

**STATE OF NEW HAMPSHIRE  
STATE TREASURY**

**AUDIT REPORT  
FOR THE YEAR ENDED  
JUNE 30, 1997**

**STATE OF NEW HAMPSHIRE  
STATE TREASURY**

**TABLE OF CONTENTS**

	<b><u>PAGE</u></b>
<b>INTRODUCTORY SECTION</b>	
<b>Organization</b> .....	1
<b>Responsibilities</b> .....	1
<b>Funding</b> .....	3
<b>Prior Audit</b> .....	3
<b>Audit Objectives and Scope</b> .....	5
<b>CONSTRUCTIVE SERVICE COMMENTS SECTION</b>	
<b>Auditor's Report On The Internal Control Structure</b> .....	7
<i>Reportable Conditions</i>	
1. Review And Approval Of Investment Activity .....	9
2. Controls Over Disbursements.....	11
<b>Auditor's Report On State And Federal Compliance</b> .....	14
<i>State Compliance</i>	
3. Authority To Accept Custodial And Investment Management Duties .....	15
4. Untimely Distribution of Schools And Roads Funds .....	16
5. Abandoned Property: Interest And Penalties .....	17
6. Delay In Escheat Proceedings.....	18
7. Administrative Rules Not Adopted .....	19
<b>Auditor's Report On Management Issues</b> .....	20
<i>Management Issues</i>	
8. Agency Deposit Procedures .....	21
9. Documentation Of State Revenue Sharing Distribution .....	22
<b>FINANCIAL SECTION</b>	
<b>Independent Auditor's Report</b> .....	25
<b>Financial Statements</b>	
Statement Of Revenues And Expenditures - Budget And Actual - General Fund.....	27
Statement Of Capital Projects Fund Activity.....	28
Combining Statement Of Changes In Assets And Liabilities - Agency Funds .....	29
Notes To The Financial Statements.....	31
<b>Supplementary Information</b>	
Schedule Of Budgetary Components - General Fund.....	48
Schedule Of Expenditures Of Federal Awards (Cash Basis).....	49
<b>APPENDIX - Current Status Of Prior Audit Findings</b> .....	51

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# STATE OF NEW HAMPSHIRE STATE TREASURY

## ORGANIZATION

The New Hampshire State Treasury operates under the executive direction of the State Treasurer, a constitutional officer elected biennially by a joint ballot of the Senate and House of Representatives. Assisting, and appointed by the Treasurer, are one chief deputy treasurer, one deputy treasurer, and two assistant treasurers, all of whom are unclassified State employees. The Treasury was also staffed with 21 classified employees, for a total of 26 employees at June 30, 1997. The Office of Investment and Debt Management operates within the Treasury under the direction of a deputy treasurer.

## RESPONSIBILITIES

The Treasury's primary responsibility as provided in New Hampshire Revised Statutes Annotated (RSAs) 6, 6-A, 6-B, 6-C, 11, and 471-C is the management of the State's cash, investments and debt, trust funds, and abandoned property program.

### 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;
- 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.

## RESPONSIBILITIES (Continued)

### 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. There were no temporary borrowings during the year ended June 30, 1997.

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, 1997, was approximately \$661.4 million.

### Trust 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.

### Abandoned Property

The Treasury is responsible for administering the State's abandoned property program in accordance with RSA 471-C. Holders of property presumed abandoned are required to report and forward the property to the Treasury. Property received by the Treasury is held for a period of time prior to being escheated to the State, absent any valid claims to the property.

## FUNDING

The Treasury is funded by appropriations in the General and Capital Projects Funds. The fiscal year 1997 appropriations combined with supplemental warrants, balances forward, and transfers resulted in spending authority of \$120,103,392 in the General Fund. Fiscal year 1997 appropriations combined with other financing sources resulted in spending authority of \$683,365 in the Capital Projects Fund. Estimated restricted revenue combined with supplemental warrants and balances forward resulted in anticipated fiscal year 1997 restricted revenue of \$793,421 in the General Fund. Fiscal year 1997 estimated unrestricted revenue totaled \$3,903,500. The financial activity of the Treasury, as reported in the General and Capital Projects Funds for the year ended June 30, 1997 is summarized in the following table.

(in thousands)	Year Ended June 30, 1997		
	General Fund	Capital Fund	Total
Unrestricted Revenues	\$ 2,025	\$ -0-	\$ 2,025
Restricted Revenues	639	-0-	639
Other Financing Sources	-0-	285	285
<b>Total Revenues and Other Financing Sources</b>	<b>\$ 2,664</b>	<b>\$ 285</b>	<b>\$ 2,949</b>
<b>Expenditures</b>	<b>\$ 119,924</b>	<b>\$ 680</b>	<b>\$ 120,604</b>

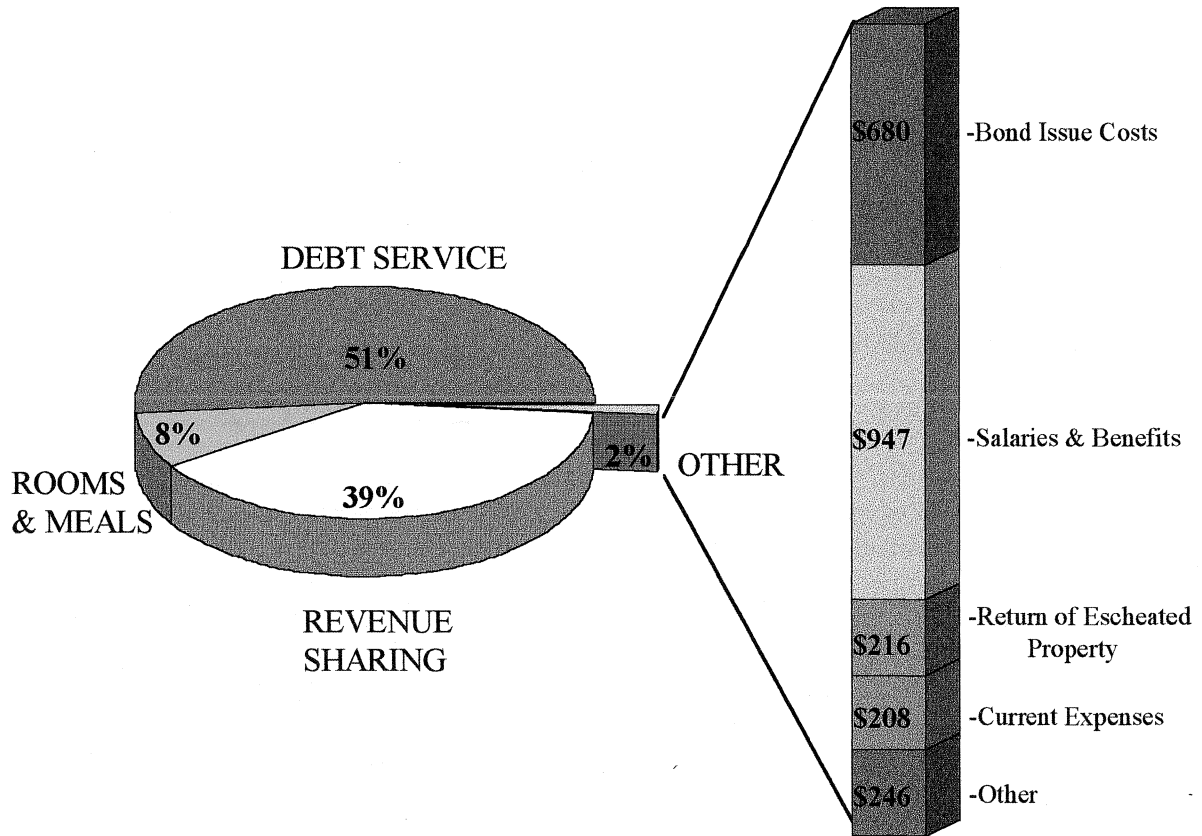
Seventy percent of the Treasury's total revenue was derived from abandoned property revenues, while 98% of expenditures was applicable to the State's revenue sharing, rooms and meals tax distribution and debt service payments. The Treasury's General and Capital Projects Funds expenditures for fiscal year 1997 are presented graphically on page four.

## PRIOR AUDIT

The most recent prior financial and compliance audit of the State Treasury was for the year ended June 30, 1995. The appendix to this report on page 51, 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**  
**FISCAL YEAR 1997 - COMBINED EXPENDITURES**  
**GENERAL AND CAPITAL PROJECTS FUNDS**

EXPENDITURES IN THOUSANDS



CATEGORY	GENERAL FUND	CAPITAL FUND	TOTAL
DEBT SERVICE	\$ 61,830	\$ -0-	\$ 61,830
REVENUE SHARING	47,300	-0-	47,300
ROOMS & MEALS	9,177	-0-	9,177
OTHER	1,617	680	2,297
<b>TOTAL</b>	<b>\$119,924</b>	<b>\$680</b>	<b>\$120,604</b>

## **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 control structure 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 control structure
- Revenues and appropriations
- Expenditures and encumbrances
- Agency funds
- Cash, cash equivalents, and investments
- Long-term debt
- Contingent liabilities
- Equipment
- State and federal compliance.

Our reports on the internal control structure, state and federal compliance, and management issues, the related observations and recommendations, our independent auditor's report, and the financial statements are contained in the report that follows.



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## **AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE**

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the accompanying financial statements of the New Hampshire State Treasury for the year ended June 30, 1997, and have issued our qualified report thereon dated December 19, 1997, 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 *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.

The management of the New Hampshire State Treasury is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the New Hampshire State Treasury for the year ended June 30, 1997, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Those matters that we consider to be reportable conditions are described on the following pages.

## REPORTABLE CONDITIONS

### Observation No. 1 - Review And Approval Of Investment Activity

#### OBSERVATION:

At June 30, 1997, the Treasury was responsible for the investment of \$274 million of State operating funds and \$82 million of State fiduciary and other funds. The State's fiduciary funds are invested by the Treasury at the direction of each fund's Trustees. The investment of the State's operating funds is directed by RSA 6:8, which requires these funds to be invested "...in obligations of the United States government, in obligations which are legal investments for savings banks and trust companies, in all types of savings accounts, in participation units in the public deposit investment pool..., in certificates of deposit of state or federally chartered banking institutions within New Hampshire, or in certificates of deposit of national banks within the commonwealth of Massachusetts."

We noted that duties related to the Treasury's investment of State operating funds were not effectively segregated as a single employee initiates, authorizes, and records investment transactions as described below.

- One Treasury employee determines and notifies the bank of the amount of State operating funds to be invested and the period for which the funds are to remain invested. The bank subsequently presents investment options for the employee's selection and authorization. The bank sends the employee written confirmation of the investment purchases. There is no independent review and approval of the investment decisions made by this employee.
- This same employee also prepares the documents used to post the resulting investment income to the State accounting records. There is no independent review and approval of these revenue posting documents.

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

#### RECOMMENDATION:

The Treasury should segregate the duties of initiating, authorizing, and recording investment transactions by:

- Ensuring all investment purchase transactions are reviewed and approved by a second individual.
- Ensuring all documents used to post investment income are reviewed and approved by a second individual.

## **REPORTABLE CONDITIONS (Continued)**

### **Observation No. 1 - Review And Approval Of Investment Activity (Continued)**

#### **RECOMMENDATION (Continued):**

- Ensuring that all reviews and approvals of investment transactions are evidenced in the accounting records.

#### **AUDITEE RESPONSE:**

Treasury has numerous controls in place to properly protect State assets especially in the area of investments and cash management. The Assistant Treasurer is responsible for the daily cash management operations which includes the responsibility for insuring that the State is fully invested to the extent that future cash needs allow. In making investments the Assistant Treasurer follows an investment policy prepared for him by the Chief Deputy Treasurer and approved by the Treasurer. The Assistant Treasurer and Chief Deputy Treasurer meet at least daily to discuss the cash position of the State. The Assistant Treasurer prepares a daily worksheet which shows certain statistics and information about the daily investment and cash status and delivers it to the Chief Deputy Treasurer.

In addition to reports prepared by the Assistant Treasurer, the Treasurer and Chief Deputy Treasurer receive a set of daily banking reports that summarize by bank, fund and investment type the cash position of the State. This oversight is supplemented by the reconciliation process which acts as a check against all investment activity since it must be properly recorded/accounted for, otherwise those transactions will be questioned in the bank reconciliation process. Further, no money moves outside the State System without a second approval.

In response to the audit recommendation, it is correct that the Assistant Treasurer prepares accounting documents to record the interest earned on investments, but the final approval of those cash receipt documents rests with the Treasury's cashiers. We believe our controls are more than adequate.

## **REPORTABLE CONDITIONS (Continued)**

### **Observation No. 2 - Controls Over Disbursements**

#### **OBSERVATION:**

We noted the following areas where the Treasury's controls over disbursements should be strengthened.

#### **Disposition of Signed Checks**

##### *Replacement Checks*

The Treasury issues a replacement check when it is notified that a payee has not received, or has lost, a State-issued check. If the Treasury's reconciliation section determines that the original check was not cashed, it places a stop payment on the original check, and initiates the generation of a replacement check. The signed replacement check is forwarded to the reconciliation section and subsequently mailed. Handling signed checks and the subsequent reconciling of the bank account are incompatible duties when performed by the same individual.

##### *Abandoned Property Checks*

The Treasury processes claims for abandoned property. Each week the Treasury's Abandoned Property Division (Division) generates a claims to pay report. This report, authorized by an employee in the Division, initiates the check printing process. The claim checks are generated at Treasury by employees outside the Division, stamped with the Treasurer's signature, and returned to the same Division employee who originally authorized the claims to pay report. Check requesting and the subsequent handling of the signed checks are incompatible duties when performed by the same individual.

#### **Security of Check Stock**

##### *Abandoned Property Checks*

Checks for abandoned property claims are generally printed by the Treasury on a weekly basis. The check stock is prenumbered and stored in Treasury's vault. Treasury does not perform a reconciliation of the number of check blanks issued for printing to the number of actual checks printed. By not performing this reconciliation of the abandoned property check stock, the Treasury risks the untimely detection of lost or stolen check stock. Treasury does reconcile the check stock for all of its other accounts.

## **REPORTABLE CONDITIONS (Continued)**

### **Observation No. 2 - Controls Over Disbursements (Continued)**

#### **RECOMMENDATION:**

The Treasury should improve its internal controls over disbursements by:

- Adequately segregating check requesting and bank account reconciliation duties from check handling responsibilities.
- Reconciling the abandoned property check stock issued for printing to the actual checks printed.

#### **AUDITEE RESPONSE:**

Treasury concurs and has updated the replacement check procedure to ensure segregation of duties takes place. Signed checks are not returned to the creator of the check for disbursement.

Abandoned Property check stock inventory is now controlled and reconciled.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described on the preceding pages is a material weakness.

This report is intended for the information of the management of the New Hampshire State Treasury and the Fiscal Committee of the General Court. However, this report is a matter of public record upon acceptance by the Fiscal Committee and its distribution is not limited.

*Office of Legislative Budget Assistant*  
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

December 19, 1997



**AUDITOR'S REPORT ON STATE AND FEDERAL COMPLIANCE**

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the accompanying financial statements of the New Hampshire State Treasury for the year ended June 30, 1997, and have issued our qualified report thereon dated December 19, 1997, 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 *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.

Compliance with state and federal laws, regulations, contracts, and grants applicable to the New Hampshire State Treasury is the responsibility of Treasury's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Treasury's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we have noted on pages 15 through 19 instances of noncompliance with laws and regulations, while not material to the financial statements, we believe to be worthy of report mention.

This report is intended for the information of the management of the New Hampshire State Treasury and the Fiscal Committee of the General Court. However, this report is a matter of public record upon acceptance by the Fiscal Committee, and its distribution is not limited.

*Office of Legislative Budget Assistant*  
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

December 19, 1997

## STATE COMPLIANCE

### Observation No. 3 - Authority To Accept Custodial And Investment Management Duties

#### OBSERVATION:

The Maine-New Hampshire Interstate Bridge Authority (Authority) was created by acts of the Maine and New Hampshire Legislatures in the mid 1930's. The Authority is a jointly governed board that directs the long-term operation of the bridge spanning the Piscataqua River between the two states. The Commissioner of the New Hampshire Department of Transportation and two other board members appointed by the Governor and Council comprise three of the six member governing board of the Authority. A trust fund established from toll revenues collected through July 1972 funds the maintenance of the bridge. The amount in the trust fund at June 30, 1997 was \$5,025,755.

As cited in RSA 11:1, trust funds accepted by the State are under the direction and supervision of the Governor and Council and shall be in the custody of the Treasurer. RSA 11:5 requires all trust funds in the Treasurer's custody be invested.

During fiscal year 1997, without seeking the Governor and Council's approval, the Treasury assumed the custodial and investment management duties for the Authority's trust fund. The Treasury should have received Governor and Council approval prior to accepting the responsibilities for maintaining custody of and investing this trust fund.

#### RECOMMENDATION:

The Treasury should request the Governor and Council's approval for its custody of the Authority's trust fund. In the future, Treasury should seek approval prior to accepting the custodial responsibilities for such funds.

#### AUDITEE RESPONSE:

The State Treasurer has statutory authority for custody of all trust funds under RSA 11. The Maine-New Hampshire Interstate Bridge Authority (IBA) is a quasi-state agency that requested that the State Treasury assist them with the management of their funds. The board of the IBA voted to move their funds from the previous custodian to the State Treasury. The Treasurer agreed to assist them with the management of their funds and asked the board to execute a custodial agency agreement in accordance with RSA 11:5. In this case the funds held by the IBA had already been established for the benefit of the Authority. The intent of RSA's 11:1 and 4:8 seems to indicate the Governor and Council approval is required for the acceptance of new funds and not funds already in the possession of the State or its agencies, therefore to move these funds from one quasi-state and tax exempt agency to the Treasury did not seem to require Governor and Council approval. The Treasury will request guidance from the Attorney General's Office relative to the acceptance of new funds.

**STATE COMPLIANCE (Continued)**

**Observation No. 4 - Untimely Distribution of Schools and Roads Funds**

**OBSERVATION:**

The Treasury receives federal funds under the Schools and Roads - Grants to States program. RSA's 227-H:22 and 227-H:23 state that the amounts apportioned to organized towns, unincorporated towns, and unorganized places should be paid to the applicable school districts within 60 days after receiving the funds from the federal government.

The federal funds are received by the Treasury in two installments and are subsequently sent to school districts in amounts determined by the federal government. Treasury received the first installment, \$318,933, representing an estimated 75% of the total, on October 9, 1996. The second and final installment, \$191,300, was received on December 11, 1996. Treasury received approval from the Governor and Council on March 6, 1997 to distribute the funds to the school districts. The funds were disbursed to the school districts on March 13, 1997, approximately 90 days after the receipt of the final payment from the federal government. The funds were distributed to 46 recipients in amounts ranging from \$159 to \$72,235.

In addition to the State requirement that Treasury distribute the federal funds within 60 days of receipt, the *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, referred to as the common rule, requires that the time elapsed between the receipt and disbursement of federal funds be minimized.

A similar observation was noted in our fiscal year 1995 audit report on the Treasury.

**RECOMMENDATION:**

In order to comply with RSA's 227-H:22 and 227-H:23, the Treasury should disburse the federal funds within 60 days of the receipt of each installment payment. Compliance with these statutes will allow the school districts more timely access to the funds and help minimize the time federal funds remain on hand, as required by the common rule.

**AUDITEE RESPONSE:**

As we responded in the fiscal 1993 and 1995 reports, the Treasury did investigate the possibility of making interim payments. Program documentation allows for and recommends this procedure. We concluded that the administrative costs involved with making the interim payments (communication with various County officials relative to the funds allocated to unincorporated places, Treasury's efforts to calculate payments and the submission of payment schedules to Governor & Council for approval), outweigh the benefits of making interim payments.

## **STATE COMPLIANCE (Continued)**

### **Observation No. 4 - Untimely Distribution of Schools and Roads Funds (Continued)**

#### **AUDITEE RESPONSE (Continued):**

Further, in fiscal year 1998, for the payment of federal fiscal year 1997, payment schedules were changed by the federal government after the letters from NH Treasury were sent to the County officials regarding the distribution of the monies for unincorporated places. We intend to seek an amendment to RSA 227-H in the next Legislative Session.

### **Observation No. 5 - Abandoned Property: Interest And Penalties**

#### **OBSERVATION:**

Holders of abandoned property are required to file a report and pay or deliver the property to the Treasury in accordance with time frames prescribed by RSA 471-C. Persons failing to render a report or pay or deliver the property are to be assessed interest and penalties in accordance with RSA 471-C:38. Interest and penalties include, 1) the greater of \$25 or 18% annual interest for failure to pay or deliver the property within the prescribed time frame, 2) \$100 a day, not to exceed \$5,000, for willful late reporting, 3) 25% of the property value for willful failure to pay or deliver the property, and 4) a misdemeanor for refusal to deliver property after written demand by the Treasury.

During fiscal year 1997, the Treasury had no system in place to assess interest and penalties related to its abandoned property program. According to Treasury personnel, if a system had been in place during fiscal year 1997, the total interest and penalties assessed would have been minimal.

#### **RECOMMENDATION:**

The Treasury should implement procedures to enable it to assess abandoned property interest and penalties as required by RSA 471-C:38.

#### **AUDITEE RESPONSE:**

We concur. Treasury is in the process of procuring a new system which will enable us to assess interest and penalties. Treasury will request legislation to allow us to waive interest and penalties in those instances where it would encourage voluntary compliance.

## **STATE COMPLIANCE (Continued)**

### **Observation No. 6 - Delay In Escheat Proceedings**

#### **OBSERVATION:**

Abandoned property delivered to the Treasury is held for a period of time prior to being escheated to the State. According to RSA 471-C:30, I, “[w]ithin 180 days after the close of the calendar year after the year in which any property presumed abandoned under this chapter is paid or delivered to the administrator, if no claim for the property has been made and established by any person, not including another state, entitled to the property, the administrator shall commence a civil action in the superior court for Merrimack county for a determination that such property shall escheat to the state....”

During fiscal year 1997, report year 1993 abandoned property was escheated to the State. The revenue recognized was approximately \$1.2 million. In accordance with RSA 471-C:30, the Treasury should have initiated escheat proceedings for report year 1993 by June 30, 1995, however, proceedings were initiated approximately ten months later in April 1996.

The initiation of the escheat proceedings for report year 1994 was also late relative to the statutory requirements. The proceedings should have been initiated by June 30, 1996. The Treasury initiated these proceedings in June 1997, approximately one year later.

#### **RECOMMENDATION:**

The Treasury should modify the timing of its escheat proceedings to comply with the timing requirements set forth in RSA 471-C:30, I.

#### **AUDITEE RESPONSE:**

We do concur.

With the proposed new Abandoned Property system, the escheat reporting should be done on a timely basis.

The delay in escheat procedures did not cause a lack of recognition for GAAP reporting purposes. In accordance with GASB statement 21, all revenue was properly recognized for GAAP purposes. Regarding GASB-21 reporting, the revenue will always be recognized regardless of the escheat timing.

## **STATE COMPLIANCE (Continued)**

### **Observation No. 7 - Administrative Rules Not Adopted**

#### **OBSERVATION:**

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 method 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) shall not expire.

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

#### **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 does not disagree with the intent of the statute cited in this observation, however, we do not concur with the finding itself as we believe the Treasury’s adoption of rules is discretionary. The Department of Treasury is statutorily defined and guided by the laws set forth in Chapter 6. RSA 6:3-a, which specifically addresses rulemaking, was amended in 1997 to clarify our position on rulemaking. Furthermore, the Department of Treasury, unlike most state agencies, was not part of the 1983 reorganization set forth in RSA 21:G.

The Treasury has a history of and will continue to provide information to the general public (as well as other State agencies) with reference to its organization and operations, whenever requested.

We will request an opinion of the Attorney General.

## 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 for the year ended June 30, 1997 and have issued our qualified report thereon dated December 19, 1997, 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 *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 for the year ended June 30, 1997, 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 or regulations.

Those issues that we believe are worthy of management consideration but do not meet the criteria of reportable conditions or noncompliance are included on pages 21 through 23.

This report is intended for the information of the management of the New Hampshire State Treasury and the Fiscal Committee of the General Court. This restriction is not intended to limit the distribution of this report, which upon its acceptance by the Fiscal Committee, is a matter of public record.

*Office of Legislative Budget Assistant*  
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

December 19, 1997

## MANAGEMENT ISSUES

### Observation No. 8 - Agency Deposit Procedures

#### OBSERVATION:

In accordance with RSA 6:11, I, the Treasurer is to establish deposit procedures for all State departments and institutions that receive money for the State. Some State organizations make deposits directly into a Treasury or Treasury-approved bank account. Other organizations bring the funds to the Treasury for deposit to a Treasury account.

The State's deposit procedures established by the Treasury, including the criteria for determining which State organizations bring deposits to the Treasury and which make deposits directly to bank accounts, are not always formally communicated to the State's organizations.

#### RECOMMENDATION:

While the Treasury does provide assistance to State organizations that request help with deposit practices, the Treasury should also periodically and formally communicate State deposit procedures to all State departments and institutions. Periodic formal notification of deposit procedures and changes in deposit procedures will help ensure that State organizations deposit State money in an efficient manner.

#### AUDITEE RESPONSE:

Since 1985 the Treasury Department has focused its efforts on identifying inefficient procedures and underutilized funds for expediting availability to the State and enhancing investment earnings. In fiscal 1986 Treasury began sending an armored car to Revenue Administration at the close of business daily for direct transfer to the bank's processing center and the Boston Federal Reserve and negotiated same day availability with the bank (at that time First NH). This move alone resulted in gaining one day's availability on an average of \$7 million (at that time, the number is much larger today) in receipts at Revenue Administration, which was equivalent to having an extra \$7 million to invest for a year. In 1987 Treasury identified inefficiencies in the toll deposit procedures at the Turnpike and began sending an armored car service daily to each toll plaza, consolidating toll collections in one facility where previously the money had been deposited with the Treasurer, by paper check no less, no more than twice weekly.

In 1992 Treasury, working with the Bureau of Turnpikes implemented centralized toll processing, saving more than \$500,000 in processing expenses. Treasury also set up the first lock box for meals and rooms tax collection and has guided Revenue Administration through the implementation of electronic reporting and collection of this tax which went live in February 1998. Treasury initiated the legislation in 1994 which requires that Agencies obtain Treasury approval for new bank accounts and consult with Treasury on all banking relationships for the collection and deposit of funds. In just the past two years, deposit patterns and methods have been changed for 27 state agencies including the Pari-Mutuel



## **MANAGEMENT ISSUES (Continued)**

### **Observation No. 8 - Agency Deposit Procedures (Continued)**

#### **AUDITEE RESPONSE (Continued):**

Commission, the Department of Health and Human Services, the Christa McAuliffe Planetarium, the Department of Safety, New Hampshire Hospital, Fish and Game, the Liquor Commission, Port Authority, Resources and Economic Development and as mentioned, Revenue Administration.

In each of the last three years, Treasury has reduced banking costs. In each of the last two years, costs have decreased by five percent each year. These savings have been achieved by changes in deposit patterns and procedures as well as changes in disbursement procedures.

The Treasury as part of its efforts to continue to decrease banking costs and improve efficiencies in banking procedures will formally communicate with state agencies on a regular basis their responsibilities under RSA 6:11 and their banking/deposit options.

### **Observation No. 9 - Documentation Of State Revenue Sharing Distribution**

#### **OBSERVATION:**

The Treasury is responsible for disbursing the State's annual revenue sharing to cities and towns. The Treasury distributes the amount appropriated by the General Court to cities and towns based on a formula described in RSA 31-A:4. Components of the formula include the amount of local property taxes assessed, the local equalized valuation determined by the Department of Revenue Administration, and the city/town population. The amount appropriated and distributed during fiscal year 1997 was \$47.3 million.

The following issue was noted during the testing of the amounts distributed to the cities and towns.

- The payments to certain cities and towns were allocated among several entities including the local government and its related school districts and precincts (e.g., fire precinct, water precinct). There was no documentation maintained at the Treasury to support the allocation of the distribution among these entities.

#### **RECOMMENDATION:**

The Treasury should document the basis for allocating revenue sharing distributions between a city/town and its associated precincts or school districts.

**MANAGEMENT ISSUES (Continued)**

**Observation No. 9 - Documentation Of State Revenue Sharing Distribution  
(Continued)**

**AUDITEE RESPONSE:**

Current practice distributes revenue sharing to entities according to statutory distribution requirements which existed prior to the amendment of RSA 31-A:4 (1983). Clear indication of legislative intent of the revisions to RSA 31-A:4 would be welcome.

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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 for the year ended June 30, 1997. These financial statements are the responsibility of the 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 *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 for the year ended June 30, 1997, 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 and Expenditures of Federal Awards (Cash Basis) are presented on pages 48 and 49 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 December 19, 1997 on our consideration of the New Hampshire State Treasury's internal control structure and a report dated December 19, 1997 on its compliance with laws and regulations.

*Office of Legislative Budget Assistant*  
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

December 19, 1997

**STATE OF NEW HAMPSHIRE  
STATE TREASURY**

**STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 1997**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>FAVORABLE (UNFAVORABLE) VARIANCE</u>
<b><u>REVENUES</u></b>			
<b><u>UNRESTRICTED REVENUES</u></b>			
Interest on Surplus Funds	\$ 2,000,000	\$ 180,801	\$ (1,819,199)
Miscellaneous Sales/Revenues	1,010,000	340,435	(669,565)
Abandoned Property	750,000	1,287,846	537,846
Unclaimed Check Revenues	100,000	97,681	(2,319)
Other	43,500	118,374	74,874
<b>TOTAL UNRESTRICTED REVENUES</b>	<b>\$ <u>3,903,500</u></b>	<b>\$ <u>2,025,137</u></b>	<b>\$ <u>(1,878,363)</u></b>
<b><u>RESTRICTED REVENUES</u></b>			
Abandoned Property	\$ 710,440	\$ 584,049	\$ (126,391)
Other	82,981	54,682	(28,299)
<b>TOTAL RESTRICTED REVENUES</b>	<b>\$ <u>793,421</u></b>	<b>\$ <u>638,731</u></b>	<b>\$ <u>(154,690)</u></b>
<b>TOTAL REVENUES</b>	<b>\$ <u>4,696,921</u></b>	<b>\$ <u>2,663,868</u></b>	<b>\$ <u>(2,033,053)</u></b>
<b><u>EXPENDITURES</u></b>			
Debt Service	\$ 52,994,425	\$ 52,989,043	\$ 5,382
State Revenue Sharing	47,300,000	47,300,000	-0-
Rooms & Meals Tax Distribution	9,177,478	9,177,478	-0-
Debt Service - UNH	8,839,888	8,839,887	1
Salaries and Benefits	1,003,307	947,204	56,103
Current Expenses	291,577	208,378	83,199
Return of Escheated Property	216,012	215,793	219
Other	199,824	164,955	34,869
Payment on Voided Checks	80,881	80,881	-0-
<b>TOTAL EXPENDITURES</b>	<b>\$ <u>120,103,392</u></b>	<b>\$ <u>119,923,619</u></b>	<b>\$ <u>179,773</u></b>

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

**STATE OF NEW HAMPSHIRE  
STATE TREASURY**

**STATEMENT OF CAPITAL PROJECTS FUND ACTIVITY  
FOR THE YEAR ENDED JUNE 30, 1997**

Balance Forward July 1, 1996	\$ -0-
 <b><u>APPROPRIATIONS AND OTHER FINANCING SOURCES</u></b>	
Appropriations	\$ 398,220
Less: Anticipated restricted revenue from sources other than the General Fund	-0-
Net Appropriations	\$ 398,220
Other Financing Sources Bond Issue Proceeds - Premium	285,145
Net Transfers In/(Out)	-0-
<b>TOTAL AVAILABLE</b>	<b>\$ 683,365</b>
 <b><u>EXPENDITURES</u></b>	
Cost of Issuing Bonds	\$ <u>680,459</u>
<b>TOTAL EXPENDITURES</b>	<b>\$ 680,459</b>
Funds (lapsed to)/drawn from the General Fund	-0-
Balance to be carried forward	\$ 2,906
Less: Unliquidated Encumbrances	<u>2,906</u>
<b>Available Balance June 30, 1997</b>	<b>\$ <u>-0-</u></b>

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, 1997**

	<u>BALANCE</u> <u>7/1/96</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>6/30/97</u>
<b><u>SEABROOK MASTER TRUST</u></b>				
<b><u>ASSETS</u></b>				
Investments	\$ <u>45,812,702</u>	\$ <u>14,455,182</u>	\$ <u>1,181,670</u>	\$ <u>59,086,214</u>
<b><u>LIABILITIES</u></b>				
Custodial Funds Payable	\$ <u>45,812,702</u>	\$ <u>14,455,182</u>	\$ <u>1,181,670</u>	\$ <u>59,086,214</u>
<b><u>MAINE-N.H. INTERSTATE BRIDGE AUTHORITY</u></b>				
<b><u>ASSETS</u></b>				
Investments	\$ <u>5,255,131</u>	\$ <u>494,653</u>	\$ <u>724,029</u>	\$ <u>5,025,755</u>
<b><u>LIABILITIES</u></b>				
Custodial Funds Payable	\$ <u>5,255,131</u>	\$ <u>494,653</u>	\$ <u>724,029</u>	\$ <u>5,025,755</u>
<b><u>N.H. HOSPITAL TRUST FUNDS</u></b>				
<b><u>ASSETS</u></b>				
Investments	\$ <u>3,184,322</u>	\$ <u>181,647</u>	\$ <u>115,715</u>	\$ <u>3,250,254</u>
<b><u>LIABILITIES</u></b>				
Custodial Funds Payable	\$ <u>3,184,322</u>	\$ <u>181,647</u>	\$ <u>115,715</u>	\$ <u>3,250,254</u>
<b><u>SPECIAL FUND FOR SECOND INJURIES</u></b>				
<b><u>ASSETS</u></b>				
Investments	\$ <u>2,283,410</u>	\$ <u>4,123,954</u>	\$ <u>3,591,895</u>	\$ <u>2,815,469</u>
<b><u>LIABILITIES</u></b>				
Custodial Funds Payable	\$ <u>2,283,410</u>	\$ <u>4,123,954</u>	\$ <u>3,591,895</u>	\$ <u>2,815,469</u>
<b><u>WATER RESOURCES COUNCIL</u></b>				
<b><u>ASSETS</u></b>				
Cash and Cash Equivalents	\$ <u>2,176,489</u>	\$ <u>247,288</u>	\$ <u>-0-</u>	\$ <u>2,423,777</u>
<b><u>LIABILITIES</u></b>				
Custodial Funds Payable	\$ <u>2,176,489</u>	\$ <u>247,288</u>	\$ <u>-0-</u>	\$ <u>2,423,777</u>
<b><u>LAND CONSERVATION ENDOWMENT FUND</u></b>				
<b><u>ASSETS</u></b>				
Investments	\$ <u>1,644,353</u>	\$ <u>387,456</u>	\$ <u>67,860</u>	\$ <u>1,963,949</u>
<b><u>LIABILITIES</u></b>				
Due to General Fund	\$ <u>-0-</u>	\$ <u>67,694</u>	\$ <u>-0-</u>	\$ <u>67,694</u>
Custodial Funds Payable	<u>1,644,353</u>	<u>319,762</u>	<u>67,860</u>	<u>1,896,255</u>
TOTAL LIABILITIES	\$ <u>1,644,353</u>	\$ <u>387,456</u>	\$ <u>67,860</u>	\$ <u>1,963,949</u>
<b><u>N.H. VETERANS' HOME</u></b>				
<b><u>ASSETS</u></b>				
Investments	\$ <u>747,175</u>	\$ <u>176,804</u>	\$ <u>131,283</u>	\$ <u>792,696</u>
<b><u>LIABILITIES</u></b>				
Custodial Funds Payable	\$ <u>747,175</u>	\$ <u>176,804</u>	\$ <u>131,283</u>	\$ <u>792,696</u>

(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 (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 1997**

	<u>BALANCE</u> <u>7/1/96</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>6/30/97</u>
<b><u>BENJAMIN THOMPSON TRUST</u></b>				
<b><u>ASSETS</u></b>				
Investments	\$ <u>692,353</u>	\$ <u>124,643</u>	\$ <u>31,032</u>	\$ <u>785,964</u>
<b><u>LIABILITIES</u></b>				
Custodial Funds Payable	\$ <u>692,353</u>	\$ <u>124,643</u>	\$ <u>31,032</u>	\$ <u>785,964</u>
<b><u>PEASE DEVELOPMENT AUTHORITY</u></b>				
<b><u>ASSETS</u></b>				
Cash and Cash Equivalents	\$ <u>670,104</u>	\$ <u>32,347</u>	\$ <u>410,000</u>	\$ <u>292,451</u>
<b><u>LIABILITIES</u></b>				
Custodial Funds Payable	\$ <u>670,104</u>	\$ <u>32,347</u>	\$ <u>410,000</u>	\$ <u>292,451</u>
<b><u>EMPLOYEE U.S. SAVINGS BONDS</u></b>				
<b><u>ASSETS</u></b>				
Cash and Cash Equivalents	\$ <u>35,365</u>	\$ <u>792,921</u>	\$ <u>794,713</u>	\$ <u>33,573</u>
<b><u>LIABILITIES</u></b>				
Custodial Funds Payable	\$ <u>35,365</u>	\$ <u>792,921</u>	\$ <u>794,713</u>	\$ <u>33,573</u>
<b><u>DEFERRED COMPENSATION</u></b>				
<b><u>ASSETS</u></b>				
Cash and Cash Equivalents	\$ <u>1,474</u>	\$ <u>8,396,161</u>	\$ <u>8,396,187</u>	\$ <u>1,448</u>
<b><u>LIABILITIES</u></b>				
Custodial Funds Payable	\$ <u>1,474</u>	\$ <u>8,396,161</u>	\$ <u>8,396,187</u>	\$ <u>1,448</u>
<b><u>MISCELLANEOUS AGENCY FUNDS</u></b>				
<b><u>ASSETS</u></b>				
Cash and Cash Equivalents	\$ <u>293,517</u>	\$ <u>256,137</u>	\$ <u>160,606</u>	\$ <u>389,048</u>
Investments	<u>927,150</u>	<u>185,830</u>	<u>63,923</u>	<u>1,049,057</u>
TOTAL ASSETS	\$ <u>1,220,667</u>	\$ <u>441,967</u>	\$ <u>224,529</u>	\$ <u>1,438,105</u>
<b><u>LIABILITIES</u></b>				
Due to General Fund	\$ <u>-0-</u>	\$ <u>28,315</u>	\$ <u>-0-</u>	\$ <u>28,315</u>
Custodial Funds Payable	<u>1,220,667</u>	<u>413,652</u>	<u>224,529</u>	<u>1,409,790</u>
TOTAL LIABILITIES	\$ <u>1,220,667</u>	\$ <u>441,967</u>	\$ <u>224,529</u>	\$ <u>1,438,105</u>
<b><u>TOTAL - AGENCY FUNDS</u></b>				
<b><u>ASSETS</u></b>				
Cash and Cash Equivalents	\$ <u>3,176,949</u>	\$ <u>9,724,854</u>	\$ <u>9,761,506</u>	\$ <u>3,140,297</u>
Investments	<u>60,546,596</u>	<u>20,130,169</u>	<u>5,907,407</u>	<u>74,769,358</u>
TOTAL ASSETS	\$ <u>63,723,545</u>	\$ <u>29,855,023</u>	\$ <u>15,668,913</u>	\$ <u>77,909,655</u>
<b><u>LIABILITIES</u></b>				
Due to General Fund	\$ <u>-0-</u>	\$ <u>96,009</u>	\$ <u>-0-</u>	\$ <u>96,009</u>
Custodial Funds Payable	<u>63,723,545</u>	<u>29,759,014</u>	<u>15,668,913</u>	<u>77,813,646</u>
TOTAL LIABILITIES	\$ <u>63,723,545</u>	\$ <u>29,855,023</u>	\$ <u>15,668,913</u>	\$ <u>77,909,655</u>

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

**STATE OF NEW HAMPSHIRE  
STATE TREASURY**

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. FINANCIAL REPORTING ENTITY**

The New Hampshire 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 Treasury. The financial activity of the 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 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 Treasury cannot be determined. Accordingly, the accompanying financial statements are not intended to show the financial position of the 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**

*Financial Statements*

The financial statements of the 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.

*Fund Accounting*

The State of New Hampshire and the 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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**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 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 State records in the Capital Projects Fund 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. 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.

**ACCOUNT GROUPS**

*General Fixed Assets*

General fixed assets acquired for use by the 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, 1997, the 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.

## **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **B. BASIS OF PRESENTATION - FUND ACCOUNTING (Continued)**

##### **ACCOUNT GROUPS (Continued)**

###### *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.

#### **C. BASIS OF ACCOUNTING**

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 which revenues are recognized when measurable and available to finance operations during the year. "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 obligations 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. Agency Fund assets and liabilities are also accounted for on the modified accrual basis.

#### **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. This budget consists of three parts: Part I is the Governor's program for meeting all expenditure needs as well as estimating revenues to be received; Part II is a detailed breakdown of the budget at the department level for appropriations to meet the expenditure needs of the government; and Part III consists of draft appropriation bills for the appropriations made in the proposed budget. The operations of the Treasury are budgeted in the General and Capital Projects Funds. Agency Funds are not budgeted.

The New Hampshire biennial budget is composed of the initial operating budget and 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 48, the final budgeted amount includes the initial operating budget plus supplemental appropriation warrants, balances brought forward, and transfers. A Statement Of Revenues And Expenditures-Budget And Actual-General Fund is presented as part of Treasury's financial statements.

## **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **D. BUDGETARY DATA (Continued)**

##### *General Budget Policies*

RSA 9:3-a requires the Governor to submit a capital budget to the Legislature in each odd numbered year. The enacted capital budget authorizes appropriations that are usually intended to be expended over several years. A Statement Of Capital Projects Fund Activity is presented as part of Treasury's financial statements.

##### *Variances - Favorable/Unfavorable*

The variance column on the Statement Of Revenues And Expenditures-Budget And Actual -General Fund 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 Treasury's General and Capital Projects Funds unliquidated encumbrance balances at June 30, 1997 were \$48,683 and \$2,906, respectively.

#### **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. Assets in the General Fixed Assets Account Group are not depreciated.

## **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **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.

### **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 certain types of banking institutions and limits the amounts that may be on deposit with a particular bank at any one time. In addition, all depositories used by the State must be approved, at least annually, by Governor and Council.

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

The Treasury has adopted a policy of formally evaluating the condition of its depositories on a quarterly basis. The State Treasurer is not required to collateralize bank deposits. However, during fiscal year 1997, the State Treasury collateralized deposits at two of its major depositories. Collateral is principally in the form of U.S. Treasury direct obligations.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)**

*Deposits (Continued)*

Deposits are classified as to credit 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, 1997 balance in the State's depository accounts summarized by deposit type and 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, 1997.

(Expressed in Thousands)	Categories			Bank Balance	Carrying Amount
	1	2	3		
<b>Pooled Deposits:</b>					
Demand Deposits (Interest Bearing)	\$ 415	\$ 5,102	\$ 136,402	\$ 141,919	\$ 93,024
Money Market Accounts	-0-	-0-	24	24	24
Savings Accounts	<u>4</u>	<u>-0-</u>	<u>-0-</u>	<u>4</u>	<u>4</u>
Subtotal	\$ 419	\$ 5,102	\$ 136,426	\$ 141,947	\$ 93,052
<b>Restricted Deposits:</b>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>
<b>Total Deposits</b>	<b>\$ <u>419</u></b>	<b>\$ <u>5,102</u></b>	<b>\$ <u>136,426</u></b>	<b>\$ <u>141,947</u></b>	<b>\$ <u>93,052</u></b>

*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 Treasury must adhere to when investing State funds. With the approval of Governor and Council, the State Treasurer must invest in obligations of the United States government, in obligations which are legal investments for savings banks and trust companies, in all types of savings accounts, in participation units in the public deposit investment pool established pursuant to RSA 383:22, in certificates of deposit of

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

#### *Investments (Continued)*

state or federally chartered banking institutions within New Hampshire, or in certificates of deposit of national banks within the Commonwealth of 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 1.4% of the Treasury's investment portfolio at June 30, 1997. RSA 6:8 does not include reverse repurchase agreements as allowable investment instruments for the Treasury.

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 GASB Statement No. 3.

In accordance with GASB Statement No. 3, investments are classified as to risk by the three categories described below:

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

The State's investments at June 30, 1997, summarized by type and risk category, are shown in the following schedule. Investments are stated at cost (carrying amount) and market value.



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)**

*Investments (Continued)*

(Expressed in Thousands)	Categories			Carrying Amount	Market Value
	1	2	3		
<b>Pooled Investments:</b>					
Repurchase Agreements	\$ -0-	\$ -0-	\$ 79	\$ 79	\$ 79
Stocks and Bonds	3,627	-0-	6,692	10,319	12,083
United States					
Government Obligations	<u>49,347</u>	<u>-0-</u>	<u>48,577</u>	<u>97,924</u>	<u>98,258</u>
Subtotal	\$ <u>52,974</u>	\$ <u>-0-</u>	\$ <u>55,348</u>	\$ <u>108,322</u>	\$ <u>110,420</u>
<b>Restricted Investments:</b>					
Repurchase Agreements	\$ 5,000	\$ -0-	\$ -0-	\$ 5,000	\$ 5,000
Stocks and Bonds	-0-	-0-	-0-	-0-	-0-
United States					
Government Obligations	<u>81,572</u>	<u>-0-</u>	<u>-0-</u>	<u>81,572</u>	<u>80,963</u>
Subtotal	\$ <u>86,572</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>86,572</u>	\$ <u>85,963</u>
<b>Unclassified</b>					
<b>Investments:</b>					
N.H. Public Deposit					
Investment Pool				\$ 11,951	\$ 11,951
Open-ended Mutual					
Funds				147,987	150,140
Restricted Open-ended					
Mutual Funds				<u>1,044</u>	<u>1,044</u>
Subtotal				\$ <u>160,982</u>	\$ <u>163,135</u>
<b>Total Investments</b>				\$ <u>355,876</u>	\$ <u>359,518</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, 1997 was \$661.4 million.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### NOTE 3 -- LONG-TERM DEBT (Continued)

#### *Bonds Authorized And Unissued*

Bonds authorized and unissued amounted to \$285.3 million at June 30, 1997. The proceeds of the bonds will be applied to the following funds when issued (expressed in thousands):

	<b>Bonds Authorized and Unissued 6/30/97</b>
Highway Fund	\$ 19,045
Capital Projects Fund	75,158
Enterprise Fund - Turnpike System	<u>191,100</u>
<b>Total</b>	<b>\$ <u>285,303</u></b>

#### *Turnpike System*

The Legislature has established a 10-year highway construction and reconstruction plan for the turnpike system to be funded from turnpike revenues, such as toll receipts, and other income derived or to be derived by the State from the operation of the Turnpike System and all rights to receive the same, including grants, loans and other contributions from any governmental unit, investment earnings, and the proceeds of any borrowing or of any sale or disposition or insurance of any assets of the Turnpike System. This legislation also authorized the Governor and Executive Council to sell up to \$550 million of revenue bonds to support this project. The State has issued \$305 million of revenue bonds for this project.

#### *Advance Refunding*

The following is a summary of general obligation 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>	<u>Amount Outstanding 6/30/97</u>
December 19, 1996	\$ 39,875
April 15, 1993	52,960
September 1, 1992	<u>28,000</u>
<b>Total</b>	<b>\$ <u>120,835</u></b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**NOTE 3 – LONG-TERM DEBT (Continued)**

*Advance Refunding (Continued)*

On March 15, 1991 and August 1, 1992, the State defeased certain Turnpike revenue bonds. The proceeds of the new bonds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments from the year 1999 forward on the old bonds. These bonds are considered to be defeased, from 1999 forward, and the applicable portion of the liability for those bonds has been removed from the Enterprise Fund - Turnpike System. The defeased bonds still outstanding at June 30, 1997 related to the above dated issues amounted to \$75.8 million and \$88.1 million, respectively.

On January 20, 1994, the Enterprise Fund - Turnpike System completed a cash defeasance of certain 1991 Refunding Series B and 1991 Refunding Series C bonds. Turnpike System operating cash was used to purchase U.S. Government securities, which were deposited in an irrevocable trust with an escrow agent to provide the future debt service from the year 2014 forward, and the applicable portion of the liability for those bonds has been removed from the Enterprise Fund - Turnpike System. The defeased bonds still outstanding at June 30, 1997 amounted to \$27.0 million.

*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 1997 (expressed in thousands):

<b><u>General Long-Term Debt Account Group</u></b>	<b><u>Balance 7/1/96</u></b>	<b><u>Accretion</u></b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b><u>Balance 6/30/97</u></b>
General Obligation Bonds	\$ <u>615,454</u>	\$ <u>10,441</u>	\$ <u>92,900</u>	\$ <u>101,093</u>	\$ <u>617,702</u>
<b><u>Enterprise Funds</u></b>					
General Obligation Bonds	\$ 47,832	\$ -0-	\$ -0-	\$ 4,181	\$ 43,651
Revenue Bonds	<u>272,887</u>	<u>-0-</u>	<u>-0-</u>	<u>5,092</u>	<u>267,795</u>
Total Enterprise Funds	\$ <u>320,719</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>9,273</u>	\$ <u>311,446</u>

## **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

### **NOTE 3 – LONG-TERM DEBT (Continued)**

#### *Changes in Long-Term Liabilities (Continued)*

On December 19, 1996, the State issued \$63.2 million of general obligation capital improvement and refunding bonds for \$10.0 million and \$53.2 million, respectively. The interest rates on these serial bonds range from 4.45% to 5.50% and the maturity dates range from 1997 through 2016. The \$53.2 million of refunding bonds were used to advance refund \$39.9 million of general obligation bonds and defease \$9.4 million of State guaranteed bonds. A portion of the proceeds from the refunding bonds was deposited into a trust account for the defeasance of the State guaranteed bonds and a portion was 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 1997 forward, and 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 \$39.9 million of general obligation bonds will result in a cash savings of \$3.0 million over the next 20 years and a long-term economic gain of \$2.6 million.

On May 28, 1997, the State issued \$20.3 million of general obligation capital improvement bonds (College Savings Bond Program). The interest rates on these serial bonds range from 4.85% to 5.65% and they mature on July 1, 2002 through June 1, 2017.

#### *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, 1997, the cumulative interest accretion since issuance for all six capital appreciation bonds was approximately \$51.2 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 \$305 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):

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### NOTE 3 – LONG-TERM DEBT (Continued)

*Debt Maturity (Continued)*

(Expressed in Thousands)

	SOURCE OF PRINCIPAL PAYMENTS					DEBT SERVICE		
	GOVERNMENTAL FUND			ENTERPRISE	TOTAL ALL FUNDS	Principal	Interest	Total
Payable June 30,	General Fund	Highway Fund	Self Liquidating	Sub Total	Turnpike System			
1998	\$ 42,108	\$ 4,462	\$ 4,432	\$ 51,002	\$ 10,403	\$ 61,405	\$ 41,444	\$ 102,849
1999	46,297	4,779	6,604	57,680	11,081	68,761	37,389	106,150
2000	46,492	2,861	5,887	55,240	9,401	64,641	34,865	99,506
2001	45,000	2,810	6,699	54,509	9,464	63,973	32,107	96,080
2002	40,747	2,697	6,131	49,575	11,709	61,284	29,960	91,244
Thereafter	<u>368,225</u>	<u>26,516</u>	<u>61,763</u>	<u>456,504</u>	<u>263,472</u>	<u>719,976</u>	<u>228,912</u>	<u>948,888</u>
Subtotal	588,869	44,125	91,516	724,510	315,530	1,040,040	404,677	1,444,717
Unamortized Discount	<u>(91,353)</u>	<u>(9,977)</u>	<u>(5,478)</u>	<u>(106,808)</u>	<u>(4,085)</u>	<u>(110,893)</u>	<u>-0-</u>	<u>(110,893)</u>
Total	\$ <u>497,516</u>	\$ <u>34,148</u>	\$ <u>86,038</u>	\$ <u>617,702</u>	\$ <u>311,445</u>	\$ <u>929,147</u>	\$ <u>404,677</u>	\$ <u>1,333,824</u>

Turnpike System principal debt service includes general obligation principal debt service of \$43.7 million, serial revenue bond principal debt service of \$77.3 million and term revenue bond principal debt service of \$194.6 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.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 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 \$350.2 million of contingent liabilities and the statutory limits as of June 30, 1997 (expressed in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
N.H. Water Supply and Pollution Control Commission, RSA 485-A:7 (Legal Limit \$250.0 million - principal and interest)	\$ 109,353	\$ 41,531	\$ 150,884
Business Finance Authority, RSA 162-A:22 - Economic Development (Legal Limit \$95.0 million - principal plus interest)	37,293	23,043	60,336
N.H. School Building Authority, RSA 195-C:2 (Legal Limit \$75.0 million - principal and interest)	37,670	15,111	52,781
Business Finance Authority, Ch 265, Laws of 1989 and Ch 8, Laws of 1992 and Ch 257, Laws of 1996 - Airport (Legal Limit \$42.7 million - principal plus interest)	40,885	42,379	83,264
Landfill Closures/Hazardous Waste Sites Cleanup, RSA 149-M:31 (Legal Limit \$30.0 million - principal and interest)	1,530	561	2,091
Pease Development Authority, RSA 12-G:27 (Legal Limit \$12.4 million - principal plus interest)	<u>683</u>	<u>146</u>	<u>829</u>
<b>TOTAL</b>	<b>\$ <u>227,414</u></b>	<b>\$ <u>122,771</u></b>	<b>\$ <u>350,185</u></b>

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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**NOTE 4 – CONTINGENT AND LIMITED LIABILITIES (Continued)**

*Bonds and First Mortgages (Continued)*

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, 1997, the State has issued \$37.6 million in general obligation bonds on behalf of PDA in lieu of a State guarantee in accordance with RSA 12-G:27 III. The general obligation debt issued on behalf of PDA reduced the legal limit of \$50 million on debt guaranteed by the State to \$12.4 million at June 30, 1997.

Effective May 18, 1992, RSA 33:3-f (Chapter 275, Laws of 1992) 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.

Effective June 8, 1994, RSA 12-G:27-b (Chapter 339, Laws of 1994) 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 State's Legislative Fiscal Committee of the comprehensive development plan prepared by the PDA. The Governor and Council may award an unconditional State guarantee for the principal, not to exceed \$60 million.

**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, 1997. Equipment purchases are funded through budgeted appropriations.

Equipment Balance at July 1, 1996	\$ 192,608
Additions	27,217
Deletions	<u>(30,696)</u>
<b>Equipment Balance at June 30, 1997</b>	<b>\$ <u>189,129</u></b>

## **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

### **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**

#### *New Hampshire Retirement System*

The 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 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 Treasury employees are members of Group I.



## **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

### **NOTE 7 – EMPLOYEE BENEFIT PLANS (Continued)**

#### *New Hampshire Retirement System (Continued)*

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. During fiscal year 1997, 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 Treasury's employees enrolled in the Plan. 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 Treasury's payments for normal contribution costs for fiscal year 1997 amounted to 3.14% of the covered payroll for its Group I employees. 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, pension benefit obligation, and ten year historical trend data. The New Hampshire Retirement System operates on a fiscal year ending June 30.

#### *Deferred Compensation Plan*

The 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 (until paid or made available to the employees or other beneficiaries) solely the property and rights of the State (without being restricted to the provisions of benefits under the Plan), subject only to the claims of the State's general creditors. Participants' rights under the Plan are equal to those of general creditors of the State in an amount equal to the fair market value of the deferred account for each participant.

#### *Postemployment Health Care Benefits*

In addition to the benefits described above, the 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.

## **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

### **NOTE 7 -- EMPLOYEE BENEFIT PLANS (Continued)**

#### *Postemployment Health Care Benefits (Continued)*

During the fiscal year ended June 30, 1997, 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 Treasury employees and spouses is a budgeted amount and is paid from an appropriation made to the administrative organization of the New Hampshire Retirement System. Accordingly, the cost of health insurance benefits for the retired Treasury employees and spouses is not included in the Treasury's financial statements.

### **NOTE 8 -- FEDERAL FUNDS**

The Treasury is the recipient of two federal grants: Schools and Roads - Grants to States, and Flood Control Projects. The grantor agencies are the U.S. Departments of Agriculture and Defense, respectively. The funds from these grants are passed through to New Hampshire school districts, cities, and towns.

**STATE OF NEW HAMPSHIRE  
STATE TREASURY**

**SCHEDULE OF BUDGETARY COMPONENTS  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 1997**

	<u>OPERATING BUDGET</u>	<u>SUPPLEMENTAL APPROPRIATION WARRANTS</u>	<u>BALANCES BROUGHT FORWARD</u>	<u>NET TRANSFERS IN(OUT)</u>	<u>BUDGET</u>
<b><u>REVENUES</u></b>					
<b><u>UNRESTRICTED REVENUES</u></b>					
Interest on Surplus Funds	\$ 2,000,000	\$ -0-	\$ -0-	\$ -0-	\$ 2,000,000
Miscellaneous Sales/Revenues	1,010,000	-0-	-0-	-0-	1,010,000
Abandoned Property	750,000	-0-	-0-	-0-	750,000
Unclaimed Check Revenues	100,000	-0-	-0-	-0-	100,000
Other	<u>43,500</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>43,500</u>
<b>TOTAL UNRESTRICTED REVENUES</b>	<b>\$ <u>3,903,500</u></b>	<b>\$ <u>-0-</u></b>	<b>\$ <u>-0-</u></b>	<b>\$ <u>-0-</u></b>	<b>\$ <u>3,903,500</u></b>
<b><u>RESTRICTED REVENUES</u></b>					
Abandoned Property	\$ 516,820	\$ 193,620	\$ -0-	\$ -0-	\$ 710,440
Other	<u>31,497</u>	<u>22,000</u>	<u>29,484</u>	<u>-0-</u>	<u>82,981</u>
<b>TOTAL RESTRICTED REVENUES</b>	<b>\$ <u>548,317</u></b>	<b>\$ <u>215,620</u></b>	<b>\$ <u>29,484</u></b>	<b>\$ <u>-0-</u></b>	<b>\$ <u>793,421</u></b>
<b>TOTAL REVENUES</b>	<b>\$ <u>4,451,817</u></b>	<b>\$ <u>215,620</u></b>	<b>\$ <u>29,484</u></b>	<b>\$ <u>-0-</u></b>	<b>\$ <u>4,696,921</u></b>
<b><u>EXPENDITURES</u></b>					
Debt Service	\$ 49,490,300	\$ 1,769,436	\$ 669,577	\$ 1,065,112	\$ 52,994,425
State Revenue Sharing	47,300,000	-0-	-0-	-0-	47,300,000
Rooms and Meals Tax Distribution	9,177,478	-0-	-0-	-0-	9,177,478
Debt Service - UNH	9,905,000	-0-	-0-	(1,065,112)	8,839,888
Salaries and Benefits	1,008,375	24,556	-0-	(29,624)	1,003,307
Current Expenses	175,200	115,000	1,377	-0-	291,577
Return of Escheated Property	-0-	216,012	-0-	-0-	216,012
Other	104,564	59,935	35,325	-0-	199,824
Payment of Voided Checks	<u>-0-</u>	<u>80,881</u>	<u>-0-</u>	<u>-0-</u>	<u>80,881</u>
<b>TOTAL EXPENDITURES</b>	<b>\$ <u>117,160,917</u></b>	<b>\$ <u>2,265,820</u></b>	<b>\$ <u>706,279</u></b>	<b>\$ <u>(29,624)</u></b>	<b>\$ <u>120,103,392</u></b>

STATE OF NEW HAMPSHIRE  
STATE TREASURY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(CASH BASIS)  
FOR THE YEAR ENDED JUNE 30, 1997

<u>Federal Catalog Number</u>	<u>Federal Grantor/Federal Program</u>	<u>Expenditures</u>
	<b>Department of Agriculture</b>	
10.665	Schools and Roads - Grants to States	\$ 510,233
	<b>Department of Defense</b>	
12.106	Flood Control Projects	<u>5,488</u>
	<b>Total</b>	<b>\$ <u>515,721</u></b>

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**APPENDIX**

**CURRENT STATUS OF PRIOR AUDIT FINDINGS**

The following is a summary, as of December 19, 1997, of the status of the observations contained in the audit report of the State Treasury for the fiscal year ended June 30, 1995. 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.

**INTERNAL CONTROL STRUCTURE**

**STATUS**

**REPORTABLE CONDITIONS**

- |   |       |
|---|-------|
| 1. Bank Reconciliations   | ● ● ● |
| 2. Processing Unclaimed Checks  | ● ● ● |
| 3. Monitoring State Accounting Reports-<br>Overstatement of Balance Forward | ● ● ● |
| 4. Cash Receipt Procedures  | ● ● ● |
| 5. Timeliness of Manual Warrant Preparation                                 | ● ● ● |

**STATE COMPLIANCE**

- |  |       |
|--|-------|
| 6. Expired Administrative Rules<br>(See Current Observation No. 7) | ● ○ ○ |
|--|-------|

**FEDERAL COMPLIANCE**

- |   |       |
|---|-------|
| 7. Federal Funds Cash Management<br>(See Current Observation No. 4) | ○ ○ ○ |
|---|-------|

**STATUS KEY**

- |                        |       |
|------------------------|-------|
| Fully Resolved         | ● ● ● |
| Substantially Resolved | ● ● ○ |
| Partially Resolved     | ● ○ ○ |
| Unresolved             | ○ ○ ○ |

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