to pay to the bond registrar because a portion of the Turnpike System revenue bonds is composed of term bonds versus serial bonds. For term bonds, the State Treasurer is required to pay the bond registrar the annual principal debt service, but the bond registrar is not required to pay principal to the bond holders until the single date of maturity.

NOTE 4 -- CONTINGENT AND LIMITED LIABILITIES

Bonds And First Mortgages

The State of New Hampshire is contingently liable within statutory limits for bonds sold by municipalities, school districts, and for first mortgages on industrial and recreational property which contain the guarantee of the State of New Hampshire. The following table shows the composition of the State's \$299.5 million of contingent liabilities and the statutory limits as of June 30, 1999 (expressed in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Water Pollution And Waste Disposal, RSA 485-A:7 (Legal Limit \$250 Million - Principal And Interest)	\$ 89,487	\$ 31,010	\$ 120,497
Business Finance Authority, RSA 162-A:22-Economic Development (Legal Limit \$95 Million-Principal Only)	27,935	15,925	43,860
N.H. School Building Authority, RSA 195-C:2 (Legal Limit \$75 Million-Principal And Interest)	42,072	14,823	56,895
Business Finance Authority, Ch 265, Laws Of 1989 and Ch 8, Laws of 1992 And Ch 257, Laws of 1996-Manchester Airport (Legal Limit \$42.7 Million, Principal Only)	39,405	37,202	76,607
Solid Waste Management, RSA 149-M:31 (Legal Limit \$30 Million-Principal And Interest)	<u>1,220</u>	<u>406</u>	<u>1,626</u>
Total	<u>\$200,119</u>	<u>\$ 99,366</u>	<u>\$299,485</u>

NOTE 4 -- CONTINGENT AND LIMITED LIABILITIES (Continued)

Bonds and First Mortgages (Continued)

The State of New Hampshire 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 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.

Effective June 1, 1990, RSA 12-G:14 authorized the Pease Development Authority (PDA) to issue bonds for the development of the Pease Air Force Base. Per RSA 12-G:27, the Governor and Council may award an unconditional State guarantee for the principal, not to exceed \$50 million, plus interest. As of June 30, 1999, the State has issued \$38.6 million in general obligation bonds on behalf of PDA in lieu of a State guarantee in accordance with RSA 12-G:27, III. The general obligation debt issued on behalf of PDA reduced the legal limit on debt guaranteed by the State to \$11.4 million at June 30, 1999.

Effective June 8, 1994, RSA 12-G:27-b authorized the Pease Development Authority (PDA) to issue bonds for the development of the former Pease Air Force Base subject to the approval by the Joint 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 \$60 million plus interest.

Effective May 18, 1992, RSAs 33:3-e and 3-f, authorized 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 Council may award an unconditional State guarantee for the principal, not to exceed \$50 million, and interest.

NOTE 5 -- GENERAL FIXED ASSETS ACCOUNT GROUP

Equipment is recorded at historical cost if known, estimated cost if historical cost is unknown, or fair market value at date of acquisition if the asset is donated.

The following is a schedule of equipment balances and activity reported by the State Treasury to the Department of Administrative Services for the fiscal year ended June 30, 1999. Equipment purchases are funded through budgeted appropriations.

Equipment Balance at July 1, 1998	\$ 267,168
Additions	35,456
Deletions	<u>(25,826)</u>
Equipment Balance at June 30, 1999	<u>\$ 276,798</u>

NOTE 6 -- AGENCY FUNDS

The Treasury acts as custodian for trust and agency funds of other State government units. The Treasury invests these funds as directed by the other government units and these other government units report the results of operation of these funds. The Treasury reports these funds on the accompanying financial statements as agency funds.

NOTE 7 -- EMPLOYEE BENEFIT PLANS

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.

New Hampshire Retirement System

The State Treasury, as an organization of the State government, participates in the New Hampshire Retirement System (Plan). The Plan is a defined benefit plan and covers substantially all full-time employees of the State Treasury. The Plan qualifies as a tax-exempt organization under Sections 401 (a) and 501 (a) of the Internal Revenue Code. RSA 100-A established the Plan and the contribution requirements. The Plan, which is a cost-sharing, multiple-employer Public Employees Retirement System (PERS), is divided into two membership groups. Group I consists of employees and teachers. Group II consists of firefighters and police officers.

Group I - Members contributing through age 60 qualify for a normal service retirement allowance based on years of creditable service. 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 ten or more years of creditable service who are between ages 50 and 60 are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service. In addition, any Group I member who has completed at least 20 years of creditable service that, when combined with his or her age equals at least 70, is entitled to retire and have benefits commence immediately at a reduced service retirement allowance.

Group II - After attaining the age of 45, members with 20 years of creditable service qualify to receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years. Members in service at age 60 qualify to receive a prorated retirement allowance. Members of both groups are entitled to disability allowances and also death benefit allowances subject to various requirements and rates based on AFC or earnable compensation. All covered State Treasury employees are members of Group I.

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. During the year ended June 30, 1999, Group I and II members were required to contribute 5% and 9.3%, respectively, of gross earnings. The State funds 100% of the employer cost for all of the State Treasury's employees enrolled in the Plan.

NOTE 7 -- EMPLOYEE BENEFIT PLANS (Continued)

New Hampshire Retirement System (Continued)

The annual contribution required to cover any normal cost beyond the employee contribution is determined every two years based on the Plan's actuary.

The State Treasury's payments for normal contribution costs for the year ended June 30, 1999 amounted to 3.86% of the covered payroll for its Group I employees. The State Treasury's contributions for the year ended June 30, 1999 were \$28,830, equal to the required employer contributions for the period. The Plan does not make separate measurements of assets and pension benefit obligation for individual employers. The New Hampshire Retirement System Comprehensive Annual Financial Report contains detailed information regarding the Plan as a whole, including information on payroll, contributions, actuarial assumptions and funding method, and historical trend data. The New Hampshire Retirement System operates on a fiscal year ending June 30.

Deferred Compensation Plan

The State Treasury, as an organization of the State government, offers its employees a deferred compensation plan (Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all State employees, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the Plan, all property rights purchased with those amounts, and all income attributable to those amounts, property or rights, are held in trust for the exclusive benefit of participants and their beneficiaries. The State Treasury and the State are not actively involved in managing the Plan's assets.

Postemployment Health Care Benefits

In addition to the benefits described above, the State Treasury, as an organization of the State government, provides postemployment health care benefits, in accordance with RSA 21-I:30, to all retired employees and their spouses on a non-contributory basis, as authorized by State statute.

During the year ended June 30, 1999, the State 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 the State Treasury's employees and spouses is a budgeted amount and is paid from an appropriation made to the administrative organization of the New Hampshire Retirement System. Accordingly, the cost of health insurance benefits for the retired State Treasury employees and spouses is not included in the State Treasury's financial statements.

**STATE OF NEW HAMPSHIRE
STATE TREASURY**

**SCHEDULE OF BUDGETARY COMPONENTS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 1999**

	<u>Operating Budget</u>	<u>Supplemental Appropriation Warrants</u>	<u>Balances Brought Forward</u>	<u>Net Transfers In/(Out)</u>	<u>Budget</u>
<u>Revenues</u>					
<u>Unrestricted Revenues</u>					
Interest On Surplus Funds	\$ 250,000	\$ -0-	\$ -0-	\$ -0-	\$ 250,000
Judgments And Recoveries	86,348	-0-	-0-	-0-	86,348
Other	<u>1,551,300</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>1,551,300</u>
Total Unrestricted Revenues	<u>\$ 1,887,648</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,887,648</u>
<u>Restricted Revenues</u>					
Abandoned Property	\$ 847,379	\$ 62,996	\$ 48,612	\$ -0-	\$ 958,987
Other	<u>75,911</u>	<u>2,911</u>	<u>49,008</u>	<u>-0-</u>	<u>127,830</u>
Total Restricted Revenues	<u>\$ 923,290</u>	<u>\$ 65,907</u>	<u>\$ 97,620</u>	<u>\$ -0-</u>	<u>\$ 1,086,817</u>
Total Revenues	<u>\$ 2,810,938</u>	<u>\$ 65,907</u>	<u>\$ 97,620</u>	<u>\$ -0-</u>	<u>\$ 2,974,465</u>
<u>Expenditures</u>					
Debt Service	\$ 63,250,194	\$ (1,700,000)	\$ 585,396	\$ -0-	\$ 62,135,590
State Revenue Sharing	47,300,000	-0-	-0-	-0-	47,300,000
Rooms And Meals Tax Distribution	17,377,478	-0-	-0-	49,705	17,427,183
Debt Service - Other Agencies	8,460,255	-0-	-0-	(49,705)	8,410,550
Salaries And Benefits	1,059,974	49,505	-0-	(19,475)	1,090,004
Current Expenses	358,368	-0-	2,347	-0-	360,715
Return Of Escheated Property	-0-	437,126	-0-	-0-	437,126
Other	<u>202,205</u>	<u>48,646</u>	<u>98,549</u>	<u>-0-</u>	<u>349,400</u>
Total Expenditures	<u>\$ 138,008,474</u>	<u>\$ (1,164,723)</u>	<u>\$ 686,292</u>	<u>\$ (19,475)</u>	<u>\$ 137,510,568</u>
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures					
	<u>\$ (135,197,536)</u>	<u>\$ 1,230,630</u>	<u>\$ (588,672)</u>	<u>\$ 19,475</u>	<u>\$ (134,536,103)</u>

**STATE OF NEW HAMPSHIRE
STATE TREASURY**

**SCHEDULE OF BUDGETARY COMPONENTS
CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 1999**

	<u>Operating Budget</u>	<u>Supplemental Appropriation Warrants</u>	<u>Balances Brought Forward</u>	<u>Net Transfers In/(Out)</u>	<u>Budget</u>
<u>Revenues</u>					
<u>Restricted Revenues</u>					
Premium On Bonds	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Total Restricted Revenues	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
<u>Expenditures</u>					
Cost Of Issuing Bonds	-0-	867,630	2,675	-0-	870,305
Total Expenditures	<u>\$ -0-</u>	<u>\$ 867,630</u>	<u>\$ 2,675</u>	<u>\$ -0-</u>	<u>\$ 870,305</u>
<u>Other Financing Sources</u>					
Bond Issue Proceeds-Premium	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures	<u>\$ -0-</u>	<u>\$ (867,630)</u>	<u>\$ (2,675)</u>	<u>\$ -0-</u>	<u>\$ (870,305)</u>

APPENDIX

CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary, as of January 7, 2000 of the status of the observations contained in the audit report of the State Treasury for the fiscal year ended June 30, 1997, **excluding observations applicable to the Division of Abandoned Property**. 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 Structure	
<i>Reportable Conditions</i>	
1. Review And Approval Of Investment Activity (See Current Observation No. 2)	● ○ ○
2. Controls Over Disbursements	● ● ●
State Compliance	
3. Authority To Accept Custodial And Investment Management Duties	● ● ○
4. Untimely Distribution Of Schools And Roads Funds	● ● ●
7. Administrative Rules Not Adopted (See Current Observation No. 10)	● ○ ○
Management Issues	
8. Agency Deposit Procedures	● ● ●
9. Documentation Of State Revenue Sharing Distribution (See Current Observation No. 6)	● ○ ○
Status Key	
Fully Resolved	● ● ●
Substantially Resolved	● ● ○
Partially Resolved	● ○ ○
Unresolved	○ ○ ○

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