



The State of New Hampshire

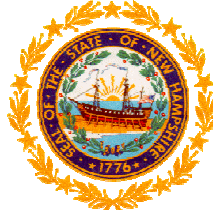
Annual Report of the Treasury

**As of and for the
FISCAL YEAR ENDED JUNE 30, 2008**

**Catherine A. Provencher
State Treasurer
Concord, New Hampshire
2008**

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Catherine A. Provencher
STATE TREASURER

**THE STATE OF NEW HAMPSHIRE
STATE TREASURY**

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September 22, 2008

To His Excellency the Governor and the Honorable Council:

Pursuant to, RSA 6:17, RSA 6:43, RSA 11:5-b and RSA 20:7, I am pleased to submit the Annual Report of the State Treasury, as of and for the fiscal year ended June 30, 2008 for your approval.

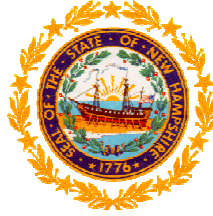
The New Hampshire Treasury is charged with executing a variety of financial management tasks. Among those responsibilities, the Treasury performs internal bank and investment management functions for the State's funds; issues the State's general obligation and revenue bonds and other debt and, pursuant to RSA 471-C, is responsible for acquiring and returning to owners all financial property that qualifies as abandoned property under the law. The Treasurer is also a member of various boards and commissions and acts as trustee and custodian of various State funds.

Please note that all the information contained in this report is unaudited and subject to change pending the audit of the State's Comprehensive Annual Financial Report.

The staff of the Treasury and I personally look forward to the challenges of the next fiscal year as we continually strive to improve the wide range of financial management services we provide to the residents of New Hampshire and to all branches of State government.

Respectfully submitted,

Catherine A. Provencher
State Treasurer



**STATE OF NEW HAMPSHIRE
SELECTED STATE OFFICIALS**

GOVERNOR

John H. Lynch

EXECUTIVE COUNCIL

Raymond S. Burton, District 1
John D. Shea, District 2
Beverly A. Hollingworth, District 3
Raymond J. Wieczorek, District 4
Deborah Pignatelli, District 5

ATTORNEY GENERAL

Kelly Ayotte

COMMISSIONER OF ADMINISTRATIVE SERVICES

Linda Hodgdon

STATE TREASURER

Catherine A. Provencher

SECRETARY OF STATE

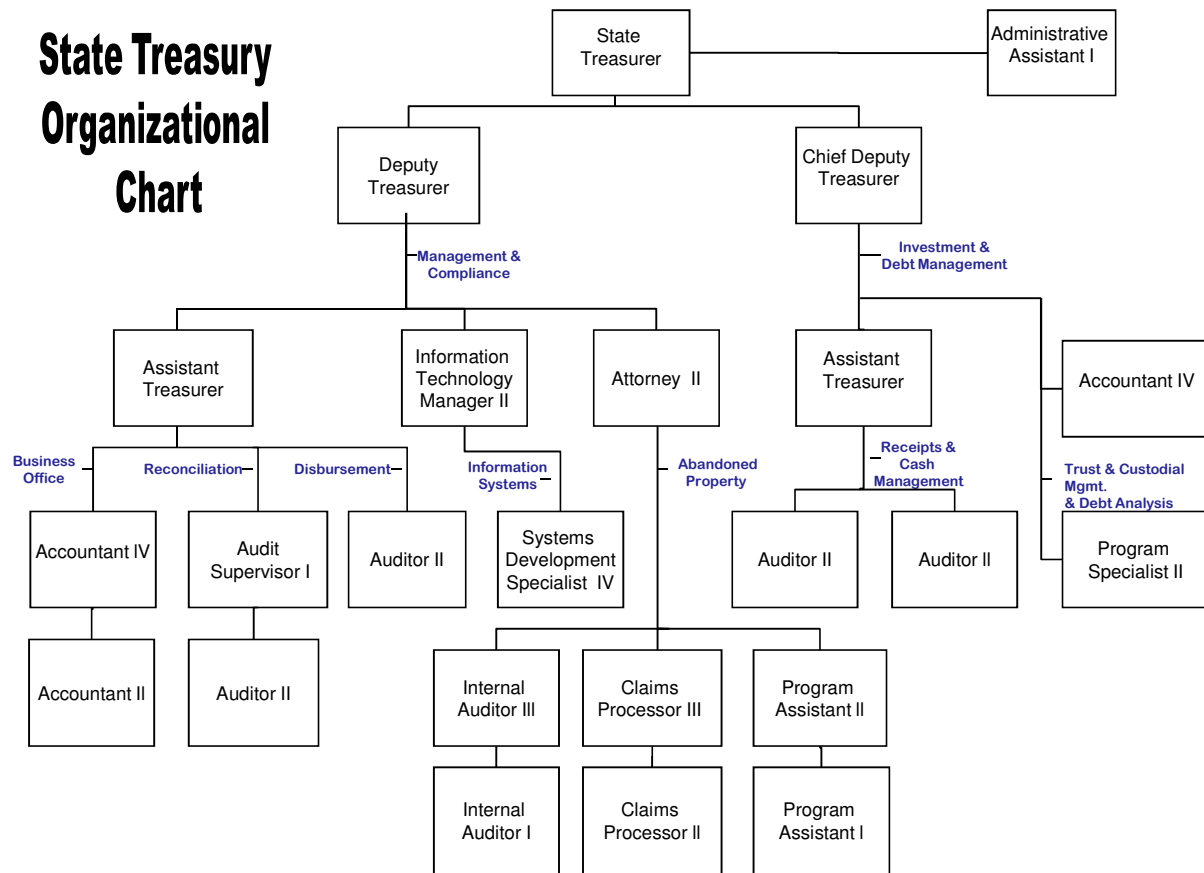
William M. Gardner

OVERVIEW OF TREASURY

Part 2; Article 67 of the New Hampshire Constitution establishes the position of the Treasurer of the State of New Hampshire. In accordance with the Constitution, the Treasurer is elected by a joint session of the Senate and the House of Representatives (the General Court). This election takes place on the first Wednesday of December following the biennial election when the newly elected General Court meets for organizational purposes.

The State Treasury is responsible for a variety of financial management activities including cash and investment management, debt management, and the unclaimed and abandoned property program. The Treasurer is a member of many boards and commissions including the New Hampshire Retirement System, the New Hampshire Municipal Bond Bank, the New Hampshire Business Finance Authority, the Nuclear Decommissioning Finance Committee and the College Tuition Savings Plan Advisory Commission. The Treasurer is also the trustee of, or has administrative responsibilities for many trust, custodial, escrow and other funds.

The authorized staffing of the Treasury for the 2008/2009 biennium is 24 positions, however three of these positions are vacant due to a hiring freeze. The organizational chart below illustrates the approved positions for each functional area.



CASH MANAGEMENT

The Treasury is responsible for a broad array of cash management activities related to its role as the state's "bank". It is the Treasury's responsibility to have the right amount of cash, when and where needed to finance the operating and capital budgets. This responsibility is accomplished in several ways including cash flow forecasting, collecting and concentrating funds, making disbursements, and investing available daily cash balances.

In fiscal year 2008, the Treasury managed over \$5.0 billion in receipts and approximately \$5.1 billion in disbursements. A list of receipts and disbursements by major fund category follows:

COMPARATIVE STATEMENT OF RECEIPTS AND DISBURSEMENTS

	As of June 30		
	2008	2007	2006
BEGINNING BALANCE	\$582,741,939	\$479,803,900	\$420,864,786
<u>RECEIPTS:</u>			
GENERAL	\$3,176,301,145	\$3,057,464,621	\$2,917,495,063
LIQUOR	518,295,045	481,273,158	456,329,012
SWEEPSTAKES	138,968,747	167,600,258	140,886,277
HIGHWAY	445,617,025	454,364,862	431,499,174
TURNPIKE	105,755,100	89,173,896	85,950,545
FISH AND GAME	23,994,280	21,501,503	21,747,783
EMPLOYEE BENEFIT	24,701,607	21,933,853	16,731,641
CAPITAL	150,975,533	126,431,902	103,004,055
EDUCATION	439,817,400	424,763,879	401,023,911
SKYHAVEN	0	0	0
TOTAL	\$5,024,425,882	\$4,844,507,932	\$4,574,667,460
<i>PERCENTAGE CHANGE</i>	<i>3.7%</i>	<i>5.9%</i>	<i>1.6%</i>
<u>DISBURSEMENTS:</u>			
GENERAL	\$3,063,938,889	\$2,906,637,324	\$2,741,612,644
LIQUOR	512,234,581	475,587,752	436,522,734
SWEEPSTAKES	59,552,604	85,092,172	57,785,138
HIGHWAY	392,048,118	375,240,416	377,401,506
TURNPIKE	69,415,573	68,581,694	70,730,396
FISH AND GAME	15,924,526	13,545,078	14,140,461
EMPLOYEE BENEFIT	240,230,049	221,812,781	207,625,482
CAPITAL	134,780,992	115,788,897	108,079,988
EDUCATION	573,377,877	479,283,779	501,829,998
SKYHAVEN	0	0	0
TOTAL	\$5,061,503,210	\$4,741,569,894	\$4,515,728,347
<i>PERCENTAGE CHANGE</i>	<i>6.7%</i>	<i>5.0%</i>	<i>-3.5%</i>
ENDING BALANCE	\$545,664,610	\$582,741,939	\$479,803,900
<i>PERCENTAGE CHANGE</i>	<i>-6.4%</i>	<i>21.5%</i>	<i>14.0%</i>

At June 30, 2008, the State's total cash and investment balance was \$545.7 million. On a year over year basis, the State's total cash and investment balances decreased by \$37 million, or 6.4 percent. A list of cash and investment balances by major fund category follows:

STATEMENT OF CASH BALANCES BY FUND

<u>FUND</u>	<u>As of June 30</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
GENERAL	\$425,903,576	\$383,570,432	\$315,811,729
LIQUOR	22,000	22,000	12,000
SWEEPSTAKES	(201,280)	1,226,446	945,779
HIGHWAY	28,483,320	51,390,356	73,255,523
TURNPIKE	94,300,335	74,848,672	70,129,741
FISH AND GAME	9,414,888	9,210,717	8,943,347
EMPLOYEE BENEFIT	44,599,884	55,721,196	38,545,680
CAPITAL	(23,794,579)	(15,254,844)	(24,863,101)
EDUCATION	(33,063,535)	22,006,963	(2,976,797)
SKYHAVEN	0	0	0
TOTAL	\$545,664,610	\$582,741,939	\$479,803,900
NET ANNUAL CHANGE	(\$37,077,328)	\$102,938,039	\$58,939,114
<i>PERCENTAGE CHANGE FROM PRIOR YEAR</i>	<i>-6.4%</i>	<i>21.5%</i>	<i>14.0%</i>

The Treasury earned nearly \$18.5 million in investment income on available cash balances for all operating funds. Interest earnings in this fiscal year decreased by nearly \$3.5 million compared to the prior year. This decrease can be attributed to a combination of declining interest rates and cash balances over the course of the fiscal year.

TRUST AND AGENCY ACCOUNTS

Pursuant to RSA 11:1, the State Treasurer acts as the custodian of "...all trust funds left to and accepted by the state..." As of June 30, 2008, the market value of those trust and agency funds was just over \$65 million. These funds are comprised of forty-five (45) separate trust funds, ranging in market value from just over \$4,000 to over \$24 million with investment objectives ranging from short-term liquidity to maximum capital gain.

These funds originated from a variety of sources and serve a wide variety of beneficiaries. Typically, accounts are opened and accounts are closed during the fiscal year. A list of these trust and agency funds, along with activity and balances for the fiscal year just ended, is included in this report as Exhibit 1.

SEABROOK NUCLEAR DECOMMISSIONING

As of June 30, 2008, the Seabrook Decommissioning Trust fund had assets with a market value of \$370 million, which is a reduction of 7 percent, after taxes, for the fiscal year due to negative investment market returns. The trust represents the cumulative contributions made by the owners of the Seabrook Nuclear Power Project for the cost of future decommissioning, investment earnings on those contributions and net of appropriate taxes and certain administrative expenses. The trust is invested on the basis of elections made by each individual owner, subject to an investment policy approved by the State Treasurer, and influenced by the tax status of each individual owner. The trust fund is invested in a mix of equities (stocks), fixed income securities (bonds) and cash. The allocation of the fund at the end of the fiscal year was approximately 63 percent stocks and 37 percent bonds and cash. In addition, \$5.2 million was being held in separate escrow accounts at June 30, 2008 on behalf of the owners.

The Seabrook Decommissioning Trust is not in the custody of the State Treasurer, nor does the Treasurer serve as the trustee. It is held in the trust by Mellon Bank for the owners of the Seabrook Nuclear Power Plant for the sole purpose of covering decommissioning costs when the plant shuts down. Although the Treasurer serves on the Nuclear Decommissioning Financing Committee, pursuant to RSA 162-F, and fulfills certain other administrative roles, Treasury provides no direct financial management or custodial services to the Trust.

DEBT MANAGEMENT

General obligation debt is paid from the State's taxes and other revenues. As of June 30, 2008, total outstanding general obligation debt was nearly \$689 million. Please note, this figure includes \$3 million of general obligation debt of the Turnpike system which is presented under the Turnpike section on page 9. The following table shows the outstanding general obligation debt (excluding that of the Turnpike system) organized on the basis of the major categories from which it is paid. The vast majority of this debt is repaid from the general fund while the remaining balance is paid from a variety of dedicated user fees and fines.

The State's outstanding general obligation debt (including bond anticipation notes) has increased by a total of only 6% over the past 5 years because the State has paid down about as much debt as was issued during this period. During this same time period the ratio of net general fund debt service (principal and interest payments) to unrestricted revenues has remained fairly consistent, hovering around 6%. The State's other debt ratios remain modest both on a historical basis and relative to other states.

In January 2008, the State issued \$75 million in traditional fixed rate, tax-exempt general obligation capital improvement bonds to provide permanent financing for a variety of capital projects previously authorized by the legislature. This "new money" issue of \$75 million was consistent with Treasury's annual general obligation capital improvement bond issuance both in size of issuance and timing of the sale and resulted in a true interest cost of approximately 3.68%. As has historically been the Treasury's practice, the final maturity of the bonds is approximately 20 years from date of issuance with approximately 60% of the principal being repaid in the first 10 years of the life of the bonds and 40% in the second half of the life of the bonds.

In March 2008 Treasury issued \$56.3 million in traditional fixed rate refunding bonds, refinancing \$60 million in outstanding variable auction rate securities. The impetus for the refunding was the fairly rapid inability of the auction rate security market to function as normal. Auction rate securities, such as those outstanding at the time, are a way to issue long-term debt while taking advantage of short-term interest rates, thus benefitting from a lower interest rate. Interest on these bonds is typically reset weekly or monthly.

Since issuing these variable auction rate bonds in 2004, Treasury had experienced fairly consistent interest savings over several years. By early 2008 however, the auction rate security market had begun to experience interest rates that were resetting at higher and higher interest rates causing issuers of these securities to strategize a rapid exit out this market. The State’s outstanding variable rate debt never experienced a failed auction during this timeframe, as did other municipal debt issues, however, Treasury did experience a rise in rates from historically low rates of 3% or less to a high of 6%. While other entities were struggling or unable to refinance out of this now costly and unstable debt obligation, Treasury was able to successfully and fairly swiftly exit this market by refinancing with highly stable fixed-rate bonds at a relatively low interest rate. Treasury also sold, at the same time, \$30 million in traditional fixed rate “new money” general obligation bonds to fund a variety of highway related capital projects as authorized under Chapter 264 of the laws of 2007. Both issues, sold competitively, resulted in a true interest cost of approximately 4.25%.

SCHEDULE OF FUTURE DEBT SERVICE PAYMENTS

(In Thousands)

Fiscal Year (s)	General Fund		Highway Fund		Self-Supporting		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 56,137	\$ 31,836	\$ 6,518	\$ 4,643	\$ 6,519	\$ 2,446	\$ 69,173	\$ 38,925
2010	53,900	29,905	6,252	4,506	6,220	2,163	66,372	36,574
2011	50,971	27,326	6,043	4,342	5,838	1,910	62,852	33,578
2012	44,193	22,750	5,445	2,858	5,857	1,657	55,496	27,265
2013	40,113	17,684	5,133	2,656	5,777	1,368	51,024	21,708
2014-18	161,104	66,996	23,712	9,218	12,643	4,496	197,459	80,710
2019-23	110,956	20,813	15,954	4,005	7,970	1,504	134,880	26,322
2024-28	35,858	2,852	9,718	1,133	3,084	261	48,660	4,245
2029-33	0	0	0	0	0	0	0	0
2034-38	0	0	0	0	0	0	0	0
	\$553,232	\$220,162	\$ 78,775	\$ 33,361	\$ 53,908	\$ 15,804	\$685,916	\$269,326

Notes:

General Fund - Includes debt service paid from Unrestricted General Fund Revenues.

Highway Fund - Includes debt service paid from Unrestricted Highway Fund Revenues and separate funds within the Highway Fund.

Self-Supporting - Includes debt service paid from a variety of funding sources including Unrestricted Fish & Game Fund revenues, special user fees and fines.

This report is unaudited and prepared on the cash basis of accounting.

Turnpike System Bonds

In addition to coordinating the issuance of general obligation debt, the Treasury issues revenue bonds for the turnpike system. These bonds are repaid solely from the revenues (tolls) collected throughout the turnpike system. Total outstanding debt (principal only) of the Turnpike system as of June 30, 2008 was \$263 million as reflected in the following table. \$260 million consists of revenue bonds with final maturities in fiscal year 2029. The remaining \$3 million consists of general obligation debt with final maturities in 2011.

SCHEDULE OF FUTURE TURNPIKE DEBT SERVICE PAYMENTS

(In Thousands)

Fiscal Year (s)	Revenue Bonds		Gen'l Obligation Bonds		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 13,270	\$ 12,711	\$ 1,474	\$ 123	\$ 14,744	\$ 12,834
2010	13,500	12,093	624	45	14,124	12,137
2011	14,710	11,426	584	15	15,294	11,440
2012	14,550	10,692	0	0	14,550	10,692
2013	16,950	9,960	0	0	16,950	9,960
2014-18	87,450	36,935	0	0	87,450	36,935
2019-23	59,255	16,672	0	0	59,255	16,672
2024-28	33,120	5,510	0	0	33,120	5,510
2029-33	7,230	343	0	0	7,230	343
2034-38	0	0	0	0	0	0
	\$260,035	\$116,341	\$ 2,682	\$ 183	\$262,717	\$116,523

Note: This report is unaudited and prepared on the cash basis of accounting.

STATE GUARANTEED DEBT

The State is contingently liable for certain municipal government debt issues for water pollution control bonds, school building, and landfill bonds up to statutory limits. The State also provides certain guarantees for the debt issued by the Pease Development Authority and the Business Finance Authority. There are statutory limitations on these contingent debt guarantees:

1. The limit may be either on the total amount guaranteed or on the total amount guaranteed that remains outstanding at any time; the latter is a revolving limit, allowing additional guarantees to be awarded as guaranteed debt is retired.
2. The statutory dollar limit may represent either the total amount of principal and interest or only the total amount of principal that may be guaranteed; in the latter case interest on that principal amount may also be guaranteed but is not otherwise specifically limited.

Issuance of new debt with a State guarantee requires the approval of the Governor and Executive Council.

As of June 30, 2008, the remaining unused guarantee authorizations under the various statutory limitations were:

<u>Purpose</u>	<u>Guarantee Maximum</u>	<u>Remaining Capacity</u>
Water Pollution Control Bonds	\$175.0 million ⁽¹⁾ ⁽²⁾	\$156.4 million
School Bonds	\$ 95.0 million ⁽¹⁾ ⁽²⁾	\$ 80.8 million
Superfund Site Bonds	\$ 50.0 million + int.	\$ 50.0 million + int.
Landfill and Waste Site Bonds	\$ 30.0 million ⁽¹⁾ ⁽²⁾	\$ 29.7 million
Business Finance Authority	\$ 95.0 million + int. ⁽¹⁾	\$ 39.5 million
Pease Development Authority	\$ 85.0 million + int.	\$ 36.4 million
Division of Water Resources	\$ 5.0 million + int.	\$ 5.0 million + int.
Housing Finance Authority		
Child Care	\$ 0.3 million principal	\$ 0.3 million

(1) Revolving limit

(2) Limit applies to total principal and interest.

Senate Bill 498, which was passed into law during the 2008 legislative session, and became effective on July 1, 2008, reduced the total statutory level of contingent debt of approximately \$450 million to a level of \$210 million. (See “Treasury Accomplishments and Ongoing Initiatives”)

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

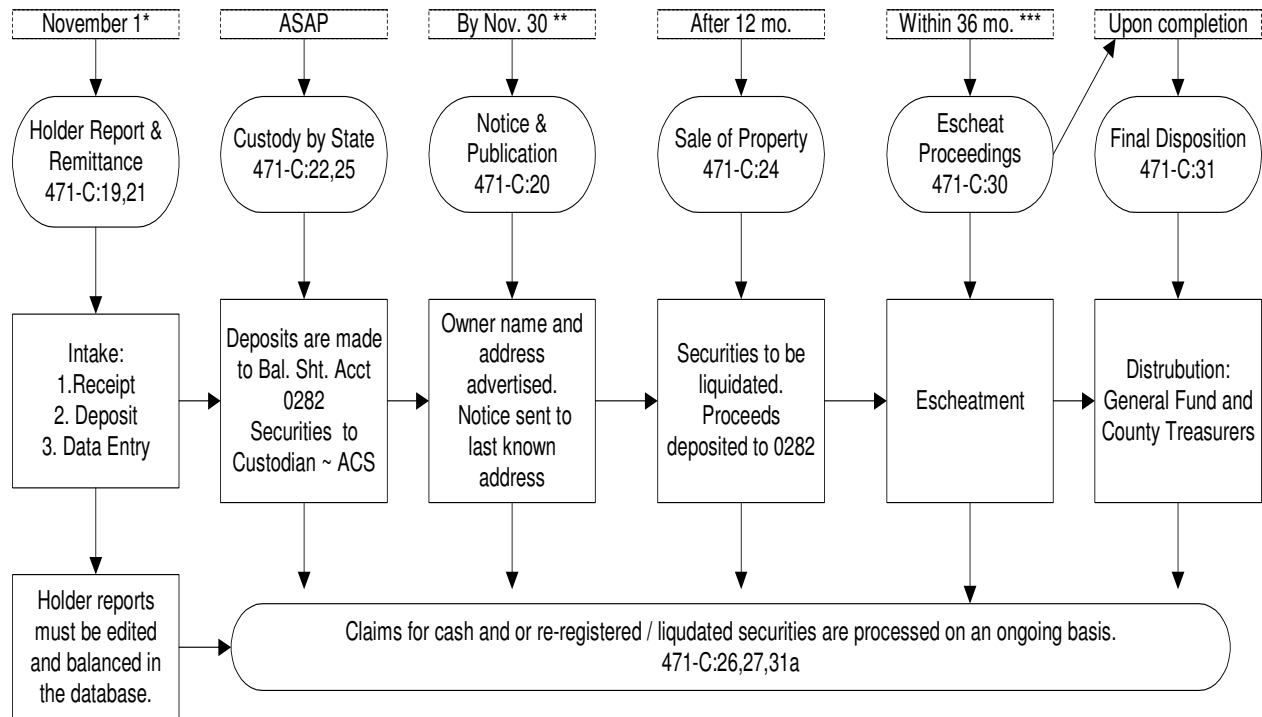
ABANDONED PROPERTY

Overview

Pursuant to the provisions of NH RSA Chapter 471-C, Treasury’s Abandoned Property Division is charged with the task of receiving and returning intangible properties to the rightful owner or heir. Typically, such properties are in the form of cash from dormant accounts but may also include securities such as stock or mutual funds in share form. These properties are reported and remitted by the “holders” of such property. By and large, holders are entities such as banks, credit unions, corporations, utilities, insurance companies, retailers, as well as government agencies and municipalities.

Diligent efforts are made to assure that the property owners are made aware their property has been reported and remitted to Abandoned Property. An annual newspaper advertisement listing all names reported and their last known address is published in all counties of the state. Additionally, a mailing in the form of a post card notification is sent to the last known address of the reported owner. Further, Abandoned Property participates in MissingMoney.com, a multi-state database of unclaimed property owner information, and also maintains an internet web page affording ready access to any citizen inquiring about a lost or abandoned account.

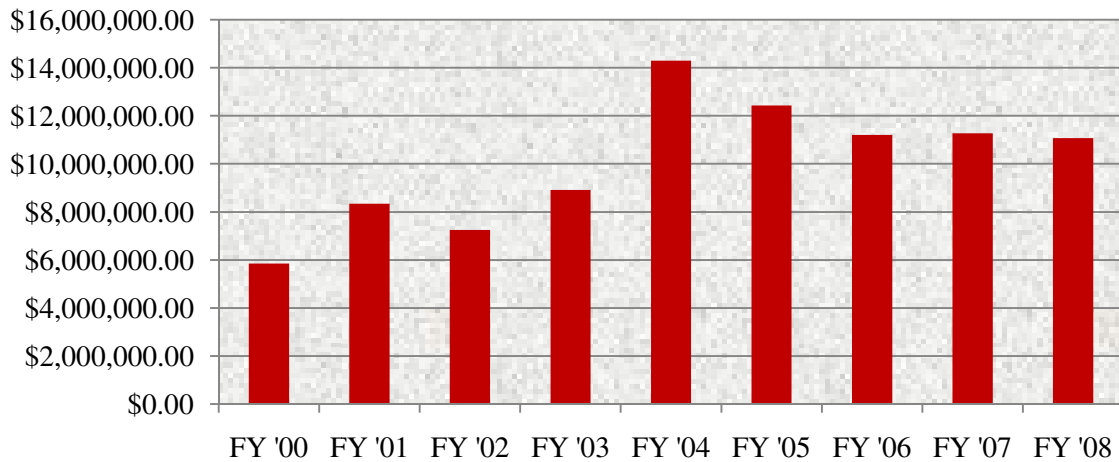
In summary, Abandoned Property’s statutory obligation and annual production cycle requires receipt and deposit of unclaimed funds and shares; maintenance of a database of the properties; sending notice to, and advertisement of, the name and last known address of the reported owner; processing claims; and escheating unclaimed funds to the state’s general fund. The general timeline below offers a sense of the annual workflow.



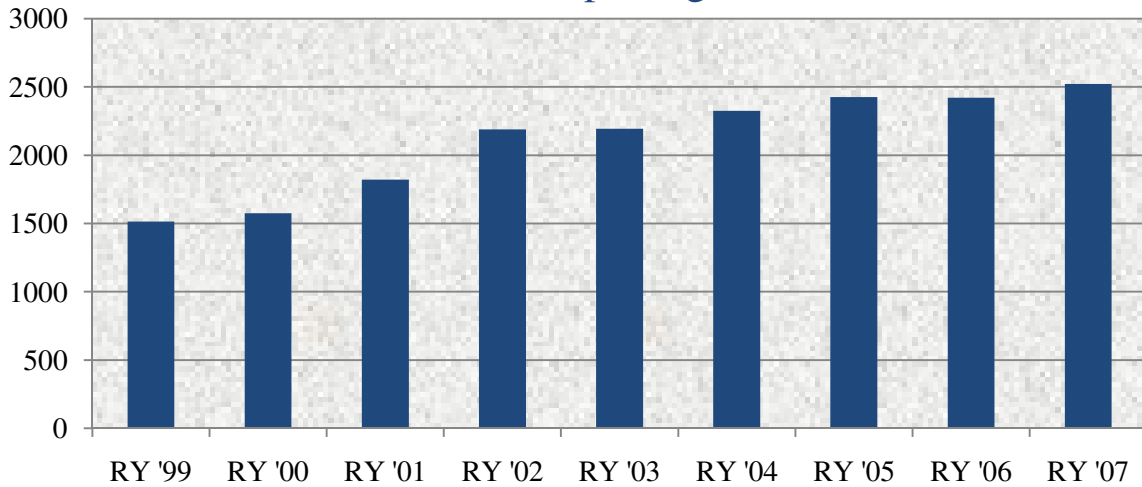
Holder Reporting and Remittances

In fiscal year 2008, over 2,500 holders of property reported and remitted cash in excess of \$11 million together with more than 280,000 shares of stock and/or mutual funds. Over the past nine (9) fiscal years, Abandoned Property has taken in just over \$90 million from holders averaging approximately \$10 million annually

Cash Reported and Remitted

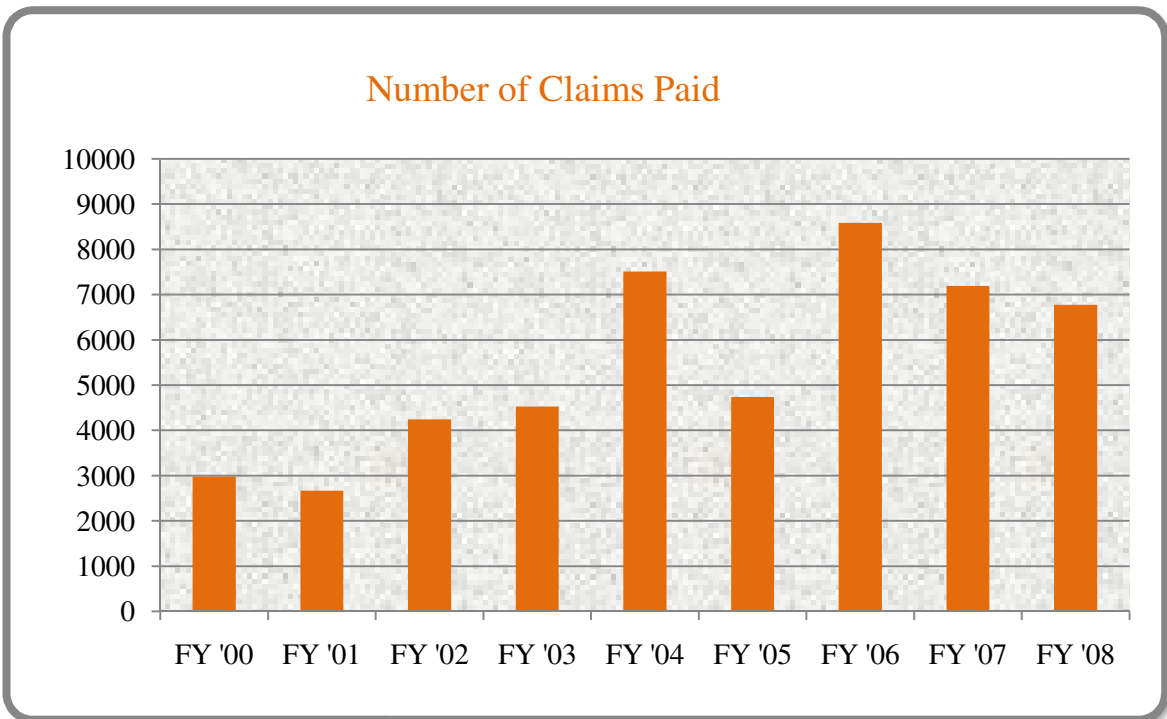
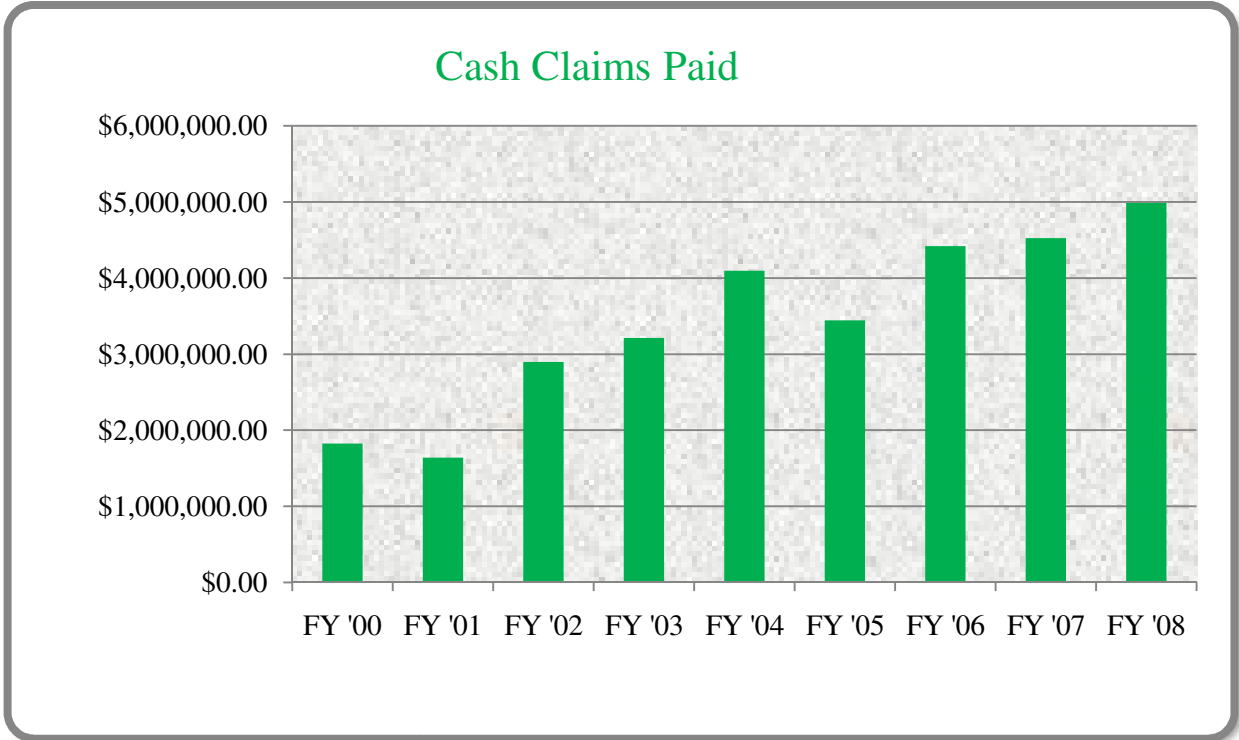


Holder Reporting



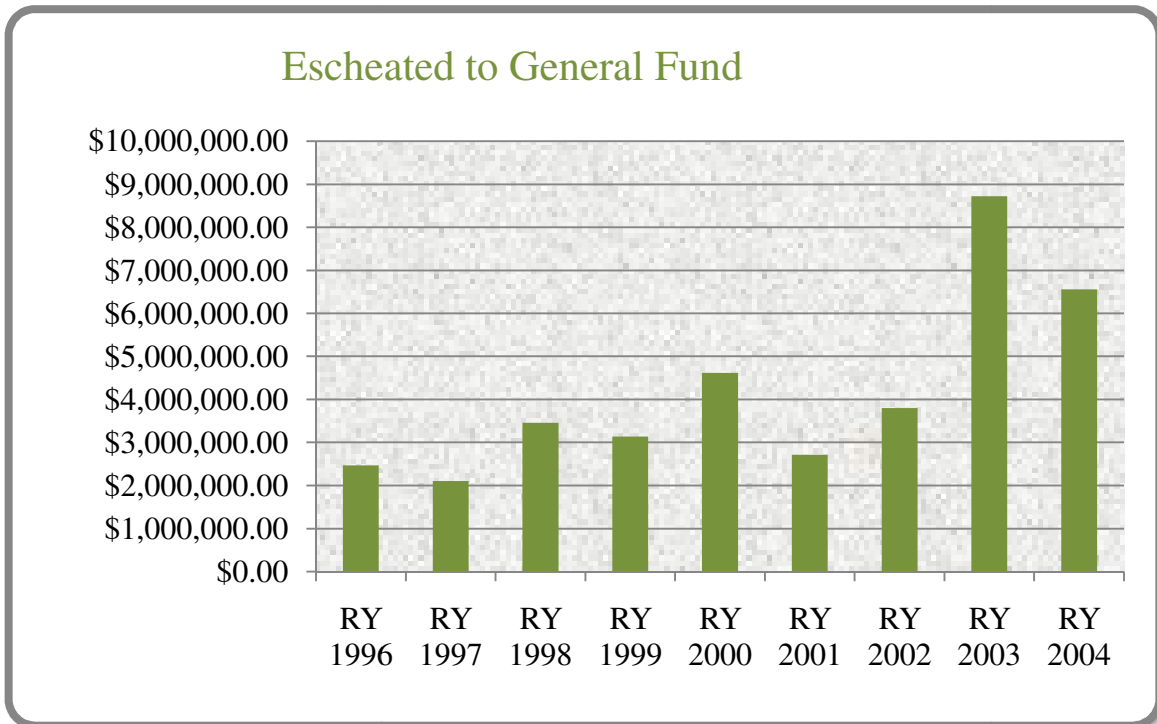
Owner Claims Processed.

During fiscal year 2008, Abandoned Property returned almost \$5 million dollars to citizens representing approximately 6,800 claims. The average claim paid was \$735 and the largest individual claim was almost \$176,000. In the past nine (9) fiscal years, over \$31 million has been returned to owners with an average of \$3.4 million returned each year.



Escheatment (NH RSA Chapter 471-C: 30, 31)

Abandoned Property delivered almost \$6.6 million to the General Fund during fiscal year 2008. Over the past nine (9) fiscal years, almost \$38 million has been escheated to the General Fund. On average a transfer of funds of \$4.2 million has taken place each year. The following graph excludes the impacts of the liquidation of securities for fiscal years 2007 and 2008 discussed below.



Securities Liquidation (NH RSA Chapter 471-C; 30, 31)

Treasury practices, with respect to liquidation of unclaimed securities, have been modified in an effort to recover and deliver proceeds to owners on a more timely basis. An increase in recent escheatment dollars is the result of these changes with significant additional funds being delivered to the General Fund in conjunction with and in addition to the annual escheatment dollars. Total liquidation proceeds delivered to the General Fund during fiscal years 2007 and 2008 were \$16.1 million and \$2.9 million, respectively.

COLLEGE SAVINGS PLAN

As the fiscal year closed, Treasury and the College Tuition Savings Plan Advisory Commission (“Advisory Commission”) had completed ten years of sponsoring the UNIQUE College Investing Plan and seven years of sponsoring the Fidelity Advisor 529 Plan, pursuant to RSA 195-H. Both plans are managed by Fidelity Investments, under contract to the State. The combined net assets for the two plans grew to approximately \$8.1 billion at the end of the fiscal year, which is an approximate 5 percent annual growth. The New Hampshire Plans improved its national leadership position moving up to second of all state plans in net assets. These assets were held by almost 600,000 participants throughout the country.

Both plans are very flexible and withdrawals can be used for a wide range of qualified higher education expenses such as books, required supplies, equipment, room and board, and tuition at accredited postsecondary schools, anywhere in the United States and at several international institutions. There are no income limits on participation and participation is open to anyone, regardless of state of residence. The UNIQUE College Investing Plan is sold directly to retail investors, while the Fidelity Advisor 529 Plan is sold through financial intermediaries, such as financial planners, on a fee (commission) basis.

The New Hampshire Excellence in Higher Education Fund (the “Trust Fund”) was established pursuant to RSA 6:38 and is funded by a small administrative fee generated from the two plans. The purpose of the Trust Fund is to pay for administrative costs incurred by the Advisory Commission and, much more importantly, provides scholarships to financially needy New Hampshire students attending New Hampshire postsecondary education institutions, under the guidance of the Advisory Commission. Two new scholarship programs, implemented in mid-2006, are:

1. UNIQUE Annual Allocation Program (Annual Program) that provides annual scholarships to New Hampshire students attending the University System of New Hampshire, the Community College System of New Hampshire and eleven other eligible and participating New Hampshire postsecondary education institutions.
2. UNIQUE Endowment Allocation Program (Endowment Program) that provides monthly funding to restricted endowment funds established and managed by the University System of New Hampshire, the Community college System of New Hampshire and eight other eligible and participating New Hampshire postsecondary education institutions. With these institutions providing scholarships from the earnings of their growing endowment fund, it is intended that future UNIQUE scholarships will be available to New Hampshire students in perpetuity.

Criteria for both scholarship programs were developed by the Advisory commission and are reviewed at least annually.

The Trust Fund, administered by Treasury, has provided scholarship funding through the end of fiscal 2008 as follows (in thousands of dollars):

	2008 Fiscal <u>Year</u>	From <u>Inception</u>
Annual Program	\$1,040	\$ 1,558
Endowment Program	\$9,188	\$22,082

As of the end of fiscal year 2008, the Trust Fund had a market value of nearly \$24 million.

TREASURY ACCOMPLISHMENTS AND INITIATIVES

Treasury had a number of accomplishments over the past year, and continues with a number of initiatives which started during the fiscal year and are ongoing. As a service provider to other State agencies, these important changes could not have taken place without the full and enthusiastic cooperation of the Treasury staff, a variety of State agencies, the Legislature and private sector financial services firms.

Online CD Auction

Treasury created, in conjunction with a private-sector service provider, the ability to utilize an internet-based auction process for the investment of certain State funds in certificates of deposit. Utilizing this secure technology, Treasury is able to reach out to all New Hampshire and federally chartered banks doing business in the State for investment participation and is able to generate more competitive investment returns.

Each auction process begins with Treasury pre-qualifying all banks that are eligible to participate in the auction utilizing criteria which includes statutory requirements, published financial ratios and credit scores. Minimum and maximum investments are then established for each bank as well as the minimum interest rate which will be accepted during the auction. On the date of the auction, eligible banks that have elected to participate, log on to the secure website with prearranged passwords and bid on the pre-established amount and terms without knowing what the other banks are bidding. Treasury monitors the bidding process and, at the end of the auction period, will award the funds to the highest bidders. The results of the auction are then published and all underlying documentation is provided electronically to both the winning banks and to Treasury, saving both administrative effort and paper documentation storage. Another benefit is that the results of each auction are retained by the service provider and become available as a public record on the website providing additional transparency over this process.

Since implementation, Treasury has held four quarterly auctions beginning with the initial auction on September 12, 2007. Auction results are available at: www.BidNH.com.

Legislative Activity

Treasury thoroughly reviewed all Treasury and certain other financial-related State statutes, together with assistance from outside bond counsel and the Attorney General's office and introduced a "Treasury Omnibus Bill" (House Bill 1533) in the 2008 legislative session. This bill was passed into law and included primarily housekeeping-type changes, some minor policy adjustments, and some changes required because of federal court cases. This bill became effective on August 2, 2008.

Treasury continued to participate with an ad hoc group of state legislators and other interested private-sector parties in discussions focused mainly on personal retirement savings. These discussions, plus extensive research on the need for additional personal financial education topics, influenced the development of proposed legislation (House Bill 1462) establishing the Office of Personal Financial Literacy within Treasury. This bill is currently in interim study and bill sponsors plan to reintroduce the bill in the 2009 legislative session.

The Treasury worked with bill sponsors to introduce Senate Bill 498 which reduced the State's guarantees for certain municipal debt and the contingent liabilities which are disclosed annually in the State's CAFR. This bill, which passed into law effective July 1, 2008, lowered the State's guarantees by \$240 million to a level of \$210 million. Historically the state has statutorily guaranteed certain types of municipal and school debt to a maximum amount in excess of \$450 million. In the event of a default on such debt, the State would be required to assume the obligation to repay the municipal or school debt. Since such contingent debt is looked upon as a "negative" by rating agencies, the reduction of these contingencies is viewed positively by such agencies. Historically, the actual guaranteed debt of municipal and school debt had been decreasing to an outstanding balance of only \$107,500,000, as of fiscal year-end 2007.

Abandoned Property System Upgrade and Electronic Imaging

The Abandoned Property Division is in the process of reviewing the potential for an upgrade of the Unclaimed Property Management System software to increase capacity and enhance operational efficiency as well as to maximize database integrity and system security. The implementation of the project will be subject to the availability of current and future budgeted resources.

As an adjunct to the software upgrade, a plan is in place to implement a document imaging system to interface and work in tandem with the Unclaimed Property Management System. This will improve electronic processing, allow for ready access to claims and report documentation, and reduce the production and retention of paper files. Implementation of this plan is also dependent on the availability of current and future budgeted resources.

Debt Management System

During the fiscal year, using in-house resources, the Treasury completed the process of replacing the 15-year old debt management system as the first phase of a multi-phase project. Treasury is currently developing requirements for the second phase of the project.

Financial Security

Treasury has certain bank services in place to prevent fraud and provide sound financial controls. One of these services, known as “Positive Pay”, is the creation and sending of check issue files to our banking partners for all of the state’s checks that are issued. These check issue files provide the banks with such information as the check number, the date and the dollar amount so that when a check is presented for payment, it is validated against the file that was sent. The most recent feature added to the positive pay service is called “payee name verification” which has been implemented on the payroll account.

Additionally, Treasury has placed debit blocks on our accounts to prevent unauthorized Automated Clearing House (ACH) transactions from processing against them. Accordingly, our banks will only process transactions that meet specific criteria established by Treasury.

Although there is no statutory requirement for Treasury to collateralize any bank deposits, Treasury has such agreements in place for our major banking partners. These collateral agreements were reviewed and updated during the fiscal year.

Office Security Enhancements

With the assistance of Administrative Services, Treasury enhanced the security of the Treasury office spaces during off-hours. All off-hours accesses to Treasury are now required to utilize doors which require electronic key cards. Such access has now been restricted from over 100 State employees to only Treasury staff, limited housekeeping personnel, security and emergency services. All such accesses are reported to Treasury and reviewed on a routine basis.

Credit Card Best Practice Collaboration

Many state entities accept payment cards, including credit, debit, and stored-value cards, as a form of payment for goods and services provided to the public. The volume of transactions and the variety of processing methods used across state agencies, including transactions processed via the internet, has been steadily growing. With the ever increasing awareness of security concerns and sensitivity of personal data coupled with an equally ever increasing commitment to insuring best practices are used statewide, a joint task force was formed by the Treasury to address the card or merchant activity of the state. With the goals of mitigating risks and enhancing controls in an area of significant exposure, this collaborative effort amongst key central service agencies will ultimately result in comprehensive policies and procedures for all state agencies.

Disbursements Security and Efficiency Efforts

Treasury has issued a state-wide policy which will not only streamline the vendor check disbursement process but, more importantly, will minimize the exposure of sensitive Treasury banking information. The policy states that vendor checks should not be returned to state agencies except in extraordinary circumstances. The policy also eliminates the photocopying of state issued checks for any reason and insists on proper disposal (shredding) of any existing

copies. These changes will help to ensure good internal controls and improve the efficiency of the check disbursement process.

Treasury has also made changes to the post processing of state payroll checks by requiring agencies to take on the responsibility of sorting and mailing their payroll, where it is more efficient, rather than having Treasury personnel perform this function.

TRUST AND ESCROW ACCOUNTS HELD BY THE STATE TREASURER

Fiscal Year 2008

<u>Fund Name</u>	<u>Beginning Market Value</u>	<u>Annual Earnings</u>	<u>Net Annual Transactions</u>	<u>Market Value Change (Net)</u>	<u>Ending Market Value</u>
Health & Human Services					
- Laconia State School	\$143,941	\$6,279	\$0	(\$0)	\$150,220
- New Hampshire Hospital	6,021,121	215,895	(332,092)	(290,505)	5,614,420
- Youth Development Center	61,233	2,646	(1,030)	0	62,849
- Matthew Elliott Memorial Trust Fund	4,359	190	0	0	4,549
- Catastrophic Illness Fund	261,965	5,314	0	(26,150)	241,128
- State Medicaid for Dustin Turner	540,495	13,303	(553,798)	0	0
New Hampshire Veterans' Home					
- Benefit Fund	654,081	17,076	(107,978)	(46,948)	516,231
- Members' Administrative Account	295,255	11,062	(77,665)	0	228,652
- Guy Thompson Account	15,765	671	(817)	0	15,619
Dept of Agriculture, Markets & Foods					
- Agriculture, Markets & Foods	16,183	712	250	0	17,145
Department of Education					
- John Nesmith	316,744	8,527	(2,209)	(24,914)	298,148
- Special Teachers Competence	205,615	5,519	(2,500)	(16,044)	192,589
- Hattie Livesey	16,205	405	0	(1,339)	15,271
- Harriet Huntress	31,948	835	0	(2,654)	30,129
University of New Hampshire					
- Sam Whidden Trust	157,316	745	(660)	(5,460)	151,942
- Ben Thompson Trust	1,683,164	51,175	(49,540)	(170,786)	1,514,013
Department of Fish & Game					
- Lifetime License Fund	1,618,307	38,289	(61,469)	(156,037)	1,439,089
Dept of Resources & Economic Dev.					
- Caroline A. Fox Fund	117,422	5,382	18,395	0	141,199
-Tip-Top House Fund	22,546	983	0	0	23,529
Office of Energy and Planning					
- Land Conservation Monitoring Endow.	2,549,333	87,351	(95,270)	(102,228)	2,439,186
Department of Labor					
- Special Fund for Active Cases	24,645	0	58,179	0	82,823
- Special Fund For Second Injuries	5,608,920	261,442	(2,609,889)	0	3,260,473
Department of Safety					
- Financial Responsibility	117,351	4,824	10,103	0	132,278
- Road Toll Bonds	309,740	13,892	10,000	0	333,633

TRUST AND ESCROW ACCOUNTS HELD BY THE STATE TREASURER

Fiscal Year 2008

<u>Fund Name</u>	<u>Beginning Market Value</u>	<u>Annual Earnings</u>	<u>Net Annual Transactions</u>	<u>Market Value Change (Net)</u>	<u>Ending Market Value</u>
Department of Environmental Services					
- Piscataquog	87,458	3,815	0	0	91,273
- Mascoma	114,675	5,002	0	0	119,678
- Winnepesaukee	130,435	5,690	0	(0)	136,125
- Connecticut-Coos	1,666,467	72,693	0	0	1,739,159
- Squam Lake	55,145	2,405	0	0	57,550
- Newfound	74,974	3,270	0	(0)	78,245
- Sugar River	28,305	1,235	0	0	29,540
Pari-Mutuel Commission					
-Pari-Mutuel Licensee Escrow	233,040	10,340	172,816	0	416,196
Post Secondary Education					
-PEC Care Med	30,865	1,346	0	(0)	32,211
-PEC First Choice	54,340	2,078	(25,000)	0	31,418
Public Utilities Commission					
-Electric Assistance Program	260,319	8,177	(145,732)	0	122,764
ME-NH Interstate Bridge Authority					
- IBA Trust Fund	618,708	14,153	(633,061)	201	0
Treasury Department					
- Unclaimed and Abandoned Property (1)	18,282,071	409,254	(2,419,860)	26,421	16,297,886
- Japanese Charitable Fund	74,359	2,501	0	(5,444)	71,417
- Rural Rehabilitation Corp	111,923	1,739	(114,245)	583	0
- College Savings Plan Trust	24,218,803	207,095	1,170,652	(1,674,937)	23,921,612
- Foreign Escheated Estates	244,532	10,667	0	0	255,199
Other					
- Community Conservation Endowment	970,237	43,558	186,328	0	1,200,123
- Connecticut Lakes Headwaters					
- Tract Monitoring Endowment	1,361,132	57,747	(90,100)	0	1,328,780
- Natural Areas Stewardship	1,110,491	48,884	5,998	0	1,165,373
- Tract Road Maintenance	1,331,399	57,712	(41,794)	0	1,347,317
Total Trust & Escrow Accounts	\$71,853,331	\$1,721,877	(\$5,731,989)	(\$2,496,241)	\$65,346,978

"Net Change in Market Value" includes realized and unrealized gains and losses.

(1) This includes only the securities held by ACS Unclaimed Property Clearinghouse.

Columns may not add due to rounding.